

ENDO HEALTH SOLUTIONS INC.

Form 10-K

March 03, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-K

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(Mark One)

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

For the fiscal year ended December 31, 2013

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-15989

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ENDO HEALTH SOLUTIONS INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

13-4022871

(I.R.S. Employer Identification Number)

1400 Atwater Drive, Malvern, Pennsylvania

(Address of Principal Executive Offices)

19355

(Zip Code)

(Registrant's Telephone Number, Including Area Code): (484) 216-0000

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock of \$0.01 par value

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: N/A

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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.

Yes  No

x

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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.

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting common equity held by non-affiliates as of June 30, 2013 was \$4,157,589,778 based on a closing sale price of \$36.79 per share as reported on the NASDAQ Global Select Market on June 30, 2013. Shares of the registrant's common stock held by each officer and director and each beneficial owner of 10% or more of the outstanding common stock of the registrant have been excluded since such persons and beneficial owners may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The registrant has no shares of non-voting common stock authorized or outstanding. Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of February 20, 2014: 115,623,740

Documents Incorporated by Reference

Portions of the registrant's proxy statement to be filed with the SEC pursuant to Regulation 14A in connection with the registrant's 2014 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the SEC not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2013.

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**FORWARD-LOOKING STATEMENTS**

Statements contained or incorporated by reference in this document contain information that includes or is based on “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, including estimates of future revenues, future expenses, future net income and future net income per share, contained in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in this document, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. We have tried, whenever possible, to identify such statements by words such as “believes,” “expects,” “anticipates,” “intends,” “estimates,” “plan,” “projected,” “forecast,” “will,” “may” or similar expressions. We have based these forward-looking statements on our current expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described in Part I, Item 1A. of this report "Risk Factors", supplement, and as otherwise enumerated herein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained or incorporated by reference in this document.

We do not undertake any obligation to update our forward-looking statements after the date of this document for any reason, even if new information becomes available or other events occur in the future. You are advised to consult any further disclosures we make on related subjects in our reports filed with the Securities and Exchange Commission (SEC). Also note that, in Part I, Item 1A., we provide a cautionary discussion of the risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 27A of the Securities Act and Section 21E of the Exchange Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider this to be a complete discussion of all potential risks or uncertainties.

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PART I

Item 1. Business

Overview

Endo Health Solutions Inc., (which we refer to herein as "Endo", the "Company", "we", "our" or "us") is a specialty healthcare company focused on branded and generic pharmaceuticals and devices. We aim to be the premier partner to healthcare professionals and payment providers, delivering an innovative suite of complementary branded and generic drugs and devices to meet the needs of patients in areas such as pain management, urology, oncology and endocrinology.

We regularly evaluate and, where appropriate, execute on opportunities to expand through acquisition of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

On December 28, 2013, Endo's Board of Directors (the Board) approved a plan to sell its HealthTronics business and on January 8, 2014, the Company entered into a definitive agreement to sell the business. We closed the sale of our HealthTronics business on February 3, 2014. In June 2011, we acquired American Medical Systems Holdings, Inc. (AMS or American Medical Systems), a leading provider of devices and therapies for treating male and female pelvic health conditions. The acquisition of AMS strengthens our leading core urology franchise and expands our presence in the medical devices market. In November 2010, we acquired Generics International (US Parent), Inc. (doing business as Qualitest Pharmaceuticals), a leading U.S. based privately held generics company and currently the sixth largest U.S. generics company, as measured by prescriptions filled. Qualitest Pharmaceuticals is focused on cost competitive, high quality manufactured products with cost advantages or with high barriers to entry such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. We continue to operate across our diversified businesses in three key segments, Endo Pharmaceuticals, Qualitest and AMS, in key therapeutic areas including pain management, urology, oncology and endocrinology. Our segments are further discussed in Note 6. Segment Results in the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" and in Part II, Item 7. of this report "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Business Segment Results Review".

We have a portfolio of branded pharmaceuticals that includes established brand names such as Lidoderm<sup>®</sup>, Opana<sup>®</sup> ER, Voltaren<sup>®</sup> Gel, Percocet<sup>®</sup>, Fortesta<sup>®</sup> Gel, Frova<sup>®</sup>, Supprelin<sup>®</sup> LA, Valstar<sup>®</sup> and Vantas<sup>®</sup>. Endo Pharmaceuticals comprised approximately 53% of our total revenues in 2013, with 23% of our revenues coming from Lidoderm<sup>®</sup>. Our non-branded Qualitest portfolio, which accounted for 28% of total revenues in 2013, currently consists of products primarily focused in pain management through a differentiated portfolio of controlled substances and liquids. Our AMS segment focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and benign prostatic hyperplasia (BPH or prostate health) therapy. AMS accounted for 19% of total revenues in 2013. We generated total 2013 revenues of \$2.6 billion.

Financial information presented herein reflects the operating results of AMS from June 18, 2011.

We were incorporated under the laws of the State of Delaware on November 18, 1997 and have our principal executive offices at 1400 Atwater Drive, Malvern, Pennsylvania 19355 (telephone number: (484) 216-0000).

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### Our Strategy

Our strategy is focused on continuing our progress in becoming a leading global specialty healthcare company. Through a lean and efficient operating model, we are committed to serving patients and customers while continuing to innovate products that make a difference in the lives of its patients. We strive to maximize shareholder value by adapting to market realities and customer needs.

We are committed to driving organic growth at attractive margins by improving execution, optimizing cash flow and leveraging our strong market position, while maintaining a streamlined cost structure throughout each of our businesses. Specific areas of management's focus in each of our segments include:

• **Endo Pharmaceuticals:** Enhancing performance of organic growth drivers, increasing profitability from the Company's mature brands and investing in key late-stage pipeline opportunities.

• **Qualitest:** Capitalizing on encouraging demand trends for a differentiated portfolio of controlled substances and liquids and more effective R&D investment by targeting low-risk, high-return opportunities in generics.

• **American Medical Systems:** Utilizing its leading position in urology to enhance demand for American Medical Systems' unique products and services in attractive growth markets.

We remain committed to R&D across each business unit with a particular focus on development capabilities and near-term revenue generating assets. We also seek to identify incremental growth opportunities through product licensing and development.

In addition to a focus on organic growth drivers, we are also actively pursuing accretive acquisitions that offer attractive cost synergies, enhance our strategic position and accelerate future growth.

Since June 2013, we have announced the following acquisitions:

On August 28, 2013, Endo announced that it had entered into a definitive agreement to acquire Boca Pharmacal LLC (Boca), a specialty generics company that focuses on niche areas, commercializing and developing products in categories that include controlled substances, semisolids and solutions. We believe Boca's commercial footprint and R&D pipeline are a strong complement to Qualitest.

On November 5, 2013, Endo announced that it had entered into a definitive agreement to acquire Paladin Labs Inc. (Paladin), which we believe will accelerate Endo's strategic transformation to a leading global specialty healthcare company and create a platform for future growth in North America and internationally.

See Note 23. Subsequent Events in the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" and Part II, Item 7. of this report "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

### Our Competitive Strengths

To successfully execute our strategy, we must continue to capitalize on our following core strengths:

Proactive diversification of our business to become a leading global specialty healthcare company. In light of the evolving healthcare industry, we executed a number of corporate acquisitions during the three years ended December 31, 2013 to diversify our business and become a leading specialty healthcare company that includes both branded and generic prescription drugs, as well as medical devices. Endo regularly evaluates and, where appropriate, executes on opportunities to expand through acquisitions of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

As a result of recent strategic actions combined with strategic investments in our core business, we have redefined our position in the healthcare marketplace and successfully reduced the revenue concentration of Lidoderm®, which contributed approximately 23% of our business' revenue in 2013, compared to 33% in 2012. Our acquisitions of AMS and Qualitest Pharmaceuticals have also contributed to our diversification. The acquisition of Qualitest Pharmaceuticals has enabled us to gain critical mass in our generics business. Through AMS, we manufacture medical devices primarily for the urology community.

Established portfolio of branded products. We have assembled a portfolio of branded prescription products to treat and manage pain and conditions in urology, oncology and endocrinology. Our branded products include: Lidoderm®,

Opana® ER, Voltaren® Gel, Percocet®, Frova®, Fortesta® Gel, Supprelin® LA, Vantas® and Valstar®. For a more detailed description of each of our products, see “Products Overview.”

Focused branded pipeline. As a result of our focused research and development efforts, we believe we have a promising development pipeline and are well-positioned to capitalize on our core development products. Currently, our core development pipeline consists of one New Drug Application (NDA) filed with the U.S. Food and Drug Administration (FDA) and one product in Phase III trials. We have also initiated development efforts for medical devices and have multiple programs at concept and

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development stages across urology, uro-oncology, endocrinology and urogynecology. For a more detailed description of our development pipeline, see “Select Products in Development.”

Research and development expertise. Our research and development efforts are focused on the development of a balanced, diversified portfolio of innovative and clinically differentiated products. We are continuously seeking opportunities that deepen our presence in the pain management area as well as in the areas of oncology, urology and endocrinology. We will continue to capitalize on our core expertise with analgesics and expand our abilities to pursue other therapeutic areas. Through our acquisition of AMS., we have expanded our expertise in the development of medical devices. Through our acquisition of Qualitest Pharmaceuticals, we have increased our efforts to seek out and develop generic products with complex formulations and high barriers to entry. We remain committed to research and development across each business unit with a particular focus on development capabilities and near-term revenue generating assets. At December 31, 2013, our research and development and regulatory affairs staff consisted of 257 employees, based primarily in Minnetonka, Minnesota, San Jose, California, Huntsville, Alabama and at our corporate headquarters in Malvern, Pennsylvania. Our research and development expenses were \$142.5 million, \$219.1 million and \$179.8 million in 2013, 2012 and 2011, respectively, including upfront and milestone payments of \$11.4 million, \$57.9 million and \$19.1 million, respectively.

We have assembled an experienced and multi-disciplined research and development team of scientists and technicians with development expertise, medical device design and development expertise and broad experience in working with the FDA. To supplement our internal efforts, we engage the services of various independent research organizations, physicians and hospitals to conduct and coordinate our preclinical and clinical studies to establish the safety and effectiveness of new products.

Targeted sales and marketing infrastructure. We market our branded products directly to physicians through a sales force of over 600 individuals in the pharmaceutical product and device markets. As of December 31, 2013, this sales force consisted of 160 pharmaceutical sales representatives focusing primarily on pain products, 119 sales representatives focusing primarily on bladder and prostate cancer products, 32 medical center representatives focusing on the treatment of central precocious puberty and four account executives focusing on managed markets customers. We also had 306 sales representatives focusing primarily on devices, of which 106 were located outside the United States. We market our products and services to primary care physicians and specialty physicians, including those specializing in pain management, orthopedics, neurology, rheumatology, surgery, anesthesiology, urology and pediatric endocrinology. Our sales force also targets retail pharmacies and other healthcare professionals throughout the U.S. We distribute our products principally through independent wholesale distributors, but we also sell directly to retailers, clinics, government agencies, doctors and retail and specialty pharmacies. Our marketing policy is designed to assure that products and relevant, appropriate medical information are immediately available to physicians, pharmacies, hospitals, public and private payers, and appropriate healthcare professionals throughout the U.S. We work to gain access to healthcare authority, pharmacy benefit managers and managed care organizations’ formularies (lists of recommended or approved medicines and other products), including Medicare Part D plans and reimbursement lists by demonstrating the qualities and treatment benefits of our products within their approved indications.

Expanding focus on generic products. Our Qualitest segment has approximately 46 Abbreviated New Drug Applications (ANDAs) under active FDA review in multiple therapeutic areas, including pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women’s health and hypertension, among others. We develop generic products including those that involve significant barriers to entry such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. We believe products with these characteristics will face a lesser degree of competition and therefore provide longer product life cycles and higher profitability than commodity generic products. Our business model continues to focus on being the lowest-cost producer of products in categories with high barriers to entry and lower levels of competition. Our Qualitest segment is focused in categories where there are fewer challenges from low-cost operators in markets such as China and India, with approximately 36% of our product portfolio being comprised of controlled substances, which cannot be manufactured off-shore and imported into the U.S. In addition, approximately 8% of our product portfolio is made up of liquids, which are uneconomical to ship into the U.S. We expect to continue to improve our overall profitability by

optimizing our portfolio for high volume and growth while strengthening our U.S. generics competitive position, product pipeline, portfolio and capabilities.

Manufacturing and distributing medical devices. Through our AMS segment, we manufacture medical devices for various pelvic health disorders. Specifically, the AMS segment includes a diverse product portfolio that treats men's incontinence, erectile dysfunction, benign prostatic hyperplasia, women's incontinence and pelvic floor repair. These devices strengthen our leading core urology franchise, where we remain focused on expanding the markets for our products because the portion of afflicted patients seeking treatment remains relatively low. When patients seek treatment, they generally begin with options that will be as minimally invasive as possible, such as pharmaceutical therapies. Also, when patients initially seek treatment, their first physician contact is usually with a general practitioner and not with a surgical specialist. If less invasive options have proven unsuccessful, patients and their physicians may consider surgery as a solution. Sales of these products benefit from an aging population with a desire to maintain a high quality of life, the expanding availability of safe and effective treatments, minimally invasive solutions and increasing patient and physician awareness of these treatments.

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**Significant cash flow.** We have historically generated significant cash flow from operating activities due to a unique combination of strong brand equity, attractive margins and low capital expenditures. For the year ended December 31, 2013, we generated \$298.5 million of cash from operations. We expect that sales of our currently marketed products and devices and will allow us to continue to generate significant cash flow from operations in the future. We maintain ample liquidity which gives us flexibility to make strategic investments in our business. As of December 31, 2013, we had \$529.6 million of cash and marketable securities, up to \$500.0 million of availability under the Revolving Credit Facility, and availability of up to \$500.0 million of additional revolving or term loan commitments.

**Experienced and dedicated management team.** Our senior management team has a proven track record of building businesses through licensing and acquisitions. Their expertise has contributed to identifying and consummating such acquisitions. Members of our management team have consummated two acquisitions since June 2013 (Boca and Paladin) and have significantly increased the market value of the Company. As a result of several successful product launches and our strategic acquisitions, we have grown our total revenues from \$108.0 million in 1998 to over \$2.6 billion in 2013.

### Our Areas of Focus

#### Pharmaceutical Products Markets

##### Pain Management Market

According to IMS Health data, the total U.S. market for pain management pharmaceuticals, excluding over-the-counter products, totaled \$28.8 billion in 2013. This represents an approximate 8% compounded annual growth rate since 2009. Our primary area of focus within this market is analgesics and, specifically, opioid analgesics. In 2013, analgesics were the third most prescribed medication in the U.S. with over 304 million prescriptions written for this classification.

Opioid analgesics is a segment that comprised approximately 76% of the total analgesic prescriptions for 2013 and represented almost 53% of the overall U.S. prescription pain management market. Total U.S. sales for the opioid analgesic segment were \$8.3 billion in 2013, representing a compounded annual growth rate of 1% since 2009. With the launch of Voltaren® Gel in 2008, Endo gained presence in the osteoarthritis market competing in the analgesic non-narcotic and anti-arthritic classes which together had approximately 206 million prescriptions written in 2013, representing 47% of the U.S. prescription pain management market. The U.S. sales for the analgesic non-narcotic and anti-arthritic markets were \$20.4 billion with a compound annual growth rate of 11% since 2009.

Opioid analgesic products are used primarily for the treatment of pain associated with orthopedic fractures and sprains, post herpetic-neuralgia, back injuries, migraines, joint diseases, cancer and various surgical procedures. The growth in this segment has been primarily attributable to:

- increasing physician recognition of the need and patient demand for effective treatment of pain;
- aging population (according to the U.S. Census Bureau, from 2000 to 2010 the population aged 65 and older reached 40 million people, representing 15% growth over this period);
- introduction of new and reformulated branded products; and
- increasing incidence of chronic pain conditions, such as cancer, arthritis and low back pain.

##### Urology, Endocrinology and Oncology Markets

Through our 2009 acquisition of Indevus Pharmaceuticals, Inc., as well as other business development activities, Endo entered the urology, endocrinology and oncology markets, specifically the prostate cancer therapeutic area with Vantas®, the bladder oncology space with Valstar®, and the central precocious puberty therapeutic area with Supprelin® LA. With our early 2011 launch of Fortesta® Gel, which was approved by the FDA in December 2010 for the treatment of hypogonadism, we entered the testosterone replacement therapy (TRT) market. We anticipate increasing our presence in this market through our development product Aved™. As a result of our acquisition of AMS, we now offer a broad array of medical devices that deliver innovative medical technology solutions to physicians treating male incontinence, erectile dysfunction, female incontinence, pelvic floor repair and BPH. The markets for our AMS segment's products are discussed below under the caption "Medical Device Markets."

**Central Precocious Puberty (CPP)**—In a recent study, the incidence of CPP reported from national registries in the European Union subdivided by gender and age at diagnosis was approximately 1 per 10,000 in girls who were younger than 4 years, thereafter gradually rising to 8 per 10,000 for girls aged 5 to 9 years. The incidence in boys

younger than 8 years was approximately 1 per 10,000. Recent market research indicates that girls in the U.S. are physically maturing at an earlier age than they did 30 years ago, and the number of girls diagnosed with precocious puberty is on the rise. In the U.S., 6,000 patients are estimated to have CPP with approximately 2,000 diagnosed annually. CPP is treated by pediatric endocrinologists in the U.S. where there are approximately 790 practicing pediatric endocrinologists.

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**Prostate cancer**—Prostate cancer is the most common cancer for men and the second leading cause of cancer deaths in men. According to the American Cancer Society, every year approximately 240,000 men in the U.S. are diagnosed with prostate cancer and 30,000 die from this disease.

**Bladder cancer**—There are more than 500,000 people in the U.S. alive with a history of bladder cancer, which is the third most common cancer among men and the eleventh most common among women in the U.S. The American Cancer Society estimated approximately 74,960 new cases of bladder cancer and 15,580 deaths from this disease in the U.S. in 2013. The 2014 estimate is expected to be similar. Rates of bladder cancer are expected to increase due to the aging population; nearly 90% of cases of bladder cancer are diagnosed in people age 55 or older. The number of patients in the total non-invasive bladder cancer population will thus increase due to the rising incidence as well as high recurrence rates, leading to a substantial prevalent population.

**Bacillus Calmette-Guérin (BCG)-refractory carcinoma in situ (CIS) bladder cancer**—CIS of the urinary bladder is a rare form of bladder cancer, affecting about 7 of every 100 patients diagnosed with bladder cancer. Standard treatment of CIS of the urinary bladder is transurethral resection of the bladder tumor, followed by one or two courses of immunotherapy with the vaccine BCG. About 50% of patients will become refractory to BCG therapy. Valstar® intravesical therapy is the only FDA-approved treatment of carcinoma in situ of the urinary bladder in patients who are refractory to BCG immunotherapy when cystectomy (bladder removal) is not an option.

**Testosterone replacement overview**—In the U.S. alone, it is estimated that 13.8 million men have low testosterone levels; however, only about 9% are currently being treated. Hypogonadism, or low testosterone, is under diagnosed and under treated. Factors contributing to this include a lack of screening for low testosterone and the perceived risk of prostate cancer associated with current treatment strategies. In the U.S., TRT sales have dramatically increased from approximately \$809.0 million in 2008 to over \$2.3 billion in 2013, representing a compounded annual growth rate of 24% since 2008.

### Medical Device Markets

**Male incontinence**—We estimate over 50 million men worldwide suffer from urinary incontinence, the involuntary release of urine from the body. Male incontinence may be managed with a catheter and leg bag to collect urine, or with pads and diapers to absorb the leaks. These measures are far from ideal, as they come with recurring replacement product costs, the potential for infection, embarrassing leaks and odor, a significantly diminished quality of life, and may even result in the need for managed care.

**Erectile dysfunction**—Erectile dysfunction is the inability to achieve or maintain an erection sufficient for sexual intercourse. It is most often caused by vascular disease, complications from diabetes, or prostate surgery which can damage both nerves and arteries necessary for erectile function. This disease can also be caused by spinal cord injury, and may have a psychogenic component. We estimate that erectile dysfunction may affect over 400 million men and their partners around the world. The primary treatment for erectile dysfunction is the class of drugs referred to as PDE-5 inhibitors. Approximately 30% of patients using these drugs do not have a positive response. If such drugs are not effective, the patient may elect to have an implant of one of our penile prosthesis products, which provide consistent, reliable solutions.

**Female incontinence**—We estimate over 500 million women worldwide suffer from urinary or fecal incontinence. These diseases can lead to debilitating medical and social problems, ranging from embarrassment to anxiety and depression. There are three types of urinary incontinence: stress, urge, and mixed incontinence (a combination of stress and urge). While stress incontinence is generally caused by a weakening of the pelvic floor and resultant hypermobility of the urethra, urge incontinence is more complex and currently not as well understood. Pads and diapers are often used to contain and absorb leaks, and may be acceptable for controlling mild incontinence. Drug therapy and electrical nerve stimulation are currently used to treat urge incontinence. Incontinence may be treated through exercises to strengthen pelvic floor muscles, or through the injection of collagen or some other bulking agent into the wall of the urethra or bladder neck to narrow the passage. Surgical solutions are generally recommended only when these other therapies are not effective. Our current products in the market treat stress incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging.

**Pelvic floor repair**—Pregnancy, labor, and childbirth are some of the primary causes of pelvic floor prolapse and other pelvic floor disorders. Prolapse and other pelvic floor defects may be treated with a variety of open, laparoscopic, and

transvaginal surgeries. We estimate over 400,000 procedures are performed annually around the world to repair some form of pelvic floor prolapse in women. These procedures have historically been performed through the use of suture and graft materials designed for other surgical applications. AMS offers less invasive solutions for pelvic floor repair. Prostate health—AMS's products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. Symptoms of BPH include increased urination frequency, sudden urges to urinate, and weak urine flow. More than 70% of men over age 60 have some symptoms of BPH. Prior to the development of less invasive therapies, the conventional treatment for those experiencing a physical obstruction of the prostatic urethra was a surgical removal of the prostatic tissue performed under general anesthesia, known as a transurethral resection of the

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prostate (TURP). We offer men an alternative to a TURP, using laser therapy designed to reduce the comorbidities associated with TURP. This laser system has paved the way for creating a new standard of care in the treatment of BPH.

For those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired, a less-invasive tissue ablation technique can be performed in a physician's office using microwave energy delivered to the prostate. The market for an office-based therapy for BPH has remained relatively flat, at approximately 100,000 men treated annually, partially due to the continued adoption of laser delivered BPH treatments.

## Products Overview

## Endo Pharmaceuticals

The following table summarizes select products in our Endo Pharmaceuticals portfolio:

Branded Pharmaceutical Products	Active Ingredient(s)	Status
Lidoderm®	lidocaine 5%	Marketed
Opana® ER(1)	oxymorphone hydrochloride	Marketed
Voltaren® Gel(2)	diclofenac sodium topical gel 1%	Marketed
Percocet®	oxycodone hydrochloride and acetaminophen	Marketed
Frova®(3)	frovatriptan succinate	Marketed
Fortesta® Gel(4)	2% testosterone	Marketed
Supprelin® LA	histrelin acetate	Marketed
Valstar®	valrubicin	Marketed
Vantas®	histrelin acetate	Marketed

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(3)Licensed marketing rights from Vernalis Development Limited.

(4)Licensed marketing and development rights from Strakan International Limited.

Lidoderm®. Lidoderm® (lidocaine patch 5%) was launched in September 1999. A topical patch product containing lidocaine, Lidoderm® was the first FDA-approved product for the relief of the pain associated with post-herpetic neuralgia, a condition thought to result after nerve fibers are damaged during a case of Herpes Zoster (commonly known as shingles). Although Lidoderm® continues to receive a certain degree of protection from Orange Book-listed patents for, among other things, a method of treating post-herpetic neuralgia and the composition of the lidocaine-containing patch, in May 2012, we entered into a settlement and license agreement with Watson Pharmaceuticals, Inc. (now doing business as Actavis, Inc. and referred to herein as Watson or Actavis) which allowed Watson to launch its lidocaine patch 5%, a generic version of Lidoderm® on September 15, 2013. This agreement is further discussed in Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules". Although the Company believes it has successfully contracted with certain Managed Care providers and government agencies, we do expect future net sales of Lidoderm® to continue to be impacted due to generic competition, resulting in additional decreases in Lidoderm® net sales. For the years ended December 31, 2013, 2012 and 2011, Lidoderm® net sales were \$603.0 million, \$947.7 million and \$825.2 million, respectively. Lidoderm® accounted for approximately 23% of our 2013 total revenues.

Opana® ER. Opana® ER was launched during the second half of 2006 and had shown prescription growth since its launch until the 2012 supply disruption, which caused some patients to switch to other pain relief products. Opana® ER is indicated for the relief of moderate-to-severe pain in patients requiring continuous, around-the-clock opioid treatment for an extended period of time. Opana® ER represents the first drug in which oxymorphone is available in an oral, extended-release formulation and is available in 5 mg, 7.5 mg, 10 mg, 15 mg, 20 mg, 30 mg and 40 mg tablets. In December 2011, the FDA approved our formulation of Opana® ER designed to be crush-resistant, which is called Opana® ER (oxymorphone hydrochloride) Extended-Release Tablets with INTAC® technology. This formulation of Opana® ER with INTAC® technology has the same dosage strengths, color and packaging and similar tablet size as original Opana® ER. Endo transitioned to the crush-resistant formulation in March 2012 upon

successfully accelerating production of this formulation. While we believe Endo's ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. 2012 revenues included the favorable effects of wholesaler restocking efforts to transition to the crush-resistant formulation of Opana<sup>®</sup> ER, which did not reoccur during the comparable 2013 periods. In addition, Impax and Actavis launched generic versions of the non-crush-resistant formulation Opana<sup>®</sup> ER on January 2, 2013 and September 12, 2013, respectively, negatively impacting revenues. Opana<sup>®</sup> ER net sales were \$227.9 million,

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\$299.3 million and \$384.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. Opana® ER accounted for approximately 9% of our 2013 total revenues.

Voltaren® Gel. We launched Voltaren® Gel (diclofenac sodium topical gel 1%) in March 2008 upon closing of the license and supply agreement with Novartis AG and Novartis Consumer Health, Inc. Voltaren® Gel received regulatory approval in October 2007 from the FDA, becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren® Gel was granted marketing exclusivity in the U.S. as a prescription medicine until October 2010. It is the first prescription topical osteoarthritis treatment to have proven its effectiveness in both the knees and joints of the hands through clinical trials. Voltaren® Gel delivers effective pain relief with a favorable safety profile as its systemic absorption is 94% less than the comparable oral diclofenac treatment. For the years ended December 31, 2013, 2012 and 2011, net sales of Voltaren® Gel were \$170.8 million, \$117.6 million and \$142.7 million, respectively. Voltaren® Gel accounted for approximately 7% of our 2013 total revenues.

Percocet®. Launched in 1976, Percocet® (oxycodone hydrochloride and acetaminophen USP) Tablets CII is approved for the treatment of moderate-to-moderately severe pain. The Percocet® family of products had net sales of \$105.8 million, \$103.4 million and \$104.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Percocet® franchise accounted for approximately 4% of our 2013 total revenues.

Frova®. We began shipping Frova® (frovatriptan succinate) tablets upon closing of the license agreement with Vernalis in mid-August 2004. Frova® is indicated for the acute treatment of migraine headaches in adults. We believe that Frova® has differentiating features from other migraine products, including the longest half-life in the triptan class and a very low reported migraine recurrence rate in its clinical program. For the years ended December 31, 2013, 2012 and 2011, Frova® net sales were \$60.9 million, \$61.3 million and \$58.2 million, respectively.

Fortesta® Gel. Fortesta® Gel is a patented two percent (2%) testosterone transdermal gel and is a treatment for men suffering from hypogonadism, also known as low testosterone (Low T). The precision-metered dose delivery system can be accurately customized and adjusted to meet individual patient needs with the appropriate dose. In August 2009, we entered into a License and Supply Agreement (the ProStrakan Agreement) with Strakan International Limited, a subsidiary of ProStrakan Group plc (ProStrakan), for the exclusive right to commercialize Fortesta® Gel in the U.S. Fortesta® Gel was approved by the FDA in December 2010. We launched Fortesta® Gel in the first quarter of 2011. Net sales of Fortesta® Gel were \$65.9 million, \$30.6 million and \$14.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Supprelin® LA. Supprelin® LA (histrelin acetate) was launched in the U.S. in June 2007. Supprelin® LA is a soft, flexible 12-month hydrogel implant based on our hydrogel polymer technology that delivers histrelin acetate, a gonadotropin releasing hormone (GnRH) agonist and is indicated for the treatment of CPP in children. CPP is the early onset of puberty in young children resulting in the development of secondary sex characteristics and, if left untreated, can result in diminished adult height attainment. The development of these secondary sex characteristics is due to an increase in the secretion of sex hormones, the cause of which is unknown. We market Supprelin® LA in the U.S. through a specialty sales force primarily to pediatric endocrinologists. For the years ended December 31, 2013, 2012 and 2011, Supprelin® LA net sales were \$58.3 million, \$57.4 million and \$50.1 million, respectively.

Valstar®. We launched Valstar® (valrubicin) in September 2009. Valstar® is a sterile solution for intravesical instillation of valrubicin, a chemotherapeutic anthracycline derivative. Valstar® is indicated for intravesical therapy of bacillus Calmette-Guerin (BCG)-refractory carcinoma in situ (CIS) of the urinary bladder in patients for whom immediate cystectomy would be associated with unacceptable morbidity or mortality. Net sales of Valstar® were \$23.7 million, \$27.1 million and \$21.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Vantas®. Vantas® (histrelin acetate) was launched in the U.S. in November 2004. Vantas® is a soft, flexible 12-month hydrogel implant based on our hydrogel polymer technology that delivers histrelin acetate, a GnRH agonist and is indicated for the palliative treatment of advanced prostate cancer. Net sales of Vantas® were \$13.2 million, \$17.5 million and \$19.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, primarily in the U.S. Hydrogel Polymer Implant. The hydrogel polymer implant is a subcutaneous, retrievable, non-biodegradable, hydrogel reservoir drug delivery device designed to provide sustained release of a broad spectrum of drugs continuously, at constant, predetermined rates. This technology serves as the basis for two of our currently marketed

products: Vantas® and Supprelin® LA.

The hydrogel polymer implant is the only soft, flexible, reservoir-based drug delivery system available for parenteral administration. Our implant is designed for easy, in-office physician insertion under local anesthesia. The hydrogel polymer compositions possess flexible, tissue-like characteristics providing excellent biocompatibility and patient comfort. The hydrogel polymer implant delivers drugs at zero-order kinetics and the duration of delivery can be predetermined over a range of times.

Other. The balance of our other branded portfolio consists of a number of products, each of which accounted for 1% or less of our total revenues in 2013.

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## Qualitest

The following table summarizes select products currently in our Qualitest portfolio:

Generic Pharmaceutical Products	Active Ingredient(s)	Status
Hydrocodone and Acetaminophen	Hydrocodone and Acetaminophen	Marketed
Endocet®	Oxycodone Hydrochloride and Acetaminophen	Marketed
Phenobarbital	Phenobarbital	Marketed
Methylprednisolone	Methylprednisolone	Marketed
Modafinil	Modafinil	Marketed
Oxycodone and Acetaminophen	Oxycodone and Acetaminophen	Marketed
Promethazine	Promethazine	Marketed
Prednisone	Prednisone	Marketed
Lisinopril	Lisinopril	Marketed
Montelukast	Montelukast	Marketed
Oxybutynin	Oxybutynin	Marketed
Butalb/APAP/Caff	Butalbital and Acetaminophen	Marketed
Gildess FE 1/20	Norethindrone Acetate, Ethinyl Estradiol and Ferrous Fumarate	Marketed
Hydrocortisone	Hydrocortisone	Marketed
Nystatin	Nystatin	Marketed

When a branded pharmaceutical product is no longer protected by any relevant patents, normally as a result of a patent's expiration, or by other, non-patent market exclusivity, third parties have an opportunity to introduce generic counterparts to such branded product. Generic pharmaceutical products are therapeutically equivalent to their brand-name counterparts and are generally sold at prices significantly less than the branded product. Accordingly, generic pharmaceuticals may provide a safe, effective and cost-effective alternative to users of branded products. Our generic products are sold across multiple therapeutic categories, with pain management being the largest, and in various dosage forms including solids, semi-solids and liquids. Qualitest's top 15 products provided revenues of \$415.9 million, \$376.1 million and \$294.9 million in 2013, 2012 and 2011, respectively.

## AMS

The following table summarizes select products in our AMS portfolio:

Medical Devices	Therapy/Condition	Status
AMS 700 MS™ Series; CX™, CXR™ and LGX™ three-piece inflatable penile prostheses	Erectile dysfunction	Marketed
AMS 800® artificial urinary sphincter	Moderate to severe male stress urinary incontinence	Marketed
GreenLight XPS™	Mild to severe symptoms of BPH	Marketed
Elevate™ Anterior and Posterior	Apical and posterior pelvic floor repair	Marketed
Monarc® subfascial hammock	Female stress urinary incontinence	Marketed

Through our AMS segment, we offer a diverse product portfolio that treats men's and women's pelvic health conditions, including:

**AMS 700 MS™ Series.** The AMS 700 MS™ Series are market leading penile implants to treat erectile dysfunction, which is the inability to achieve or maintain an erection sufficient for sexual intercourse. This service contains a complete range of more naturally functioning inflatable prostheses than earlier generations of the product and is distinguished from other penile implants with the use of the InhibiZone® antibiotic coating. InhibiZone® is intended to reduce the rate of revision surgery due to surgical infections and this claim was approved by the FDA in July 2009. AMS 700 MS™ revenue accounted for approximately 5% of our total revenues in 2013 compared to 4% in 2012.

**AMS 800® Artificial Urinary Sphincter.** The AMS 800® artificial urinary sphincter is designed for the treatment of moderate to severe male urinary incontinence, the involuntary release of urine from the body. It includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff

when he wishes to urinate. AMS 800<sup>®</sup> revenue accounted for approximately 4% of our total revenues in both 2013 and 2012.

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**GreenLight™ XPS Laser System.** The GreenLight™ XPS laser system is used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. This therapy offers men experiencing a physical obstruction of the prostatic urethra an alternative to TURP. The GreenLight™ photovaporization of the prostate is designed to reduce the comorbidities associated with TURP. The GreenLight™ XPS and MoXy™ Liquid Cooled Fiber system provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and provides enhanced surgical control compared to other laser systems. The GreenLight™ laser and fiber system revenue accounted for approximately 3% of our total revenues in both 2013 and 2012.

**Elevate™ Anterior and Posterior Pelvic Floor Repair System.** Our AMS segment offers the Elevate® transvaginal pelvic floor repair system, for the treatment of pelvic organ prolapse, which may be caused by pregnancy, labor, and childbirth. Using an anatomically designed needle and self-fixating tips, Elevate® allows for safe, simple and precise mesh placement through a single vaginal incision, avoiding an external incision. Elevate® revenue accounted for approximately 1% of our total revenues in both 2013 and 2012.

**Monarc® Subfascial Hammock.** The Monarc® subfascial hammock is our leading device to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. It incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramin. Monarc® revenue accounted for approximately 1% of our total revenues in both 2013 and 2012.

### Select Products in Development

#### Endo Pharmaceuticals

Our branded pharmaceuticals pipeline portfolio contains products and product candidates that have differentiating features for multiple therapeutic areas, including pain, urology and endocrinology. A selection of Endo Pharmaceutical's pipeline products follows. We cannot predict when or if any of these pipeline products will be approved by the FDA.

**Aveed™.** Aveed™ is a novel, long-acting injectable testosterone preparation for the treatment of male hypogonadism. Male hypogonadism is an increasingly recognized medical condition characterized by a reduced or absent secretion of testosterone from the testes. Reduced testosterone levels can lead to health problems and significantly impair quality of life. Common effects of hypogonadism include decreased sexual desire, erectile dysfunction, muscle loss and weakness, depression, and an increased risk of osteoporosis. If approved, Aveed™ would be the first long-acting injectable testosterone preparation available in the U.S. in the growing market for testosterone replacement therapies. The U.S. rights to Aveed™ were acquired from Schering AG, Germany, in July 2005. Although not yet approved in the U.S., Aveed™ is approved in and currently marketed in Europe and a number of other countries. In May 2010, a new patent covering Aveed™ was issued by the U.S. Patent and Trademark Office. The patent's expiration date is March 14, 2027.

On December 2, 2009, we received a Complete Response letter from the FDA regarding Aveed™. In 2010 and 2011, the Company met with the FDA to discuss the existing clinical data provided to the FDA as well as the potential path-forward. In November 2012, as a follow up to our 2011 meeting with the FDA, Endo Pharmaceuticals submitted a complete response to the FDA after conducting an extensive review of all clinical study and post-marketing data. The FDA held an advisory committee meeting in April 2013, and Endo submitted new data to FDA in August 2013. A new PDUFA date was set for February 28, 2014.

**BEMA® Buprenorphine.** In January 2012, Endo Pharmaceuticals signed a worldwide license and development agreement with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. In January 2014, the Company achieved positive top-line results from its pivotal Phase III efficacy study of BEMA buprenorphine in opioid- "naive" subjects for the treatment of moderate to severe chronic pain in patients requiring around-the-clock opioid therapy. The second Phase III clinical study of BEMA Buprenorphine in an opioid "experienced" patient group is ongoing with results anticipated in mid-2014.

Qualitest

Our generics pharmaceuticals pipeline portfolio contains products and product candidates for multiple therapeutic areas, including pain, urology, oncology, and endocrinology. Our Qualitest business has a number of products at various stages of development, including approximately 46 ANDAs under active FDA review as of December 31, 2013. The timing of final FDA approval of ANDA applications depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the manufacturer of the reference listed drug is entitled to one or more statutory exclusivity periods, during which the FDA is prohibited from approving generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date.

We cannot predict when or if any of these products will be approved by the FDA.

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AMS

Our AMS segment maintains a portfolio of products and product candidates in development with differentiating features for our areas of focus in pelvic health. Current development products showing significant promise include a urology drug delivery device and a fecal incontinence device. We also have other products, including certain undisclosed products in our therapeutic areas of interest in early stages of development.

We cannot predict when or if any of these products will be approved by the FDA.

Competition

Endo Pharmaceuticals

The branded pharmaceutical industry is highly competitive. Our products compete with products manufactured by many other companies in highly competitive markets throughout the U.S. Our competitors vary depending upon therapeutic and product categories. Competitors include many of the major brand name and generic manufacturers of pharmaceuticals, especially those doing business in the U.S. In the market for branded pharmaceuticals, our competitors, including Abbott Laboratories, Johnson & Johnson, Pfizer, Inc., Purdue Pharma, L.P., Allergan, Inc. and Actavis Pharmaceuticals, Inc., vary depending on product category, dosage strength and drug-delivery systems. We compete principally through our targeted product development and acquisition and in-licensing strategies. The competitive landscape in the acquisition and in-licensing of pharmaceutical products has intensified in recent years as there has been a reduction in the number of compounds available and an increase in the number of companies and the collective resources bidding on available assets. In addition to product development and acquisitions, other competitive factors in the pharmaceutical industry include product efficacy, safety, ease of use, price, demonstrated cost-effectiveness, marketing effectiveness, service, reputation and access to technical information.

The competitive environment of the branded product business requires us to continually seek out technological innovations and to market our products effectively. However, some of our current branded products not only face competition from other brands, but also from generic versions. Generic versions are generally significantly less expensive than branded versions, and, where available, may be required in preference to the branded version under third-party reimbursement programs, or substituted by pharmacies. If competitors introduce new products, delivery systems or processes with therapeutic or cost advantages, our products can be subject to progressive price reductions or decreased volume of sales, or both. Most new products that we introduce must compete with other products already on the market or products that are later developed by competitors. Manufacturers of generic pharmaceuticals typically invest far less in research and development than research-based pharmaceutical companies and therefore can price their products significantly lower than branded products. Accordingly, when a branded product loses its market exclusivity, it normally faces intense price competition from generic forms of the product. To successfully compete for business with managed care and pharmacy benefits management organizations, we must often demonstrate that our products offer not only medical benefits but also cost advantages as compared with other forms of care.

The Company is aware of certain competitive activities involving Lidoderm<sup>®</sup>, Opana<sup>®</sup> ER and Frova<sup>®</sup>. For a full description of these competitive activities, including the litigation related to Paragraph IV Certification Notices, see Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Qualitest

In the generic pharmaceutical market, we face intense competition from other generic drug manufacturers, brand name pharmaceutical companies through authorized generics, existing brand equivalents and manufacturers of therapeutically similar drugs. In the market for generic pharmaceuticals, our competitors, including Actavis, Teva Pharmaceuticals Industries Ltd., Mylan Technologies Inc., and Sandoz, Inc., vary depending on product category and dosage strength.

We believe that our competitive advantages include our ability to continually introduce new generic equivalents for brand-name drug products, our quality and cost-effective production, our customer service and the breadth of our generic product line.

As a result of consolidation among wholesale distributors as well as rapid growth of large retail drug store chains, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. This has resulted in customers gaining more purchasing power.

Consequently, there is heightened competition among generic drug producers for the business of this smaller and more selective customer base.

Newly introduced generic products with limited or no other generic competition are typically sold at higher selling prices. As competition from other generic products increases, selling prices for all participants typically decline. Consequently, the maintenance of profitable operations in generic pharmaceuticals depends, in part, on our ability to select, develop and launch new generic products in a timely and cost efficient manner and to maintain efficient, high quality manufacturing relationships. New drugs and future

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developments in improved and/or advanced drug delivery technologies or other therapeutic techniques may provide therapeutic or cost advantages to competing products.

**AMS**

Competition in the medical device industry is intense and characterized by extensive research efforts and rapid technological progress. The primary competitive factors include clinical outcomes, distribution capabilities, and price relative to (1) competitive technologies and (2) reimbursements to physicians and hospitals for their services. With certain of our products, our competitors may have greater resources with which to develop and market products, broader distribution resources, and economies of scale which we do not have.

The competitive advantage of our AMS segment is driven by its focus on the pelvic health market and our ability to develop new products and innovative procedures, obtain regulatory clearance, maintain regulatory compliance, protect our intellectual property, protect the proprietary technology of our products and manufacturing processes and maintain and develop preference for our products among physicians and patients. All of these abilities require recruiting, retaining, and developing skilled and dedicated employees, training physicians and maintaining and developing excellent relationships with physicians and suppliers.

**Seasonality**

Although our business is affected by the purchasing patterns and concentration of our customers, our business is not materially impacted by seasonality.

**Major Customers**

We primarily sell our branded pharmaceuticals and generics directly to a limited number of large pharmacy chains and through a limited number of wholesale drug distributors who, in turn, supply products to pharmacies, hospitals, governmental agencies and physicians. Total revenues from customers that accounted for 10% or more of our total consolidated revenues during the years ended December 31 are as follows:

	2013	2012	2011	
Cardinal Health, Inc.	21	% 25	% 27	%
McKesson Corporation	26	% 26	% 26	%
AmerisourceBergen Corporation	15	% 12	% 14	%

Revenues from these customers are included within our Endo Pharmaceuticals and Qualitest segments.

As a result of consolidation among wholesale distributors as well as rapid growth of large retail drug store chains, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. Some wholesale distributors have demanded that pharmaceutical manufacturers, including us, enter into distribution service agreements (DSAs) pursuant to which the wholesale distributors provide the pharmaceutical manufacturers with specific services, including the provision of periodic retail demand information and current inventory levels and other information. Currently, we have entered into four such agreements.

None of our AMS customers or distributors accounted for 10% or more of our total revenues during 2013, 2012 and 2011.

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## Patents, Trademarks, Licenses and Proprietary Property

As of February 20, 2014, we held approximately: 305 U.S. issued patents, 235 U.S. patent applications pending, 257 foreign issued patents, and 351 foreign patent applications pending. In addition, as of February 20, 2014, we have licenses for approximately 52 U.S. issued patents, 16 U.S. patent applications pending, 179 foreign issued patents and 115 foreign patent applications pending. The following table sets forth information as of February 20, 2014 regarding each of our currently held material patents:

Patent No.	Patent Expiration*	Relevant Product	Ownership	Jurisdiction Where Granted
5,464,864	November 7, 2015	Frova®	Exclusive License	USA
5,616,603	April 1, 2014	Frova®	Exclusive License	USA
5,637,611	June 10, 2014	Frova®	Exclusive License	USA
5,827,871	October 27, 2015	Frova®	Exclusive License	USA
5,827,529	October 27, 2015	Lidoderm®	Exclusive License	USA
5,741,510	March 30, 2014	Lidoderm®	Exclusive License	USA
7,276,250	February 4, 2023	Opana® ER	Owned	USA
7,851,482	July 10, 2029	Opana® ER	Owned	USA
8,075,872	November 20, 2023	Opana® ER	Exclusive License	USA
8,114,383	August 5, 2024	Opana® ER	Exclusive License	USA
8,309,060	November 20, 2023	Opana® ER	Exclusive License	USA
8,309,122	February 4, 2023	Opana® ER	Owned	USA
8,329,216	February 4, 2023	Opana® ER	Owned	USA
2131647	September 8, 2014	Opana® ER	Owned	Canada
2208230	November 4, 2016	Opana® ER	Owned	Canada
2251816	April 18, 2017	Opana® ER	Owned	Canada
8,062,652	June 16, 2026	Supprelin® LA	Owned	USA
8,062,209	December 2, 2023	AMS 700®	Owned	USA
7,946,975	February 21, 2030	AMS 700®	Owned	USA
6,554,824	July 24, 2021	GreenLight™ Laser	Owned	USA
6,986,764	July 24, 2021	GreenLight™ Laser	Owned	USA
7,070,556	November 9, 2023	Monarc®	Owned	USA
7,347,812	March 17, 2026	Monarc®	Owned	USA
7,988,615	November 9, 2023	Monarc®	Owned	USA
7,357,773	January 5, 2026	Monarc®	Owned	USA
6,911,003	January 23, 2023	Monarc®	Owned	USA

\*Our exclusive license agreements extend to or beyond the patent expiration dates.

The effect of these issued patents is that they provide us with patent protection for the claims covered by the patents. The coverage claimed in a patent application can be significantly reduced before the patent is issued. Accordingly, we do not know whether any of the applications we acquire or license will result in the issuance of patents, or, if any patents are issued, whether they will provide significant proprietary protection or will be challenged, circumvented or invalidated. Because unissued U.S. patent applications are maintained in secrecy for a period of eighteen months and U.S. patent applications filed prior to November 29, 2000 are not disclosed until such patents are issued, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain of the priority of inventions covered by pending patent applications. Moreover, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, or in opposition proceedings in a foreign patent office, either of which could result in substantial cost to us, even if the eventual outcome is favorable to us. There can be no assurance that the patents, if issued, would be held valid by a court of competent jurisdiction. An adverse outcome could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using such technology.

We believe that our patents, the protection of discoveries in connection with our development activities, our proprietary products, technologies, processes and know-how and all of our intellectual property are important to our business. All of our brand

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products and certain generic products, such as Endocet® and Endodan®, are sold under trademarks. To achieve a competitive position, we rely on trade secrets, non-patented proprietary know-how and continuing technological innovation, where patent protection is not believed to be appropriate or attainable. In addition, as outlined above, we have a number of patent licenses from third parties, some of which may be important to our business. See Note 11. License and Collaboration Agreements in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules". There can be no assurance that any of our patents, licenses or other intellectual property rights will afford us any protection from competition.

We rely on confidentiality agreements with our employees, consultants and other parties to protect, among other things, trade secrets and other proprietary technology. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop equivalent proprietary information or that other third parties will not otherwise gain access to our trade secrets and other intellectual property.

We may find it necessary to initiate litigation to enforce our patent rights, to protect our intellectual property or to determine the scope and validity of the proprietary rights of others. Litigation is costly and time-consuming, and there can be no assurance that our litigation expenses will not be significant in the future or that we will prevail in any such litigation. See Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

### Governmental Regulation

The development, testing, manufacture, holding, packaging, labeling, distribution, marketing, and sales of our products and our ongoing product development activities are subject to extensive and rigorous government regulation. The Federal Food, Drug, and Cosmetic Act (FFDCA), the Controlled Substances Act and other federal and state statutes and regulations govern or influence the testing, manufacture, packaging, labeling, storage, record keeping, approval, advertising, promotion, sale and distribution of pharmaceutical products. Noncompliance with applicable requirements can result in fines, recall or seizure of products, total or partial suspension of production and/or distribution, injunctions, refusal of the government to enter into supply contracts or to approve NDAs and ANDAs, civil penalties and criminal prosecution.

FDA approval is typically required before each dosage form or strength of any new drug can be marketed.

Applications for FDA approval to market a drug must contain information relating to efficacy, safety, toxicity, pharmacokinetics, product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling, and quality control. The FDA also has the authority to require post-approval testing after marketing has begun and to suspend or revoke previously granted drug approvals. Product development and approval within this regulatory framework requires many years and involves the expenditure of substantial resources.

Based on scientific developments, post-market experience, or other legislative or regulatory changes, the current FDA standards of review for approving new pharmaceutical products are sometimes more stringent than those that were applied in the past. Some new or evolving review standards or conditions for approval were not applied to many established products currently on the market, including certain opioid products. As a result, the FDA does not have as extensive safety databases on these products as on some products developed more recently. Accordingly, we believe the FDA has expressed an intention to develop such databases for certain of these products, including many opioids. We cannot determine what effect changes in the FDA's laws or regulations, when and if promulgated, or changes in the FDA's legal or regulatory interpretations or requirements, may have on our business in the future. Changes could, among other things, require expanded or different labeling, additional testing, the recall or discontinuance of certain products, additional record keeping and expanded documentation of the properties of certain products and scientific substantiation. Such changes, or new legislation, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In 2013, the Supreme Court, in *The Federal Trade Commission v. Actavis*, determined that reverse payment patent settlements between generic and brand companies should be evaluated under the rule of reason, and provided limited guidance beyond the selection of this standard. The impact of this decision is not certain, and could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

EPI and Qualitest Pharmaceuticals sell products that are controlled substances as defined in the Controlled Substances Act of 1970 (CSA), which establishes certain security and record keeping requirements administered by the Drug Enforcement Agency (DEA). The DEA is concerned with the control of registered handlers of controlled substances, and with the equipment and raw materials used in their manufacture and packaging, in order to prevent loss and diversion into illicit channels of commerce. The DEA regulates controlled substances as Schedule I, II, III, IV or V substances, with Schedule I and II substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Our Qualitest segment sells a significant amount of hydrocodone-containing products. Hydrocodone combination products are currently regulated as Schedule III substances. Pursuant to the Food and Drug Administration Safety and Innovation Act, which is further described below, Congress has required the FDA to convene a meeting to solicit advice and recommendations to assist in conducting a scientific and medical evaluation on whether to

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reschedule combination products containing hydrocodone. Congress is acting in response to continued reports of misuse, abuse and addiction of products containing hydrocodone. An advisory committee to take public comments on the proposed rescheduling took place on January 24-25, 2013. At this advisory committee, the FDA's Drug Safety and Risk Management Advisory Committee recommended that hydrocodone be rescheduled to Schedule II. The FDA is responsible for preparing the documentation to reschedule a drug. Upon completion, the medical and scientific evaluation and scheduling recommendation of the FDA are forwarded to the Assistant Secretary for Health (ASH) who makes the final determination on behalf of the Secretary of the Department of Health and Human Services (HHS). The medical and scientific evaluation and the recommendation as to the appropriate schedule for the drug are then forwarded to the DEA. Should the DEA reschedule hydrocodone-containing products, it will be done through the rule-making process. A change from a Schedule III substance to a Schedule II substance could restrict patient access to needed medication. It would also require significant changes to the entire industry's supply chain from manufacturers, to wholesalers and retailers. We believe the increased burden and cost to the healthcare system would be substantial. While the briefing document published by the FDA on October 25, 2012, in advance of the advisory committee meeting suggests the FDA may not be prepared to recommend to the DEA that hydrocodone products be rescheduled to Schedule II, the FDA did, however, acknowledge that the question remains on how to reduce levels of abuse of hydrocodone combination products. In October 2013 the FDA issued a statement confirming that they plan to submit by December 2013 their formal recommendation package to HHS to reclassify hydrocodone combination products into Schedule II. The FDA anticipates the National Institute on Drug Abuse (NIDA)/HHS will concur with the recommendation. This will begin a process that will lead to a final decision by the DEA on the appropriate scheduling of these products. As part of our expansion of our Huntsville site, we have factored in the potential for hydrocodone being rescheduled.

On February 7-8, 2013, the FDA held a public hearing to obtain information, particularly scientific evidence, such as study data or peer-reviewed analyses, on issues pertaining to the use of opioid drugs in the treatment of chronic pain. The FDA is considering a Citizen Petition filed in July 2012 by a group of physicians seeking changes to the labeling of opioid drug products relating to indications and duration of use. In considering the petition and the ongoing policy debate on the use of opioid medications, the FDA heard presentations from individuals and groups on diagnosing and understanding patient pain, and what it would mean to change or limit patient access to opioids. On September 10, 2013 FDA announced class-wide safety labeling changes and new postmarket study requirements for all extended-release and long-acting (ER/LA) opioid. The updated indication states that ER/LA opioids are indicated for the management of pain severe enough to require daily, around-the-clock, long-term opioid treatment and for which alternative treatment options are inadequate. The updated indication further clarifies that, because of the risks of addiction, abuse, and misuse, even at recommended doses, and because of the greater risks of overdose and death, these drugs should be reserved for use in patients for whom alternative treatment options (e.g., non-opioid analgesics or immediate-release opioids) are ineffective, not tolerated, or would be otherwise inadequate to provide sufficient management of pain; ER/LA opioid analgesics are not indicated for as-needed pain relief. Recognizing that more information is needed to assess the serious risks associated with long-term use of ER/LA opioids, the FDA is also requiring drug companies that make these products to conduct further studies and clinical trials. The goals of these postmarket requirements are to further assess the known serious risks of misuse, abuse, increased sensitivity to pain (hyperalgesia), addiction, overdose, and death. It is not presently known what impact, if any, these changes to the indications for use or results from the post marketing studies may have on our business, financial position, results of operations and cash flows.

The FFDCA allows the FDA to impose mandatory and permissive debarment and other penalties on individuals and companies that are convicted of certain offenses relating to the drug approval process. In some situations, the FFDCA authorizes the FDA to not accept or review applications for a period of time from a company or an individual that has committed certain violations. It also authorizes the temporary denial of approval of applications during the investigation of certain violations that could lead to debarment and also, in more limited circumstances, authorizes the suspension of the distribution of approved drugs by the affected company. Lastly, the FFDCA allows for civil penalties and withdrawal of previously approved applications. In addition, the Social Security Act authorizes the Department of HHS's Office of Inspector General (OIG) to impose mandatory and permissive exclusion of individuals

and entities from participation in federal healthcare programs, such as Medicare and Medicaid, if convicted of certain offenses relating to health care fraud. We believe neither we nor any of our employees have ever been subject to debarment or exclusion.

The evolving and complex nature of regulatory requirements, the broad authority and discretion of the FDA and the generally high level of regulatory oversight results in a continuing possibility that from time to time, we will be adversely affected by regulatory actions despite ongoing efforts and commitment to achieve and maintain full compliance with all regulatory requirements.

#### NDA / BLA Process

FDA approval is typically required before any new drug can be marketed. An NDA or Biologics License Application (BLA) is a filing submitted to the FDA to obtain approval of new chemical entities and other innovations for which thorough applied research is required to demonstrate safety and effectiveness in use. The process generally involves:

- Completion of preclinical laboratory and animal testing and formulation studies in compliance with the FDA's Good Laboratory Practice (GLP) regulations;

- Submission to the FDA of an Investigational New Drug (IND) application for human clinical testing, which must become effective before human clinical trials may begin in the U.S.;

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• Approval by an independent institutional review board (IRB) before each trial may be initiated, and continuing review during the trial;

• Performance of human clinical trials, including adequate and well-controlled clinical trials in accordance with good clinical practices (GCP) to establish the safety and efficacy of the proposed drug product for each intended use;

• Submission of an NDA or BLA to the FDA;

• Satisfactory completion of an FDA pre-approval inspection of the product's manufacturing processes and facility or facilities to assess compliance with the FDA's current Good Manufacturing Practice (cGMP) regulations, and/or review of the Chemistry, Manufacturing, and Controls (CMC) section of the NDA or BLA to require that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality, purity and potency;

• Satisfactory completion of an FDA advisory committee review, if applicable; and

• Approval by the FDA of the NDA or BLA.

Clinical trials are typically conducted in three sequential phases, although the phases may overlap.

Phase I, which frequently begins with the initial introduction of the compound into healthy human subjects prior to introduction into patients, involves testing the product for safety, adverse effects, dosage, tolerance, absorption, distribution, metabolism, excretion and other elements of clinical pharmacology.

Phase II typically involves studies in a small sample of the intended patient population to assess the efficacy of the compound for a specific indication, to determine dose tolerance and the optimal dose range as well as to gather additional information relating to safety and potential adverse effects.

Phase III trials are undertaken to further evaluate clinical safety and efficacy in an expanded patient population at typically dispersed study sites, in order to determine the overall risk-benefit ratio of the compound and to provide an adequate basis for product labeling.

Each trial is conducted in accordance with certain standards under protocols that detail the objectives of the study, the parameters to be used to monitor safety and efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND. In some cases, the FDA allows a company to rely on data developed in foreign countries or previously published data, which eliminates the need to independently repeat some or all of the studies.

Data from preclinical testing and clinical trials are submitted to the FDA in an NDA or BLA for marketing approval and to foreign government health authorities in a marketing authorization application. The process of completing clinical trials for a new drug may take many years and require the expenditures of substantial resources. Preparing an NDA, BLA or marketing authorization application involves considerable data collection, verification, analysis and expense, and there can be no assurance that approval from the FDA or authorization from any other health authority will be granted on a timely basis, if at all. The approval process is affected by a number of factors, primarily the risks and benefits demonstrated in clinical trials as well as the severity of the disease and the availability of alternative treatments. The FDA may deny an NDA or BLA, or foreign government health authorities may deny a marketing authorization application, if the applicable regulatory criteria are not satisfied, or such authorities may require additional testing or information.

As a condition of approval, the FDA or foreign regulatory authorities may require further studies, including Phase IV post-marketing studies and pediatric studies to provide additional data. For some drugs, the FDA may require a REMS, which could include medication guides, physician communication plans, or restrictions on distribution and use, such as limitations on who may prescribe the drug or where it may be dispensed or administered. In September 2007, Congress passed legislation authorizing FDA to require companies to undertake such studies to assess the risks of drugs known or signaling potential to have serious safety issues. Other post-marketing studies could be used to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA or foreign government regulatory authorities require post-marketing reporting to monitor the adverse effects of drugs. Results of post-marketing programs may limit or expand the further marketing of the products.

On January 30, 2007, the FDA announced a drug safety initiative to implement a number of proposals made by the Institute of Medicine (IOM) in a September 2006 report. As part of this program, the FDA began publishing a newsletter that contains non-confidential, non-proprietary information regarding post-marketing review of new drug products. Additionally, in 2005, the FDA created a Drug Safety Oversight Board to provide oversight and advice to

the Center for Drug Evaluation and Research Director on the management of important drug safety issues and to manage the dissemination of certain safety information through the FDA's Web site to healthcare professionals and patients.

On February 6, 2009, the FDA sent letters to manufacturers of certain opioid drug products, indicating that these drugs will be required to have a Risk Evaluation and Mitigation Strategy (REMS) to verify that the benefits of these products continue to outweigh the risks. The FDA has authority to require a REMS under the Food and Drug Administration Amendments Act (FDAAA) when necessary to substantiate that the benefits of a drug outweigh the risks. The affected opioid drugs include branded and generic products. Three products sold by Endo were included in the list of affected opioid drugs: Opana<sup>®</sup> ER, morphine sulfate ER and oxycodone ER. On December 9, 2011, the FDA approved our interim REMS for Opana<sup>®</sup> ER, which was subsequently superseded by

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the class-wide extended-release/long-acting REMS approved on July 9, 2012. The goal of this REMS is to reduce serious adverse outcomes resulting from inappropriate prescribing, misuse and abuse of extended-release or long-acting opioid analgesics while maintaining patient access to pain medications. The REMS includes a Medication Guide, Elements to Assure Safe Use and annual REMS Assessment Reports. These changes, or others required by the FDA, could have an adverse effect on the sales, gross margins and marketing costs of these products.

On January 14, 2011, the FDA announced in the Federal Register that it was taking steps to reduce the maximum strength of acetaminophen in prescription combination drug products to help reduce or prevent the risk of liver injury from an unintentional overdose of acetaminophen. A variety of prescription combination drug products include acetaminophen, such as those that contain the opioids oxycodone hydrochloride or hydrocodone bitartrate and acetaminophen, among others. Specifically, the FDA announced that it was asking product sponsors to limit the maximum strength of acetaminophen per dosage unit of the prescription combination drug products to 325 milligrams (mg) over a three-year phase-out period. The FDA also notified holders of approved NDAs and ANDAs that they would be required to modify the labeling of prescription acetaminophen drug products to include a Boxed Warning to include new safety information about acetaminophen and liver toxicity, and a Warning on the potential for allergic reactions. Additionally, in August 2013, the FDA announced that it will require a warning added to labels of prescription drugs containing acetaminophen to address the risk of serious skin reactions. On January 14, 2014, the FDA issued a recommendation that healthcare professionals discontinue prescribing and dispensing prescription combination products containing more than 325 mg of acetaminophen per dosage unit. The FDA also stated that it intends to initiate proceedings to withdraw approval of prescription combination drug products containing more than 325 mg of acetaminophen per dosage unit pursuant to its authority under FFDCA. Among the products impacted by the FDA's actions are three Endo combination drug pain relief products: Percocet®, Endocet® and Zydone®; and the Qualitest Pharmaceuticals combination drug pain relief products: butalbital/acetaminophen/caffeine, hydrocodone/acetaminophen and oxycodone/acetaminophen. The Company has implemented several measures to comply with these FDA actions. Specifically, any high dose prescription product containing more than 325 mg of acetaminophen will have an expiration date that will prevent saleable product remaining in the marketplace after January 2014. In addition, steps are being taken to increase production of similar low dose products to provide uninterrupted supply to all customers as demand transitions to the alternate products. Nonetheless, these regulatory changes, or others required by the FDA, could have an adverse effect on our business, financial condition, results of operations and cash flows.

Finally, the FDA is developing guidance for the industry on how to test, detect and prevent safety problems during drug development, including tests that would identify preclinical biomarkers of toxicity. Because these initiatives and other similar initiatives are still being developed, it is unclear what impact, if any, they may have on our ability to obtain approval of new drugs or on our sales of existing products.

In addition to these initiatives, the Prescription Drug User Fee Act (PDUFA) was reauthorized on September 27, 2007 through passage of the FDAAA. In connection with that reauthorization legislation, Congress enacted new measures authorizing FDA to require companies to undertake post-approval testing of products to assess known or signaled potential serious safety risks and to make labeling changes to address safety risks. The legislation also re-authorized the FDA to require testing of drug products in children where appropriate and provided additional incentives to companies that agree to undertake such testing in connection with a new NDA as part of the Best Pharmaceuticals for Children Act (BPCA). The legislation also contained provisions to expedite new drug development and collect data and results from clinical trials of drug products more readily available via a registry managed by the National Institutes of Health. These provisions, depending on how they are and continue to be implemented by the FDA, could impact our ability to market existing and new products. The PDUFA and the Medical Device User Fee and Modernization Act (MDUFMA) were reauthorized and amended in 2012 by the Food and Drug Administration Safety and Innovation Act (FDASIA), which is further described below.

On July 9, 2012, the FDASIA, which primarily amends existing legislation, was signed into law. In addition to reauthorizing and amending several drug and medical device provisions that were scheduled to sunset, including PDUFA and MDUFMA, the new law establishes new user fee statutes for generic drugs and biosimilars. FDASIA also, among other provisions, provides the FDA with tools intended to expedite the development and review of

innovative new medicines that address certain unmet medical needs, affords the FDA new authority concerning drug shortages, makes significant changes to enhance the FDA's inspection authority and drug supply chain and includes several miscellaneous provisions such as provisions on prescription drug abuse, 180-day generic drug marketing exclusivity, citizen petitions and controlled substances. The law significantly changes existing legislation in several respects that will have considerable short- and long-term effects on the regulated industries and could impact our ability to market existing and new products.

Section 505(b)(2) of the FDCA provides a procedure for an applicant to seek approval of a drug product for which safety and/or efficacy has been established through preclinical and clinical data that the applicant does not have proprietary rights to use. Under that section, despite not having a right of reference, an applicant can cite studies containing such clinical data to prove safety or efficacy, along with any additional clinical data necessary to support the application. Section 505(b)(2) NDAs are subject to patent certification and notification requirements that are similar to those that are required for ANDAs (refer to next section). Approval of

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Section 505(b)(2) NDAs, like ANDAs, also may be delayed by market exclusivity that covers the reference product. However, despite the similarities, Section 505(b)(2) applications are not permitted when an applicant could submit and obtain approval of an ANDA.

### ANDA Process

FDA approval of an ANDA is required before a generic equivalent of an existing or reference-listed drug can be marketed. The ANDA process is abbreviated in that the FDA waives the requirement of conducting complete preclinical and clinical studies and instead relies principally on bioequivalence studies. Bioequivalence generally involves a comparison of the rate of absorption and levels of concentration of a generic drug in the body with those of the previously approved drug. When the rate and extent of absorption of systemically acting test and reference drugs are the same, the two drugs are considered bioequivalent and regarded as therapeutically equivalent, meaning that a pharmacist can substitute the product for the reference-listed drug. There are other or additional measures the FDA may rely upon to determine bioequivalence in locally acting products, which could include comparative clinical efficacy trials. In May 2007, the FDA began posting to its website, bioequivalence recommendations for individual products in order to provide guidance to generic manufacturers on the specific method of demonstrating bioequivalence.

An ANDA may also be submitted for a product authorized by approval of an ANDA suitability petition. Such petitions may be submitted to secure authorization to file an ANDA for a product that differs from a previously approved drug in active ingredient, route of administration, dosage form or strength. For example, the FDA has authorized the substitution of acetaminophen for aspirin in certain combination drug products and switching the drug from a capsule to tablet form. Bioequivalence data may be required, if applicable, as in the case of a tablet in place of a capsule, although the two products would not be rated as therapeutically equivalent, meaning that a pharmacist cannot automatically substitute the product for the reference-listed drug. Congress re-authorized pediatric testing legislation in September 2007 which may continue to affect pharmaceutical firms' ability to file ANDAs via the suitability petition route. In addition, under that same legislation, ANDA applicants are required to implement a REMS in connection with obtaining approval of their products, when the reference-listed drug has an approved REMS.

The timing of final FDA approval of ANDA applications depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the manufacturer of the reference listed drug is entitled to one or more statutory exclusivity periods, during which the FDA is prohibited from approving generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date. For example, under the BPCA, if a manufacturer receives and accepts a written request from the FDA to conduct studies on the safety and efficacy of its product in children, the exclusivity of a product is extended by six months past the patent or regulatory expiration date if the manufacturer completes and submits the results of the studies, a so-called pediatric study extension.

### Patent and Non-Patent Exclusivity Periods

A sponsor of an NDA is required to identify in its application any patent that claims the drug or a use of the drug subject to the application. Upon NDA approval, the FDA lists these patents in a publication referred to as the Orange Book. Any person that files a Section 505(b)(2) NDA, the type of NDA that relies upon the data in the application for which the patents are listed, or an ANDA to secure approval of a generic version of this first, or listed drug, must make a certification in respect to listed patents. The FDA may not approve such an application for the drug until expiration of the listed patents unless (1) the generic applicant certifies that the listed patents are invalid, unenforceable or not infringed by the proposed generic drug and gives notice to the holder of the NDA for the listed drug of the basis upon which the patents are challenged, and (2) the holder of the listed drug does not sue the later applicant for patent infringement within 45 days of receipt of notice. Under the current law, if an infringement suit is filed, the FDA may not approve the later application until the earliest of: 30 months after submission; entry of an appellate court judgment holding the patent invalid, unenforceable or not infringed; such time as the court may order; or the patent expires.

One of the key motivators for challenging patents is the 180-day market exclusivity period vis a vis other generic applicants granted to the developer of a generic version of a product that is the first to have its application accepted for

filing by the FDA and whose filing includes a certification that the applicable patent(s) are invalid, unenforceable and/or not infringed (a Paragraph IV certification) and that prevails in litigation with the manufacturer of the branded product over the applicable patent(s). Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (2003 Medicare Act), with accompanying amendments to the Hatch-Waxman Act (Drug Price Competition and Patent Term Restoration Act), this marketing exclusivity would begin to run upon the earlier of the commercial launch of the generic product or upon an appellate court decision in the generic company's favor.

In addition, the holder of the NDA for the listed drug may be entitled to certain non-patent exclusivity during which the FDA cannot approve an application for a competing generic product or 505(b)(2) NDA product. If the listed drug is a new chemical entity, in certain circumstances, the FDA may not approve any application for five years; if it is not a new chemical entity, the FDA may not approve a competitive application for three years if the application for the product included clinical studies that were essential to the approval. Certain additional periods of exclusivity may be available if the listed drug is indicated for use in a rare disease or condition (orphan drug exclusivity) or is studied for pediatric indications (pediatric exclusivity).

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## Medical Device Regulation

Numerous governmental authorities, principally the FDA and comparable foreign regulatory agencies, regulate the development, testing, design, manufacturing, packaging, labeling, storage, installation, marketing, distribution and servicing of our medical devices. In Europe and certain other countries, we comply with the European Union Directives for Medical Devices and certify our compliance with the CE Mark. In other countries outside the U.S., we comply with appropriate local registration and authorization. In the U.S., under the FFDCa, medical devices, such as those manufactured by AMS are classified into Class I, II, or III depending on the degree of risk associated with each medical device and the extent of control needed to provide for safety and effectiveness. Class I includes devices with the least risk and Class III includes those with the greatest risk. Class I medical devices are subject to the FDA's general controls, which include compliance with the applicable portions of the FDA's Quality System Regulation, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials. Class II devices are subject to the FDA's general controls and may also be subject to other special controls as deemed necessary by the FDA to provide for the safety and effectiveness of the device. Class III medical devices are subject to the FDA's general controls, special controls, and premarket approval prior to marketing.

AMS currently markets Class I, II and III medical devices. If a device is classified as Class I or II, and if it is not exempt, its manufacturer will have to undertake the premarket notification process in order to obtain marketing clearance, also referred to as the 510(k) process. When a 510(k) is required, the manufacturer must submit to the FDA a premarket notification demonstrating that the device is substantially equivalent to either a device that was legally marketed prior to May 28, 1976, the date upon which the Medical Device Amendments of 1976 were enacted, or to another commercially available, similar device which was subsequently cleared through the 510(k) process. By regulation, the FDA is required to clear a 510(k) within 90 days of submission of the application. As a practical matter, clearance often takes longer, particularly if a clinical trial is required. A successful 510(k) submission results in FDA permission to market the new device.

Class III devices are approved through a Premarket Approval Application (PMA), under which the applicant must submit data from adequate and well-controlled clinical trials to the FDA that demonstrate the safety and effectiveness of the device for its intended use(s). All of our marketed devices have been approved or cleared for marketing pursuant to a PMA or the 510(k) process. The FDA also has authority under the FFDCa to require a manufacturer to conduct post-market surveillance of a Class II or Class III device. On January 3, 2012, the FDA ordered manufacturers of transvaginal surgical mesh used for pelvic organ prolapse and of single incision mini-slings for urinary incontinence, such as AMS to conduct post-market surveillance safety studies and to monitor adverse event rates relating to the use of these products. Of the nineteen class-wide post market study orders received by AMS for pelvic floor repair and mini-sling products, three remain active. AMS is in the process of complying with these orders. In its orders, the FDA also noted that it is still considering the recommendation of an advisory committee on September 9, 2011, that urogynecological surgical mesh for transvaginal repair of pelvic organ prolapse be reclassified from Class II to Class III. On March 27, 2013, the FDA updated its Urogynecologic Surgical Mesh Implant website to include additional information intended for patients about the use of mesh for repair of stress urinary incontinence. The update was based on an analysis of adverse events reported to FDA, findings reported in the scientific literature, and input received from the advisory committee meeting. FDA highlighted complications associated with placement of mesh through vaginal wall incision, but did not link them to any single brand or model of mesh. Vaginal erosion, infection, pain, urinary problems and recurrence of incontinence were listed as the most frequent complications, and additional complications were listed, including erosion of the mesh and painful vaginal scarring. The need for explantation was noted, as well as other complications which included injuries to nearby organs such as bowel, bladder, or blood vessels. Specific queries for the physician were recommended, and reporting of complications was encouraged.

The FDA has broad post-market regulatory and enforcement powers with respect to medical devices, similar to those for pharmaceutical products. Failure to comply with the applicable U.S. medical device regulatory requirements could result in, among other things, warning letters, fines, injunctions, consent decrees, civil money penalties, repairs, replacements, refunds, recalls or seizures of products, total or partial suspension of production, the FDA's refusal to

grant future premarket clearances or approvals, withdrawals or suspensions of current product applications, and criminal prosecution.

On January 19, 2011, the FDA's Center for Devices and Radiological Health (CDRH) unveiled a plan of 25 action items it intended to implement during 2011 relating to the 510(k) premarket notification process for bringing medical devices to market. Among the actions the FDA indicated it plans to take were to issue guidance documents to clarify when clinical data should be submitted in support of a premarket notification submission, to clarify the review of submissions that use multiple predicates in a premarket notification submission, to clarify when modifications to a device require a new 510(k), and other guidance documents. The plan included other intended measures such as streamlining the review of innovative lower-risk products through the de novo review process, and establishing a Center Science Council of senior FDA experts to enhance science-based decision-making in 510(k) reviews. The FDA announced that it intended to refer to the IOM for further review and consideration of other significant actions, such as whether or not to define the scope and grounds for the exercise of authority to partially or fully rescind a 510(k) marketing clearance, to clarify and consolidate the concepts of indications for use and intended use, to clarify when a device should no longer be available as a predicate to support a showing of substantial equivalence and whether to develop guidance on a new class of devices, called class IIb, for which additional data would be necessary to support a 510(k) determination.

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On July 29, 2011, the IOM released its report, which recommended that the FDA move towards replacing the current 510(k) review process, which is based on substantial equivalence determinations, with a new integrated premarket and post-market regulatory framework that provides a reasonable assurance of safety and efficacy. The IOM also recommended that the FDA prioritize enhancement of its post-market surveillance program. The IOM also stated that it was unable to study fully the seven specific actions referred to it by the FDA because the requests came at the end of its review. The FDA decided not to act on the IOM recommendation to replace the 510(k) substantial equivalence framework, but since January 2011, the CDHRH has issued numerous guidance documents and proposed and final regulations impacting all medical devices (PMA and 510(k)), that have the potential to significantly impact how the FDA regulates medical devices. These include issuing guidance on data requirements for pivotal clinical investigations for medical devices, on CDHR's evaluation of substantial equivalence in premarket notification 510(k) submissions, on presubmission meetings for investigational device exemption (IDEs), including with regard to multiple predicate devices, and on its decisions on whether and how to approve a device clinical study, among other draft guidance. While the FDA issued and withdrew (pursuant to a requirement of the MDUFMA legislation), a draft guidance on when device modifications require a new 510(k), it plans to issue another draft guidance on device modification requirements subsequent to issuance of a required congressional report. In addition, in September 2013, the FDA issued a final rule that requires a unique identifier on distributed devices for tracking purposes. This requirement becomes effective in September 2014, initially for Class III, implantable, life supporting and life sustaining devices.

Further, pursuant to the March 2010 healthcare reform law, a medical device tax went into effect January 1, 2013, for devices listed with the FDA.

The extent and how the FDA will implement some or all of its planned action items, draft guidance and proposed and final rules is unknown at this time. Congress expressed concern regarding a number of FDA's medical device initiatives, and altered the pace and scope of some of these changes. For example, FDA may not disapprove an IDE study solely because it is insufficient to support approval, clearance or de novo classification. Also, FDASIA pushes FDA toward broader and more rapid usage of the de novo classification process by allowing a sponsor to bypass an initial 510(k) submission for low-moderate risk devices. Additionally, FDA had issued a 2011 guidance to clarify when manufacturers must submit a new 510(k) for a modification of a Class II device, imposing stringent criteria. Congress disagreed with FDA's approach, requiring withdrawal of the guidance and a reinstatement and rereview of the 1997 guidance governing when a modification requires a new 510(k) submission. Nonetheless, FDA actions could have a significant effect on the cost of applying for and maintaining applications under the 510(k) clearance mechanism, on the criteria required for achieving clearance for additional uses of existing devices or new 510(k) devices, for the marketing of medical devices and for the post-market support of marketed devices.

#### Quality Assurance Requirements

The FDA enforces regulations to require that the methods used in, and the facilities and controls used for, the manufacture, processing, packing and holding of drugs and medical devices conform to current good manufacturing practices, or cGMP. The cGMP regulations the FDA enforces are comprehensive and cover all aspects of manufacturing operations, from receipt of raw materials to finished product distribution, insofar as they bear upon whether drugs meet all the identity, strength, quality and purity characteristics required of them. The cGMP regulations for devices, called the Quality System Regulation, are also comprehensive and cover all aspects of device manufacture, from pre-production design requirements and validation to installation and servicing, insofar as they bear upon the safe and effective use of the device and whether the device otherwise meets the requirements of the FFDCFA. To assure compliance requires a continuous commitment of time, money and effort in all operational areas. The FDA conducts pre-approval inspections of facilities engaged in the development, manufacture, processing, packing, testing and holding of the drugs subject to NDAs and ANDAs. If the FDA concludes that the facilities to be used do not or did not meet cGMP, good laboratory practices or GLP or good clinical practices or GCP requirements, it will not approve the application. Corrective actions to remedy the deficiencies must be performed and are usually verified in a subsequent inspection. In addition, manufacturers of both pharmaceutical products and active pharmaceutical ingredients (APIs) used to formulate the drug also ordinarily undergo a pre-approval inspection, although the inspection can be waived when the manufacturer has had a passing cGMP inspection in the immediate

past. Failure of any facility to pass a pre-approval inspection will result in delayed approval and would have a material adverse effect on our business, results of operations, financial condition and cash flows.

The FDA also conducts periodic inspections of drug and device facilities to assess the cGMP status of marketed products. If the FDA were to find serious cGMP non-compliance during such an inspection, it could take regulatory actions that could adversely affect our business, results of operations, financial condition and cash flows. Imported API and other components needed to manufacture our products could be rejected by U.S. Customs, usually after conferring with the FDA. In respect to domestic establishments, the FDA could initiate product seizures or request or in some instances require product recalls and seek to enjoin a product's manufacture and distribution. In certain circumstances, violations could support civil penalties and criminal prosecutions. In addition, if the FDA concludes that a company is not in compliance with cGMP requirements, sanctions may be imposed that include preventing that company from receiving the necessary licenses to export its products and classifying that company as an unacceptable supplier, thereby disqualifying that company from selling products to federal agencies.

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On January 9, 2012, we announced that, as a result of a shutdown by Novartis Consumer Health Division of its manufacturing facility in Lincoln, Nebraska to facilitate certain manufacturing process improvements, there would be a short-term supply constraint for our Opana® ER product, which was manufactured by Novartis. To the best of our knowledge, these manufacturing improvements were intended to address the possibility of packaging errors that could potentially result in product mix-ups. We have transitioned the production of the formulation of Opana® ER designed to be crush-resistant to a third-party manufacturing facility managed by our development partner, Grünenthal, began production of our Voltaren® Gel product at an alternative Novartis manufacturing source, and made alternative arrangements for supply of certain other of our analgesic products which had been manufactured at the Nebraska facility prior to the shutdown. On December 31, 2012, Endo and Novartis Consumer Health entered into a settlement agreement whereby the parties agreed to terminate the manufacturing agreement between the parties. Also, Novartis Consumer Health has agreed to reimburse Endo for certain out-of-pocket costs, including costs related to recalls of certain of our products manufactured at the Lincoln facility and incremental freight charges associated with the transfer of Voltaren® Gel to an alternate Novartis manufacturing site.

Following an FDA inspection of the solid dose manufacturing facility in Charlotte, North Carolina, that took place from January 14, 2014 through February 14, 2014, our subsidiary, Qualitest Pharmaceuticals, received a Form 483 Notice of Inspectional Observations dated February 14, 2014, listing observations of the inspector focused on improper adherence to established processes and procedures. Qualitest Pharmaceuticals is currently drafting a comprehensive response to the observations.

Following an FDA inspection of the tablet manufacturing facility in Huntsville, Alabama in May 2013, our subsidiary, Qualitest Pharmaceuticals, received a Form 483 Notice of Inspectional Observations dated May 30, 2013. The observations focused on investigations and the proper follow-up and tablet counters. A comprehensive response was provided to the FDA on June 12, 2013 addressing each observation and providing corrective actions and appropriate remediation plans. The final corrective action report was sent to the FDA in September 2013. No further feedback from the FDA has been received.

The FDA also inspected the liquids facility of our Qualitest Pharmaceuticals subsidiary in Huntsville, Alabama in March 2013, with no 483s issued.

In February 2013, the FDA conducted an inspection of AMS's Minnetonka, Minnesota facility. Following such inspection, the FDA issued two observations on a Form 483 Notice of Inspectional Observations. Both observations related to timeliness of complaint handling procedures. AMS provided a written response to the FDA on February 28, 2013 detailing proposed corrective actions. AMS has provided the FDA updates on the progress on these corrective actions, which are substantially complete. In February 2014, the FDA conducted another inspection of AMS's Minnetonka, Minnesota facility. Following such inspection, the FDA issued three observations on a Form 483. These observations relate to process validation, risk analysis and corrective and preventive action procedures. AMS is currently drafting a comprehensive response to the observations and is cooperating with the FDA to address this Form 483. The Minnetonka, Minnesota facility will continue to manufacture products while AMS works with the FDA to address these observations.

### Other FDA Matters

If there are any modifications to an approved drug, including changes in indication, manufacturing process or labeling or a change in a manufacturing facility, an applicant must notify the FDA, and in many cases, approval for such changes must be submitted to the FDA. Additionally, the FDA regulates post-approval promotional labeling and advertising activities to assure that such activities are being conducted in conformity with statutory and regulatory requirements. These regulations include standards or restrictions for direct-to-consumer advertising, industry-sponsored scientific and educational activities, promotional activities and off-label promotion. While physicians may prescribe for off-label uses, manufacturers may only promote for the approved indications and in accordance with the provisions of the approved label. In December 2011, the FDA issued a draft guidance document on responding to unsolicited requests for off-label information about a drug or device, which suggests limits on a company's ability to respond, and in March 2012 issued a draft guidance on pre-dissemination review of direct-to-consumer TV advertising. In January 2014, the FDA issued a draft guidance on postmarketing submission of interactive promotional media, and it is likely to issue further guidance on the use of social media in advertising or

promoting a product (mandated by FDASIA to occur by July 2014). These and other statements of the FDA interpreting the FFDCFA and the FDA's regulatory authority may place further limits and restrictions on the advertising of our products. The FDA has very broad enforcement authority under the FFDCFA. Failure to abide by these regulations can result in compliance or enforcement action, including the issuance of warning letters directing entities to correct deviations from FDA regulations and civil and criminal investigations and prosecutions. These activities could have a material adverse effect on our business, results of operations, financial condition and cash flows.

#### Drug Enforcement Administration

We sell products that are controlled substances as defined in the CSA, which establishes certain security and record keeping requirements administered by the DEA. The DEA is concerned with the control of registered handlers of controlled substances, and with the equipment and raw materials used in their manufacture and packaging, in order to prevent loss and diversion into illicit channels of commerce.

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The DEA regulates controlled substances as Schedule I, II, III, IV or V substances, with Schedule I and II substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. The active ingredients in some of our current products and products in development, including oxycodone, oxymorphone, morphine, fentanyl and hydrocodone, are listed by the DEA as Schedule II or III substances under the CSA. Consequently, their manufacture, shipment, storage, sale and use are subject to a high degree of regulation. For example, generally, all Schedule II drug prescriptions must be signed by a physician, physically presented to a pharmacist and may not be refilled without a new prescription.

The DEA limits the availability of the active ingredients used in many of our current products and products in development, as well as the production of these products, and we, or our contract manufacturing organizations, must annually apply to the DEA for procurement and production quotas in order to obtain and produce these substances. As a result, our quotas may not be sufficient to meet commercial demand or complete clinical trials. Moreover, the DEA may adjust these quotas from time to time during the year, although the DEA has substantial discretion in whether or not to make such adjustments. Any delay or refusal by the DEA in establishing our quotas, or modification of our quotas, for controlled substances could delay or stop our clinical trials or product launches, or could cause trade inventory disruptions for those products that have already been launched, which could have a material adverse effect on our business, financial position, results of operations and cash flows.

To meet its responsibilities, the DEA conducts periodic inspections of registered establishments that handle controlled substances. Annual registration is required for any facility that manufactures, tests, distributes, dispenses, imports or exports any controlled substance. The facilities must have the security, control and accounting mechanisms required by the DEA to prevent loss and diversion. Failure to maintain compliance, particularly as manifested in loss or diversion, can result in regulatory action that could have a material adverse effect on our business, results of operations, financial condition and cash flows. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to revoke those registrations. In certain circumstances, violations could eventuate in criminal proceedings.

Individual states also regulate controlled substances, and we, as well as our third-party API suppliers and manufacturers, are subject to such regulation by several states with respect to the manufacture and distribution of these products.

We, and to our knowledge, our third-party API suppliers, dosage form manufacturers, distributors and researchers have necessary registrations, and we believe all registrants operate in conformity with applicable registration requirements.

### Government Benefit Programs

Statutory and regulatory requirements for Medicaid, Medicare, TRICARE and other government healthcare programs govern provider reimbursement levels, including requiring that all pharmaceutical companies pay rebates to individual states based on a percentage of their net sales arising from Medicaid program-reimbursed products. In addition, under a final rule promulgated by the U.S. Department of Defense (DOD) on March 17, 2009 and reissued on October 15, 2010 with an effective date of December 27, 2010, payments made to retail pharmacies under the TRICARE Retail Pharmacy Program for prescriptions filled on or after January 28, 2008 are subject to certain price ceilings. Under the final rule and as a condition for placement on the Uniform Formulary, manufacturers are required, among other things, to make refunds for prescriptions filled beginning on January 28, 2008 and extending to future periods based on the newly applicable price limits. On April 17, 2012, the TRICARE Management Authority issued guidance regarding the obligation to pay refunds for prescription drug utilization for the period first quarter 2008 to second quarter 2009. On January 4, 2013, the D.C. Circuit Court of Appeals upheld the DOD's interpretation of the final rule that refunds are due on any prescription filed after January 28, 2008. We had requested a waiver to be exempt from such refunds for the period January 28, 2008 through May 25, 2009, based upon our belief that the DOD was not likely to prevail in court with its interpretation that such refunds were owed. In September 2012, DOD denied our waiver. As a result, we paid TRICARE approximately \$16.0 million in full satisfaction of our obligations. The federal and/or state governments may continue to enact measures in the future aimed at containing or reducing payment levels for prescription pharmaceuticals paid for in whole or in part with government funds. We cannot predict the nature of such measures or their impact on our profitability and cash flows. These efforts could, however, have material

consequences for the pharmaceutical industry and the Company.

From time to time, legislative changes are made to government healthcare programs that impact our business. For example, the Medicare Prescription Drug Improvement and Modernization Act of 2003 created Medicare Part D, a new prescription drug coverage program for people with Medicare through a new system of private market drug benefit plans. This law provides a prescription drug benefit to seniors and individuals with disabilities in the Medicare program (Medicare Part D). Congress continues to examine various Medicare policy proposals that may result in a downward pressure on the prices of prescription drugs in the Medicare program.

In addition, in March 2010, President Obama signed into law healthcare reform legislation that will make major changes to the healthcare system.

While some provisions of the new healthcare reform law have already taken effect, most of the provisions to expand access to health care coverage will not be implemented until 2014 and beyond. Since implementation is incremental to the enactment date of the law, there are still many challenges and uncertainties ahead. Such a comprehensive reform measure will require expanded

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implementation efforts on the part of federal and state agencies embarking on rule-making to develop the specific components of their new authority.

In March 2012, the U.S. Supreme Court addressed challenges to the constitutionality of the health care reform law. The Court considered the constitutionality of the individual mandate, as well as whether the overall health care law could still stand even if the individual mandate was ruled unconstitutional. On June 28, 2012, the Supreme Court upheld the individual mandate. In its ruling, the Court did address the expansion of Medicaid required under the law, a provision that requires states to expand Medicaid to approximately 17 million additional low-income individuals up to 133% of the federal poverty level. Under the law, the federal government would pay the additional costs for the expansion of Medicaid for the years 2014 to 2016 and then the federal share would phase down to 90% by 2020. The law provided that if a state did not expand its Medicaid program eligibility to 133%, it would risk losing the federal share for all its Medicaid funding and not just the funding for the expansion. On this matter, the Supreme Court upheld the constitutionality of the Medicaid expansion but ruled that the punitive aspects of the provision are unconstitutional meaning that the federal government does not have the authority to terminate existing federal funding for Medicaid if the states do not expand Medicaid. This aspect of the ruling may cause some states to refuse to expand Medicaid eligibility thereby limiting the number of individuals with access to health insurance.

The implementation of the healthcare reform law has and will continue to result in a transformation of the delivery and payment for health care services in the U.S., including the expansion of health insurance coverage to an estimated 32 million Americans. In addition, there are significant health insurance reforms that have improved patients' ability to obtain and maintain health insurance. Such measures include: the elimination of lifetime caps; no rescission of policies; and no denial of coverage due to preexisting conditions. The expansion of healthcare insurance and these additional market reforms should result in greater access to the Company's products.

In response to the U.S. debt-ceiling crisis, Congress passed the Budget Control Act of 2011 on August 2, 2011. Within the Act, Congress created the Joint Select Committee on Deficit Reduction (JSC), which was charged with issuing a formal recommendation on how to reduce the federal deficit by \$1.2 trillion to \$1.5 trillion over the next ten years. The Budget Control Act provided that if Congress failed to pass a deficit reduction plan by December 23, 2011, a process of sequestration would occur on January 1, 2013 which would result in across-the-board spending cuts to certain government programs, including Medicare, in order to meet the deficit reduction goal. Since the JSC failed to put forth a proposal and Congress ultimately failed to pass a deficit reduction plan, the sequestration process was scheduled to be triggered on January 2, 2013. Congress initially was able to delay sequestration when it passed the American Taxpayer Relief Act of 2012 (H.R. 8) until March 1, 2013. On April 1, 2013, however, Medicare provider payments were cut by two percent under the Budget Control Act of 2011. Although the Bipartisan Budget Act of 2013, signed into law on December 26, 2013, did not provide relief to the two percent sequestration reduction, it did implement 0.5% increase for physician services provided through March 31, 2014.

Healthcare Fraud and Abuse Laws

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry. For example, in the U.S., there are federal and state anti-kickback laws that prohibit the payment or receipt of kickbacks, bribes or other remuneration intended to induce the purchase or recommendation of healthcare products and services or reward past purchases or recommendations. Violations of these laws can lead to civil and criminal penalties, including fines, imprisonment and exclusion from participation in federal healthcare programs. These laws are potentially applicable to us as both a manufacturer and a supplier of products reimbursed by federal health care programs. These laws also apply to hospitals, physicians and other potential purchasers of our products.

In particular, the federal Anti-Kickback Statute (42 U.S.C. § 1320a-7b(b)) prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending, or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. Remuneration is not defined in the federal Anti-Kickback Statute and has been broadly interpreted to include anything of value, including for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value. In addition, the recently enacted healthcare reform legislation, among other things, amends the intent requirement of the federal Anti-Kickback Statute

and the applicable criminal healthcare fraud statutes contained within 42 U.S.C. § 1320a-7b. Pursuant to the statutory amendment, a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it in order to have committed a violation. In addition, the U.S. Health Reform Law provides that the government may assert that a claim including items or services resulting from a violation of 42 U.S.C. § 1320a-7b constitutes a false or fraudulent claim for purposes of the civil False Claims Act (discussed below) or the civil monetary penalties statute, which imposes fines against any person who is determined to have presented or caused to be presented claims to a federal healthcare program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. Moreover, the lack of uniform court interpretation of the Anti-Kickback Statute makes compliance with the law difficult, as virtually any relationship with entities that purchase or refer for our services could implicate the Anti-Kickback Statute.

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Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements within the healthcare industry, the HHS-OIG issued regulations in July 1991, and additional safe harbor regulation periodically since that time, which the HHS-OIG refers to as safe harbors. These safe harbor regulations set forth certain provisions which, if met in form and substance, will assure pharmaceutical and medical device companies, healthcare providers and other parties that they will not be prosecuted under the federal Anti-Kickback Statute. Although full compliance with these provisions safeguards against prosecution under the federal Anti-Kickback Statute, the failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the federal Anti-Kickback Statute will be pursued. However, conduct and business arrangements that do not fully satisfy each element of an applicable safe harbor may result in increased scrutiny by government enforcement authorities, such as the HHS-OIG or federal prosecutors. Additionally, there are certain statutory exceptions to the federal Anti-Kickback Statute, one or more of which could be used to protect a business arrangement, although we understand that the HHS-OIG is of the view that an arrangement that does not meet the requirements of a safe harbor cannot satisfy the corresponding statutory exception, if any, under the federal Anti-Kickback Statute.

Additionally, many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any third-party payer, not only the Medicare and Medicaid programs, and do not contain identical safe harbors.

Government officials have focused their Anti-Kickback Statute enforcement efforts relating to drug and device manufacturers, including False Claims Act (described below) actions on marketing of healthcare services and products, among other activities, and have brought cases against numerous pharmaceutical and medical device companies, and certain sales and marketing personnel for allegedly offering unlawful inducements to potential or existing customers in an attempt to procure their business or reward past purchases or recommendations.

Another development affecting the healthcare industry is the increased use of the federal civil False Claims Act and, in particular, actions brought pursuant to the False Claims Act's whistleblower or qui tam provisions. The civil False Claims Act imposes liability on any person or entity who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal healthcare program. The qui tam provisions of the False Claims Act allow a private individual to bring civil actions on behalf of the federal government alleging that the defendant has submitted or caused the submission of a false claim to the federal government, and to share in any monetary recovery. In recent years, the number of suits brought by private individuals has increased dramatically. In addition, various states have enacted false claim laws analogous to the False Claims Act. Many of these state laws apply where a claim is submitted to any third-party payer and not merely a federal healthcare program.

When an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of \$5,500 to \$11,000 for each separate false claim. There are many potential bases for liability under the False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. The False Claims Act also has been used to assert liability of the basis of inadequate care, kickbacks and other improper referrals, improperly reported government pricing metrics such as Best Price or AMP, improper use of Medicare reimbursement information when detailing the provider of services, improper promotion of off-label uses (i.e., uses not expressly approved by FDA in a drug's or device's label), misrepresentations with respect to the services rendered and causing improper claims to be submitted for allegedly unapproved drugs or other products. Our activities relating to the reporting of discount and rebate information and other information affecting federal, state and third-party reimbursement of our products, the sale and marketing of our products and our service arrangements or data purchases, among other activities, may be subject to scrutiny under these laws. For example, a number of cases brought by local and state government entities are pending that allege generally that our wholly owned subsidiary, EPI, and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. The cost of defending these cases and any other actions that may be brought under the False Claims Act or a similar state law, as well as any sanctions imposed, could adversely affect our financial performance.

Also, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, created several new federal crimes, including health care fraud, and false statements relating to health care matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private third-party payers. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services.

In addition, some states have enacted compliance and reporting requirements aimed at drug and device manufacturers. For example, under California law, pharmaceutical companies must adopt a comprehensive compliance program that is in accordance with both the April 2003 HHS-OIG Compliance Program Guidance for Pharmaceutical Manufacturers and the Pharmaceutical Research and Manufacturers of America Code on Interactions with Healthcare Professionals, or the PhRMA Code. The PhRMA Code seeks to promote transparency in relationships between health care professionals and the pharmaceutical industry and to require that pharmaceutical marketing activities comport with the highest ethical standards. The PhRMA Code contains strict limitations on certain interactions between health care professionals and the pharmaceutical industry relating to gifts, meals, entertainment and speaker

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programs, among others. The AdvaMed Code of Ethics on Interactions with Healthcare Professionals contains similar limitations on interactions with health care professionals and the medical device industry. Massachusetts and Vermont require drug and device companies to adopt standards that are in some areas more restrictive than the AdvaMed Code or PhRMA Code, imposing additional restrictions on the types of interactions that pharmaceutical and medical device companies or their agents (e.g., sales representatives) may have with health care professionals, including bans or strict limitations on the provision of meals, entertainment, hospitality, travel and lodging expenses, and other financial support, including funding for continuing medical education activities. Some states, including Massachusetts, Vermont and Minnesota, also require public reporting of certain payments to physicians and other health care providers.

The Federal Physician Payments Sunshine Act, which is part of the healthcare reform law, imposes federal sunshine provisions, with annual reporting to begin in 2014 for various types of payments to physicians and teaching hospitals, beginning with payments made in 2013. On February 8, 2013, the Centers for Medicare and Medicaid Services (CMS) published a long-awaited final rule implementing the sunshine law. Under the final regulations, applicable drug, biological, device, and medical supply manufacturers are required to report to CMS payments or other transfers of value made to physicians and teaching hospitals, and the regulations also require the manufacturers and applicable group purchasing organizations (GPOs) to report ownership and investment interests held by physicians or their immediate family members. The final rule sets forth a reporting process that permits physicians, teaching hospitals, and physician owners and investors to dispute information reported by applicable manufacturers and GPOs. Under the regulations, information that is the subject of a dispute not resolved within the initial allotted 60-day review and dispute resolution period will be posted on CMS's public website in the manner in which it was submitted by the manufacturer or GPO, rather than in a manner that includes the version provided by the disputing physician, teaching hospital, or physician owner or investor. Under the rule, applicable manufacturers and GPOs must begin collecting the required data on August 1, 2013, and must submit their first reports to CMS by March 31, 2014. When fully implemented, failure to comply with required reporting requirements could subject manufacturers and others to substantial civil money penalties.

### Healthcare Privacy and Security Laws

HIPAA, the Health Information Technology for Economic and Clinical Health Act (HITECH Act) and their implementing regulations (collectively, HIPAA), establish, among other things, standards for the privacy, security and notification of the security breach of certain individually identifiable health information (protected health information). To the extent that one of our business units is a business associate under HIPAA because it receives protected health information from a health care provider, health plan or other covered entity to provide a service on behalf of the covered entity, the business unit is directly subject to the privacy, security and breach notification standards and the HIPAA civil and criminal enforcement scheme. The HITECH Act, adopted in 2009 as part of the American Recovery and Reinvestment Act of 2009, commonly referred to as the economic stimulus package, increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce HIPAA and seek attorney's fees and costs associated with pursuing federal civil actions. The states also have health information privacy and security laws which may be more restrictive of our uses and disclosures of patient information than HIPAA. While we have attempted to comply with HIPAA and similar state laws, it is possible that some of our health information management activities could be subject to regulatory scrutiny at some point in the future, and we cannot provide an assurance that we will be found to be in compliance with all of these laws following any such regulatory review.

### Service Agreements

We contract with various third parties to provide certain critical services including manufacturing, supply, warehousing, distribution, customer service, certain financial functions, certain research and development activities and medical affairs.

For a complete description of our manufacturing, supply and other service agreements, see Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

#### Acquisitions, License and Collaboration Agreements

We continue to seek to enhance our product line and develop a balanced portfolio of differentiated products through selective product acquisitions and in-licensing, or acquiring licenses to products, compounds and technologies from third parties or through company acquisitions. The Company enters into strategic alliances and collaborative arrangements with third parties, which give the Company rights to develop, manufacture, market and/or sell pharmaceutical products, the rights to which are primarily owned by these third parties. These alliances and arrangements can take many forms, including licensing arrangements, co-development and co-marketing agreements, co-promotion arrangements, research collaborations and joint ventures. Such alliances and arrangements enable us to share the risk of incurring all research and development expenses that do not lead to revenue-generating products; however, because profits from alliance products are shared with the counter-parties to the collaborative arrangement, the gross margins on alliance products are generally lower, sometimes substantially so, than the gross margins that could be achieved had the Company not opted for a development partner. For a full discussion, including agreement terms and status, see our disclosures under Note 11.

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License and Collaboration Agreements in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

## Environmental Matters

Our operations are subject to substantial federal, state and local environmental laws and regulations concerning, among other matters, the generation, handling, storage, transportation, treatment and disposal of, and exposure to, toxic and hazardous substances. Violation of these laws and regulations, which frequently change, can lead to substantial fines and penalties. Some of our operations require environmental permits and controls to prevent and limit pollution of the environment. We believe that our facilities and the facilities of our third party service providers are in substantial compliance with applicable environmental laws and regulations and we do not believe that future compliance will have a material adverse effect on our financial condition or results of operations.

## Employees

As of February 20, 2014, we have 3,371 employees, of which 238 are engaged in research and development and regulatory work, 641 in sales and marketing, 1,148 in manufacturing, 385 in quality assurance and 959 in general and administrative capacities. Our employees are not represented by unions and we believe that our relations with our employees are good.

## Executive Officers of the Registrant

The following table sets forth information as of February 20, 2014 regarding each of our current executive officers:

Name	Age	Position and Offices
Rajiv De Silva	47	President and Chief Executive Officer and Director
Suketu P. Upadhyay	44	Executive Vice President, Chief Financial Officer
Donald W. DeGolyer	52	Chief Operating Officer of Endo Pharmaceuticals Inc.
Ivan P. Gergel, M.D.	53	Executive Vice President, Research and Development and Chief Scientific Officer
Caroline B. Manogue	45	Executive Vice President, Chief Legal Officer and Secretary
Camille Farhat	44	President of American Medical Systems

## Biographies

Our executive officers are briefly described below:

RAJIV DE SILVA, 47, is President, Chief Executive Officer and a Director of Endo. Prior to joining Endo in March 2013, Mr. De Silva served as the President of Valeant Pharmaceuticals International, Inc. from October 2010 to January 2013 and served as its Chief Operating Officer, Specialty Pharmaceuticals from January 2009 until January 2013. He was responsible for all specialty pharmaceutical operations, including sales and marketing, research and development, manufacturing and business development. He has broad international experience, having managed businesses in the United States, Europe, Canada, Latin America, Asia, South Africa and Australia/New Zealand. Prior to joining Valeant, Mr. De Silva held various leadership positions with Novartis. He served as President of Novartis Vaccines USA and Head, Vaccines of the Americas at Novartis. During this time, he played a key leadership role at Novartis' Vaccines & Diagnostics Division. Mr. De Silva also served as President of Novartis Pharmaceuticals Canada. He originally joined Novartis as Global Head of Strategic Planning for Novartis Pharma AG in Basel, Switzerland. Prior to his time at Novartis, Mr. De Silva was a Principal at McKinsey & Company and served as a member of the leadership group of its Pharmaceuticals and Medical Products Practice. Mr. De Silva was a Director of AMAG Pharmaceuticals, Inc. and is currently a Member of the Board of Trustees at Kent Place School in Summit, NJ. He holds a Bachelor of Science in Engineering, Honors from Princeton University, a Master of Science from Stanford University and a Master of Business Administration with Distinction from the Wharton School at the University of Pennsylvania.

SUKETU UPADHYAY, 44, is Executive Vice President and Chief Financial Officer, joined Endo in September 2013. Prior to joining Endo, since 2010, Mr. Upadhyay served as Interim Chief Financial Officer as well as Senior Vice President of Finance and Corporate Controller of Becton, Dickinson & Co (BD). In addition to other executive finance roles at BD, from 2007 to 2010, he served in various finance leadership roles at AstraZeneca and Johnson & Johnson. Mr. Upadhyay spent the early part of his career in public accounting with KPMG and received his CPA in May 1996. He received a Bachelor of Science in Finance from Albright College and received a Master of Business Administration from The Fuqua School of Business at Duke University.

DONALD DeGOLYER, 52, Chief Operating Officer, Pharmaceuticals, joined Endo in August 2013. In this role he leads both the Qualitest and Endo Pharmaceuticals businesses as fully integrated business units. Prior to joining Endo, Mr. DeGolyer served as President of Sandoz Inc. (a Novartis company) the second largest generics company in the world. While at Novartis, Mr. DeGolyer held various senior leadership positions including, US Managed Markets, Established Medicines for Novartis Pharmaceuticals and was a member of the Executive Committee. Prior to Novartis, Mr. DeGolyer held positions of increasing responsibilities with Johnson and Johnson for 11 years in pharmaceutical commercial roles including senior leadership positions in marketing and sales.

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Additionally, Mr. DeGolyer has international pharmaceutical experience and health information technology expertise, having held senior leadership roles at Oxford GlycoSciences Plc and ParkStone Medical, respectively. He began his career at Pfizer in sales and sales management. Mr. DeGolyer served as Vice Chairman on the Executive Committee and Board of Directors for the Generic Pharmaceutical Association (GPhA). He holds a Masters of Business Administration from Fairleigh Dickinson University and is a graduate of University of Rochester.

IVAN P. GERGEL, M.D., 53, was appointed Executive Vice President, Research & Development and Chief Scientific Officer in April 2008. Prior to joining Endo, Dr. Gergel was Senior Vice President of Scientific Affairs and President of the Forest Research Institute of Forest Laboratories Inc. Prior to that, Dr. Gergel served as Vice President and Chief Medical Officer at Forest and Executive Vice President of the Forest Research Institute. He joined Forest in 1998 as Executive Director of Clinical Research following nine years at SmithKline Beecham, and was named Vice President of Clinical Development and Clinical Affairs in 1999. Dr. Gergel received his M.D. from the Royal Free Medical School of the University of London and an MBA from the Wharton School. Dr. Gergel is a member of the Board of Directors of Pennsylvania BIO, as well as a member of the Board of Directors of the PhRMA Foundation and has served as a Member of PhRMA's Scientific and Regulatory Executive Committee.

CAROLINE B. MANOGUE, 45, has served as Executive Vice President, Chief Legal Officer and Secretary since 2004. Prior to joining Endo in 2000 as Endo's Senior Vice President, General Counsel and Secretary, she practiced law in the New York office of the law firm Skadden, Arps, Slate, Meagher & Flom LLP, where she specialized in mergers & acquisitions, securities and corporate law. At Endo, she is responsible for all aspects of the company's legal function, including securities law, litigation, intellectual property and commercial law, as well as overseeing compliance with current laws and existing pharmaceutical company guidelines relating to, among other things, clinical, sales and marketing practices. In her capacity as Secretary, she is responsible for corporate governance matters and reports directly to the Board of Directors. Ms. Manogue received her J.D. from Fordham Law School and her B.A. cum laude from Middlebury College. She was the 2011-2012 Chairperson of the PhRMA Law Section, and is a member of the Board of Trustees of the Healthcare Institute of New Jersey (HINJ) and a member of HINJ's Finance and Audit Committee.

CAMILLE FARHAT, 44, joined Endo in September 2012 as President of AMS. Mr. Farhat brings broad global experience from assignments in 10 countries and nine industries over 22 years. He is a business executive with a track record of revitalizing, turning around, and profitably growing businesses. Before joining Endo, Mr. Farhat held the position of General Manager of Baxter Pharmaceuticals & Technologies (BPT). Camille joined Baxter in February 2006 as General Manager of Global Infusion Systems. Prior to Baxter, Mr. Farhat was with Medtronic where he held the position of Vice President of Business Development after he was Global General Manager of Medtronic's Gastroenterology and Urology division. He spent 13 years with General Electric (GE) where he gained broad executive experience with assignments in many businesses, geographies, and functional areas, leading up to his final role with the company as General Manager for the Computed Tomography (CT) business. He holds a Master of Business Administration from Harvard University, a degree in European Union Studies from Institut National d'Etudes Politiques de Paris, and a Bachelor of Sciences (summa cum laude) in International Finance and Accounting from Northeastern University.

We have employment agreements with each of our executive officers.

Available Information

Our internet address is <http://www.endo.com>. The contents of our website are not part of this Annual Report on Form 10-K, and our internet address is included in this document as an inactive textual reference only. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports available free of charge on our website as soon as reasonably practicable after we file such reports with, or furnish such reports to, the Securities and Exchange Commission.

You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room that is located at 100 F Street, N.E., Room 1580, NW, Washington, DC 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330 or 1-202-551-8090. You can also access our filings through the SEC's internet site: [www.sec.gov](http://www.sec.gov) (intended to be an inactive textual reference only).

Item 1A. Risk Factors

We face intense competition, in particular from companies that develop rival products to our branded pharmaceutical products and from companies with which we compete to acquire rights to intellectual property assets.

The pharmaceutical industry is intensely competitive, and we face competition across the full range of our activities. In addition to product safety, development and efficacy, other competitive factors in the branded pharmaceuticals market include product quality and price, reputation, service and access to scientific and technical information. If we fail to compete successfully in any of these areas, our business, results of operations, financial condition and cash flows could be adversely affected. Our competitors include many of the major brand name and generic manufacturers of pharmaceuticals, especially those doing business in the U.S. In the market for branded pharmaceuticals, our competitors, including Abbott Laboratories, Johnson & Johnson, Pfizer, Inc., Purdue Pharma, L.P., Allergan, Inc. and Actavis Pharmaceuticals, Inc., vary depending on product category, product dosage strength and drug-delivery

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systems. It is possible that developments by our competitors will make our products or technologies uncompetitive or obsolete. Because we are smaller than some of our national competitors in the branded pharmaceuticals sector, we may lack the financial and other resources needed to maintain our profit margins and market share in this sector. The intensely competitive environment of the branded products business requires an ongoing, extensive search for medical and technological innovations and the ability to market products effectively, including the ability to communicate the effectiveness, safety and value of branded products for their intended uses to healthcare professionals in private practice, group practices and managed care organizations. There can be no assurance that we will be able to successfully develop medical or technological innovations or that we will be able to effectively market our existing branded products or new products we develop.

Our branded products face competition from generic versions. Generic versions are generally significantly cheaper than branded versions and, where available, may be required or encouraged in place of the branded version under third party reimbursement programs, or substituted by pharmacies for branded versions by law. The entrance of generic competition to our branded products generally reduces our market share and adversely affects our profitability and cash flows. Generic competition with our branded products has had and will continue to have a material adverse effect on the net sales and profitability of our branded products.

In addition to our in-house research and development efforts, we seek to acquire rights to new intellectual property through corporate acquisitions, asset acquisitions, licensing and joint venture arrangements. We compete to acquire the intellectual property assets that we require to continue to develop and broaden our product range. Competitors with greater resources may acquire assets that we seek, and even where we are successful, competition may increase the acquisition price of such assets or prevent us from capitalizing on such acquisitions or licensing opportunities. If we fail to compete successfully, our growth may be limited.

If generic manufacturers use litigation and regulatory means to obtain approval for generic versions of our branded drugs, our sales may suffer.

Under the Hatch-Waxman Act, the FDA can approve an ANDA for a generic bioequivalent version of a previously approved drug, without undertaking the full clinical testing necessary to obtain approval to market a new drug. In place of such clinical studies, an ANDA applicant usually needs only to submit data demonstrating that its generic product is bioequivalent to the branded product.

The Hatch-Waxman Act requires us to submit patient information for all our branded drugs. Where an applicant for a drug relies, at least in part, on the data we submit for one of our drugs, the Hatch-Waxman act requires the applicant to notify us of their application and potential infringement of our patent rights. Upon receipt of this notice we have 45 days to bring a patent infringement suit in federal district court against the applicant seeking approval of a generic equivalent of a product covered by one of our patents. If such a suit is commenced, the FDA is generally prohibited from granting approval of the ANDA until the earliest of 30 months from the date the FDA accepted the application for filing, the conclusion of litigation in the generic applicant's favor, or the expiration or invalidity of the patent(s). Frequently, the unpredictable nature and significant costs of patent litigation leads the parties to settle to remove this uncertainty. Settlement agreements between branded companies and generic applicants may allow, among other things, a generic product to enter the market prior to the expiration of any or all of the applicable patents covering the branded product, either through the introduction of an authorized generic or by providing a license to the applicant for the patents in suit.

In recent years, various generic manufacturers have filed ANDAs seeking FDA approval for generic versions of certain of the Company's key pharmaceutical products, including but not limited to Lidoderm® and both the original and crush-resistant formulations of Opana® ER. In connection with such filings, these manufacturers have challenged the validity and/or enforceability of one or more of the underlying patents protecting our products. It has been and continues to be our practice to vigorously defend and pursue all available legal and regulatory avenues in defense of the intellectual property rights protecting our key products. As a result, there are currently ongoing legal proceedings brought by the Company and/or its subsidiaries, and in certain cases its third party partners, against manufacturers seeking FDA approval for generic versions of the Company's products.

Despite our efforts to defend our products, litigation is inherently uncertain, and we cannot predict the timing or outcome of our efforts. If we are not successful in defending our intellectual property rights or opt to settle, or if a

product's marketing exclusivity rights expire or become otherwise unenforceable, our competitors could ultimately launch generic versions of our products, which could significantly decrease our revenues and could have a material adverse effect on our business, results of operations, financial condition and cash flows as well as our stock price. Due in large part to the materiality of our revenues from Lidoderm<sup>®</sup>, Opana<sup>®</sup> ER and Voltaren<sup>®</sup> Gel (for which our marketing exclusivity rights expired in October 2010), as well as the fact that multiple ANDAs have been filed for Lidoderm<sup>®</sup> and both the original and crush-resistant formulations of Opana<sup>®</sup> ER, we believe our most significant risks from generic competition relate to these products. Additionally, although we no longer market the non-crush resistant formulation of Opana<sup>®</sup> ER, generic versions of this formulation are commercially available, which have resulted and may continue to result in reduced sales of our crush-resistant formulation. For a complete description of the related legal proceedings, see Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

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Lidoderm® accounted for 23% of our total revenues for the year ended December 31, 2013, 34% in 2012 and 33% in 2011. Opana® ER accounted for 9% of our total revenues for the year ended December 31, 2013, 11% in 2012 and 15% in 2011. Voltaren® Gel accounted for 7% of our total revenues for the year ended December 31, 2013, 4% in 2012 and 6% in 2011. Although these percentages have generally decreased in recent years as a result of strategic acquisitions and organic growth of our Endo Pharmaceuticals product portfolio, these products continue to represent significant percentages of our total revenues. Our revenues from Lidoderm® have been negatively affected by the September 16, 2013 launch of Actavis's lidocaine patch 5%, a generic version of Lidoderm®, and these revenues could decrease further should one or more additional generic versions launch. Impax's and Actavis's launch of generic versions of the non-crush-resistant formulation Opana® ER on January 2, 2013 and September 12, 2013, respectively, adversely affected our results of operations since January 2, 2013 and will likely continue to do so in the future. Should additional generic competition enter the market for either formulation of Opana® ER, our revenues from Opana® ER could decrease further. Similarly, the launch of a generic version of Voltaren® Gel or any of our other products could negatively affect that product's revenues. Decreases in revenue related to generic competition could have a material adverse effect on our business, results of operations, financial condition and cash flows as well as our stock price.

Patent litigation, which is often time-consuming and expensive, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The discovery, trial and appeals process in patent litigation can take several years. Regardless of FDA approval, should we commence a lawsuit against a third party for patent infringement or should there be a lawsuit commenced against us with respect to any alleged patent infringement by us, whether because of the filing of an ANDA or otherwise, the time and cost of such litigation as well as the ultimate outcome of such litigation, if commenced, whether or not we are successful, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may be the subject of product liability claims or product recalls, and we may be unable to obtain or maintain insurance adequate to cover potential liabilities.

Our business exposes us to potential liability risks that arise from the testing, manufacturing, marketing and sale of our products. In addition to direct expenditures for damages, settlement and defense costs, there is a possibility of adverse publicity as a result of product liability claims. Product liability is a significant commercial risk for us. Some plaintiffs have received substantial damage awards in some jurisdictions against pharmaceutical and/or medical device companies based upon claims for injuries allegedly caused by the use of their products. In addition, in the age of social media, plaintiffs' counsel now have a wide variety of tools to advertise their services and solicit new clients for litigation. Thus, we could expect that any significant product liability litigation or mass tort in which we are a defendant will have a larger number of plaintiffs than such actions have seen historically because of the increasing use of wide-spread and media-varied advertising. In addition, it may be necessary for us to voluntarily or mandatorily recall or withdraw products that do not meet approved specifications or which subsequent data demonstrate may be unsafe or ineffective, which would also result in adverse publicity as well as in costs connected to the recall and loss of revenue.

Qualitest Pharmaceuticals and, in certain cases, the Company and certain of our other subsidiaries, along with several other pharmaceutical manufacturers, have been named as defendants in a number of cases filed in various state and federal courts that allege plaintiffs experienced injuries as a result of using the prescription medicine metoclopramide. Qualitest Pharmaceuticals and, in certain cases, the Company and certain of our other subsidiaries are also named as defendants in cases that have been filed in various state and federal courts that allege plaintiffs experienced injuries as a result of using prescription medications containing propoxyphene, which has been manufactured and marketed by Qualitest Pharmaceuticals as well as other manufacturers. We may be subject to liabilities arising out of these cases, and are responsible for the cost of managing these cases. We intend to contest all of these cases vigorously. Additional litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions with respect to metoclopramide, propoxyphene-containing prescription medications or other products in the future. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against us and/or Qualitest Pharmaceuticals. Subject to certain terms and conditions, we will be indemnified by the former

owners of Qualitest Pharmaceuticals with respect to, among other things, metoclopramide and propoxyphene litigation arising out of the sales of the product by Qualitest Pharmaceuticals between January 1, 2006 and November 30, 2010, the date on which the acquisition was completed, subject to an overall liability cap.

Also, Qualitest Pharmaceuticals and, in certain cases, the Company and certain of our other subsidiaries, have been named as defendants in lawsuits that were filed after the September 2011 recall of several lots of Qualitest Pharmaceuticals' oral contraceptive products in which the plaintiffs seek out-of-pocket losses, medical expenses, and other damages associated with the alleged failure of these products. Three of these lawsuits sought certification of a nationwide class of all patients who used the recalled products. We have successfully defeated certification of such a class in two of these cases. The issue of whether a class will be certified in the third matter has not yet been resolved. We may be subject to liabilities arising out of these cases, and may be responsible for certain costs of managing these cases. We intend to contest all of these cases vigorously. Additional litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions, though given the date of the recall and the fact that these products are taken on a monthly basis, we believe the likelihood that additional cases will be filed in the future is remote.

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We cannot assure you that a product liability claim or series of claims brought against us would not have a material adverse effect on our business, financial condition, results of operations and cash flows. If any claim is brought against us, regardless of the success or failure of the claim, we cannot assure you that we will be able to obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities or the cost of a recall. Additionally, we may be limited by the surviving insurance policies of our acquired subsidiaries.

Mesh litigation and FDA actions in connection with transvaginal mesh may continue to adversely affect sales of our female incontinence and pelvic floor repair products and the expense or potential liabilities of that litigation may exceed our current insurance coverage.

As previously discussed, there have been FDA actions to continue to advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat pelvic organ prolapse (POP) and stress urinary incontinence (SUI). Additionally, AMS and, in certain cases, the Company or certain of its other subsidiaries, have been named as defendants in multiple lawsuits in various federal and state courts, as well as in Canada, alleging personal injury resulting from use of transvaginal surgical mesh products designed to treat POP and SUI. Plaintiffs in these suits allege various personal injuries including chronic pain, incontinence and inability to control bowel function, and permanent deformities. On February 7, 2012, the U.S. Judicial Panel on Multidistrict Litigation (MDL) issued an order to consolidate and transfer certain of these claims filed against AMS in various federal courts to the Southern District of West Virginia as MDL 2325. We may be subject to liabilities arising out of these cases, and are responsible for the cost of managing these cases. We intend to contest all of these cases vigorously but will also explore all options as appropriate in the best interests of the Company. However, there can be no assurance that our defense will be successful, and any defense may result in significant expense and divert management's attention from our business. We believe it is reasonably possible that the outcomes of such cases could result in losses in excess of insurance reimbursement levels that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We believe that the significant increase in the number of lawsuits filed against AMS and/or the Company concerning transvaginal mesh devices may have contributed to recent declines in our AMS segment's women's health revenue. This litigation and any additional action on the part of the FDA may negatively affect revenue in our AMS segment's women's health line in the future. We cannot predict the extent to which these developments could result in future decreases in the number of surgical procedures using surgical mesh. Future decreases in the number of surgical procedures using surgical mesh may adversely affect sales of our female incontinence and pelvic floor repair products. In addition, we have been contacted regarding a civil investigation that has been initiated by a number of state attorneys general into mesh products, including transvaginal surgical mesh products designed to treat POP and SUI. In November 2013, we received a subpoena relating to this investigation from the State of California, and have subsequently received additional subpoenas from other states. We are cooperating fully with this investigation. At this time, we cannot predict or determine the outcome of this investigation or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome from this investigation. Most of our total revenues come from a small number of products.

The following table provides a breakdown of our revenues for the years ended December 31 (dollars in thousands).

We have retrospectively revised the segment presentation for all periods presented reflecting the change from four to three reportable segments.

	2013		2012		2011	
	\$	%	\$	%	\$	%
Lidoderm®	\$602,998	23	\$947,680	34	\$825,181	33
Opana® ER	227,878	9	299,287	11	384,339	15
Voltaren® Gel	170,841	7	117,563	4	142,701	6
Percocet®	105,814	4	103,406	4	104,600	4
Frova®	60,927	2	61,341	2	58,180	2
Fortesta® Gel	65,860	3	30,589	1	14,869	1
Supprelin® LA	58,334	2	57,416	2	50,115	2

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Other brands	101,363	4	60,702	2	77,782	3
Total Endo Pharmaceuticals*	\$1,394,015	53	\$1,677,984	60	\$1,657,767	66
Qualitest	730,666	28	633,265	22	566,854	22
AMS	492,226	19	504,487	18	300,299	12
Total revenues*	\$2,616,907	100	\$2,815,736	100	\$2,524,920	100

\*Percentages may not add due to rounding.

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If we are unable to continue to manufacture or market any of our products, if any of them were to lose market share, for example, as the result of the entry of new competitors, particularly companies producing generic versions of branded drugs, or if the prices of any of these products were to decline significantly, our total revenues, profitability and cash flows would be materially adversely affected.

Our ability to protect and maintain our proprietary and licensed third party technology, which is vital to our business, is uncertain.

Our success, competitive position and future income will depend in part on our ability to obtain patent protection relating to the technologies, processes and products we are currently developing and those we may develop in the future. Our policy is to seek patent protection for technologies, processes and products we own and to enforce the intellectual property rights we own and license. We cannot assure you that patent applications we submit and have submitted will result in patents being issued. If an invention qualifies as a joint invention, the joint inventor or his or her employer may have rights in the invention. We cannot assure you that a third party will not infringe upon, design around or develop uses not covered by any patent issued or licensed to us or that these patents will otherwise be commercially viable. In this regard, the patent position of pharmaceutical compounds and compositions is particularly uncertain. Even issued patents may later be modified or revoked by the U.S. Patent and Trademark Office (PTO) by analogous foreign offices or in legal proceedings. Moreover, we believe that obtaining foreign patents may be more difficult than obtaining domestic patents because of differences in patent laws and, accordingly, our patent position may be stronger in the U.S. than abroad. Foreign patents may be more difficult to protect and enforce and/or the remedies available may be less extensive than in the U.S. Various countries limit the subject matter that can be patented and limit the ability of a patent owner to enforce patents in the medical field. This may limit our ability to obtain or utilize certain of our patents internationally. Because unissued U.S. patent applications are typically not published for a period of eighteen months and U.S. patent applications filed prior to November 29, 2000 are not disclosed until such patents are issued, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were the first creator of the inventions covered by our pending patent applications or the first to file patent applications on those inventions. Several drug companies and research and academic institutions have developed technologies, filed patent applications or received patents for technologies that may be related to our business. Others may file patent applications and may receive patents that may conflict with patents or patent applications we have obtained or licensed, either by claiming the same methods or compounds or by claiming methods or compounds that could dominate those owned by or licensed to us. We cannot assure you that any of our pending patent applications will be allowed, or, if allowed, whether the scope of the claims allowed will be sufficient to protect our products. Litigation to establish the validity of patents, to defend against patent infringement claims of others and to assert patent infringement claims against others can be expensive and time-consuming even if the outcome is favorable to us. If the outcome is unfavorable to us, this could have a material adverse effect on our business. We have taken and may, in the future, take steps to enhance our patent protection, but we cannot assure you that these steps will be successful or that, if unsuccessful, our patent protection will be adequate. We also rely on trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We attempt to protect our proprietary technology in large part by confidentiality agreements with our employees, consultants and other contractors. We cannot assure you, however, that these agreements will not be breached, that we would have adequate remedies for any breach, that these agreements will be enforceable, or that competitors will not gain access to, or independently discover, our trade secrets. We cannot assure you that others will not independently develop substantially equivalent proprietary information or be issued patents that may prevent the sale of our products or know-how or require licensing and the payment of significant fees or royalties by us in order to produce our products. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. Moreover, we cannot assure you that our technology does not infringe upon any valid claims of patents that other parties own.

We license certain of our material technology and trademarks from third parties, including patents related to Lidoderm® from Teikoku and Hind Health Care, Inc. (Hind). We cannot guarantee that such licenses will be renewed at the expiration of their term, if subject to renewal, or that the licensors will not exercise termination rights in

connection with those licenses. The loss of any of our material licenses may have a material adverse effect on our business.

In the future, if we were found to be infringing on a patent owned by a third party, we might have to seek a license from such third party to use the patented technology. We cannot assure you that, if required, we would be able to obtain such a license on terms acceptable to us, if at all. If a third party brought a legal action against us or our licensors, we could incur substantial costs in defending ourselves, and we cannot assure you that such an action would be resolved in our favor. If such a dispute were to be resolved against us, we could be subject to significant damages, and the testing, manufacture or sale of one or more of our technologies or proposed products, if developed, could be enjoined.

We cannot assure you as to the degree of protection any patents will afford, whether the PTO will issue patents or whether we will be able to avoid violating or infringing upon patents issued to others or that others will not manufacture and distribute our patented products upon expiration of the applicable patents. Though we enter into confidentiality agreements and non-compete agreements, these agreements may be of limited effectiveness, and therefore it may be difficult for us to protect our trade secrets.

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We may incur significant liability if it is determined that we are promoting or have in the past promoted the “off-label” use of drugs or medical devices.

Companies may not promote drugs or medical devices for “off-label” uses – that is, uses that are not described in the product’s labeling and that differ from those that were approved or cleared by the FDA. Under what is known as the “practice of medicine,” physicians and other healthcare practitioners may prescribe drug products and use medical devices for off-label or unapproved uses, and such uses are common across some medical specialties. Although the FDA does not regulate a physician’s choice of medications, treatments or product uses, the FFDCa, and FDA regulations significantly restrict permissible communications on the subject of off-label uses of drug products and medical devices by pharmaceutical and medical device companies. The FDA, FTC, OIG of the Department of HHS, the Department of Justice (DOJ) and various state Attorneys General actively enforce laws and regulations that prohibit the promotion of off-label uses. A company that is found to have improperly promoted off-label uses may be subject to significant liability, including civil fines, criminal fines and penalties, civil damages and exclusion from federal funded healthcare programs such as Medicare and Medicaid as well as potential liability under the federal False Claims Act and state false claims acts. Conduct giving rise to such liability could also form the basis for private civil litigation by third-party payors or other persons allegedly harmed by such conduct.

Notwithstanding the regulatory restrictions on off-label promotion, the FDA’s regulations and judicial case law allow companies to engage in some forms of truthful, non-misleading, and non-promotional speech concerning the off-label uses of their products. The Company has endeavored to establish and implement extensive compliance programs in order to instruct employees on complying with the relevant advertising and promotion legal requirements.

Nonetheless, the FDA, HHS-OIG, the DOJ and/or the state Attorneys General, and qui tam relators may take the position that the Company is not in compliance with such requirements, and, if such non-compliance is proven, we may be subject to significant liability, including administrative, civil and criminal penalties and fines. In addition, our management’s attention could be diverted from our business operations and our reputation could be damaged.

We have significant goodwill and other intangible assets. Consequently, potential impairment of goodwill and other intangibles may significantly impact our profitability.

Goodwill and other intangibles represent a significant portion of our assets. As of December 31, 2013 and 2012, goodwill and other intangibles comprised approximately 49% and 59%, respectively, of our total assets. Goodwill and other intangible assets are subject to an impairment analysis whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Additionally, goodwill and indefinite-lived assets are subject to an impairment test at least annually. The procedures and assumptions used in our goodwill and indefinite-lived intangible assets impairment testing, and the results of our testing, are discussed in Part II, Item 7. of this report "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the captions "CRITICAL ACCOUNTING POLICIES AND ESTIMATES " and "RESULTS OF OPERATIONS".

Events giving rise to impairment of goodwill or other intangible assets are an inherent risk in the pharmaceutical and medical device industries and cannot be predicted. As a result of the significance of goodwill and other intangible assets, our results of operations and financial position in a future period could be negatively impacted should an impairment of our goodwill or other intangible assets occur.

We may incur liability if our support of continuing medical or health education programs and/or product promotions are determined, or are perceived, to be inconsistent with regulatory requirements.

Product promotion educational activities, support of continuing medical education programs, and other interactions with health care professionals must be conducted in a manner consistent with the FDA regulations and the Anti-Kickback Statute (described below). The FDA has stated that it will provide further guidance to industry on advertising and promotion regulation. In this regard, in December 2011, the FDA issued a draft guidance document on responding to unsolicited requests for off-label information about a drug or device, which suggests limits on a company's ability to respond, and in March 2012 issued a draft guidance on pre-dissemination review of direct-to-consumer TV advertising. These and other statements of the FDA interpreting the FFDCa and the FDA's regulatory authority may place further limits and restrictions on the advertising of our products. Although we endeavor to follow the applicable requirements, should it be determined that we have not appropriately followed the requirements, the government may initiate an action against us which may result in significant liability, including

administrative, civil and criminal sanctions. Such penalties could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, management's attention could be diverted and our reputation could be damaged.

We are subject to various regulations pertaining to the marketing of our products and services.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including prohibitions on the offer of payment or acceptance of kickbacks or other remuneration for the purchase of our products and services, including inducements to potential patients to request our products and services. Specifically, the federal Anti-Kickback Statute prohibits persons or entities from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending, or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. Due to recent legislative changes, violations of the Anti-

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Kickback Statute also carry potential federal False Claims Act liability. Because of the sweeping language of the federal Anti-Kickback Statute, many potentially beneficial business arrangements would be prohibited if the statute were strictly applied. To avoid this outcome, the Department of Health and Human Services' Office of Inspector General has published regulations – known as safe harbors– that identify exceptions or exemptions to the statute's prohibitions. Arrangements that do not fit within the safe harbors are not automatically deemed to be illegal, but must be evaluated on a case-by-case basis for compliance with the statute. Additionally, many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any third-party payer, not only the Medicare and Medicaid programs, and do not contain identical safe harbors.

We seek to comply with these laws and to fit our relationships with customers and other referral sources within one of the defined safe harbors. We are unaware of any violations of these laws. However, due to the breadth of the statutory provisions and the absence of uniform guidance in the form of regulations or court decisions, there can be no assurance that our practices will not be challenged under anti-kickback or similar laws. Violations of such restrictions may be punishable by civil and/or criminal sanctions, including fines and civil monetary penalties, as well as the possibility of exclusion from participation in U.S. federal and state healthcare programs (including Medicaid and Medicare). Any liability from such a violation could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, the FDA has the authority to regulate the claims we make in marketing our prescription drug and medical device products to provide that such claims are true, not misleading, supported by scientific evidence and consistent with the product's approved or cleared labeling. Failure to comply with FDA requirements in this regard could result in, among other things, suspensions or withdrawal of approvals, product seizures, injunctions against the manufacture, holding, distribution, marketing and sale of a product, and civil and criminal sanctions.

Also, the federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to, or the knowing use of false statements to obtain payment from, the government. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states have also enacted laws modeled after the federal False Claims Act. Private whistleblower plaintiff's and federal and state authorities recently have brought actions against drug and device manufacturers alleging that the manufacturers' activities constituted causing healthcare providers to submit false claims, alleging that the manufacturers themselves made false or misleading statements to the federal government, alleging that the manufacturers improperly promoted their products for off-label uses not approved by the FDA, or offered inducements to referral sources that are prohibited by the federal Anti-Kickback Statute, and alleging that the manufacturers caused improper claims to be submitted for allegedly unapproved drugs or other products. To the extent we become the subject of any such investigations or litigation, it could be time-consuming and costly to us and could have a material adverse effect on our business. In addition, if our activities are found to violate federal or state False Claims Act statutes, it could have a material adverse effect on our business, financial conditions, results of operations and cash flows.

Many of our core products contain narcotic ingredients. As a result of reports of misuse or abuse of prescription narcotics, the sale of such drugs may be subject to new regulation, including the development and of REMS, which may prove difficult or expensive to comply with, and we and other pharmaceutical companies may face lawsuits. Many of our core products contain narcotic ingredients. Misuse or abuse of such drugs can lead to physical or other harm. For example, in the past, reportedly widespread misuse or abuse of OxyContin®, a product of Purdue Pharma L.P., or Purdue, containing the narcotic oxycodone, resulted in the strengthening of warnings on its labeling. In addition, we believe that Purdue, the manufacturer of OxyContin®, faces or did face numerous lawsuits, including class action lawsuits, related to OxyContin® misuse or abuse. We may be subject to litigation similar to the OxyContin® suits related to any narcotic-containing product that we market.

The FDA or the DEA may impose new regulations concerning the manufacture, storage, transportation, scheduling and sale of prescription narcotics. Such regulations may include new labeling requirements, the development and implementation of formal REMS, restrictions on prescription and sale of these products and mandatory reformulation

of our products in order to make abuse more difficult. On September 27, 2007, Congress passed legislation authorizing the FDA to require companies to undertake post-approval studies in order to assess known or signaled potential serious safety risks and to make any labeling changes necessary to address safety risks. Congress also empowered the FDA to require companies to formulate REMS to confirm a drug's benefits outweigh its risks. On April 19, 2011, the FDA issued letters to manufacturers of long-acting and extended-release opioid drug products requiring them to develop and submit to the FDA a post-market REMS plan to require that training is provided to prescribers of these products, and that information is provided to prescribers that they can use in counseling patients about the risks and benefits of opioid drug use. We received a REMS notification letter from the FDA to develop the REMS education and training program for prescribers for our Opana® ER, morphine sulfate ER, and oxycodone ER drug products. On December 9, 2011, the FDA approved our interim REMS for Opana® ER, which was subsequently superseded by the class-wide extended-release/long-acting REMS approved on July 9, 2012. The goal of this REMS is to reduce serious adverse outcomes resulting from inappropriate prescribing, misuse and abuse of extended-release or long-acting opioid analgesics while maintaining patient access to pain medications. The REMS includes a Medication Guide, Elements to Assure Safe Use and annual REMS Assessment Reports. The Obama administration has also

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released a comprehensive action plan to reduce prescription drug abuse, which may include proposed legislation to amend existing controlled substances laws to require health care practitioners who request DEA registration to prescribe controlled substances to receive training on opioid prescribing practices as a condition of registration. In addition, state health departments and boards of pharmacy have authority to regulate distribution and may modify their regulations with respect to prescription narcotics in an attempt to curb abuse. In either case, any such new regulations or requirements may be difficult and expensive for us to comply with, may delay our introduction of new products, may adversely affect our total revenues and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

The pharmaceutical and medical device industry is heavily regulated, which creates uncertainty about our ability to bring new products to market and imposes substantial compliance costs on our business.

Federal and state governmental authorities in the U.S., principally the FDA, impose substantial requirements on the development, manufacture, holding, labeling, marketing, advertising, promotion, distribution and sale of therapeutic pharmaceutical and medical device products through lengthy and detailed laboratory and clinical testing and other costly and time-consuming procedures. With respect to pharmaceutical products, the submission of an NDA or ANDA to the FDA with supporting clinical safety and efficacy data, for example, does not guarantee that the FDA will grant approval to market the product. Meeting the FDA's regulatory requirements to obtain approval to market a drug product typically takes many years, varies substantially based upon the type, complexity and novelty of the pharmaceutical product, and the application process is subject to uncertainty. The NDA approval process for a new product varies in time, generally requiring a minimum of 10 months, but could also take several years from the date of application. The timing for the ANDA approval process for generic products is difficult to estimate and can vary significantly. NDA approvals, if granted, may not include all uses (known as indications) for which a company may seek to market a product. The FDA may also require companies to conduct post-approval studies. The FDA also requires companies to undertake post-approval surveillance regarding their drug products and to report adverse events. With respect to medical devices, such as those manufactured by and AMS, before a new medical device, or a new use of, or claim for, an existing product can be marketed, it must first receive either premarket clearance under Section 510(k) of the FFDCFA, or premarket approval, or PMA, from the FDA, unless an exemption applies. In the 510(k) premarket clearance process, the FDA must determine that the proposed device is "substantially equivalent" to a device legally on the market, known as a "predicate" device, with respect to intended use, technology and safety and effectiveness to clear the proposed device for marketing. Clinical data is sometimes required to support a showing of substantial equivalence. The PMA pathway requires an applicant to demonstrate the safety and effectiveness of the device for its intended use based, in part, on extensive data including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices. Both the 510(k) and PMA processes can be expensive and lengthy and entail significant user fees in connection with FDA's application review. The FDA also has authority under the FFDCFA to require a manufacturer to conduct post-market surveillance of a Class II or Class III device. AMS's currently commercialized products have received premarket clearance or PMA from the FDA under Section 510(k) or 515 of the FFDCFA.

On October 20, 2008, the FDA issued a Public Health Notification regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI. The notification provides recommendations and encourages physicians to seek specialized training in mesh procedures, to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications.

In July 2011, FDA issued an update to the October 2008 Public Health Notification regarding mesh to further advise the public and the medical community of the potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI. In this July 2011 update, the FDA maintained that adverse events are not rare, as previously reported, and questioned the relative effectiveness of transvaginal mesh as a treatment for POP as compared to non-mesh surgical repair. The July 2011 notification continued to encourage physicians to seek specialized training in mesh procedures, to consider and to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications. FDA also convened an advisory panel which met on September 8-9, 2011 to further address the safety and effectiveness of transvaginal surgical mesh used to treat

POP and SUI. At the conclusion of the meetings, the advisory panel recommended reclassifying transvaginal mesh products used to treat POP to Class III devices (premarket approval) and recommended that manufacturers of these products be required to conduct additional post-market surveillance studies. The advisory panel recommended that transvaginal surgical mesh products used to treat SUI remain as Class II devices. Regarding retropubic and transobturator (TOT) slings, the advisory panel recommended that no additional post-market surveillance studies are necessary. Regarding mini-slings, the advisory panel recommended premarket study for new devices and additional post-market surveillance studies.

On January 3, 2012, the FDA ordered manufacturers of transvaginal surgical mesh used for pelvic organ prolapse and of single incision mini-slings for urinary incontinence, such as AMS, to conduct post-market safety studies and to monitor adverse event rates relating to the use of these products. AMS received nineteen study orders, of which sixteen have been put on hold for various commercial reasons and three studies for pelvic floor repair and mini-sling products remain active. AMS is continuing to work with the FDA to comply with these outstanding orders. In its order, the FDA also noted that it is still considering the recommendation of an advisory committee, made on September 9, 2011, that urogynecological surgical mesh for transvaginal repair of pelvic organ prolapse

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be reclassified from Class II to Class III. Finally, as discussed, on March 27, 2013, the FDA updated its Urogynecologic Surgical Mesh Implant webpage to include additional information about the use of mesh for repair of stress urinary incontinence.

Failure to comply with applicable regulatory requirements can result in, among other things, suspensions or withdrawals of approvals or clearances, seizures or recalls of products, injunctions against the manufacture, holding, distribution, marketing and sale of a product, and civil and criminal sanctions. Furthermore, changes in existing regulations or the adoption of new regulations could prevent us from obtaining, or affect the timing of, future regulatory approvals or clearances. Meeting regulatory requirements and evolving government standards may delay marketing of our new products for a considerable period of time, impose costly procedures upon our activities and result in a competitive advantage to larger companies that compete against us.

As part of its on-going quality program, AMS is engaged in a review of its quality systems, including its process validation procedures for many of its products, and is implementing a variety of enhancements to such systems, controls and procedures. In particular, because certain of AMS's products are legacy products that have been in use for 15 to 20 years, they may require enhancements of AMS's procedures, including additional remedial efforts, which could result in added costs.

We cannot assure you that the FDA or other regulatory agencies will approve or clear for marketing any products developed by us, on a timely basis, if at all, or, if granted, that approval will not entail limiting the indicated uses for which we may market the product, which could limit the potential market for any of these products.

Based on scientific developments, post-market experience, or other legislative or regulatory changes, the current FDA standards of review for approving new pharmaceutical and medical device products, or new indications or uses for approved or cleared products, are sometimes more stringent than those that were applied in the past. For example, in 2011, the FDA's Center for Devices and Radiological Health, or CDRH, unveiled a plan of 25 action items it intended to implement during 2011 relating to the 510(k) premarket notification process for bringing medical devices to market. Among the actions the FDA indicated it plans to take were to issue guidance documents to clarify when clinical data should be submitted in support of a premarket notification submission, to clarify the review of submissions that use "multiple predicates" in a premarket notification submission, to clarify when modifications to a device require a new 510(k), and other guidance documents. The plan included other intended measures such as streamlining the review of innovative lower-risk products through the de novo review process, and establishing a Center Science Council of senior FDA experts to enhance science-based decision-making in 510(k) reviews. The FDA announced that it intended to refer to the Institute of Medicine, or IOM, for further review and consideration of other significant actions, such as whether or not to define the scope and grounds for the exercise of authority to partially or fully rescind a 510(k) marketing clearance, to clarify and consolidate the concepts of "indications for use" and "intended use," to clarify when a device should no longer be available as a "predicate" to support a showing of substantial equivalence, whether to develop guidance on a new class of devices, called "class IIb," for which additional data would be necessary to support a 510(k) determination.

On July 29, 2011, the IOM released its report, which recommended that the FDA move towards replacing the current 510(k) review process, which is based on "substantial equivalence" determinations, with a new "integrated premarket and post-market regulatory framework" that provides a reasonable assurance of safety and efficacy. The IOM also recommended that the FDA prioritize enhancement of its post-market surveillance program. The IOM also stated that it was unable to study fully the seven specific actions referred to it by the FDA because the requests came at the end of its review. The FDA decided not to act on the IOM recommendation to replace the 510(k) substantial equivalence framework, but since January 2011, CDRH has issued numerous guidance documents and proposed and final regulations impacting all medical devices (PMA and 510(k)), that have the potential to significantly impact how the FDA regulates medical devices. These include issuing guidance on data requirements for pivotal clinical investigations for medical devices, on CDHR's evaluation of substantial equivalence in premarket notification 510(k) submissions, on presubmission meetings for investigational device exemption (IDEs), including with regard to multiple predicate devices, and on its decisions on whether and how to approve a device clinical study, among other draft guidance. While the FDA issued and withdrew (pursuant to a requirement of the MDUFMA legislation), a draft guidance on when device modifications require a new 510(k), it plans to issue another draft guidance on device

modification requirements. In addition, the FDA issued a final rule that will require a unique identifier on distributed devices for tracking purposes, and a final rule that revises and expands medical device registration and listing requirements. Further, pursuant to the March 2010 healthcare reform law, a medical device tax went into effect January 1, 2013, for devices listed with the FDA.

The extent and how the FDA will implement some or all of its planned action items, draft guidance and proposed and final rules is unknown at this time. These actions could have a significant effect on the cost of applying for and maintaining applications under the 510(k) clearance mechanism, on the criteria required for achieving clearance for additional uses of existing devices or new 510(k) devices, and for the marketing of medical devices. Further, some new or evolving review standards or conditions for approval or clearance were not applied to many established products currently on the market, including certain opioid products. As a result, the FDA does not have as extensive safety databases on these products as on some products developed more recently. Accordingly, we believe the FDA has expressed an intention to develop such databases for certain of these products, including many opioids.

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In particular, the FDA has expressed interest in specific chemical structures that may be present as impurities in a number of opioid narcotic active pharmaceutical ingredients, such as oxycodone, which based on certain structural characteristics and laboratory tests may indicate the potential for having mutagenic effects.

More stringent controls of the levels of these impurities have been required and may continue to be required for FDA approval of drug products containing these impurities. Also, labeling revisions, formulation or manufacturing changes and/or product modifications may be necessary for new or existing products containing such impurities. The FDA's more stringent requirements together with any additional testing or remedial measures that may be necessary could result in increased costs for, or delays in, obtaining approval for certain of our products in development. Although we do not believe that the FDA would seek to remove a currently marketed product from the market unless such mutagenic effects are believed to indicate a significant risk to patient health, we cannot make any such assurance. In addition, on September 27, 2007, through passage of the Food and Drug Administration Amendments Act of 2007, or FDAAA, Congress passed legislation authorizing the FDA to require companies to undertake additional post-approval studies in order to assess known or signaled potential serious safety risks and to make any labeling changes necessary to address safety risks. Congress also empowered the FDA to require companies to formulate REMS to confirm a drug's benefits outweigh its risks.

The FDA's exercise of its authority under the FDCA could result in delays or increased costs during product development, clinical trials and regulatory review, increased costs to comply with additional post-approval regulatory requirements and potential restrictions on sales of approved products. Foreign regulatory agencies often have similar authority and may impose comparable requirements and costs. Post-marketing studies, whether conducted by us or by others and whether mandated by regulatory agencies or voluntary, and other emerging data about marketed products, such as adverse event reports, may also adversely affect sales of our products. Further, the discovery of significant safety or efficacy concerns or problems with a product in the same therapeutic class as one of our products that implicate or appear to implicate the entire class of products could have an adverse effect on sales of our product or, in some cases, result in product withdrawals. Likewise, manufacturing issues or problems at a supplier or third party manufacturer of our products could have an adverse effect on sales of our products, and could lead to product recalls or product shortages. Furthermore, new data and information, including information about product misuse at the user level, may lead government agencies, professional societies, practice management groups or patient or trade organizations to recommend or publish guidance or guidelines related to the use of our products, which may lead to reduced sales of our products.

The FDA and the DEA have important and complementary responsibilities with respect to our business. The FDA administers an application and post-approval monitoring process to assure that marketed products are safe, effective and consistently of uniform, high quality. The DEA administers registration, drug allotment and accountability systems to assure against loss and diversion of controlled substances. Both agencies have trained investigators that routinely, or for cause, conduct inspections, and both have authority to seek to enforce their statutory authority and regulations through administrative remedies as well as civil and criminal enforcement actions.

The FDA regulates and monitors drug and device clinical trials to help provide human subject protection and the quality of clinical trial data used to support marketing applications. The FDA also regulates the facilities, processes and procedures used to manufacture and market pharmaceutical and medical device products in the U.S.

Manufacturing facilities must be registered with the FDA and all products made in such facilities must be manufactured in accordance with "current good manufacturing practices" (cGMP), regulations enforced by the FDA. Compliance with clinical trial requirements and cGMP regulations requires the dedication of substantial resources and requires significant expenditures. The FDA periodically inspects clinical trial operations, and both our third party and owned manufacturing facilities and procedures to assure compliance. The FDA may place a hold on a clinical trial, and may cause a suspension or withdrawal of product approvals if regulatory standards are not maintained. In the event an approved manufacturing facility for a particular drug or medical device is required by the FDA to curtail or cease operations, or otherwise becomes inoperable, or a third party contract manufacturing facility faces manufacturing problems, obtaining the required FDA authorization to manufacture at the same or a different manufacturing site could result in production delays, which could adversely affect our business, results of operations, financial condition and cash flow.

The FDA is authorized to perform inspections under the FFDCA. During inspections of factory or manufacturing facilities, the FDA utilizes a Form FDA 483 to document and communicate observations made during inspections. The observations made on the Form 483 are not final and are not a finding as to whether the specific facility in question is compliant. Our Qualitest Pharmaceuticals subsidiary operates two main manufacturing facilities, one site is located in Huntsville, Alabama and the second site is located in Charlotte, North Carolina. Both sites have been inspected by the FDA.

Following an FDA inspection of the solid dose manufacturing facility in Charlotte, North Carolina, that took place from January 14, 2014 through February 14, 2014, our subsidiary, Qualitest Pharmaceuticals, received a Form 483 Notice of Inspectional Observations dated February 14, 2014, listing observations of the inspector focused on improper adherence to established processes and procedures. Qualitest Pharmaceuticals is currently drafting a comprehensive response to the observations.

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Following an FDA inspection of the tablet manufacturing facility in Huntsville, Alabama in May 2013, our subsidiary, Qualitest Pharmaceuticals, received a Form 483 Notice of Inspectional Observations dated May 30, 2013. The observations focused on investigations and the proper follow-up and tablet counters. A comprehensive response was provided to the FDA on June 12, 2013 addressing each observation and providing corrective actions and appropriate remediation plans. The final corrective action report was sent to the FDA in September 2013. No further feedback from the FDA has been received.

The FDA also inspected the liquids facility of our Qualitest Pharmaceuticals subsidiary in Huntsville, Alabama in March 2013, with no 483s issued.

In February 2013, the FDA conducted an inspection of AMS's Minnetonka, Minnesota facility. Following such inspection, the FDA issued two observations on a Form 483 Notice of Inspectional Observations. Both observations related to timeliness of complaint handling procedures. AMS provided a written response to the FDA on February 28, 2013 detailing proposed corrective actions. AMS has provided the FDA updates on the progress on these corrective actions, which are substantially complete. In February 2014, the FDA conducted another inspection of AMS's Minnetonka, Minnesota facility. Following such inspection, the FDA issued three observations on a Form 483. These observations relate to process validation, and timeliness of completion of post market surveillance reports and risk management reports. AMS is committed to resolving these issues and is currently drafting a comprehensive response to the observations, detailing proposed corrective actions. The Minnetonka, Minnesota facility will continue to manufacture products while AMS works with the FDA to address these observations.

The stringent DEA regulations on our use of controlled substances include restrictions on their use in research, manufacture, distribution and storage. A breach of these regulations could result in imposition of civil penalties, refusal to renew or action to revoke necessary registrations, or other restrictions on operations involving controlled substances. Failure to comply with applicable legal requirements subjects the Qualitest Pharmaceuticals facilities to possible legal or regulatory action, including shutdown, which may adversely affect their ability to supply us with product. Were we not able to manufacture products at the Qualitest Pharmaceuticals facilities because of regulatory, business or any other reasons, the manufacture and marketing of these products would be interrupted. This could have a negative impact on our business, results of operation, financial condition, cash flows and competitive position. See also the risk described under the caption "The DEA limits the availability of the active ingredients used in many of our current products and products in development, as well as the production of these products, and, as a result, our procurement and production quotas may not be sufficient to meet commercial demand or complete clinical trials." We cannot determine what effect changes in regulations or legal interpretations or requirements by the FDA or the courts, when and if promulgated or issued, may have on our business in the future. Changes could, among other things, require different labeling, monitoring of patients, interaction with physicians, education programs for patients or physicians, curtailment of necessary supplies, or limitations on product distribution. These changes, or others required by the FDA or DEA could have an adverse effect on the sales of these products. The evolving and complex nature of regulatory science and regulatory requirements, the broad authority and discretion of the FDA and the generally high level of regulatory oversight results in a continuing possibility that, from time to time, we will be adversely affected by regulatory actions despite our ongoing efforts and commitment to achieve and maintain full compliance with all regulatory requirements.

Implementation by the FDA of certain specific public advisory committee recommendations regarding acetaminophen use in both over-the-counter and prescription products could have an adverse material impact on sales of some of our pain relief products, including Percocet® and Endocet®.

The FDA held a public advisory committee meeting in June 2009 to discuss acetaminophen use in both over-the-counter and prescription products, the potential for liver injury, and potential interventions to reduce the incidence of liver injury. The panel's recommendations included the banning of certain prescription painkillers which combine acetaminophen with an opiate narcotic, and lowering the maximum dose of over-the-counter painkillers containing acetaminophen. These recommendations were made following the release in May 2009 of a FDA report that found severe liver damage, and even death, can result from a lack of consumer awareness that acetaminophen can cause such injury. These recommendations were advisory in nature and the FDA was not bound to follow these recommendations.

On January 14, 2011, the FDA announced in the Federal Register that it was taking steps to reduce the maximum strength of acetaminophen in prescription combination drug products to help reduce or prevent the risk of liver injury from an unintentional overdose of acetaminophen. A variety of prescription combination drug products include acetaminophen, such as those that contain the opioids oxycodone hydrochloride or hydrocodone bitartrate and acetaminophen, among others. Specifically, the FDA announced that it was asking product sponsors to limit the maximum strength of acetaminophen per dosage unit of the prescription combination drug products to 325 mg over a three-year phase-out period. On January 14, 2014, FDA issued a recommendation that healthcare professionals discontinue prescribing and dispensing prescription combination products containing more than 325 milligrams of acetaminophen per dosage unit. The FDA also stated that it intends to initiate proceedings to withdraw approval of prescription combination drug products containing more than 325 mgs of acetaminophen per dosage unit pursuant to its authority under FFDCA. Among the products impacted by the FDA's action are three Endo combination drug pain relief products: Percocet<sup>®</sup>, Endocet<sup>®</sup> and Zydone<sup>®</sup>; and the Qualitest Pharmaceuticals combination drug pain relief products: butalbital/acetaminophen/caffeine, hydrocodone/

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acetaminophen and oxycodone/acetaminophen. In addition, under additional authority granted to the FDA by the FDAAA, the FDA notified holders of approved NDAs and ANDAs that they would be required to modify the labeling of prescription acetaminophen drug products to include a Boxed Warning to include new safety information about acetaminophen and liver toxicity, and a Warning on the potential for allergic reactions. The Company has implemented several measures to comply with the FDA action. Specifically, any high dose prescription product containing more than 325 mg of acetaminophen will have an expiration date that will prevent saleable product remaining in the marketplace after January 2014. In addition, steps are being taken to increase production of similar low dose products, to provide uninterrupted supply to all customers as demand transitions to the alternate products. Nonetheless, these regulatory changes, or others required by the FDA, could have an adverse effect on our business, financial condition, results of operations, and cash flows.

Timing and results of clinical trials to demonstrate the safety and efficacy of products as well as the FDA's approval of products are uncertain.

Before obtaining regulatory approvals for the sale of any of our new product candidates, we must demonstrate through preclinical studies and clinical trials that the product is safe and effective for each intended use. Preclinical and clinical studies may fail to demonstrate the safety and effectiveness of a product. Likewise, we may not be able to demonstrate through clinical trials that a product candidate's therapeutic benefits outweigh its risks. Even promising results from preclinical and early clinical studies do not always accurately predict results in later, large scale trials. A failure to demonstrate safety and efficacy could or would result in our failure to obtain regulatory approvals.

The rate of patient enrollment sometimes delays completion of clinical studies. There is substantial competition to enroll patients in clinical trials and such competition has delayed clinical development of our products in the past. For example, patients may not enroll in clinical trials at the rate expected or patients may drop out after enrolling in the trials or during the trials. Delays in planned patient enrollment can result in increased development costs and delays in regulatory approval. In addition, we rely on collaboration partners that may control or make changes in trial protocol and design enhancements, or encounter clinical trial compliance-related issues, that may also delay clinical trials.

Product supplies may be delayed or be insufficient to treat the patients participating in the clinical trials, or manufacturers or suppliers may not meet the requirements of the FDA or foreign regulatory authorities, such as those relating to cGMP. We also may experience delays in obtaining, or we may not obtain, required initial and continuing approval of our clinical trials from institutional review boards. We cannot assure you that we will not experience delays or undesired results in these or any other of our clinical trials.

We cannot assure you that the FDA or foreign regulatory agencies will approve, clear for marketing or certify any products developed by us, on a timely basis, if at all, or, if granted, that such approval will not subject the marketing of our products to certain limits on indicated use. The FDA or foreign regulatory authorities may not agree with our assessment of the clinical data or they may interpret it differently. Such regulatory authorities may require additional or expanded clinical trials. Any limitation on use imposed by the FDA or delay in or failure to obtain FDA approvals or clearances of products developed by us would adversely affect the marketing of these products and our ability to generate product revenue, which would adversely affect our financial condition and results of operations.

Before obtaining regulatory approvals for certain generic products, we must conduct limited clinical or other trials to show comparability to the branded products. A failure to obtain satisfactory results in these trials would prevent us from obtaining required regulatory approvals.

The success of our acquisition and licensing strategy is subject to uncertainty and any completed acquisitions or licenses may reduce our earnings, be difficult to integrate, not perform as expected or require us to obtain additional financing.

We regularly evaluate selective acquisitions and look to continue to enhance our product line by acquiring rights to additional products and compounds. Such acquisitions may be carried out through the purchase of assets, joint ventures and licenses or by acquiring other companies. However, we cannot assure you that we will be able to complete acquisitions that meet our target criteria on satisfactory terms, if at all. In particular, we may not be able to identify suitable acquisition candidates, and we may have to compete for acquisition candidates.

Our competitors may have greater resources than us and therefore be better able to complete acquisitions or may cause the ultimate price we pay for acquisitions to increase. If we fail to achieve our acquisition goals, our growth may be

limited.

Acquisitions, such as acquisitions of Paladin and Boca, may expose us to additional risks and may have a material adverse effect on our profitability and cash flows. Any acquisitions we make may:

- fail to accomplish our strategic objectives;
- not be successfully combined with our operations;
- not perform as expected; and
- expose us to cross border risks.

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In addition, based on current acquisition prices in the pharmaceutical industry, acquisitions could decrease our net income per share and add significant intangible assets and related amortization or impairment charges. Our acquisition strategy may require us to obtain additional debt or equity financing, resulting in leverage, increased debt obligations as compared to equity, or dilution of ownership. We may not be able to finance acquisitions on terms satisfactory to us.

Further, if we are unable to maintain, on commercially reasonable terms, product, compound or other licenses that we have acquired, our ability to develop or commercially exploit our products may be inhibited.

Our growth and development will depend on developing, commercializing and marketing new products, including both our own products and those developed with our collaboration partners. If we do not do so successfully, our growth and development will be impaired.

Our future revenues and profitability will depend, to a significant extent, upon our ability to successfully commercialize new branded and generic pharmaceutical products and medical devices in a timely manner. As a result, we must continually develop, test and manufacture new products, and these new products must meet regulatory standards and receive requisite regulatory approvals. Products we are currently developing may or may not receive the regulatory approvals or clearances necessary for us to market them. Furthermore, the development and commercialization process is time-consuming and costly, and we cannot assure you that any of our products, if and when developed and approved, can be successfully commercialized. Some of our collaboration partners may decide to make substantial changes to a product's formulation or design, may experience financial difficulties or have limited financial resources, any of which may delay the development, commercialization and/or marketing of new products. In addition, if a co-developer on a new product terminates our collaboration agreement or does not perform under the agreement, we may experience delays and, possibly, additional costs in developing and marketing that product.

We conduct research and development primarily to enable us to manufacture and market FDA-approved pharmaceuticals and devices in accordance with FDA regulations. Much of our drug development effort is focused on technically difficult-to-formulate products and/or products that require advanced manufacturing technology.

Typically, research expenses related to the development of innovative compounds and the filing of NDAs for these products are significantly greater than those expenses associated with ANDAs for generic products. As we continue to develop new products, our research expenses will likely increase. Because of the inherent risk associated with research and development efforts in our industry, particularly with respect to new drugs, our research and development expenditures may not result in the successful introduction of FDA approved new pharmaceutical products. Also, after we submit an NDA or ANDA, the FDA may require that we conduct additional studies, including, depending on the product, studies to assess the product's interaction with alcohol, and as a result, we may be unable to reasonably predict the total research and development costs to develop a particular product. Indeed, on September 27, 2007, Congress passed legislation authorizing the FDA to require companies to undertake post-approval studies in order to assess known or signaled potential serious safety risks and to make any labeling changes necessary to address safety risks. Congress also empowered the FDA to require companies to formulate REMS to confirm a drug's benefits outweigh its risks.

Our generics business faces intense competition from brand-name companies that sell or license their own generic versions of our generic products or seek to delay the introduction of our generic products.

Brand-name pharmaceutical companies have taken aggressive steps to thwart competition from generic equivalents of their brand-name products. In particular, brand-name companies sell directly to the generics market or license their products for sale to the generics market through licensing arrangements or strategic alliances with generic pharmaceutical companies (so-called authorized generics). While there have been legislative proposals by members of Congress to limit the use of authorized generics, no significant regulatory approvals are currently required for a brand-name manufacturer to sell directly or through a third party to the generic market. Brand-name manufacturers do not currently face any other significant barriers to entry into such market. The introductions of these so-called "authorized generics" have had and may continue to have an adverse effect by reducing our generics market share and adversely affecting our profitability and cash flows.

In addition, brand-name companies continually seek new ways to delay generic introduction and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire; filing

an increasing number of patents that are more complex and costly to challenge; filing suits for patent infringement that automatically delay approval by the FDA; developing patented controlled release or other next generation products, which often reduces the demand for the generic version of the existing product for which we may be seeking approval or that we may be marketing; changing product claims and product labeling; developing and marketing as over-the-counter products those branded products that are about to face generic competition; or filing Citizen Petitions with the FDA seeking restraints on our products or seeking to prevent them from coming to market. These strategies may increase the costs and risks associated with our efforts to introduce generic products and may delay or prevent such introduction altogether.

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Our revenues and profits from generic pharmaceutical products typically decline as a result of intense competition from other pharmaceutical companies.

Our generic products compete with branded products and with generic versions made by or for other manufacturers, such as Mallinckrodt Inc., Teva Pharmaceuticals Industries Ltd and Watson Pharmaceuticals, Inc. Net selling prices of generic drugs typically decline, often dramatically, as additional generic pharmaceutical companies, both domestic and foreign, receive approvals and enter the market for a given generic product and competition intensifies. When additional versions of one of our generic products enter the market, we generally lose market share and our selling prices and margins on that product decline. Because we are smaller than many of our full-line competitors in the generic pharmaceutical products sector, we may lack the financial and other resources needed to maintain our profit margins and market share in this sector. Our ability to sustain our sales and profitability on any generic product over time is affected by the number of new companies selling such product and the timing of their approvals.

If the efforts of manufacturers of branded pharmaceuticals to use litigation and legislative and regulatory means to limit the use of generics and certain other products are successful, sales of our generic products may suffer.

Pharmaceutical companies that produce patented brand products can employ a range of legal and regulatory strategies to delay the introduction of competing generics and other products to which we do not have a right of reference to all necessary preclinical and clinical data. Opposing such efforts or litigation actions can be costly and time-consuming and result in delays in the introduction of our products.

The products for which we are developing generic versions may be claimed by their manufacturer to be protected by one or more patents. If we file an ANDA to seek FDA approval of our generic version of such a drug, we are required to certify that any patent or patents listed as covering the approved listed drug are invalid, unenforceable or will not be infringed by our generic version. Similar certification requirements apply to new drug applications filed under Section 505(b)(2) of the FFDCA, where we rely on information to which we do not have a right of reference. Once the FDA accepts our ANDA or Section 505(b)(2) NDA, we are required to notify the brand manufacturer of this fact. The brand manufacturer then has 45 days from the receipt of the notice in which to file a suit for patent infringement. If it does so, the FDA is generally prevented from granting approval of the ANDA or Section 505(b)(2) NDA until the earliest of 30 months from the date the FDA accepted the application for filing, the conclusion of litigation in the generic's favor or expiration of the patent(s).

The availability of third party reimbursement for our products is uncertain, and thus we may find it difficult to maintain current price levels. Additionally, the market may not accept those products for which third party reimbursement is not adequately provided.

Our ability to commercialize our products depends, in part, on the extent to which reimbursement for the costs of these products is available from government healthcare programs, private health insurers and others. We cannot be certain that, over time, third party payment for our products will be adequate for us to maintain price levels sufficient for realization of an appropriate return on our investment. Government payors, private insurers and other third party payers are increasingly attempting to contain healthcare costs by (1) limiting both coverage and the level of reimbursement (including adjusting co-pays) for products approved for marketing by the FDA, (2) refusing, in some cases, to provide any coverage for uses of approved products for indications for which the FDA has not granted marketing approval and (3) requiring or encouraging, through more favorable reimbursement levels or otherwise, the substitution of generic alternatives to branded products.

Examples of some of the major government healthcare programs include Medicare and Medicaid. The Medicare Prescription Drug Improvement and Modernization Act of 2003, or the Medicare Modernization Act, created Medicare Part D, a new prescription drug coverage program for people with Medicare through a new system of private market insurance providers beginning in January 2006. Although the new Part D benefit resulted in Medicare coverage for outpatient drugs previously not covered by Medicare, the new benefit has resulted in an increased use of formularies (listings of prescription drugs approved for use) such that, in the event a Medicare beneficiary's medications are not listed on the applicable formulary, such Medicare beneficiary may not receive reimbursement for such medications. Moreover, once these formularies are established, a Medicare Part D plan is not obligated to pay for drugs omitted from a formulary, unless the beneficiary receives an exception, and the cost of these non-covered drugs will not be counted towards the annual out-of-pocket beneficiary deductible established by the Medicare

Modernization Act. Also, formularies may have “tiers” where cost-sharing varies depending on the tier to which a particular drug is assigned. Further, since 2006, private insurance policies that supplement Medicare coverage, known as “Medigap” policies, no longer may include prescription drug coverage and therefore cannot be used to cover the cost of off-formulary medications. Our product mix is shifting towards products for aging demographics and, as a result, over time we will become increasingly dependent on Medicare. If our products are or become excluded from Part D plan formularies, or are placed on formulary tiers that require significant beneficiary cost-sharing, demand for our products might decrease and we may be forced to lower prices for our products, which may adversely affect our business, financial condition, results of operations and cash flows.

From time to time, state Medicaid programs review our products to assess whether such products should be subject to a prior authorization process, which processes vary state-by-state but generally require physicians prescribing the products to answer several questions prior to the product being dispensed. The institution of a prior authorization process may adversely impact the sales of the

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related product in the state and depending on the state, may adversely affect our business and results of operations. On February 20, 2008, in connection with its Clinical Drug Review Program, the Pharmacy and Therapeutics Committee of the New York State Department of Health reviewed our product Lidoderm® and recommended that it be subject to a prior authorization process. As a result, on July 31, 2008, the New York State Department of Health placed Lidoderm® in its Clinical Drug Review Program, which is a specific program within its prior authorization program. There can be no assurance that such a process, or the implementation thereof, in New York State or elsewhere would not have a material adverse effect on our business, financial condition, results of operations and cash flows.

The Budget Control Act provided that if Congress failed to pass a deficit reduction plan by December 23, 2011, a process of sequestration would occur on January 2, 2013 which would result in across-the-board spending cuts to certain government programs, including Medicare, in order to meet the deficit reduction goal. Congress was able to delay sequestration when it passed the American Taxpayer Relief Act of 2012 (H.R. 8) until March 1, 2013. On April 1, 2013, however, Medicare provider payments were cut by two percent under the Budget Control Act of 2011. Although the Bipartisan Budget Act of 2013, signed into law on December 26, 2013, did not provide relief to the two percent sequestration reduction, it did implement 0.5% increase for physician services provided through March 31, 2014.

If government and commercial third party payers do not provide adequate coverage and reimbursement levels for users of our products, the market acceptance of these products could be adversely affected. In addition, the following factors could significantly influence the purchase of pharmaceutical products, which would result in lower prices and a reduced demand for our products that might force us to reduce the price of these products to remain competitive:

- the trend toward managed healthcare in the U.S.;
- the growth of organizations such as HMOs and managed care organizations;
- legislative proposals to reform healthcare and government insurance programs; and
- price controls and non-reimbursement of new and highly priced medicines for which the economic therapeutic rationales are not established.

In February, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009, which appropriates \$1.1 billion to fund comparative effectiveness research (CER) relating to healthcare treatments. In March 2010, the President signed healthcare reform legislation, which, among other things, created a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct CER. Although the concept of CER now has significant momentum, numerous unresolved and potentially contentious issues remain, and stakeholders are following implementation of these new laws closely. Depending on how CER is implemented, CER could possibly present regulatory and reimbursement issues under certain circumstances. For additional discussion of this healthcare reform legislation, see the risk described under the caption "While healthcare reform may increase the number of patients who have insurance coverage for our products, its cost containment measures may adversely affect reimbursement for our products."

Third party payors could refuse to reimburse healthcare providers for use of AMS's current or future products, which could negatively impact our business, results of operations, financial condition and cash flows.

Third party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of medical procedures and treatments, particularly for elective procedures, which would include a number of AMS's product offerings. In addition, significant uncertainty exists as to the reimbursement status of newly approved healthcare products, which may impact whether customers purchase our products. Reimbursement rates vary depending on whether the procedure is performed in a hospital, ambulatory surgery center or physician's office. Furthermore, healthcare regulations and reimbursement for medical devices vary significantly from country to country, particularly in Europe. AMS has experienced lower procedure volume levels, particularly in Europe, as a result of recent "austerity measures" or budget reduction measures adopted by certain European countries in response to growing budget deficits and volatile economic conditions and may experience lower levels of reimbursement with respect to AMS's products in the future as a result.

Our reporting and payment obligations under the Medicaid Drug Rebate Program and other governmental drug pricing programs are complex and may involve subjective decisions. Any failure to comply with those obligations could subject us to penalties and sanctions.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including prohibitions on the offer of payment or acceptance of kickbacks or other remuneration in return for the purchase of our products. Sanctions for violating these laws include criminal penalties and civil sanctions and possible exclusion from the Medicare, Medicaid, and other government healthcare programs. There can be no assurance that our practices will not be challenged under these laws in the future or that such a challenge would not have a material adverse effect on our business or results of operations.

We also are subject to federal and state laws prohibiting the presentation (or the causing to be presented) of claims for payment (by Medicare, Medicaid, or other third-party payers) that are determined to be false, fraudulent, or for an item or service that was not provided as claimed. These false claims statutes include the federal civil False Claims Act, which permits private persons to bring suit

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in the name of the government alleging false or fraudulent claims presented to or paid by the government (or other violations of the statutes) and to share in any amounts paid by the entity to the government in fines or settlement. Such suits, known as qui tam actions, have increased significantly in the healthcare industry in recent years. These actions against healthcare companies, which do not require proof of a specific intent to defraud the government, may result in payment of fines and/or administrative exclusion from the Medicare, Medicaid, and/or other government healthcare programs.

We are subject to provisions that require us to enter into a Medicaid Drug Rebate Agreement and a 340B Pharmaceutical Pricing Agreement as a condition for having our products eligible for payment under Medicare Part B and Medicaid. We have entered into such agreements. In addition, we are required to report certain pricing information to the Centers for Medicare and Medicaid Services on a periodic basis to allow for accurate determination of rebates owed under the Medicaid Drug Rebate Agreement, ceiling prices under the 340B program and certain other government pricing arrangements, and reimbursement rates for certain drugs paid under Medicare Part B. On January 27, 2012, the Centers for Medicare and Medicaid Services issued a Proposed Rule to implement the Medicaid Drug Rebate provisions incorporated into the March 2010 healthcare reform law. The Proposed Rule has not been finalized yet, but we anticipate that if the Proposed Rule becomes final, it will require operational adjustments by the Company in order to maintain its compliance with applicable law. Changes included in the Proposed Rule that would revise how manufacturers are required to calculate Average Manufacturer Price (AMP) and Best Price, if they are included in the Final Rule may affect the quarterly amounts that the Company owes to state Medicaid programs through the Medicaid Drug Rebate program.

We and other pharmaceutical companies are defendants in a number of lawsuits filed by local and state government entities, alleging generally that we and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable by state Medicaid programs, which are partially funded by the federal government. In addition, a predecessor entity of Qualitest Pharmaceuticals and other pharmaceutical companies are defendants in a federal False Claims Act lawsuit brought by a qui tam relator alleging the submission (or the causing of the submission) of false claims for payments to be made through state Medicaid reimbursement programs for unapproved drugs or non-drugs. We intend to vigorously defend these lawsuits to which we are a party. Depending on developments in the litigation however, as with all litigation, there is a possibility that we will suffer adverse decisions or verdicts of substantial amounts, or that we will enter into monetary settlements in one or more of these actions as we recently did with a number of New York counties. Any unfavorable outcomes as a result of such litigation could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Government regulations regarding price reporting and rebate payment obligations are complex, and we are continually evaluating the methods that we use to calculate and report the amounts owed by us with respect to Medicaid and other government pricing programs. The federal Medicaid Drug Rebate Program, for example, requires that we make quarterly rebate payments to all states that offer a non-managed care-based Medicaid pharmacy benefit to their eligible citizens. Our calculations of these rebate payments are subject to review and challenge by various government agencies and authorities and it is possible that any such review could result either in material changes to the method used for calculating the amounts owed to the pertinent government agency (or agencies), or to the amounts themselves. In addition, because the methods for calculating reported prices are not fully specified in regulations or sub-regulatory guidance documents, our processes for these calculations and our judgments supporting these calculations involve, and will continue to involve, subjective decisions. Further, these calculations are subject to the risk of errors. As noted above, any governmental agency that commences an action, if successful, could impose, based on a claim of violation of the federal False Claims Act or similar state laws or otherwise, civil and/or criminal sanctions, including fines, penalties and possible exclusion from participation in federal healthcare programs (including Medicaid and Medicare). Some of the applicable laws impose liability even in the absence of specific intent to defraud. Furthermore, should there be ambiguity with regard to how to properly calculate and report payments, or even in the absence of such ambiguity, a governmental authority may take a position contrary to a position we have taken, may demand payments for rebates owed based upon the government's pricing determinations, and may seek to impose civil and/or criminal sanctions. If such events occurred, any such governmental penalties, sanctions or

retrospective revisions to payments already made could have a material adverse effect on our business, financial position, results of operations and cash flows, and could cause the market value of our common stock to decline. Once approved, there is no guarantee that the market will accept our future products, and regulatory requirements could limit the commercial usage of our products.

Even if we obtain regulatory approvals or clearances, uncertainty exists as to whether the market will accept our products. A number of factors may limit the market acceptance of our products, including the timing of regulatory approvals or clearances and market entry relative to competitive products, the availability of alternative products, the price of our products relative to alternative products, the availability of third party reimbursement and the extent of marketing efforts by third party distributors or agents that we retain. We cannot assure you that our products will receive market acceptance in a commercially viable period of time, if at all. We cannot be certain that any investment made in developing products will be recovered, even if we are successful in commercialization. To the extent that we expend significant resources on research and development efforts and are not able, ultimately, to introduce successful new products as a result of those efforts, our business, financial position, results of operations and cash flows may be materially adversely affected, and the market value of our common stock could decline. In addition, many of our products contain

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narcotic ingredients that carry stringent record keeping obligations, strict storage requirements and other limitations on these products' availability, which could limit the commercial usage of these products.

Our customer concentration may adversely affect our financial condition and results of operations.

We primarily sell our products to a limited number of wholesale drug distributors and large pharmacy chains. In turn, these wholesale drug distributors and large pharmacy chains supply products to pharmacies, hospitals, governmental agencies and physicians. Total revenues from customers who accounted for 10% or more of our total revenues during the three years ended December 31 are as follows:

	2013	2012	2011	
Cardinal Health, Inc.	21	% 25	% 27	%
McKesson Corporation	26	% 26	% 26	%
AmerisourceBergen Corporation	15	% 12	% 14	%

Revenues from these customers are included within our Endo Pharmaceuticals and Qualitest segments. If we were to lose the business of any of these customers, or if any were to experience difficulty in paying us on a timely basis, our total revenues, profitability and cash flows could be materially and adversely affected.

We are currently dependent on outside manufacturers for the manufacture of a significant amount of our products; therefore, we have and will continue to have limited control of the manufacturing process and related costs. Certain of our manufacturers currently constitute the sole source of one or more of our products, including Teikoku, our sole source of Lidoderm®.

Third party manufacturers currently manufacture a significant amount of our products pursuant to contractual arrangements. Certain of our manufacturers currently constitute the sole source of our products. For example, Teikoku is our sole source of Lidoderm® and Grünenthal is our sole source of our formulation of Opana® ER, designed to be crush-resistant. Because of contractual restraints and the lead-time necessary to obtain FDA approval, and possibly DEA registration, of a new manufacturer, replacement of any of these manufacturers may be expensive and time consuming and may cause interruptions in our supply of products to customers. As a result, any such delay could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because most of our products are manufactured by third parties, we have a limited ability to control the manufacturing process or costs related to this process. Increases in the prices we pay our manufacturers, interruptions in our supply of products or lapses in quality could adversely impact our margins, profitability and cash flows. We are reliant on our third party manufacturers to maintain the facilities at which they manufacture our products in compliance with FDA, DEA, state and local regulations. If they fail to maintain compliance with FDA, DEA or other critical regulations, they could be ordered to cease manufacturing, or product may be recalled, which would have a material adverse impact on our business, results of operations, financial condition and cash flows. For example, in December 2011, Novartis Consumer Health, Inc.'s Lincoln, Nebraska manufacturing facility was temporarily shut down to facilitate its implementation of certain manufacturing process improvements, resulting in short-term supply constraints for certain Endo analgesic products which had been manufactured at this facility prior to the shutdown. Additionally, if any facility that manufactures our products experiences a natural disaster, we could experience a material adverse impact on our business, results of operations, financial condition and cash flows. In addition to FDA and DEA regulation, violation of standards enforced by the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA) and their counterpart agencies at the state level, could slow down or curtail operations of third party manufacturers.

In addition, we may consider entering into additional manufacturing arrangements with third party manufacturers. In each case, we will incur significant costs in obtaining the regulatory approvals and taking the other steps necessary to begin commercial production by these manufacturers. If the market for the products manufactured by these third parties substantially contracts or disappears, we will continue to be financially obligated under these contracts, an obligation which could have a material adverse effect on our business.

We are dependent on third parties to supply all raw materials used in our products and to provide services for certain core aspects of our business. Any interruption or failure by these suppliers, distributors and collaboration partners to meet their obligations pursuant to various agreements with us could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We rely on third parties to supply all raw materials used in our products. In addition, we rely on third party suppliers, distributors and collaboration partners to provide services for certain core aspects of our business, including manufacturing, warehousing, distribution, customer service support, medical affairs services, clinical studies, sales and other technical and financial services. All third party suppliers and contractors are subject to FDA, and very often DEA, requirements. Our business and financial viability are dependent on the continued supply by these third party suppliers, the regulatory compliance of these third parties, and on

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the strength, validity and terms of our various contracts with these third party manufacturers, distributors and collaboration partners. Any interruption or failure by our suppliers, distributors and collaboration partners to meet their obligations pursuant to various agreements with us could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we have entered into minimum purchase requirement contracts with some of our third party raw material suppliers. If the market for the products that utilize these raw materials substantially contracts or disappears, we will continue to be financially obligated under these contracts and meeting such obligations could have a material adverse effect on our business.

For example, our subsidiary AMS currently relies on single- or sole-source suppliers for certain raw materials and certain components used in its male prostheses, many of its female products, its GreenLight™ laser systems, and for the TherMatrx® disposables. These sources of supply could encounter manufacturing difficulties or may unilaterally decide to stop supplying AMS because of product liability concerns or other factors. We and AMS cannot be certain that we would be able to timely or cost-effectively replace any of these sources upon any disruption due to the need to qualify alternate designs or sources. Any interruption or failure by these sources to supply raw materials or components to AMS could have a material adverse effect on sales of AMS's products.

We are dependent upon third parties to provide us with various estimates as a basis for our financial reporting. While we undertake certain procedures to review the reasonableness of this information, we cannot obtain absolute assurance over the accounting methods and controls over the information provided to us by third parties. As a result we are at risk of them providing us with erroneous data which could have a material adverse impact on our business.

If our manufacturing facilities are unable to manufacture our products or the manufacturing process is interrupted due to failure to comply with regulations or for other reasons, it could have a material adverse impact on our business.

In November 2010, we acquired Qualitest Pharmaceuticals' pharmaceutical manufacturing facilities located in Huntsville, Alabama and Charlotte, North Carolina. The Qualitest Pharmaceuticals facilities currently manufacture many of our generics products. In connection with the AMS acquisition, we acquired AMS's manufacturing facilities in Minnesota and California, where many of AMS's products are made. In 2012, we began manufacturing in our facility in Ireland.

If any of our manufacturing facilities fail to comply with regulatory requirements or encounter other manufacturing difficulties, it could adversely affect our ability to supply products. All facilities and manufacturing processes used for the manufacture of pharmaceutical products and medical devices must be operated in conformity with cGMP and, in the case of controlled substances, DEA regulations. Compliance with the FDA's cGMP and DEA requirements applies to both drug products seeking regulatory approval and to approved drug products. In complying with cGMP requirements, pharmaceutical and medical device manufacturing facilities must continually expend significant time, money and effort in production, record-keeping and quality assurance and control (and design control for medical devices) so that their products meet applicable specifications and other requirements for product safety, efficacy and quality. Failure to comply with applicable legal requirements subjects our manufacturing facilities to possible legal or regulatory action, including shutdown, which may adversely affect their ability to supply us with product. Were we not able to manufacture products at our manufacturing facilities because of regulatory, business or any other reasons, the manufacture and marketing of these products would be interrupted. This could have a material adverse impact on our business, results of operation, financial condition, cash flows and competitive position.

The DEA limits the availability of the active ingredients used in many of our current products and products in development, as well as the production of these products, and, as a result, our procurement and production quotas may not be sufficient to meet commercial demand or complete clinical trials.

The DEA regulates chemical compounds as Schedule I, II, III, IV or V substances, with Schedule I substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. The active ingredients in some of our current products and products in development, including oxycodone, oxymorphone, morphine, fentanyl, and hydrocodone, are listed by the DEA as Schedule II or III substances under the Controlled Substances Act of 1970. Consequently, their manufacture, shipment, storage, sale and use are subject to a high degree of regulation. For example, generally, all Schedule II drug prescriptions must be signed by a physician, physically presented to a pharmacist and may not be refilled without a new prescription.

Furthermore, the DEA limits the availability of the active ingredients used in many of our current products and products in development, as well as the production of these products and, and we, or our contract manufacturing organizations, must annually apply to the DEA for procurement and production quotas in order to obtain and produce these substances. As a result, our procurement and production quotas may not be sufficient to meet commercial demand or to complete clinical trials. Moreover, the DEA may adjust these quotas from time to time during the year, although the DEA has substantial discretion in whether or not to make such adjustments. Any delay or refusal by the DEA in establishing our quotas, or modification of our quotas, for controlled substances could delay or result in the stoppage of our clinical trials or product launches, or could cause trade inventory disruptions for those products that have already been launched, which could have a material adverse effect on our business, financial position, results of operations and cash flows.

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We may not be able to maintain our current insurance policies covering our business, assets, directors and officers and product liability claims and we may not be able to obtain new policies in the future.

Property, product liability, directors' and officers' and general liability insurance represent significant costs to us. Since the events of September 11, 2001, and due to an increased focus on corporate governance in the U.S., and product liability lawsuits related to pharmaceuticals and medical devices, liability and other types of insurance have, in some instances, become more difficult and costly to obtain. As we continue to expand our portfolio of available products, we may experience an increase in the number of product liability claims against us. Moreover, we may be subject to claims that are not covered by insurance. In addition, products for which we currently have coverage may be excluded from coverage in the future. Certain claims may be subject to our self-insured retention, exceed our policy limits or relate to damages that are not covered by our policy. In addition, product liability coverage for certain pharmaceutical entities is becoming more expensive and increasingly difficult to obtain and, as a result, we may not be able to obtain the type and amount of coverage we desire or to maintain our current coverage. Unanticipated additional insurance costs could have a material adverse effect on our results of operations and cash flows. There can be no assurance that we will be able to maintain our existing insurance policies or obtain new policies in meaningful amounts or at a reasonable cost. Any failure to obtain or maintain any necessary insurance coverage could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we are unable to retain our key personnel, and continue to attract additional professional staff, we may be unable to maintain or expand our business.

Because of the specialized scientific nature of our business, our ability to develop products and to compete with our current and future competitors will remain highly dependent, in large part, upon our ability to attract and retain qualified scientific, technical and commercial personnel. The loss of key scientific, technical and commercial personnel or the failure to recruit additional key scientific, technical and commercial personnel could have a material adverse effect on our business. While we have consulting agreements with certain key individuals and institutions and have employment agreements with our key executives, we cannot assure you that we will succeed in retaining personnel or their services under existing agreements. There is intense competition for qualified personnel in the areas of our activities, and we cannot assure you that we will be able to continue to attract and retain the qualified personnel necessary for the development of our business.

Our revenues and operating results may fluctuate in future periods and we may fail to meet expectations, which may cause the market value of the debt and equity securities issued by us to decline.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period. Accordingly, one cannot predict our quarterly financial results based on our full-year financial guidance. We cannot predict with certainty the timing or level of sales of our products in the future. If our quarterly sales or operating results fall below the expectations of investors or securities analysts, the value of our securities could decline substantially. Our operating results may fluctuate due to various factors including those set forth above. As a result of these factors, we believe that period-to-period comparisons of our operating results are not a good indication of our future performance.

The trading prices of our securities may be volatile, and your investment in our securities could decline in value. The market prices for securities of healthcare companies in general have been highly volatile and may continue to be highly volatile in the future. For example, in 2013, our stock traded between \$25.01 and \$67.63 per share. The following factors, in addition to other risk factors described in this section, may cause the market value of our securities to fluctuate:

- FDA approval or disapproval of any of the drug or medical device applications we have submitted;
- the success or failure of our clinical trials;
- new data or new analyses of older data that raises potential safety or effectiveness issues concerning our approved products;
- product recalls;
- competitors announcing technological innovations or new commercial products;
- introduction of generic substitutes for our products, including the filing of ANDAs with respect to generic versions of our branded products;

developments concerning our or others' proprietary rights, including patents;  
competitors' publicity regarding actual or potential products under development;  
regulatory developments in the U.S. and foreign countries, or announcements relating to these matters;  
period-to-period fluctuations in our financial results;  
new legislation in the U.S. relating to the development, sale or pricing of pharmaceuticals or medical devices;  
a determination by a regulatory agency that we are engaging or have engaged in inappropriate sales or marketing activities, including promoting the "off-label" use of our products;  
litigation; and  
economic and other external factors, including market speculation or disasters and other crises.

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Our operations could be disrupted if our information systems fail or if we are unsuccessful in implementing necessary upgrades.

Our business depends on the efficient and uninterrupted operation of our computer and communications systems and networks, hardware and software systems and our other information technology. If our systems were to fail or we are unable to successfully expand the capacity of these systems, or we are unable to integrate new technologies into our existing systems, our operations and financial results could suffer.

The publication of negative results of studies or clinical trials on pharmaceutical industry products may adversely impact our sales revenue.

From time to time, studies or clinical trials on various aspects of pharmaceutical products are conducted by academics or others, including government agencies. The results of these studies or trials, when published, may have a dramatic effect on the market for the pharmaceutical product that is the subject of the study. The publication of negative results of studies – or clinical trials related to our products or the therapeutic areas in which our products compete – could adversely affect our sales, the prescription trends for our products and the reputation of our products. In the event of the publication of negative results of studies or clinical trials related to our products or the therapeutic areas in which our products compete, our business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, on September 27, 2007, Congress enacted requirements for the reporting of clinical trial information by expanding the type of clinical trials for which a sponsor or investigator of a drug, medical device or biological product clinical trial must register and provide results to the National Institutes of Health (NIH) for inclusion in the publicly-available Clinical Trial Registry database of clinical trials. It remains unclear what impact the publication of clinical research data will have for our products.

The regulatory approval process outside the U.S. varies depending on foreign regulatory requirements, and failure to obtain regulatory approval in foreign jurisdictions would prevent the marketing of our products in those jurisdictions. We have worldwide intellectual property rights to market many of our products and product candidates. We intend to seek approval to market certain of our products outside of the U.S. To market our products in the European Union and other foreign jurisdictions, we must obtain separate regulatory authorization and comply with numerous and varying regulatory requirements. Approval of a product by the comparable regulatory authorities of foreign countries must be obtained prior to manufacturing or marketing that product in those countries. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process includes all of the risks associated with obtaining FDA approval set forth herein and approval by the FDA does not ensure approval by the regulatory authorities of any other country, nor does the approval by foreign regulatory authorities in one country ensure approval by regulatory authorities in other foreign countries or the FDA. If we fail to comply with these regulatory requirements or obtain and maintain required approvals, our target market will be reduced and our ability to generate revenue from abroad will be adversely affected.

Agreements between branded pharmaceutical companies and generic pharmaceutical companies are facing increased government scrutiny in both the U.S. and abroad.

We are involved in numerous patent litigations in which generic companies challenge the validity or enforceability of our products' listed patents and/or the applicability of these patents to the generic applicant's products. Likewise, our Qualitest segment is also involved in patent litigations in which we challenge the validity or enforceability of innovator companies' listed patents and/or their applicability to our generic products. Therefore, settling patent litigations has been and is likely to continue to be part of our business. Parties to such settlement agreements in the U.S., including us, are required by law to file them with the FTC and the Antitrust Division of the DOJ for review. The FTC has publicly stated that, in its view, some of these settlement agreements violate the antitrust laws and has brought actions against some brand and generic companies that have entered into such agreements. Accordingly, we may receive formal or informal requests from the FTC for information about a particular settlement agreement, and there is a risk that the FTC may commence an action against us alleging violation of the antitrust laws. Any adverse outcome of these actions or investigations could have a significant adverse effect on our business, financial condition and results of operations. In addition, some members of Congress have proposed legislation that would limit the types of settlement agreements generic manufacturers can enter into with brand companies. In 2013, the Supreme Court, in

FTC v. Actavis, determined that reverse payment patent settlements between generic and brand companies should be evaluated under the rule of reason, and provided limited guidance beyond the selection of this standard. Because the Court did not articulate a precise rule of lawfulness for such settlements, there may be extensive litigation over what constitutes a reasonable and lawful patent settlement between a brand and generic company. Recently, Endo was notified of multiple lawsuits purporting to be class actions brought by direct and indirect payors alleging that its Settlement Agreement with Watson (now Actavis) regarding the Lidoderm® patent litigation was unlawful and in violation of federal antitrust laws, as well as various state laws. Additional similar suits may be filed in the future. The impact of such pending and future litigation, legislative proposals and potential future Supreme Court review is uncertain and could adversely affect Endo's business, financial condition and results of operations. On February 25, 2014, the Company's subsidiary, EPI received a Civil Investigative Demand (CID) from the United States Federal Trade Commission. The CID requests documents and information concerning EPI's Settlement Agreements with Actavis and Impax relating to the Opana® ER patent litigation and its Settlement Agreement with Actavis relating to the Lidoderm®

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patent litigation, as well as information concerning the marketing and sales of Opana® ER and Lidoderm®. EPI intends to fully cooperate with the FTC's investigation. At this time, EPI cannot predict or determine the outcome of this investigation or reasonably estimate the amount or range of amounts of fines and penalties, if any, that might result from an adverse outcome.

While healthcare reform may increase the number of patients who have insurance coverage for our products, its cost containment measures may adversely affect reimbursement for our products.

In March 2010, President Obama signed into law healthcare reform legislation. This legislation has both current and longer-term impacts on us, as discussed below.

The provisions of this healthcare reform legislation have already become or will become effective on various dates over the next several years. The principal provisions affecting us provide for the following:

an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for most branded and generic drugs, respectively (effective January 1, 2010);

extension of Medicaid prescription drug rebates to drugs dispensed to enrollees in certain Medicaid managed care organizations (effective March 23, 2010);

an increase in the additional Medicaid rebates for “new formulations” of oral solid dosage forms of innovator drugs;

the revision of the average manufacturers’ price, or AMP, definition to remove the “retail pharmacy class of trade” (effective October 1, 2010);

expansion of the types of institutions eligible for the “Section 340B discounts” for outpatient drugs provided to hospitals meeting the qualification criteria under Section 340B of the Public Health Service Act of 1944 (effective January 1, 2010) (340B Pricing);

a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition of the manufacturer’s outpatient drugs to be covered under Medicare Part D (effective January 1, 2011);

an annual fee payable to the federal government (which is not deductible for U.S. income tax purposes) based on our prior-calendar-year share relative to other companies of branded prescription drug sales to specified government programs (effective January 1, 2011, with the total fee to be paid each year by the pharmaceutical industry increasing annually through 2019);

a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the U.S., with limited exceptions (effective January 1, 2013);

new requirements to report certain financial arrangements with physicians and teaching hospitals, including reporting any “transfer of value” made or distributed to physicians and teaching hospitals and reporting any investment interests held by physicians and their immediate family members during each calendar year (with the effective date to be clarified in the final regulations);

a new requirement to annually report drug samples that manufacturers and distributors provide to physicians (effective April 1, 2012);

creation of the Independent Payment Advisory Board which will have authority to recommend certain changes to the Medicare program that could result in reduced payments for items and services (recommendations could have the effect of law even if Congress does not act on the recommendations, and the implementation of changes based upon Independent Payment Advisory Board recommendations may affect payments beginning in 2015); and

establishment of a Center for Medicare Innovation at the Centers for Medicare & Medicaid Services to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending, (beginning January 1, 2011).

creation of the Patient-Centered Outcomes Research Institute, an independent, non-partisan organization established by Congress to fund research into evidence-based information about treatment options (established in 2010; first grants approved in December 2012).

A number of the provisions of this healthcare reform legislation may adversely affect reimbursement for our products. Additionally, the best price requirements with respect to Medicaid rebates have traditionally been a significant consideration with respect to the level of rebates in our Medicare and commercial contracting. Healthcare

reform legislation's effects on rebate amounts could adversely impact our future results of operations. Over the next few years, regulations and guidance implementing this healthcare reform legislation as well as additional healthcare reform proposals may have a financial impact on the Company. In addition, healthcare reform legislation requires that, except in certain circumstances, individuals must obtain health insurance beginning in 2014, and it also provides for an expansion of Medicaid coverage in 2014. It is expected that, as a result of these provisions, there will be a substantial increase in the number of Americans with health insurance beginning in 2014, a significant portion of whom will be eligible for Medicaid. We anticipate that this will increase demand for pharmaceutical products and medical devices overall. However, in view of the many uncertainties, including but not limited to pending litigation challenging the new law and changes in the partisan composition of Congress, we are

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unable at this time to determine whether and to what extent sales of our prescription pharmaceutical products or medical devices in the U.S. will be impacted.

Our Consolidated Financial Statements may be impacted in future periods based on the accuracy of our valuations of each of our acquired businesses.

Accounting for our acquisitions involves complex and subjective valuations of the assets, liabilities, and noncontrolling interests of the acquired entities, which will be recorded in the Company's Consolidated Financial Statements pursuant to the general accounting rules applicable for business combinations. Differences between the inputs and assumptions used in the valuations and actual results could have a material effect on our Consolidated Financial Statements in future periods.

Our sales may be adversely affected if physicians do not recommend or use AMS's products.

We rely upon physicians to recommend or use AMS's products. Many of AMS's products are based on new treatment methods. Acceptance of AMS's products is dependent on educating the medical community as to the distinctive characteristics, perceived benefits, clinical efficacy, potential risks and cost-effectiveness of our products, including these of AMS, compared to competitive products, and on training physicians in the proper application of our products. We believe AMS's products address major market opportunities and significant patient needs, but if we are unsuccessful in educating physicians about the risks and benefits of AMS's products, or such products are identified in regulatory agency public health communications, our sales and earnings could be adversely affected.

We are subject to health information privacy and security standards that include penalties for noncompliance.

The administrative simplification section of HIPAA imposes stringent requirements on "covered entities" (healthcare providers, health plans and healthcare clearinghouses) to safeguard the privacy and security of individually-identifiable health information. Certain of our operations are subject to these requirements, and we believe that we are in compliance with the applicable standards. Penalties for noncompliance with these rules include both criminal and civil penalties. In addition, the Health Information Technology for Economic and Clinical Health Act (included in the American Recovery and Reinvestment Act of 2009) and its implementing regulations, collectively HITECH, expanded federal health information privacy and security protections. Among other things, HITECH makes certain of HIPAA's privacy and security standards directly applicable to "business associates"— independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also set forth new notification requirements for certain security breaches, increased the civil penalties that may be imposed against covered entities, business associates and possibly other persons for HIPAA violations, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce HIPAA and seek attorney's fees and costs associated with pursuing federal civil actions.

New and proposed federal and state laws and regulatory initiatives relating to various initiatives in healthcare reform (such as improving privacy and the security of patient information and combating healthcare fraud) could require us to expend substantial sums to appropriately respond to and comply with this broad variety of legislation (such as acquiring and implementing new information systems for privacy and security protection), which could negatively impact our business, results of operations, financial condition and cash flows.

Recent legislative and regulatory initiatives at the state and federal levels address concerns about the privacy and security of health information. HITECH expands the health information privacy and security protections under HIPAA and imposes new obligations to notify individuals and the Department of HHS Office for Civil Rights, or OCR, of breaches of certain unsecured health information. We do not yet know the total financial or other impact of these laws and regulations on us. Continuing compliance with these laws and regulations may require us to spend substantial sums, including, but not limited to, purchasing new information technology, which could negatively impact financial results. Additionally, if we fail to comply with the HIPAA privacy, security and breach notification standards, we could suffer civil penalties of up to \$1,500,000 per calendar year for violations of an identical standard and criminal penalties of up to \$250,000 and 10 years in prison for offenses committed with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm. In addition, healthcare providers will continue to remain subject to any state laws that are more restrictive than the federal privacy regulations. These privacy laws vary by state and could impose additional penalties.

The provisions of HIPAA criminalize situations that previously were handled exclusively civilly through repayments of overpayments, offsets and fines by creating new federal healthcare fraud crimes. Further, as with the federal laws, general state criminal laws may be used to prosecute healthcare fraud and abuse. We believe that our business arrangements and practices comply with existing healthcare fraud and abuse laws. However, a violation could subject us to penalties, fines and/or possible exclusion from Medicare or Medicaid. Such sanctions could significantly reduce our financial results.

Future healthcare legislation and regulation or other changes in the administration of or interpretation of existing legislation or regulations regarding governmental healthcare programs could have an adverse effect on our business and the results of our operations.

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AMS could be adversely affected by special risks and requirements related to its medical products manufacturing business.

AMS is subject to various risks and requirements associated with being medical equipment manufacturer, which could have adverse effects. These include the following:

- the need to comply with applicable FDA and foreign regulations relating to cGMP and medical device approval, clearance or certification requirements, and with state licensing requirements;
- the need for special non-governmental certifications and registrations regarding product safety, product quality and manufacturing procedures in order to market products in the European Union, i.e. EN ISO certifications;
- the fact that in some foreign countries, medical device sales are strongly determined by the reimbursement policies of statutory and private health insurance companies, i.e., if insurance companies decline reimbursement for AMS's products, sales may be adversely affected;
- potential product liability claims for any defective or allegedly defective goods that are distributed; and
- the need for research and development expenditures to develop or enhance products and compete in the equipment markets.

International operations of our AMS segment could expose us to various risks, including risks related to fluctuations in foreign currency exchange rates.

Our AMS segment derives a significant portion of its net sales from operations in international markets. In 2013 and 2012, 36.0% and 34.6%, respectively, of our AMS segment's total revenues were to customers outside the U.S. Some of these sales were to governmental entities and other organizations with extended payment terms. A number of factors, including differing economic conditions, changes in political climate, differing tax structures, changes in diplomatic and trade relationships, and political or economic instability in the countries where AMS does business, could affect payment terms and AMS's ability to collect foreign receivables. We have little influence over these factors and changes could have a material adverse impact on our business. In addition, foreign sales are influenced by fluctuations in currency exchange rates, primarily the euro, British pound, Canadian dollar, Australian dollar, and Swedish krona. Increases in the value of the foreign currencies relative to the U.S. dollar would positively impact our earnings and decreases in the value of the foreign currencies relative to the U.S. dollar would negatively impact our earnings.

The risks of selling and shipping products and of purchasing components and products internationally may adversely impact our revenues, results of operations and financial condition.

The sale and shipping of AMS's products and services across international borders is subject to extensive U.S. and foreign governmental trade regulations, such as various anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, export control laws, customs and import laws, and anti-boycott laws. Our failure to comply with applicable laws and regulations could result in significant criminal, civil and administrative penalties, including, but not limited to, imprisonment of individuals, fines, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities.

In addition, some countries in which AMS sells products are, to some degree, subject to political, economic and/or social instability. AMS's international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- the imposition of additional U.S. and foreign governmental controls or regulations;
- the imposition of costly and lengthy new export licensing requirements;
- the imposition of U.S. and/or international sanctions against a country, company, person or entity with whom the company does business that would restrict or prohibit continued business with the sanctioned country, company, person or entity;
- economic instability or disruptions, including local and regional instability, or disruptions due to natural disasters, such as severe weather and geological events;
- changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of new trade restrictions;
- imposition of restrictions on the activities of foreign agents, representatives and distributors;

• scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on us;

• pricing pressure that we may experience internationally;

• laws and business practices favoring local companies;

• difficulties in enforcing or defending intellectual property rights; and

• exposure to different legal and political standards due to our conducting business in several foreign countries.

We cannot provide assurance that one or more of these factors will not harm our business and we are experiencing fluidity in regulatory and pricing trends as a result of healthcare reform. Any material decrease in AMS's international sales would adversely impact AMS's results of operations and financial condition.

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Worldwide economic conditions may adversely affect our business, operating results and financial condition. We believe that worldwide economic conditions have resulted and may continue to result in reductions in the procedures using AMS's products. Although a majority of AMS's products are subject to reimbursement from third-party government and non-governmental entities, some procedures that use AMS's products can be deferred by patients. In current economic conditions, patients may not have employer-provided healthcare or be as willing to take time off from work or spend their money on deductibles and co-payments often required in connection with the procedures that use AMS's products. Beyond patient demand, hospitals and clinics may be less likely to purchase capital equipment in the current economic conditions and credit environment. Economic conditions could also affect the financial strength of AMS's vendors and their ability to fulfill their commitments to AMS, and the financial strength of AMS's customers and its ability to collect accounts receivable. While AMS believes that worldwide economic conditions may have contributed to a softening in AMS's recent revenue growth rates, the specific impact is difficult to measure. We cannot predict how these economic conditions will impact future sales, cost of goods sold, or bad debt expense.

We have indebtedness which could adversely affect our financial position and prevent us from fulfilling our obligations under such indebtedness.

We currently have a substantial amount of indebtedness. As of December 31, 2013, we have total debt of approximately \$3.8 billion in aggregate principal amount. This debt primarily consists of \$2.0 billion of senior notes, \$1.4 billion secured term loan indebtedness and \$379.5 million of convertible senior subordinated notes. As of December 31, 2013, we have availability of \$500.0 million under our revolving credit facility, not including an up to \$500.0 million uncommitted expansion option available under our 2011 Credit Facility, subject to satisfaction of certain conditions. We may also incur significant additional indebtedness in the future. Our substantial indebtedness may:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments on the notes and our other indebtedness;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Despite our current level of indebtedness, we may still be able to incur substantially more indebtedness. This could exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, including potential additional secured indebtedness pursuant to the uncommitted expansion option under our 2011 Credit Facility, subject to satisfaction of certain conditions, and subsidiary indebtedness to which the notes would be effectively subordinated. The terms of the indentures will limit, but not prohibit, us or our subsidiaries from incurring additional indebtedness, but these limits are subject to significant exceptions and do not limit liabilities that do not constitute debt. If we incur any additional indebtedness that ranks equally with the notes and the guarantees, the holders of that indebtedness will be entitled to share ratably with the holders of the notes and the guarantees in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. This may have the effect of reducing the amount of proceeds paid to you. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

Covenants in our debt agreements restrict our business in many ways.

The indentures governing the notes and the agreements governing the 2011 Credit Facility and other outstanding indebtedness subject us to various covenants that limit our ability and/or our restricted subsidiaries' ability to, among other things:

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

- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans, investments and capital expenditures;
- enter into agreements that restrict distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- enter into certain transactions with affiliates; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

A breach of any of these covenants could result in a default under our indebtedness, including the 2011 Credit Facility and/or the notes.

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We are a holding company with no direct operations and will depend on the business of our subsidiaries to satisfy our obligations under our indebtedness.

We are a holding company with no direct operations. Our principal assets are the equity interests we hold in our operating subsidiaries. Our subsidiaries will conduct substantially all of the operations necessary to fund payments on our indebtedness. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us. Our ability to make payments on our indebtedness will depend on our subsidiaries' cash flow and their payment of funds to us. Our subsidiaries' ability to make payments to us will depend on:

- their earnings;
- covenants contained in our debt agreements and the debt agreements of our subsidiaries;
- covenants contained in other agreements to which we or our subsidiaries are or may subsidiaries are or may become subject;
- business and tax considerations; and
- applicable law, including state laws regulating the payment of dividends and distributions.

We cannot assure you that the operating results of our subsidiaries at any given time will be sufficient to make distributions or other payments to us or that any distributions and/or payments will be adequate to pay principal and interest, and any other payments our indebtedness when due.

Our variable rate indebtedness exposes us to interest rate risk, which could cause our debt costs to increase significantly.

A substantial portion of our borrowings under the 2011 Credit Facility are at variable rates of interest, exposing us to interest rate risks. We are exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings. As of December 31, 2013, our total aggregate principal of debt consists of approximately \$1.4 billion of floating-rate debt. Based on this amount, a 1% rise in interest rates would result in approximately \$14.0 million in incremental annual interest expense. If London Inter-Bank Offer rates (LIBOR) increase in the future, then our floating-rate debt could have a material effect on our interest expense.

We may be unable to repay or repurchase amounts outstanding on our indebtedness at maturity.

At maturity, the entire outstanding principal amount of our indebtedness, together with accrued and unpaid interest, will become due and payable. We may not have the funds to fulfill these obligations or the ability to refinance these obligations. If the maturity date occurs at a time when other arrangements prohibit us from repaying our indebtedness, we would try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. If we could not obtain the waivers or refinance these borrowings, we would be unable to repay our indebtedness.

To service our indebtedness, we will require a significant amount of cash. If we fail to generate sufficient cash flow from future operations, we may have to refinance all or a portion of our indebtedness or seek to obtain additional financing.

We expect to obtain the funds to pay our expenses and the amounts due under our indebtedness primarily from operations. Our ability to meet our expenses and make these payments thus depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow from operations in the future and our currently anticipated growth in revenue and cash flow may not be realized, either or both of which could result in our being unable to pay amounts due under our outstanding indebtedness, or to fund other liquidity needs, such as future capital expenditures. If we do not have sufficient cash flow from operations, we may be required to refinance all or part of our then existing indebtedness, sell assets, reduce or delay capital expenditures or seek to raise additional capital, any of which could have a material adverse effect on our operations. There can be no assurance that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. Our ability to restructure or refinance our indebtedness, including the notes, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements, including the indentures governing the notes, may restrict us from adopting any of these alternatives. Any failure to make scheduled payments of interest or principal on our outstanding indebtedness would likely result in

a reduction of our credit rating, which could negatively impact our ability to incur additional indebtedness on commercially reasonable terms or at all. The failure to generate sufficient cash flow or to achieve any of these alternatives could materially adversely affect the value of our notes, our business, financial condition and other results of operations, and our ability to pay the amounts due under the notes and our other indebtedness.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default under our outstanding indebtedness that could materially and adversely affect our results of operations and our financial condition.

If there were an event of default under any of the agreements relating to our outstanding indebtedness, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately and our lenders could terminate all commitments to extend further credit. The instruments governing our debt contain cross-default or cross-acceleration provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default

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under an unrelated debt instrument. An event of default or an acceleration under one debt agreement could cause a cross-default or cross-acceleration of other debt agreements. Upon acceleration of certain of our other indebtedness, holders of the notes could declare all amounts outstanding under the notes immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments if the obligations thereunder were accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. We have pledged substantially all of our assets as collateral under the 2011 Credit Facility. If the lenders under the 2011 Credit Facility accelerate the repayment of borrowings, we may not have sufficient assets to repay the obligations outstanding under the 2011 Credit Facility and our other indebtedness, including the notes. Furthermore, our borrowings under the 2011 Credit Facility are expected to be at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remains the same, and our net income would decrease. For a description of our indebtedness, see Note 13. Debt in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

**Risks Related to the Transactions with Paladin**

The number of Endo International plc (Endo International) ordinary shares that Endo shareholders will receive as consideration for the merger will be based on a fixed exchange ratio, which will not be adjusted to reflect changes in the market value of Paladin common shares or Endo common stock prior to consummation of the transactions. As consideration for the merger, each Endo common share then issued and outstanding will be canceled and automatically converted into the right to receive one ordinary share of Endo International, pursuant to a fixed exchange ratio. This one-for-one fixed exchange ratio will not adjust upwards to compensate for changes in the price of Endo's common stock or Paladin's common shares prior to the effective time of the transactions. Share price changes may result from a variety of factors, including changes in the business, operations or prospects of Endo or Paladin, market assessments of the likelihood that the transactions will be completed, the timing of the transaction, regulatory considerations, general market and economic conditions and other factors. Shareholders are urged to obtain current market quotations for Endo common stock and Paladin common shares.

The cash consideration to be paid to Paladin shareholders may be increased depending on a decline in the market value of Endo common stock.

Although the share consideration to be received by Paladin shareholders will also not be adjusted to reflect changes in the market value of the Endo common stock or Paladin common shares, the cash consideration to be received by Paladin shareholders will be increased if Endo's 10-day volume weighted average price declines during the ten trading day period ending on the third trading day prior to the Paladin special meeting by more than 7% relative to a reference price of US\$44.4642 per share. Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo's share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin shareholders. Declines in Endo's share price beyond 24% from the reference price will not give rise to further cash compensation to Paladin shareholders. The maximum amount potentially payable to Paladin shareholders under this price protection mechanism is US\$233.0 million.

Failure to consummate the transactions could negatively impact the stock price and the future business and financial results of Endo.

If the transactions are not consummated, the ongoing business of Endo may be materially and adversely affected and, without realizing any of the benefits of having consummated the transactions, Endo will be subject to a number of risks, including the following:

- Endo may be required to reimburse Paladin for certain expenses incurred by Paladin in connection with certain governmental filings or certain lawsuits, as described in the arrangement agreement;

- Endo will be required to pay certain costs relating to the transactions, including legal, accounting, filing and possible other fees and mailing, financial printing and other expenses in connection with the transactions whether or not the

transactions are consummated;

the current prices of Endo common stock may reflect a market assumption that the transactions will occur, meaning that a failure to complete the transactions could result in a material decline in the price of Endo common stock;

Endo will be required, upon a termination of the arrangement agreement under certain circumstances, to pay Paladin a termination fee of \$60.0 million as described in the arrangement agreement.

matters relating to the transactions (including integration planning) have required and will continue to require substantial commitments of time and resources by Endo management, which could otherwise have been devoted to other opportunities that may have been beneficial to Endo; and

Endo also could be subject to litigation related to any failure to consummate the transactions or related to any enforcement proceeding commenced against Endo to perform its obligations under the arrangement agreement.

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If the transactions are not consummated, these risks may materialize and may materially and adversely affect Endo's business, financial results and stock price.

Endo's and Paladin's respective business relationships, including customer relationships, may be subject to disruption due to uncertainty associated with the transactions.

Parties with which Endo and Paladin currently do business or may do business in the future, including customers and suppliers, may experience uncertainty associated with the transactions, including with respect to current or future business relationships with Endo, Paladin or Endo International. As a result, Endo's and Paladin's business relationships may be subject to disruptions if customers, suppliers and others attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Endo or Paladin. These disruptions could have a material and adverse effect on the businesses, financial condition, results of operations or prospects of Endo International following the closing. The effect of such disruptions could be exacerbated by a delay in the consummation of the transactions or termination of the arrangement agreement.

Loss of key personnel could impair the integration of the two businesses, lead to loss of customers and a decline in revenues, adversely affect the progress of pipeline products or otherwise adversely affect the operations of Endo, Paladin and Endo International.

The success of Endo International after the completion of the merger and the arrangement will depend, in part, upon its ability to retain key employees, especially during the integration phase of the two businesses. Current and prospective employees of Endo and Paladin might experience uncertainty about their future roles with Endo International following completion of the merger, which might materially and adversely affect Endo's and Endo International's ability to retain key managers and other employees. In addition, competition for qualified personnel in the biotechnology industry is very intense. If Endo or Paladin lose key personnel or Endo International is unable to attract, retain and motivate qualified individuals or the associated costs to Endo International increase significantly, Endo's business and Endo International's business could be materially and adversely affected.

Obtaining required approvals necessary to satisfy the conditions to the completion of the transactions may delay or prevent completion of the transactions, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the transactions.

The transactions are subject to closing conditions. These closing conditions include, among others, the receipt of required approvals of Endo and Paladin shareholders, approval of the arrangement by the Québec court, the effectiveness of the registration statement, the receipt by Endo of a tax opinion rendered by Skadden, the expiration or termination of the waiting period under the HSR Act and receipt of Competition Act and Investment Canada Act approvals in Canada and receipt of Competition Act approval in South Africa.

The governmental agencies from which the parties will seek certain of these approvals have broad discretion in administering the governing regulations. As a condition to their approval, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of Endo International's business after the closing. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the transactions or may reduce the anticipated benefits of the transactions. Further, no assurance can be given that the required shareholder approval will be obtained or that the required closing conditions will be satisfied, and, if all required consents and approvals are obtained and the closing conditions are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals. If Endo and Paladin agree to any material requirements, limitations, costs or restrictions in order to obtain any approvals required to consummate the arrangement and the merger, these requirements, limitations, costs or restrictions could materially and adversely affect the anticipated benefits of the transactions. This could result in a failure to consummate these transactions or have a material adverse effect on Endo International's business and results of operations.

Endo may waive one or more of the conditions to the merger without resoliciting shareholder approval.

Endo may determine to waive, in whole or in part, one or more of the conditions to its obligations to complete the merger, to the extent permitted by applicable laws. Endo will evaluate the materiality of any such waiver and its effect on its shareholders in light of the facts and circumstances at the time to determine whether any amendment of the proxy statement/prospectus and resolicitation of proxies is required or warranted. In some cases, if Endo's board of directors determines that such a waiver is warranted but that such waiver or its effect on its shareholders is not

sufficiently material to warrant resolicitation of proxies, Endo has the discretion to complete the merger without seeking further shareholder approval. Any determination whether to waive any condition to the merger or as to resoliciting shareholder approval or amending the proxy statement/prospectus as a result of a waiver will be made by Endo at the time of such waiver based on the facts and circumstances as they exist at that time.

Certain of Endo's executive officers and all of Endo's directors have interests in the transactions in addition to those of shareholders.

In considering the recommendations of the Endo board of directors with respect to the arrangement agreement, you should be aware that certain of Endo's executive officers and all of Endo's directors have financial and other interests in the transactions in

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addition to interests they might have as shareholders. In particular, it is expected that members of the Endo board of directors and executive officers will become directors and executive officers of Endo International.

As a result of the merger and arrangement, Endo International will incur additional direct and indirect costs.

Endo International will incur additional costs and expenses in connection with and as a result of the transactions.

These costs and expenses include professional fees to comply with Irish corporate and tax laws, costs and expenses incurred in connection with holding a majority of the meetings of the Endo International board of directors and certain executive management meetings in Ireland, as well as any additional costs Endo International may incur going forward as a result of its new corporate structure. There can be no assurance that these costs will not exceed the costs historically borne by Endo and Paladin.

If goodwill or other intangible assets that Endo International records in connection with the merger become impaired, Endo International could have to take significant charges against earnings.

In connection with the accounting for the merger, it is expected that Endo International will record a significant amount of goodwill and other intangible assets. Under U.S. GAAP, Endo International must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect Endo International's results of operations and shareholders' equity in future periods.

Existing Endo shareholders will own a smaller share of Endo International following completion of the transactions. Following completion of the transactions, Endo shareholders will own the same number of shares of Endo International that they owned in Endo immediately before the closing. Each Endo International ordinary share, however, will represent a smaller ownership percentage of a significantly larger company. Upon consummation of the merger and arrangement, the former shareholders of Endo are expected to own approximately 77.4% of the outstanding ordinary shares of Endo International on a fully-diluted basis, and the former shareholders of Paladin and holders of Paladin options are expected to own approximately 22.6% of the outstanding ordinary shares of Endo International on a fully-diluted basis.

Until the completion of the transactions or the termination of the arrangement agreement in accordance with its terms, Endo and/or Paladin are prohibited from entering into certain transactions that might otherwise be beneficial to Endo and/or Paladin or their respective shareholders.

During the period that the arrangement agreement is in effect, other than with the other party's written consent, each of Paladin and Endo are subject to certain restrictions. For example, without Paladin's written consent, Endo is prohibited from making any acquisition that would be reasonably likely to prevent the transactions from occurring. The foregoing prohibition could have the effect of delaying other strategic transactions and may, in some cases, make it impossible to pursue other strategic transactions that are available only for a limited time.

Endo has entered into voting agreements with certain Paladin shareholders who owned in the aggregate approximately 34% of the outstanding Paladin common shares as of the date of the arrangement agreement, and termination of the voting agreements could result in significantly decreased support for the arrangement.

The voting agreements may be terminated if the effective date has not occurred by May 5, 2014 (or such later date as agreed to by the parties to the arrangement agreement), if the arrangement agreement is amended by the parties resulting in a reduction in the purchase price payable per security or if the volume weighted average price per share of Endo shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the special meeting of Paladin shareholders (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period).

**Risks Related to the Business of Endo International**

The global nature of Paladin's business exposes Endo International to risks associated with adapting to emerging markets and taking advantage of growth opportunities.

The globalization of Paladin's business, including in Mexico and Brazil, and the increased volume of operations and profits through Litha Health Care Group Limited (Litha), may expose Endo International to increased risks. Emerging

markets have been identified as one of Paladin's growth platforms and is a key element of Paladin's overall strategy. Any difficulties in adapting to emerging markets and/or a material decline in the anticipated growth rate in any of these regions could impair Endo International's ability to take advantage of these growth opportunities and affect Endo International's business, results of operations or financial condition.

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There is no assurance that Endo International's efforts to expand sales in emerging markets or that Paladin's significant investment in South Africa will succeed. The expansion of Endo International's activities in emerging markets may further expose Endo International to more volatile economic conditions, political instability and competition from companies that are already well established in these markets and the inability of Endo International to adequately respond to the unique characteristics of these markets, particularly with respect to their regulatory frameworks, the difficulties in recruiting qualified personnel, potential exchange controls, weaker intellectual property protection, higher crime levels and corruption and fraud, could have a material adverse effect on the business of Endo International.

Endo International's policies and procedures, which are designed to help Endo International, its employees and its agents comply with various laws and regulations regarding corrupt practices and anti-bribery, cannot guarantee protection against liability for actions taken by businesses in which Paladin has historically invested. Failure to comply with domestic or international laws could result in various adverse consequences, including possible delay in the approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, or the imposition of criminal or civil sanctions, including substantial monetary penalties.

From a financial reporting perspective, differences in banking systems and business cultures could have an adverse effect on the efficiency of internal controls over financial reporting matters. Given the significant learning curve to fully understand the emerging markets' business, operating environment and the quality of controls in place, Endo International may not be able to adequately assess the efficiency of internal controls over financial reporting or the effects of the laws and requirements of the local business jurisdictions.

Many jurisdictions require specific permits or business licenses, particularly if the business is considered foreign. These requirements including, in particular, requirements in South Africa related to the Broad-Based Black Economic Empowerment Strategy, may affect Endo International's ability to carry out its business operations in the emerging markets.

The combination of the businesses currently conducted by Endo and Paladin will create numerous risks and uncertainties, which could adversely affect Endo International's operating results or prevent Endo International from realizing the expected benefits of the merger and the arrangement.

Strategic transactions like the merger and the arrangement create numerous uncertainties and risks and require significant efforts and expenditures. Endo will transition from a standalone public Delaware corporation to being part of a combined company incorporated in Ireland. This combination will entail many changes, including the integration of Paladin and its personnel with those of Endo, and changes in systems. These transition activities are complex, and Endo International may encounter unexpected difficulties or incur unexpected costs, including:

- the diversion of Endo International management's attention to integration of operations and the establishment of corporate and administrative infrastructures;
- difficulties in achieving anticipated business opportunities and growth prospects from combining the business of Paladin with that of Endo;
- difficulties in the integration of operations and systems;
- difficulties in the assimilation of employees and corporate cultures;
- challenges in keeping existing customers and obtaining new customers; and
- challenges in attracting and retaining key personnel.

If any of these factors impairs Endo International's ability to integrate the operations of Endo with those of Paladin successfully or on a timely basis, Endo International may not be able to realize the anticipated synergies, business opportunities and growth prospects from combining the businesses. In addition, Endo International may be required to spend additional time or money on integration that otherwise would be spent on the development and expansion of its business.

In addition, the market price of Endo International ordinary shares may decline following the business combination if, among other things, the integration of Endo and Paladin is unsuccessful, takes longer than expected or fails to achieve financial benefits to the extent anticipated by financial analysts or investors, or the effect of the business combination on the financial results of the combined company is otherwise not consistent with the expectations of financial analysts or investors.

The IRS may not agree with the conclusion that Endo International should be treated as a foreign corporation for U.S. federal income tax purposes following the transaction.

Although Endo International will be incorporated in Ireland, the IRS may assert that it should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal income tax purposes pursuant to Section 7874 of the Code. A corporation is generally considered a tax resident in the jurisdiction of its organization or incorporation for U.S. federal income tax purposes. Because Endo International is an Irish incorporated entity, it would generally be classified as a foreign corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874 provides an exception pursuant to which a foreign incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal income tax purposes.

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Under Section 7874, Endo International would be treated as a foreign corporation for U.S. federal income tax purposes if the former shareholders of Endo own (within the meaning of Section 7874) less than 80% (by both vote and value) of Endo International stock by reason of holding shares in Endo (the “ownership test”). The Endo shareholders are expected to own less than 80% (by both vote and value) of the shares in Endo International after the merger by reason of their ownership of shares of Endo common stock. As a result, under current law, Endo International is expected to be treated as a foreign corporation for U.S. federal income tax purposes. However, there can be no assurance that there will not exist in the future a subsequent change in the facts or in law which might cause Endo International to be treated as a domestic corporation for U.S. federal income tax purposes, including with retrospective effect. Further, there can be no assurance that the IRS will agree with the position that the ownership test is satisfied. There is limited guidance regarding the application of Section 7874 of the Code, including with respect to the provisions regarding the application of the ownership test. Endo’s obligation to complete the transactions is conditional upon its receipt of the Section 7874 opinion from Skadden, dated as of the closing date and subject to certain qualifications and limitations set forth therein, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in such a manner so as to cause Endo International to be treated as a U.S. corporation for U.S. federal income tax purposes from and after the closing date. However, an opinion of tax counsel is not binding on the IRS or a court. Therefore, there can be no assurance that the IRS will not take a position contrary to Skadden’s Section 7874 opinion or that a court will not agree with the IRS in the event of litigation. Section 7874 of the Code likely will limit Endo’s and its U.S. affiliates’ ability to utilize certain U.S. tax attributes to offset certain U.S. taxable income, if any, generated by the transactions or certain specified transactions for a period of time following the transaction.

Following the acquisition of a U.S. corporation by a foreign corporation, Section 7874 of the Code may limit the ability of the acquired U.S. corporation and its U.S. affiliates to utilize certain U.S. tax attributes such as net operating losses to offset U.S. taxable income resulting from certain transactions. Based on the limited guidance available, Endo currently expects that following the transaction, this limitation will apply and as a result, Endo currently does not expect that it or its U.S. affiliates will be able to utilize certain U.S. tax attributes to offset U.S. taxable income, if any, resulting from certain specified taxable transactions.

Future changes to U.S. and non-U.S. tax laws could materially adversely affect Endo International.

Under current law, Endo International is expected to be treated as a foreign corporation for U.S. federal income tax purposes. However, changes to the rules in Section 7874 of the Code or regulations promulgated thereunder or other guidance issued by the Treasury or the IRS, could adversely affect Endo International’s status as a foreign corporation for U.S. federal income tax purposes, and any such changes could have prospective or retroactive application to Endo International, Endo, their respective shareholders and affiliates, and/or the transaction. In addition, recent legislative proposals would expand the scope of U.S. corporate tax residence, and such legislation, if enacted, could have a material and adverse effect on Endo International.

In addition, the U.S. Congress, the Organization for Economic Co-operation and Development, and other Government agencies in jurisdictions where Endo International and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations and there are several current legislative proposals that, if enacted, would substantially change the U.S. federal income tax system as it relates to the taxation of multinational corporations. One example is in the area of “base erosion and profit shifting,” where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. As a result, the tax laws in the U.S. and other countries in which Endo International and its affiliates do business could change on a prospective or retroactive basis, and any such changes could materially and adversely affect Endo International.

The tax treatment of the merger to Endo shareholders is uncertain and cannot be known until after the transaction is completed.

For U.S. federal income tax purposes, the merger is intended to qualify as a non-taxable “reorganization” in which (i) Merger Sub will merge with and into Endo with Endo as the surviving corporation in the merger, and (ii) Endo shareholders will exchange their Endo common stock for Endo International ordinary shares received from both Endo International and Endo U.S. Inc. in the Endo share exchange. Under current U.S. federal income tax law, Endo shareholders generally are expected to not recognize any gain or loss on the Endo share exchange. Such

non-recognition treatment is not certain, however, and there is risk that U.S. holders of Endo common stock will be required to recognize gain (but not loss) on the Endo share exchange because non-recognition treatment depends on the application of new and complex provisions of U.S. federal income tax law as well as certain facts that are subject to change and that cannot be known prior to the end of the year in which the merger is completed, including the aggregate gain of U.S. shareholders in their Endo common stock as of the closing date and the earnings and profits of Endo U.S. Inc. for the taxable year that includes the closing date.

Endo International is expected to be subject to U.S. federal withholding tax as a result of Endo U.S. Inc.'s subscription for Endo International ordinary shares in exchange for its promissory note.

If the merger qualifies as a reorganization under Section 368(a) of the Code and Section 367(a) of the Code does not apply, Endo International should be treated for U.S. tax purposes as receiving a distribution from Endo U.S. Inc. immediately prior to the merger. The deemed distribution for U.S. tax purposes will be treated as a taxable dividend to the extent of Endo U.S. Inc.'s current

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and accumulated earnings and profits for the year of the deemed distribution and such dividend will be subject to U.S. withholding tax (at a rate of 5%) in accordance with the Convention between Ireland and the United States of America with Respect to Taxes on Income and Capital Gains, signed July 28, 1997, as amended, (Ireland-U.S. Tax Treaty).

The amount of Endo U.S. Inc.'s current and accumulated earnings and profits for the year of the deemed distribution is uncertain, but could be substantial.

Notwithstanding the foregoing, if it is determined that Section 367(a) of the Code does apply, the deemed distribution and U.S. withholding tax rules would not apply.

Paladin is currently not subject to the compliance obligations of the Sarbanes-Oxley Act of 2002 and Endo International may not be able to timely and effectively implement controls and procedures over Paladin's operations as required under the Sarbanes-Oxley Act of 2002.

Paladin is currently not subject to the information and reporting requirements of the Exchange Act and other federal securities laws, and the compliance obligations of the Sarbanes-Oxley Act of 2002. Subsequent to the completion of the transactions, Endo International will need to timely and effectively implement the internal controls necessary to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. Endo International intends to take appropriate measures to establish or implement an internal control environment at Paladin aimed at successfully adopting the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. However, it is possible that Endo International may experience delays in implementing or be unable to implement the required internal financial reporting controls and procedures, which could result in enforcement actions, the assessment of penalties and civil suits, failure to meet reporting obligations and other material and adverse events that could have a negative effect on the market price for Endo International ordinary shares.

Risks Related to the Financial Condition of Endo International

Growing the business of Endo International will require the commitment of substantial resources, which could result in future losses or otherwise limit the opportunities of Endo International.

Growing the Endo International business over the longer-term will require us to commit substantial resources towards in-licensing and/or acquiring new products and product candidates, or towards costly and time-consuming product development and clinical trials of Endo International product candidates. It will also require continued investment in the commercial operations of Endo International. Endo International's future capital requirements will depend on many factors, including many of those discussed above, such as:

- the revenues from Endo International commercial products and the costs of Endo International's commercial operations;
- the extent of generic competition for Endo International products;
- the cost of acquiring and/or licensing new products and product candidates;
- the scope, rate of progress, results and costs of Endo International's development and clinical activities;
- the cost and timing of obtaining regulatory approvals and of compliance with laws and regulations;
- the cost of preparing, filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- the cost of investigations, litigation and/or settlements related to regulatory activities and third-party claims; and
- changes in laws and regulations, including, for example, healthcare reform legislation.

One of Endo International's goals will be to expand the business through the licensing, acquisition and/or development of additional products and product candidates. There can be no assurance that Endo International's funds will be sufficient to fund these activities if opportunities arise, and Endo International may be unable to expand the business if it does not have sufficient capital or cannot borrow or raise additional capital on attractive terms.

Endo International may not be able to successfully maintain its low tax rates, which could adversely affect its business and financial condition, results of operations and growth prospects.

Endo International will be incorporated in Ireland and will maintain subsidiaries in the United States, Canada and South Africa. Taxing authorities, such as the IRS, actively audit and otherwise challenge these types of arrangements, and have done so in the pharmaceutical industry. The IRS may challenge the Endo International structure and transfer pricing arrangements through an audit or lawsuit. Responding to or defending such a challenge could be expensive

and consume time and other resources, and divert management's time and focus from operating the Endo International business. Endo International cannot predict whether taxing authorities will conduct an audit or file a lawsuit challenging this structure, the cost involved in responding to any such audit or lawsuit, or the outcome. If Endo International is unsuccessful, it may be required to pay taxes for prior periods, interest, fines or penalties, and may be obligated to pay increased taxes in the future, any of which could require Endo International to reduce its operating expenses, decrease efforts in support of its products or seek to raise additional funds, all of which could have a material adverse effect on the Endo International business, financial condition, results of operations and growth prospects.

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Risks Related to the Endo International Ordinary Shares

The market price of Endo International ordinary shares may be volatile, and the value of your investment could materially decline.

Investors who hold Endo International ordinary shares may not be able to sell their shares at or above the price at which they purchased the Endo common stock. The prices of Endo and Paladin common shares have fluctuated materially from time to time, and Endo International cannot predict the price of its ordinary shares. The risk factors described above could cause the price of Endo International ordinary shares to fluctuate materially. In addition, the stock market in general, including the market for specialty pharmaceutical companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may materially harm the market price of Endo International ordinary shares, regardless of Endo International's operating performance. In addition, the Endo International stock price may be dependent upon the valuations and recommendations of the analysts who cover the Endo International business, and if its results do not meet the analysts' forecasts and expectations, Endo International's stock price could decline as a result of analysts lowering their valuations and recommendations or otherwise. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against Endo International, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect Endo International's business, financial condition, results of operations and growth prospects.

Future sales of Endo International ordinary shares in the public market could cause volatility in the price of Endo International ordinary shares or cause the share price to fall.

Sales of a substantial number of Endo International ordinary shares in the public market, or the perception that these sales might occur, could depress the market price of Endo International ordinary shares, and could impair Endo International's ability to raise capital through the sale of additional equity securities.

The Endo International ordinary shares to be received by Endo shareholders in connection with the merger will have different rights from the Endo common stock.

Upon consummation of the merger, Endo shareholders will become Endo International shareholders and their rights as shareholders will be governed by Endo International's memorandum and articles of association and Irish law. The rights associated with Endo common stock are different from the rights associated with Endo International ordinary shares.

Endo International will not have sufficient distributable reserves to pay dividends or repurchase or redeem shares following the merger and the arrangement even if considered appropriate by the Endo International board of directors unless it is permitted by the Irish High Court to create distributable reserves. This is because, under Irish law, dividends may only be paid, and share purchases and redemptions must generally be funded out of, distributable reserves. Endo International can provide no assurance that Irish High Court approval of the creation of distributable reserves will be forthcoming.

If Endo International proposes to pay dividends or to repurchase or redeem shares in the future, it may be unable to do so under Irish law. Under Irish law, dividends may only be paid, and share repurchases and redemptions must generally be funded only out of, "distributable reserves." Endo International will not have distributable reserves immediately following the closing even if the proposals to approve the creation of distributable reserves of Endo International, are approved by the Endo and Paladin shareholders. The creation of distributable reserves requires the approval of the Irish High Court which Endo International plans to seek following completion of the merger. Endo International is not aware of any reason why the Irish High Court would not approve the creation of distributable reserves; however, the issuance of the required order is a matter for the discretion of the Irish High Court and there is no guarantee that such approval will be forthcoming. Even if the Irish High Court does approve the creation of distributable reserves, it may take substantially longer than the parties anticipate.

Endo International does not expect to pay dividends for the foreseeable future, and you must rely on increases in the trading prices of the Endo International ordinary shares for returns on your investment.

Endo has never paid cash dividends on its common stock. Endo International does not expect to pay dividends in the immediate future. Endo International anticipates that it will retain all earnings, if any, to support its operations. Any future determination as to the payment of dividends will, subject to Irish legal requirements, be at the sole discretion of the Endo International board of directors and will depend on Endo International's financial condition, results of operations, capital requirements and other factors the Endo International board of directors deems relevant. Holders of Endo International ordinary shares must rely on increases in the trading price of their shares for returns on their investment in the foreseeable future.

After the completion of the merger, attempted takeovers of Endo International will be subject to Irish Takeover Rules and subject to review by the Irish Takeover Panel.

Delaware's anti-takeover statutes and laws regarding directors' fiduciary duties give the boards of directors broad latitude to defend against unwanted takeover proposals. Following the closing, Endo International will become subject to Irish Takeover Rules,

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under which the Endo International board of directors will not be permitted to take any action which might frustrate an offer for Endo International ordinary shares once it has received an approach which may lead to an offer or has reason to believe an offer is imminent. Further, it could be more difficult for Endo International to obtain shareholder approval for a merger or negotiated transaction after the closing of the business combination because the shareholder approval requirements for certain types of transactions differ, and in some cases are greater, under Irish law than under Delaware law.

Following the completion of the merger, a future transfer of Endo International ordinary shares may be subject to Irish stamp duty.

Transfers of Endo International ordinary shares could be subject to Irish stamp duty. However, transfers of Endo International ordinary shares effected by means of the transfer of book entry interests in DTC will not be subject to Irish stamp duty.

A submission is being made to the Irish Revenue Commissioners to seek confirmation in relation to the operation of stamp duty in respect of the transfer of book entry interests in Clearing and Depository Services Inc. (CDS). If this confirmation is obtained, transfers of Endo International ordinary shares effected by means of the transfer of book entry interests in CDS will not be subject to Irish stamp duty. No assurance can be given that this confirmation will be forthcoming.

It is anticipated that the majority of Endo International ordinary shares will be traded through DTC and/or CDS by brokers who hold such shares on behalf of customers.

Endo International ordinary shares held directly (i.e a registered shareholder) could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired) on any transfer. Payment of Irish stamp duty is generally a legal obligation of the transferee.

The imposition of stamp duty could adversely affect the price of your shares.

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

In certain limited circumstances, dividend withholding tax (currently at a rate of 20%) may arise in respect of dividends paid on Endo International ordinary shares. A number of exemptions from dividend withholding tax exist, such that shareholders resident in European Union member states (other than Ireland) or other countries with which Ireland has signed a double tax treaty, which would include the U.S. or Canada, should generally be entitled to exemptions from dividend withholding tax provided that the appropriate documentation is in place. Please note the requirement to complete certain dividend withholding tax forms in order to qualify for many of the exemptions.

It is expected that shareholders resident in the U.S. who hold their shares through DTC may not be subject to dividend withholding tax if the addresses of the beneficial owners of such shares in the records of the brokers holding such shares are recorded as being in the U.S. (and such brokers have further transmitted the relevant information to a qualifying intermediary appointed by Endo International).

However, other shareholders may be subject to dividend withholding tax, which could adversely affect the price of shares.

After the transaction, dividends received by Irish residents and certain other shareholders may be subject to Irish income tax.

Shareholders entitled to an exemption from Irish dividend withholding tax on dividends received from Endo International will not be subject to Irish income tax in respect of those dividends, unless they have some connection with Ireland other than their shareholding in Endo International (for example, they are resident in Ireland).

Shareholders who receive dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on those dividends.

Risks Related to the Tax Consequences of the Merger and Arrangement

Certain Irish Tax Consequences of the Merger and Arrangement

No Irish tax should arise for Endo shareholders or Paladin shareholders pursuant to the merger and the arrangement, unless such shareholders are resident or ordinarily resident in Ireland or hold such shares in connection with a trade carried on in Ireland through an Irish branch or agency.

It is recommended that each shareholder or shareholder consult his or her own tax advisor as to the tax consequences of holding shares in and receiving dividends from Endo International.

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

Our significant properties at December 31, 2013 are as follows:

Location	Purpose	Approximate Square Footage	Ownership
Corporate Properties:			
Malvern, Pennsylvania	Corporate Headquarters	299,000	Leased(1)
Austin, Texas	Shared Services Center	15,730	Leased(2)
Chadds Ford, Pennsylvania	Former Corporate Headquarters*	64,424	Leased(3)
Chadds Ford, Pennsylvania	Former Corporate Headquarters*	48,600	Leased(4)
Chadds Ford, Pennsylvania	Former Corporate Headquarters*	23,949	Leased(5)
Endo Pharmaceuticals Segment Properties:			
Cranbury, New Jersey	Distribution/Manufacturing	51,000	Leased(6)
Qualitest Segment Properties:			
Westbury, New York	Research & Development	24,190	Leased(7)
Huntsville, Alabama	Qualitest Pharmaceuticals Headquarters/Distribution	280,000	Owned
Huntsville, Alabama	Distribution/Manufacturing/Laboratories	180,000	Owned
Huntsville, Alabama	Distribution/Manufacturing/Laboratories	309,000	Owned
Charlotte, North Carolina	Distribution/Manufacturing/Laboratories	60,000	Owned
Charlotte, North Carolina	Distribution	58,000	Leased(8)
AMS Segment Properties:			
Minnetonka, Minnesota	AMS Headquarters/Warehouse/Research & Development/Manufacturing	230,000	Owned
Westmeath, Ireland	AMS Manufacturing	33,700	Leased(9)
San Jose, California	AMS Office/Manufacturing/Research & Development/Warehouse	68,644	Leased(10)
Properties classified as Assets Held for Sale:			
Austin, Texas	HealthTronics, Inc. Headquarters and Manufacturing/Service Center	80,236	Leased(11)

(1) Lease term ends December, 2024

(2) Lease term ends December, 2017

(3) Lease term ends January, 2015

(4) Lease term ends March, 2018

(5) Lease term ends January, 2015

(6) Lease term ends March, 2015

(7) Lease term ends May, 2015. In connection with the consolidation of our generics research and development operations to Huntsville, Alabama, we exited this facility in February 2013.

(8) Lease term ends May, 2021

(9) Initial lease term ends January, 2021

(10) Lease term ends October, 2016

(11) Lease term ends December, 2017

\* In connection with the relocation of our headquarters to Malvern, Pennsylvania, we exited these properties in early 2013.

## Item 3. Legal Proceedings

The disclosures under Note 14. Commitments and Contingencies of the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" are incorporated into this Part I, Item 3. by reference.

## Item 4. Mine Safety Disclosures

Not applicable.  
PART II

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

Market Information. Our common stock is traded on the NASDAQ Global Select Market under the symbol "ENDP". The following table sets forth the quarterly high and low share price information for the periods indicated. The prices shown represent quotations between dealers, without adjustment for retail markups, markdowns or commissions, and may not represent actual transactions.

	Endo Common Stock	
	High	Low
Year Ended December 31, 2013		
1st Quarter	\$33.32	\$25.01
2nd Quarter	\$39.82	\$30.39
3rd Quarter	\$46.09	\$36.17
4th Quarter	\$67.63	\$43.12
Year Ended December 31, 2012		
1st Quarter	\$39.29	\$32.82
2nd Quarter	\$38.96	\$28.83
3rd Quarter	\$33.86	\$28.89
4th Quarter	\$33.03	\$25.49

Holders. As of February 20, 2014, we estimate that there were approximately 55 record holders of our common stock.

Dividends. We have never declared or paid any cash dividends on our capital stock. In June 2011, we established a new credit facility with Morgan Stanley Senior Funding, Inc., as administrative agent, Bank of America, N.A., as Syndication Agent, and certain other lenders. We also entered into indentures in June 2011 and November 2010 among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, which governs the terms of the Company's \$2.0 billion aggregate principal amount of senior notes. Subject to certain limitations, we are permitted to pay dividends under the terms of our currently existing indebtedness.

Performance Graph. The following graph provides a comparison of the cumulative total stockholder return on the Company's common stock with that of the cumulative total stockholder return on the (i) NASDAQ Stock Market Index (U.S.) and (ii) the NASDAQ Pharmaceutical Index, commencing on December 31, 2008 and ending December 31, 2013. The graph assumes \$100 invested on December 31, 2008 in the Company's common stock and in each of the comparative indices. Our historic stock price performance is not necessarily indicative of future stock price

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performance.

	December 31,					
	2008	2009	2010	2011	2012	2013
Endo Health Solutions Inc.	\$100.00	\$79.29	\$137.98	\$133.42	\$101.35	\$260.66
NASDAQ Composite Index	\$100.00	\$144.88	\$170.58	\$171.30	\$199.99	\$283.39
NASDAQ Pharmaceutical Index	\$100.00	\$104.90	\$109.55	\$125.16	\$172.74	\$284.56

Recent sales of unregistered securities; Use of proceeds from registered securities. During the fourth quarter of 2013, the Company did not sell any unregistered securities.

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Purchase of equity securities by the issuer and affiliated purchasers. The following table reflects purchases of Endo Health Solutions Inc. common stock by the Company during the three-months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan (1)
October 1, 2013 to October 31, 2013	—	—	—	\$ 250,000,024
November 1, 2013 to November 30, 2013	—	—	—	\$ 250,000,024
December 1, 2013 to December 31, 2013	—	—	—	\$ 250,000,024
Total	—	—	—	

(1) In August 2012, our Board of Directors approved a share repurchase program (the 2012 Share Repurchase Program). The 2012 Share Repurchase Program authorizes the Company to repurchase in the aggregate of up to \$450.0 million of shares of its outstanding common stock and is set to expire on March 31, 2015. The amounts above reflect shares remaining under the 2012 Share Repurchase Plan at December 31, 2013. All shares are to be purchased in the open market or in privately negotiated transactions, as in the opinion of management, market conditions warrant.

#### Item 6. Selected Financial Data

The consolidated financial data presented below have been derived from our audited financial statements. The selected historical consolidated financial data presented below should be read in conjunction with Part II, Item 7. of this report "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8. of this report "Financial Statements and Supplementary Data". The selected data in this section is not intended to replace the Consolidated Financial Statements. The information presented below is not necessarily indicative of the results of our future operations. Certain prior year amounts have been reclassified to conform to the current year presentation. The assets of our HealthTronics business and related liabilities are classified as held for sale in the Consolidated Balance Sheets and its operating results are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

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	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Total revenues	\$2,616,907	\$2,815,736	\$2,524,920	\$1,614,085	\$1,460,841
Operating (loss) income from continuing operations	(425,625 )	(539,935 )	464,978	447,547	390,024
(Loss) income from continuing operations before income tax	(559,567 )	(730,423 )	306,442	402,341	359,660
(Loss) income from continuing operations	(535,500 )	(694,008 )	194,358	265,838	266,336
Discontinued operations, net of tax	(96,914 )	5,987	47,707	21,182	—
Consolidated net (loss) income	(632,414 )	(688,021 )	242,065	287,020	266,336
Less: Net income attributable to noncontrolling interests	52,925	52,316	54,452	28,014	—
Net (loss) income attributable to Endo Health Solutions Inc.	\$(685,339 )	\$(740,337 )	\$187,613	\$259,006	\$266,336
<b>Basic and Diluted net (loss) income per share attributable to Endo Health Solutions Inc.:</b>					
Continuing operations - basic	\$ (4.73 )	\$ (6.00 )	\$ 1.67	\$ 2.29	\$ 2.27
Discontinued operations - basic	(1.32 )	(0.40 )	(0.06 )	(0.06 )	—
Basic	\$(6.05 )	\$(6.40 )	\$1.61	\$2.23	\$2.27
Continuing operations - diluted	\$ (4.73 )	\$ (6.00 )	\$ 1.60	\$ 2.25	\$ 2.27
Discontinued operations - diluted	(1.32 )	(0.40 )	(0.05 )	(0.05 )	—
Diluted	\$(6.05 )	\$(6.40 )	\$1.55	\$2.20	\$2.27
Shares used to compute basic net (loss) income per share attributable to Endo Health Solutions Inc.	113,295	115,719	116,706	116,164	117,112
Shares used to compute diluted net (loss) income per share attributable to Endo Health Solutions Inc.	113,295	115,719	121,178	117,951	117,515
Cash dividends declared per share	\$—	\$—	\$—	\$—	\$—
<b>As of and for the Year Ended December 31,</b>					
	2013	2012	2011	2010	2009
	(dollars in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$526,597	\$529,689	\$526,644	\$449,726	\$708,462
Total assets	6,571,856	6,568,559	7,292,583	3,912,389	2,488,803
Long-term debt, less current portion, net	3,323,844	3,035,031	3,421,590	1,043,137	322,534
Other long-term obligations, including capitalized leases	966,124	649,134	616,324	232,009	196,678
Total Endo Health Solutions Inc. stockholders' equity	526,018	1,072,856	1,977,690	1,741,591	1,497,411
Noncontrolling interests	59,198	60,350	61,901	61,738	—
Total stockholders' equity	\$585,216	\$1,133,206	\$2,039,591	\$1,803,329	\$1,497,411
<b>Other Financial Data:</b>					
Net cash provided by operating activities	\$298,517	\$733,879	\$702,115	\$453,646	\$295,406
Net cash used in investing activities	\$(883,639 )	\$(88,467 )	\$(2,374,092 )	\$(896,323 )	\$(245,509 )
Net cash provided by (used in) financing activities	\$579,525	\$(645,547 )	\$1,752,681	\$200,429	\$(117,128 )

The comparability of the forgoing information is impacted by certain charges for asset impairments and certain litigation-related and other matters during 2013 and 2012, and a number of significant acquisitions that have occurred since 2009, along with the debt incurred to finance these acquisitions. These business combinations have had a significant impact on the Company's financial statements in their respective years of acquisition and in subsequent years. This impact results from the consideration transferred by

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the Company for the acquisition, the initial and subsequent purchase accounting for the underlying acquisition and the post-acquisition consolidation of the acquired entity's assets, liabilities and results of operations.

The assets of the Company's HealthTronics business and related liabilities are classified as held for sale in the Consolidated Balance Sheets and its operating results are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

For further information regarding the comparability of the financial data presented in the tables above and factors that may impact comparability of future results, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations as well as the Consolidated Financial Statements and related notes included in this report and previously filed Annual Reports on Form 10-K.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) describes the principal factors affecting the results of operations, liquidity and capital resources, and critical accounting estimates at Endo. This discussion should be read in conjunction with our audited Consolidated Financial Statements and related notes thereto. Except for the historical information contained in this Report, including the following discussion, this Report contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" beginning on page 1 of this Report.

The assets of our HealthTronics business and related liabilities are classified as held for sale in the Consolidated Balance Sheets and its operating results are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

EXECUTIVE SUMMARY

Endo Health Solutions Inc., (which we refer to herein as "Endo", the "Company", "we", "our" or "us") is a specialty healthcare company focused on branded and generic pharmaceuticals and devices. We aim to be the premier partner to healthcare professionals and payment providers, delivering an innovative suite of complementary branded and generic drugs and devices to meet the needs of patients in areas such as pain management, urology, oncology and endocrinology.

We regularly evaluate and, where appropriate, execute on opportunities to expand through acquisition of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

The following key events and transactions occurred during 2013 as discussed in further detail in the Strategy, Product and Pipeline Developments and Results of Operations sections of Management's Discussion and Analysis:

Rajiv De Silva, Suketu P. Upadhyay and Don DeGolyer were appointed as our new President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Chief Operating Officer of Endo Pharmaceuticals Inc., respectively.

Arthur J. Higgins was appointed to the Board of Directors in December 2013, following the resignation of Joseph C. Scodari from the Board of Directors.

During the first quarter of 2013, our subsidiary Endo Pharmaceuticals Inc. (EPI) commenced Lidoderm® shipments to the wholesaler affiliate of Watson pursuant to the 2012 Watson Settlement Agreement. On September 16, 2013, Actavis launched its lidocaine patch 5%, its generic version of Lidoderm®.

On March 26, 2013, we amended and restated our existing credit agreement to extend its term by approximately two years and modify its covenants to provide us with greater financial and operating flexibility.

In May 2013, the FDA issued Endo Pharmaceuticals a complete response letter regarding the NDA for Aveed™. The Company subsequently submitted a complete response with respect to the NDA for Aveed™. This complete response was accepted for review by the FDA in September 2013. In connection with this acceptance, the FDA assigned Endo's NDA a new PDUFA action date of February 28, 2014.

On June 4, 2013, the Company's Board of Directors approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value. These actions were the result of a comprehensive assessment of the Company's strengths and challenges, its cost structure and execution capabilities, and its most promising opportunities to drive future cash flow and earnings growth. The cost reduction initiatives include a reduction in headcount of approximately 15% worldwide, streamlining of general and administrative expenses, optimizing commercial spend and refocusing research and development efforts.

On August 28, 2013, Endo announced that it had entered into a definitive agreement to acquire Boca, a specialty generics company that focuses on niche areas, commercializing and developing products in categories that include controlled substances, semisolids and solutions.

On November 5, 2013, the Company announced that it had reached a definitive agreement to acquire Paladin in a stock and cash transaction valued at approximately \$2.7 billion as of February 20, 2014. Pursuant to the acquisition,

each of Endo and Paladin will be acquired by Endo International, a newly-formed Irish holding company.

On December 19, 2013, the Company issued \$700.0 million in aggregate principal amount of 5.75% Senior Notes due 2022 at an issue price of par.

On December 28, 2013 the Company's Board of Directors approved a plan to sell its HealthTronics business. On January 8, 2014, the Company entered into a definitive agreement to sell its HealthTronics business. We closed the sale of our HealthTronics business on February 3, 2014.

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## Highlights

The following table is a summary of our financial highlights for the three years ended December 31 (dollars in thousands):

	2013	2012	2011
Total revenues	\$2,616,907	\$2,815,736	\$2,524,920
Total costs and expenses	\$3,042,532	\$3,355,671	\$2,059,942
(Loss) income from continuing operations before income tax	\$(559,567)	\$(730,423)	\$306,442
Income tax	\$(24,067)	\$(36,415)	\$112,084
Discontinued operations, net of tax	\$(96,914)	\$5,987	\$47,707
Net (loss) income attributable to Endo Health Solutions, Inc	\$(685,339)	\$(740,337)	\$187,613
Net (loss) income attributable to Endo Health Solutions, Inc common stockholders-Basic			
Continuing operations	\$(4.73)	\$(6.00)	\$1.67
Discontinued operations	\$(1.32)	\$(0.40)	\$(0.06)
Basic	\$(6.05)	\$(6.40)	\$1.61
Net (loss) income attributable to Endo Health Solutions, Inc common stockholders-Diluted			
Continuing operations	\$(4.73)	\$(6.00)	\$1.60
Discontinued operations	\$(1.32)	\$(0.40)	\$(0.05)
Diluted	\$(6.05)	\$(6.40)	\$1.55
Cash, cash equivalents and marketable securities	\$529,576	\$531,435	\$545,749

## Business Environment

The Company conducts its business within the pharmaceutical and devices industries, which are highly competitive and subject to numerous government regulations. Many competitive factors may significantly affect the Company's sales of its products, including efficacy, safety, price and cost-effectiveness, marketing effectiveness, product labeling, quality control and quality assurance at our and our third-party manufacturing operations and research and development of new products. To compete successfully for business in the healthcare industry, the Company must demonstrate that its products offer medical benefits as well as cost advantages. Currently, most of the Company's products compete with other products already on the market in the same therapeutic category, and are subject to potential competition from new products that competitors may introduce in the future. Generic competition is one of the Company's leading challenges. Similarly, the Company competes with other providers with respect to the devices we offer, as well as providers of alternative treatments.

In the pharmaceutical industry, the majority of an innovative product's commercial value is usually realized during the period that the product has market exclusivity. When a product loses exclusivity, it is no longer protected by a patent and is subject to new competing products in the form of generic brands. Upon loss of exclusivity, the Company can lose a major portion of that product's sales in a short period of time. Intellectual property rights have increasingly come under attack in the current healthcare environment. Generic drug firms continue to file ANDAs seeking to market generic forms of certain of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending the patent claims challenged in ANDA filings, the generic firms will then introduce generic versions of the product at issue, resulting in the potential for substantial market share and revenue losses for that product. For a complete description of legal proceedings, see Note 14. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The healthcare industry is subject to various government-imposed regulations authorizing prices or price controls that have and will continue to have an impact on the Company's sales. The U.S. Congress and some state legislatures have considered a number of proposals and have enacted laws that could result in major changes in the current healthcare system, either nationally or at the state level. Driven in part by budget concerns, Medicaid access and reimbursement restrictions have been implemented in some states and proposed in many others. In addition, the Medicare Prescription Drug Improvement and Modernization Act provides outpatient prescription drug coverage to senior

citizens in the U.S. This legislation has had a modest favorable impact on the Company as a result of an increase in the number of seniors with drug coverage. At the same time, there continues to be a potential negative impact on the U.S. pharmaceutical business that could result from pricing pressures or controls.

The growth of Managed Care Organizations (MCOs) in the U.S. has increased competition in the healthcare industry. MCOs seek to reduce healthcare expenditures for participants by making volume purchases and entering into long-term contracts to negotiate discounts with various pharmaceutical providers. Because of the market potential created by the large pool of participants, marketing

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prescription drugs to MCOs has become an important part of the Company's strategy. Companies compete for inclusion in MCO formularies and the Company generally has been successful in having its major products included. The Company believes that developments in the managed care industry, including continued consolidation, have had and will continue to have a generally downward pressure on prices.

Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, may impact the Company's business.

Pharmaceutical production processes are complex, highly regulated and vary widely from product to product. In addition to our pharmaceutical manufacturing operations at our Qualitest Pharmaceuticals locations, we contract with various third party manufacturers and suppliers to provide us with raw materials used in our products and finished goods. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG, Teikoku Seiyaku Co., Ltd., Noramco, Inc., Grünenthal GMBH and Sharp Corporation. Shifting or adding manufacturing capacity can be a lengthy process that could require significant expenditures and regulatory approvals. If for any reason we are unable to continue our internal manufacturing operations or obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### Strategy

Our strategy is focused on continuing our progress in becoming a leading global specialty healthcare company. Through a lean and efficient operating model, we are committed to serving patients and customers while continuing to innovate products that make a difference in the lives of its patients. We strive to maximize shareholder value by adapting to market realities and customer needs.

We are committed to driving organic growth at attractive margins by improving execution, optimizing cash flow, and leveraging our strong market position while maintaining a streamlined cost structure throughout each of our businesses. Specific areas of management's focus include:

• **Endo Pharmaceuticals:** Enhancing performance of organic growth drivers, increasing profitability from the Company's mature brands and investing in key late-stage pipeline opportunities.

• **Qualitest:** Capitalizing on encouraging demand trends for a differentiated portfolio of controlled substances and liquids, and more effective R&D investment by targeting low-risk, high-return opportunities in generics.

• **American Medical Systems:** Utilizing its leading position in urology to enhance demand for American Medical Systems' unique products and services in attractive growth markets.

We remain committed to R&D across each business unit with a particular focus on development capabilities and near-term revenue generating assets. We also seek to identify incremental growth opportunities through product licensing and development.

In addition to a focus on organic growth drivers, we are also actively pursuing accretive acquisitions that offer attractive cost synergies, enhance our strategic position and accelerate future growth.

Since June 2013, we have announced the following acquisitions:

On August 28, 2013, Endo announced that it had entered into a definitive agreement to acquire Boca, a specialty generics company that focuses on niche areas, commercializing and developing products in categories that include controlled substances, semisolids and solutions. We believe Boca's commercial footprint and R&D pipeline are a strong complement to Qualitest.

On November 5, 2013, Endo announced that it had entered into a definitive agreement to acquire Paladin, which will accelerate Endo's strategic transformation to a leading global specialty healthcare company and create a platform for future growth in North America and internationally.

### Pipeline Developments

**Aveed™.** Aveed™ is a novel, long-acting injectable testosterone preparation for the treatment of male hypogonadism. Male hypogonadism is an increasingly recognized medical condition characterized by a reduced or absent secretion of testosterone from the testes. Reduced testosterone levels can lead to health problems and significantly impair quality of life. Common effects of hypogonadism include decreased sexual desire, erectile dysfunction, muscle loss and weakness, depression, and an increased risk of osteoporosis. If approved, Aveed™

would be the first long-acting injectable testosterone preparation available in the U.S. in the growing market for testosterone replacement therapies. The U.S. rights to Aved<sup>TM</sup> were acquired from Schering AG, Germany, in July 2005. Although not yet approved in the U.S., Aved<sup>TM</sup> is approved in and currently marketed in Europe and a number of other countries. In May 2010, a new patent covering Aved<sup>TM</sup> was issued by the U.S. Patent and Trademark Office. The patent's expiration date is March 14, 2027.

On December 2, 2009, we received a Complete Response letter from the FDA regarding Aved<sup>TM</sup>. In 2010 and 2011, the Company met with the FDA to discuss the existing clinical data provided to the FDA as well as the potential path-forward. In

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November 2012, as a follow up to our 2011 meeting with the FDA, the Company submitted a complete response to the FDA after conducting an extensive review of all clinical study and post-marketing data. The FDA held an advisory committee meeting in April 2013, and Endo submitted new data to FDA in August 2013. A new PDUFA date was set for February 28, 2014.

**BEMA® Buprenorphine.** In January 2012, the Company signed a worldwide license and development agreement with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. In January 2014, the Company achieved positive top-line results from its pivotal Phase III efficacy study of BEMA buprenorphine in opioid-naïve subjects for the treatment of moderate to severe chronic pain in patients requiring around-the-clock opioid therapy. The second Phase III clinical study of BEMA Buprenorphine in an opioid-experienced patient group is ongoing with results anticipated in mid-2014.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

To understand our financial statements, it is important to understand our critical accounting estimates. The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in the determination of revenue recognition and sales deductions for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. Significant estimates and assumptions are also required when determining the fair value of financial instruments, the valuation of long-lived assets, income taxes, contingencies and stock-based compensation. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. For any given individual estimate or assumption made by us, there may also be other estimates or assumptions that are reasonable. Although we believe that our estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made. Actual results may differ significantly from our estimates.

We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition, results of operations or cash flows. Our most critical accounting estimates are described below:

**Revenue recognition****Pharmaceutical Products**

Our net pharmaceutical product sales consist of revenues from sales of our pharmaceutical products, less estimates for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances as well as fees for services. We recognize revenue for product sales when title and risk of loss has passed to the customer, which is typically upon delivery to the customer, when estimated provisions for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances are reasonably determinable, and when collectability is reasonably assured. Revenue from the launch of a new or significantly unique product, for which we are unable to develop the requisite historical data on which to base estimates of returns and allowances due to the uniqueness of the therapeutic area or delivery technology as compared to other products in our portfolio and in the industry, may be deferred until such time that an estimate can be determined and all of the conditions above are met and when the product has achieved market acceptance, which is typically based on dispensed prescription data and other information obtained during the period following launch.

Decisions made by wholesaler customers and large retail chain customers regarding the levels of inventory they hold (and thus the amount of product they purchase from us) can materially affect the level of our sales in any particular period and thus may not correlate to the number of prescriptions written for our products based on external third-party data. We believe that speculative buying of product, particularly in anticipation of possible price increases, has been the historic practice of many pharmaceutical wholesalers. In recent years, our wholesaler customers, as well as others

in the industry, began modifying their business models from arrangements where they derive profits from price arbitrage, to arrangements where they charge a fee for their services. Accordingly, we have entered into DSAs with four of our significant wholesaler customers. These agreements, which pertain to branded products only, obligate the wholesalers to provide us with specific services, including the provision of periodic retail demand information and current inventory levels for our branded products held at their warehouse locations; additionally, under these DSAs, the wholesalers have agreed to manage the variability of their purchases and inventory levels within specified limits based on product demand.

Under the DSAs, we receive information from our four wholesaler customers about the levels of inventory they held for our branded products as of December 31, 2013. Based on this information, which we have not independently verified, we believe that total branded inventory held at these wholesalers is within normal levels. In addition, we also evaluate market conditions for

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products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally-generated information.

Devices

As a result of our acquisition of AMS, we sell products in this market through a direct sales force. A portion of our revenue is generated from consigned inventory or from inventory with field representatives. For these products, revenue is recognized at the time the product has been used or implanted. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to our customers providing there are no remaining performance obligations required from us or any matters requiring customer acceptance. In cases where we utilize distributors or ship product directly to the end user, we recognize revenue upon shipment provided all revenue recognition criteria have been met. We record estimated sales returns, discounts and rebates as a reduction of net sales in the period the related revenue is recognized.

We provide incentives to customers, including volume based rebates. Customers are not required to provide documentation that would allow us to reasonably estimate the fair value of the benefit received and we do not receive an identifiable benefit in exchange for the consideration. Accordingly, the incentives are recorded as a reduction of revenue.

Our AMS customers have rights of return for the occasional ordering or shipping error. We maintain an allowance for these returns and reduce reported revenue for expected returns from shipments during each reporting period. This allowance is based on historical and current trends in product returns.

Services

Our fees for the urology and pathology services performed by our HealthTronics segment are recorded when the procedure is performed and are based on contracted rates. Management fees from our HealthTronics, Inc. limited partnerships are recorded monthly when earned. The assets of this business segment and related liabilities are classified as held for sale in the Consolidated Balance Sheets for all periods presented. The operating results of this business segment are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

Other

Product royalties received from third party collaboration partners and licensees of our products and patents are recorded as other revenues. Royalties are recognized as earned in accordance with the contract terms when royalties from third parties can be reasonably estimated and collectability is reasonably assured. If royalties cannot be reasonably estimated or collectability of a royalty amount is not reasonably assured, royalties are recognized as revenue when the cash is received.

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## Sales deductions

When we recognize revenue from the sale of our products, we simultaneously record an adjustment to revenue for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, DSA fees, returns and allowances. These provisions, as described in greater detail below, are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these adjustments do not appropriately reflect future activity, our financial position, results of operations and cash flows could be materially impacted. The following table presents the activity and ending balances for our product sales provisions for the three years ended December 31 (in thousands):

	Returns and Allowances	Rebates	Chargebacks	Other Sales Deductions	Total
Balance at January 1, 2011	\$65,021	\$203,225	\$87,820	\$15,320	\$371,386
Additions related to acquisitions	3,594	194	—	—	3,788
Current year provision	52,027	842,674	801,543	85,147	1,781,391
Prior year provision	3,697	2,312	—	—	6,009
Payments or credits	(34,264 )	(739,494 )	(772,542 )	(79,125 )	(1,625,425 )
Balance at December 31, 2011	\$90,075	\$308,911	\$116,821	\$21,342	\$537,149
Current year provision	39,909	872,709	716,982	87,437	1,717,037
Prior year provision	(15,556 )	(9,163 )	(100 )	(709 )	(25,528 )
Payments or credits	(28,613 )	(844,531 )	(772,401 )	(90,290 )	(1,735,835 )
Balance at December 31, 2012	\$85,815	\$327,926	\$61,302	\$17,780	\$492,823
Current year provision	71,868	1,038,064	775,109	50,557	1,935,598
Prior year provision	(5,072 )	(11,152 )	—	—	(16,224 )
Payments or credits	(46,234 )	(1,017,873 )	(718,397 )	(55,440 )	(1,837,944 )
Balance at December 31, 2013	\$106,377	\$336,965	\$118,014	\$12,897	\$574,253

## Returns and Allowances

Our provision for returns and allowances consists of our estimates of future product returns, pricing adjustments and delivery errors. Consistent with industry practice, we maintain a return policy that allows our customers to return product within a specified period of time both prior and subsequent to the product's expiration date. Our return policy allows customers to receive credit for expired products within six months prior to expiration and within one year after expiration. The primary factors we consider in estimating our potential product returns include:

- the shelf life or expiration date of each product;
- historical levels of expired product returns;
- external data with respect to inventory levels in the wholesale distribution channel;
- external data with respect to prescription demand for our products; and
- estimated returns liability to be processed by year of sale based on analysis of lot information related to actual historical returns.

In determining our estimates for returns and allowances, we are required to make certain assumptions regarding the timing of the introduction of new products and the potential of these products to capture market share. In addition, we make certain assumptions with respect to the extent and pattern of decline associated with generic competition. To make these assessments, we utilize market data for similar products as analogs for our estimations. We use our best judgment to formulate these assumptions based on past experience and information available to us at the time. We continually reassess and make the appropriate changes to our estimates and assumptions as new information becomes available to us.

Our estimate for returns and allowances may be impacted by a number of factors, but the principal factor relates to the level of inventory in the distribution channel. When we are aware of an increase in the level of inventory of our products in the distribution channel, we consider the reasons for the increase to determine if the increase may be temporary or other-than-temporary. Increases in inventory levels assessed as temporary will not result in an adjustment to our provision for returns and allowances. Other-than-temporary increases in inventory levels, however,

may be an indication that future product returns could be higher than originally anticipated and, accordingly, we may need to adjust our estimate for returns and allowances. Some of the factors that may be an indication that an increase in inventory levels will be temporary include:

- recently implemented or announced price increases for our products; and
- new product launches or expanded indications for our existing products.

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Conversely, factors that may be an indication that an increase in inventory levels will be other-than-temporary include:

- declining sales trends based on prescription demand;
- recent regulatory approvals to extend the shelf life of our products, which could result in a period of higher returns related to older product with the shorter shelf life;
- introduction of new product or generic competition;
- increasing price competition from generic competitors; and
- recent changes to the National Drug Codes (NDCs) of our products, which could result in a period of higher returns related to product with the old NDC, as our customers generally permit only one NDC per product for identification and tracking within their inventory systems.

### Rebates

We establish contracts with wholesalers, chain stores and indirect customers that provide for rebates, sales incentives, DSA fees, and other allowances. Some customers receive rebates upon attaining established sales volumes. We estimate rebates, sales incentives and other allowances based upon the terms of the contracts with our customers, historical experience, estimated inventory levels of our customers and estimated future trends. Our rebate programs can generally be categorized into the following four types:

- direct rebates;
- indirect rebates;
- managed care rebates; and
- Medicaid and Medicare Part D rebates.

Direct rebates are generally rebates paid to direct purchasing customers based on a percentage applied to a direct customer's purchases from us, including DSA fees paid to wholesalers under our DSA agreements, as described above. Indirect rebates are rebates paid to indirect customers which have purchased our products from a wholesaler under a contract with us.

We are subject to rebates on sales made under governmental and managed-care pricing programs. In estimating our provisions for these types of rebates, we consider relevant statutes with respect to governmental pricing programs and contractual sales terms with managed-care providers and group purchasing organizations. Starting in 2011, as a result of the implementation of certain provisions of the Healthcare Reform Act of 2010, we are required to provide a 50% discount on our brand-name drugs to patients who fall within the Medicare Part D coverage gap, also referred to as the donut hole. We estimate an accrual for Managed Care, Medicaid, Medicare Part D and Coverage Gap rebates as a reduction of revenue at the time product sales are recorded. These rebate reserves are estimated based upon the historical utilization levels, historical payment experience, historical relationship to revenues and estimated future trends. Changes in the level of utilization of our products through private or public benefit plans and group purchasing organizations will affect the amount of rebates that we owe.

We participate in state government-managed Medicaid programs, as well as certain other qualifying federal and state government programs whereby discounts and rebates are provided to participating government entities. Medicaid rebates are amounts owed based upon contractual agreements or legal requirements with public sector (Medicaid) benefit providers, after the final dispensing of the product by a pharmacy to a benefit plan participant. Medicaid reserves are based on expected payments, which are driven by patient usage, contract performance, as well as field inventory that will be subject to a Medicaid rebate. Medicaid rebates are typically billed up to 180 days after the product is shipped, but can be as much as 270 days after the quarter in which the product is dispensed to the Medicaid participant. As a result, our Medicaid rebate provision includes an estimate of outstanding claims for end-customer sales that occurred but for which the related claim has not been billed and an estimate for future claims that will be made when inventory in the distribution channel is sold through to plan participants. Our calculation also requires other estimates, such as estimates of sales mix, to determine which sales are subject to rebates and the amount of such rebates. Periodically, we adjust the Medicaid rebate provision based on actual claims paid. Due to the delay in billing, adjustments to actual claims paid may incorporate revisions of this provision for several periods. Medicaid pricing programs involve particularly difficult interpretations of statutes and regulatory guidance, which are complex and thus our estimates could differ from actual experience.

We continually update these factors based on new contractual or statutory requirements and significant changes in sales trends that may impact the percentage of our products subject to rebates.

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### Chargebacks

The provision for chargebacks is one of the most significant and the most complex estimates used in the recognition of our revenue. We market and sell products directly to wholesalers, distributors, warehousing pharmacy chains, and other direct purchasing groups. We also market products indirectly to independent pharmacies, non-warehousing chains, managed care organizations, and group purchasing organizations, collectively referred to as indirect customers. We enter into agreements with some indirect customers to establish contract pricing for certain products. These indirect customers then independently select a wholesaler from which to purchase the products at these contracted prices. Alternatively, we may pre-authorize wholesalers to offer specified contract pricing to other indirect customers, including government entities. Under either arrangement, we provide credit to the wholesaler for any difference between the contracted price with the indirect customer and the wholesaler's invoice price. Such credit is called a chargeback. The primary factors we consider in developing and evaluating our provision for chargebacks include:

- the average historical chargeback credits;
- estimated future sales trends; and
- an estimate of the inventory held by our wholesalers, based on internal analysis of a wholesaler's historical purchases and contract sales.

### Other sales deductions

We offer our customers 2.0% prompt pay cash discounts. Provisions for prompt pay discounts are estimated and recorded at the time of sale. We estimate provisions for cash discounts based on contractual sales terms with customers, an analysis of unpaid invoices and historical payment experience. Estimated cash discounts have historically been predictable and less subjective due to the limited number of assumptions involved, the consistency of historical experience and the fact that we generally settle these amounts within thirty to sixty days.

Shelf-stock adjustments are credits issued to our customers to reflect decreases in the selling prices of our products. These credits are customary in the industry and are intended to reduce a customer's inventory cost to better reflect current market prices. The determination to grant a shelf-stock credit to a customer following a price decrease is at our discretion rather than contractually required. The primary factors we consider when deciding whether to record a reserve for a shelf-stock adjustment include:

- the estimated number of competing products being launched as well as the expected launch date, which we determine based on market intelligence;
- the estimated decline in the market price of our product, which we determine based on historical experience and customer input; and
- the estimated levels of inventory held by our customers at the time of the anticipated decrease in market price, which we determine based upon historical experience and customer input.

### Valuation of long-lived assets

Long-lived assets, including property, plant and equipment, licenses, developed technology, tradenames and patents are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset to the forecasted undiscounted future cash flows related to the asset. In the event the carrying value of the asset exceeds its undiscounted future cash flows and the carrying value is not considered recoverable, impairment exists. An impairment loss is measured as the excess of the asset's carrying value over its fair value, generally based on a discounted future cash flow method, independent appraisals or preliminary offers from prospective buyers. An impairment loss would be recognized in the Consolidated Statements of Operations in the period that the impairment occurs. As a result of the significance of our amortizable intangibles, any recognized impairment loss could have a material adverse impact on our financial position and/or results of operations.

Events giving rise to impairment are an inherent risk in the pharmaceutical industry and cannot be predicted. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a product line in relation to expectations, significant negative industry or economic trends and significant changes or planned changes in our use of the assets.

Our reviews of long-lived assets during the three years ended December 31, 2013 resulted in certain asset impairment charges, which are described above under the caption "RESULTS OF OPERATIONS".

The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from 1 to 15 years, with a weighted average useful life of approximately 8 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of

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the license and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. The value of these licenses is subject to continuing scientific, medical and marketplace uncertainty.

Acquired customer relationships are recorded at fair value upon acquisition and are amortized using estimated useful lives ranging from 13 to 17 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for customer relationships based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the customer relationships, contractual terms and our plans regarding our future relations with our customers. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Acquired tradenames are recorded at fair value upon acquisition and, if deemed to have definite lives, are amortized using estimated useful lives ranging from 15 to 30 years, with a weighted average useful life of approximately 24 years. We determine amortization periods for tradenames based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the tradename and our plans regarding the future use of the tradename. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Acquired developed technology is recorded at fair value upon acquisition and amortized using estimated useful lives ranging from 3 to 20 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for developed technology based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired assets. Such factors include the strength of the intellectual property protection of the product and various other competitive and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. The value of these assets is subject to continuing scientific, medical and marketplace uncertainty.

#### Goodwill and indefinite-lived intangible assets

Endo tests goodwill and indefinite-lived intangible assets for impairment annually, or more frequently whenever events or changes in circumstances indicate that the asset might be impaired. Our annual assessment has historically been performed as of January 1<sup>st</sup>. However, during the third quarter of 2012, we changed our annual goodwill and indefinite-lived intangible assets impairment test date from January 1<sup>st</sup> to October 1<sup>st</sup>, which necessitated completing a test as of October 1, 2012 so that no more than 12 months elapsed between annual tests. The goodwill test consists of a Step I analysis that requires a comparison between the respective reporting unit's fair value and carrying amount. A Step II analysis would be required if the fair value of the reporting unit is lower than its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, an impairment does not exist and no further analysis is required. The indefinite-lived intangible asset impairment test consists of a one-step analysis that compares the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Although the Company has three operating segments, Endo Pharmaceuticals, Qualitest and AMS, we have determined for our annual goodwill impairment test that the Company has four reporting units; (1) Pain, (2) Generics, (3) Urology, Endocrinology and Oncology (UEO) and (4) AMS. In addition, the Company has two reporting units, Urology Services and HealthTronics Information Technology Solutions (HITS), at HealthTronics. In August 2013, the Company sold the Anatomical Pathology Services reporting unit, which was part of the HealthTronics business. The HealthTronics business and related liabilities are classified as held for sale in the Consolidated Balance Sheets and its operating results are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

In June 2013, the Company's Board of Directors approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value, including cost reduction initiatives and plans to explore strategic alternatives for its HealthTronics business. During the third quarter of 2013, the Company determined that a sale of the HealthTronics business was more-likely-than-not to occur over the next twelve months. Accordingly, we initiated an interim goodwill impairment analysis of the HealthTronics reporting units' goodwill

balances as of September 30, 2013. The fair value of the Urology Services and ITS reporting units were estimated using a number of factors including the fair value currently implied by the ongoing sales process and previously prepared discounted cash flow analyses. As a result of this analysis, the Company determined that the net book value of both our Urology Services reporting unit and our HITS reporting unit exceeded their estimated fair value. The Company prepared a preliminary analysis to estimate the amount of an impairment charge as of September 30, 2013, and determined that an impairment was probable and reasonably estimable. The preliminary fair value assessments were performed by the Company taking into consideration a number of factors including the preliminary results of a hypothetical purchase price allocation. As a result of the preliminary analysis, the Company recorded a combined estimated goodwill impairment charge of \$38.0 million in the Condensed Consolidated Statements of Operations during the three months ended September 30, 2013, representing the difference between the estimated implied fair value of the HealthTronics reporting

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units' goodwill and their respective net book values. The Company finalized the impairment analysis in the fourth quarter of 2013 when it recorded charges of \$118.9 million to write down the book value of the reporting units' assets to fair value less costs to sell.

Additionally, in June 2013, the Company began marketing for sale the anatomical pathology services reporting unit. In connection with the planned sale of this reporting unit, we recorded asset impairment charges of \$4.2 million during the second quarter of 2013 to write down the book value of this reporting unit's assets to fair value less costs to sell.

As noted above, we completed our annual impairment tests as of October 1, 2013 and October 1, 2012. Based upon recent market conditions, and, in some cases, a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting unit's fair value for goodwill impairment testing and each asset's fair value for indefinite-lived intangible asset impairment testing. Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flow (including long-term growth rates), discount rate, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. Discount rates applied to the estimated cash flows for our October 1, 2013 and October 1, 2012 annual goodwill and indefinite-lived intangible assets impairment test ranged from 9.5% to 14.5% and 9.5% to 17.5%, respectively, depending on the overall risk associated with the particular assets and other market factors. We believe the discount rates and other inputs and assumptions are consistent with those that a market participant would use.

In order to assess the reasonableness of the calculated fair values of our reporting units, we also compare the sum of the reporting units' fair values to Endo's market capitalization and calculate an implied control premium (the excess sum of the reporting unit's fair values over the market capitalization). The Company evaluates the control premium by comparing it to control premiums of recent comparable market transactions, as applicable. If the control premium is not reasonable in light of comparable recent transactions, we reevaluate the fair value estimates of the reporting units by adjusting discount rates and/or other assumptions. This reevaluation could correlate to lower implied fair values for certain or all of the Company's reporting units.

The results of our 2013 Step I analyses showed that the fair values of the Pain, UEO and Generics reporting units exceeded their respective carrying amounts. The excess of fair value over carrying amount for the UEO and Generics reporting units as of October 1, 2013 was \$904.7 million and \$1.6 billion, respectively, which was more than 100% of each reporting unit's carrying amount. An increase of 50 basis points to our assumed discount rates used in testing either of these reporting units would not have changed the results of our Step I analyses.

The Pain reporting unit had a negative book value as of October 1, 2013. Accordingly, we also considered other qualitative and quantitative factors to determine whether the goodwill associated with this reporting unit was more likely than not impaired. The factors we considered included market dynamics regarding the current product portfolio, the likelihood of technical, regulatory, and commercial success for certain pipeline products, and the estimated fair value of the Pain reporting unit's intangible assets. Based on these considerations, the Company concluded it was more likely than not that the goodwill associated with this reporting unit was not impaired as of October 1, 2013.

The result of the 2013 Step I analysis for the AMS reporting unit showed that the fair values of that reporting unit was lower than its carrying amount, thus requiring a Step II analysis for the reporting unit. The declines in the fair value, as well as fair value changes for other assets and liabilities in the Step II goodwill impairment test, resulted in an implied fair value of goodwill below the carrying amount of the goodwill for the reporting unit. Accordingly, we recorded combined pre-tax non-cash goodwill impairment charges in the Consolidated Statement of Operations totaling \$481.0 million in 2013. A 50 basis point increase in the assumed discount rates utilized would have resulted in an increased goodwill impairment of approximately \$85.0 million for the AMS reporting unit.

The results of our 2012 Step I analyses showed that the fair values of the Pain, UEO and Generics reporting units exceeded their respective carrying amounts. The excess of fair value over carrying amount for each of these reporting units as of October 1, 2012 ranged from approximately 70% to more than 100% of carrying amount or \$355.8 million to \$1.5 billion, respectively. An increase of 50 basis points to our assumed discount rates used in testing any of these reporting units would not have changed the results of our Step I analyses.

The results of the analysis for the Urology Services reporting unit, which held \$139.9 million of goodwill as of October 1, 2012, showed fair value that exceeded its carrying amount by 8% or \$16.4 million. An increase of 50 basis points to our assumed discount rates used in testing this reporting unit would not have changed the result of our Step I analysis.

The result of the 2012 Step I analysis for the AMS reporting unit showed that the fair values of that reporting unit was lower than its respective carrying amounts, thus requiring a Step II analysis for the reporting unit. The declines in the fair values, as well as fair value changes for other assets and liabilities in the Step II goodwill impairment test, resulted in an implied fair value of

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goodwill below the carrying amount of the goodwill for the reporting unit. Accordingly, we recorded a pre-tax non-cash goodwill impairment charge in the Consolidated Statement of Operations totaling \$507.5 million in 2012. A 50 basis point increase in the assumed discount rates utilized would have resulted in an increased goodwill impairment of approximately \$150.0 million for the AMS reporting unit.

The results of the 2012 Step 1 analyses for the Anatomical Pathology Services and HITS reporting units showed that the fair values of those reporting units were lower than their respective carrying amounts, thus requiring a Step II analysis for each reporting unit. The declines in these fair values, as well as fair value changes for other assets and liabilities in the Step II goodwill impairment test, resulted in an implied fair value of goodwill below the carrying amount of the goodwill for these reporting units. Accordingly, we recorded combined pre-tax non-cash goodwill impairment charges in the Consolidated Statement of Operations totaling \$49.9 million in 2012. A 50 basis point increase in the assumed discount rates utilized would have resulted in an increased goodwill impairment of approximately \$2 million for the HITS reporting unit.

These impairment charges are further described above under the caption "RESULTS OF OPERATIONS".

Other than these charges, there were no additional impairments of goodwill recorded as a result of performing our annual goodwill assessments during the three years ended December 31, 2013.

Our annual review of indefinite-lived intangible assets during the three years ended December 31, 2013 resulted in certain asset impairment charges, which are described above under the caption "RESULTS OF OPERATIONS".

Other than these charges, there were no additional impairments recorded as a result of performing our annual assessments.

#### Acquisition-related in-process research and development

Acquired businesses are accounted for using the acquisition method of accounting, which requires that the purchase price be allocated to the net assets acquired at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development (IPR&D) are recorded to the balance sheet at the date of acquisition based on their relative fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, including IPR&D, we typically use the income method. This method starts with our forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include: the amount and timing of projected future cash flows; the amount and timing of projected costs to develop the IPR&D into commercially viable products; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry, as well as expected changes in standards of practice for indications addressed by the asset.

Determining the useful life of an intangible asset also requires judgment, as different types of intangible assets will have different useful lives. Acquired IPR&D is designated as an indefinite-lived intangible asset until the associated research and development activities are completed or abandoned.

#### Income taxes

Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to

assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

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At December 31, 2013, we had \$583.8 million of gross deferred tax assets, which included federal and state net operating loss carryforwards (NOLs) of approximately \$76.9 million, research and development credit carryforwards of \$15.0 million, impairment losses that are capital in nature of \$9.1 million, alternative minimum tax and foreign tax credits of \$2.1 million and temporary differences of approximately \$481.3 million. At December 31, 2013, our NOLs and research and development credit carryforwards were related to multiple tax jurisdictions, including federal and various state jurisdictions, which expire at intervals between 2014 and 2034. We evaluate the potential realization of our deferred tax benefits on a jurisdiction-by-jurisdiction basis. Our analysis of the realization considers the probability of generating taxable income or other sources of income as defined within the applicable income tax authoritative guidance, which could be utilized to support the assets over the permitted carryforward period in each jurisdiction. Where we have determined under the more likely than not standard that we do not have a better-than-50% probability of realization, we establish a valuation allowance against that portion of the deferred tax asset where our analysis and judgment indicates a less-than-50% probability of realization. Based on our forecasted taxable income within these jurisdictions, we believe we will generate sufficient future taxable income to realize a significant portion of our deferred tax assets associated with our NOLs and research and development credit carryforwards. However, the Company does not anticipate future capital gains that would be required to obtain the tax benefit of our impairment capital losses. Accordingly, this deferred tax asset is offset by a valuation allowance of \$9.1 million at December 31, 2013. In addition, due to our historical losses in certain state jurisdictions and the absence of sources of income, we have established an \$8.4 million valuation allowance for our state NOL and credit carryforwards. Finally, we have established a \$0.4 million valuation allowance against other items

On a periodic basis, we evaluate the realizability of our deferred tax assets and liabilities and will adjust such amounts in light of changing facts and circumstances, including but not limited to future projections of taxable income, tax legislation, rulings by relevant tax authorities, tax planning strategies and the progress of ongoing tax audits. Settlement of filing positions that may be challenged by tax authorities could impact the income tax position in the year of resolution.

**Contingencies**

The Company is subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses. Contingent accruals are recorded in the Consolidated Statements of Operations when the Company determines that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events.

**RESULTS OF OPERATIONS**

The Company reported a Net loss attributable to Endo Health Solutions Inc. for the year ended December 31, 2013 of \$685.3 million or \$6.05 per diluted share on total revenues of \$2.6 billion compared with a Net loss attributable to Endo Health Solutions Inc. of \$740.3 million or \$6.40 per diluted share on total revenues of \$2.8 billion for the year ended December 31, 2012.

**Consolidated Results Review****Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012**

**Revenues.** Revenues in 2013 decreased 7% to \$2.6 billion from \$2.8 billion in 2012. This decrease in revenues was primarily attributable to decreases at our Endo Pharmaceuticals and AMS segments, partially offset by revenue growth from our Qualitest segment.

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The following table displays our revenues by category and as a percentage of total revenues for the years ended December 31(dollars in thousands):

	2013		2012	
	\$	%	\$	%
Lidoderm®	\$602,998	23	\$947,680	34
Opana® ER	227,878	9	299,287	11
Voltaren® Gel	170,841	7	117,563	4
Percocet®	105,814	4	103,406	4
Fortesta® Gel	65,860	3	30,589	1
Frova®	60,927	2	61,341	2
Supprelin® LA	58,334	2	57,416	2
Other brands	101,363	4	60,702	2
Total Endo Pharmaceuticals*	\$1,394,015	53	\$1,677,984	60
Qualitest	730,666	28	633,265	22
AMS	492,226	19	504,487	18
Total revenues*	\$2,616,907	100	\$2,815,736	100

\* Percentages may not add due to rounding.

Lidoderm®. Net sales of Lidoderm® in 2013 decreased 36% to \$603.0 million from \$947.7 million in 2012. Net sales were negatively impacted by the September 16, 2013 launch of Actavis's lidocaine patch 5%, a generic version of Lidoderm®. Prior to the launch of Actavis's generic, 2013 net sales were negatively impacted by our obligation under the Watson Settlement Agreement to supply Lidoderm® at zero cost to Watson's wholesaler affiliate from January to August of 2013. Refer to Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" for further discussion of the Watson Settlement Agreement. Although the Company believes it has successfully contracted with certain Managed Care providers and government agencies, we do expect future net sales of Lidoderm® to continue to be impacted due to generic competition, resulting in additional decreases in Lidoderm® net sales.

Opana® ER. Net Sales of Opana® ER in 2013 decreased 24% to \$227.9 million from \$299.3 million in 2012. In the first half of 2012, after our first quarter supply disruption associated with the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, we transitioned to our formulation of Opana® ER that is designed to be crush-resistant. While we believe our ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. 2012 revenues included the favorable effects of wholesaler restocking efforts to transition to the crush-resistant formulation of Opana® ER, which did not reoccur during the comparable 2013 periods. In addition, Impax and Actavis launched generic versions of the non-crush-resistant formulation Opana® ER on January 2, 2013 and September 12, 2013, respectively, negatively impacting revenues.

In late 2012, two patents covering Opana® ER were issued to our subsidiary Endo Pharmaceuticals Inc. (EPI). On December 11, 2012, EPI filed a Complaint against Actavis in U.S. District Court for the Southern District of New York for patent infringement based on its ANDA for a non-crush-resistant generic version of Opana® ER. Between May 22 and June 21, 2013, EPI filed similar suits in the U.S. District Court for the Southern District of New York against the following applicants for non-crush-resistant Opana® ER: Par Pharmaceuticals, Teva Pharmaceuticals, Mallinckrodt LLC, Sandoz Inc., Roxane Laboratories, and Ranbaxy. In July 2013, Actavis and Roxane were granted FDA approval to market all strengths of their respective non-crush-resistant formulations of Opana® ER. On August 1, 2013, EPI dismissed its suit against Teva Pharmaceuticals based on its demonstration to EPI that it does not, at this time, intend to pursue an ANDA for non-crush-resistant Opana® ER. On August 6, 2013, EPI filed motions for preliminary injunctions against Actavis and Roxane requesting the court enjoin Actavis and Roxane from launching additional Opana® ER generics pending the outcome of the patent case. On September 12, 2013, the court denied the

Company's motions for preliminary injunction. On that day, Actavis launched its generic version of non-crush-resistant Opana® ER 5, 10, 20, 30 and 40 mg tablets. EPI has appealed the denial of a preliminary injunction. A hearing on the appeal was heard January 9, 2014. No decision has issued. If these lawsuits are unsuccessful and we are unable to defend our non-crush-resistant formulation of Opana® ER from one or more additional generic competitors, our revenues could decline further to the extent additional manufacturers obtain FDA approval for, and are able to launch, their respective formulations of non-crush-resistant Opana® ER.

Voltaren® Gel. Net Sales of Voltaren® Gel in 2013 increased 45% to \$170.8 million from \$117.6 million in 2012. Due to short-term Voltaren® Gel supply constraints resulting from the temporary shutdown of Novartis's Lincoln, Nebraska manufacturing facility in early 2012, there were no sales of Voltaren® Gel during the three months ended March 31, 2012. In April 2012, production and sale

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of Voltaren® Gel resumed, resulting in relatively higher revenues for the year ended December 31, 2013 compared to the year ended December 31, 2012, as the 2013 amount included a full period's revenues as compared to a partial period's during the year ended December 31, 2012. Subject to FDA approval, we believe one or more competing products could potentially enter the market during the second quarter of 2014, negatively impacting future sales of Voltaren® Gel.

Percocet®. Net sales of Percocet® in 2013 increased 2% to \$105.8 million from \$103.4 million in 2012. This increase was primarily attributable to price increases, partially offset by reduced volumes.

Fortesta® Gel. Net sales of Fortesta® Gel in 2013 increased 115% to \$65.9 million from \$30.6 million in 2012. This increase was primarily attributable to increased volumes resulting from improved formulary access to this product, partially offset by price decreases.

Frova®. Net sales of Frova® in 2013 decreased 1% to \$60.9 million from \$61.3 million in 2012. This decrease was primarily attributable to reduced volumes, partially offset by price increases.

Supprelin® LA. Net sales of Supprelin® LA in 2013 increased 2% to \$58.3 million from \$57.4 million in 2012. The increase was primarily attributable to increased volume.

Other brands. Net sales of EPI's other branded products in 2013 increased 67% to \$101.4 million from \$60.7 million in 2012. This increase was primarily attributable to the increase in royalty income from Actavis, under the terms of the Watson Settlement Agreement, based on Actavis's gross profit generated on sales of its generic version of Lidoderm®, which commenced on September 16, 2013. This increase was partially offset by decreased sales of Valstar® and Vantas®, Refer to Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" for further discussion of the Watson Settlement Agreement.

A discussion of revenues by reportable segment is included below under the caption "Business Segment Results Review".

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the years ended December 31 (dollars in thousands):

	2013		2012	
	\$	% of Revenue	\$	% of Revenue
Cost of revenues	\$1,039,516	40	\$1,135,681	40
Selling, general and administrative	849,339	32	864,339	31
Research and development	142,472	5	219,139	8
Patent litigation settlement, net	—	—	85,123	3
Litigation-related and other contingencies	484,242	19	316,425	11
Asset impairment charges	519,011	20	715,551	25
Acquisition-related and integration items	7,952	—	19,413	1
Total costs and expenses*	\$3,042,532	116	\$3,355,671	119

\* Percentages may not add due to rounding.

Cost of Revenues and Gross Margin. Cost of revenues in 2013 decreased 8% to \$1.0 billion from \$1.1 billion in 2012. The decrease during the year was primarily attributable to the inclusion, during the year ended December 31, 2012, of a \$104.0 million charge related to our Impax Settlement Agreement which did not reoccur during the year ended December 31, 2013. Also contributing to this decrease was a reduction in cost of revenues at Endo Pharmaceuticals due to decreased demand for Lidoderm® and the related decrease in Lidoderm® related royalty payments to Teikoku. These decreases were partially offset by an increase in cost of revenues at Qualitest due to increased demand for certain existing products and new products launched in the second half of 2012 and first quarter of 2013. Gross margins in 2013 of 60% approximated gross margins of 60% in 2012, due primarily to the previously described charge related to the Impax Settlement Agreement, partially offset by growth in lower margin generic pharmaceutical product sales and a decline in higher margin branded pharmaceutical sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in 2013 decreased 2% to \$849.3 million from \$864.3 million in 2012. This decrease was primarily attributable to cost savings resulting from ongoing cost reduction initiatives including, among others, the June 2013 restructuring which were partially offset by severance and other restructuring charges recorded as part of these initiatives. The Company anticipates there will be additional pre-tax restructuring expenses of approximately \$3.7 million, primarily attributable to certain facility exit costs and employee severance and other benefit-related costs which will be incurred throughout 2014.

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Research and Development Expenses. Research and development expenses in 2013 decreased 35% to \$142.5 million from \$219.1 million in 2012. This decrease was primarily driven by a decline in expenses related to milestones in the previous year. In addition, R&D expenses decreased company-wide as we focused our efforts on key products in development.

There was \$11.4 million in expense related to upfront and milestone payments in 2013, compared to \$57.9 million in 2012, which included the initiation of the BEMA<sup>®</sup> Buprenorphine development program. In January 2012, the Company signed a worldwide license and development agreement (the BioDelivery Agreement) with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA<sup>®</sup> Buprenorphine. The Company made an upfront payment to BioDelivery for \$30.0 million and incurred \$15.0 million of additional costs related to the achievement of certain regulatory milestones during the first quarter of 2012, which were recorded as Research and development expenses.

We invest in research and development because we believe it is important to our long-term competitiveness. As a percent of revenues, R&D expense was approximately 5% in 2013 and 8% in 2012. The variation in R&D expense as a percent of revenues is primarily due to upfront and milestone payments to third party collaborative partners included in R&D expense totaling \$11.4 million or less than one percent of revenue in 2013 compared to \$57.9 million or 2% of revenue in 2012. In addition to upfront and milestone payments, total research and development expenses include the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, as well as clinical trials, medical support of marketed products, other payments under third-party collaborations and contracts and other costs. Research and development spending also includes enterprise-wide costs which support our overall research and development infrastructure. These enterprise-wide costs, which primarily relate to our Endo Pharmaceuticals segment, are not allocated by product or to specific R&D projects. Unallocated enterprise-wide R&D costs were \$40.6 million in 2013 and \$52.9 million in 2012.

As part of the Company's broader strategic, operational and organizational steps announced in June 2013, Branded R&D has been refocused on progressing its late-stage pipeline and maximizing value on near-term opportunities. The Company's pharmaceutical R&D programs include projects in a diversified set of therapeutics areas, including pain management, urology, endocrinology, CNS disorders, and immunosuppression, oncology, women's health and hypertension markets, among others.

We manage our pharmaceutical R&D programs on a portfolio basis, investing resources in each stage of R&D with a primary focus on late-stage development. These stages include: (1) early-stage projects consisting of assets in both preclinical and Phase I programs; (2) middle-stage projects consisting of assets in Phase II programs, and (3) late-stage projects consisting of assets in Phases III programs, assets in which an NDA is currently pending approval, or on-market assets in post marketing stages, such as Phase IV programs and post marketing regulatory commitments.

We consider our branded R&D programs in Phase III, or late-stage development, to be our significant R&D programs as they could potentially have an impact on our near-term revenue and earnings. As of December 31, 2013, our late-stage branded pharmaceutical programs, excluding on-market assets, include Aveed<sup>™</sup> and BEMA<sup>®</sup> Buprenorphine.

The Company's pharmaceutical research and development efforts are also focused on the goal of developing a balanced, diversified portfolio of innovative and clinically differentiated generic products across a wide range of therapeutic areas. We generally focus on selective generics that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. We believe products with these characteristics will face a lesser degree of competition and therefore provide longer product life cycles and higher profitability than commodity generic products. For the years ended December 31, 2013 and 2012, the Company's direct R&D expense related to generics was \$15.5 million and \$29.1 million, respectively.

FDA approval of an ANDA is required before a generic equivalent of an existing or reference-listed drug can be marketed. As of December 31, 2013, we have approximately 46 ANDAs under active FDA review in multiple therapeutic areas. The timing of final FDA approval of ANDA applications depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the manufacturer of the reference listed drug is entitled to one or more statutory exclusivity periods, during which the FDA is prohibited from approving

generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date.

We are also committed to developing new products and improving our current products in our medical device business to provide physicians and patients with better clinical outcomes through less invasive and more efficiently delivered therapies. Most of these R&D activities are conducted in our Minnesota and California facilities, although we also work with physicians, research hospitals, and universities around the world. Many of the ideas for new and improved products come from a global network of leading physicians who also work with us in evaluating new concepts and in conducting clinical trials to gain regulatory approvals. We conduct applied research in areas that we think will likely lead to product commercialization activities. This research is often done at a technology platform level such that the science can be utilized to develop a number of different products. The development process for any new product can range from months to several years, primarily depending on the regulatory pathway required for approval.

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Our product development engineers work closely with their marketing partners to identify important needs in the urology, gynecology, urogynecology and colorectal markets. The team then analyzes the opportunities to optimize the value of the product development portfolio. Our product development teams continue to improve our current product lines and develop new products to increase our market share and also expand the markets we serve. In addition, we believe our clinical data will continue to drive market expansion for our therapies and demonstrates our technology leadership position.

The following table presents the composition of our total R&D expense for the two years ended December 31 and, for our branded pharmaceuticals R&D portfolio, the number of projects by stage of development as of December 31, 2013:

	Research and Development Expense (in Number of Projects at December 31, 2013 thousands)					
	2013	2012	Preclinical and Phase I	Phase II	Phase III(1)	Phase IV
Early-stage	\$16,898	\$18,903	-			
Middle-stage	12,036	5,595		-		
Late-stage	12,527	53,510			2	4
Sub-Total(2)	\$41,461	\$78,008				
Qualitest portfolio(2)	15,530	29,057				
AMS portfolio(2)	44,917	59,207				
Enterprise-wide unallocated R&D costs	40,564	52,867				
Total R&D expense	\$142,472	\$219,139				

(1)Includes projects for which an NDA has been filed with the FDA.

(2)Excludes all costs not allocated to specific products and R&D projects.

These amounts are not necessarily indicative of our future R&D spend or our future R&D focus. Over time, our R&D spend among categories is unpredictable. We continually evaluate each product under development in an effort to allocate R&D dollars efficiently to projects we believe to be in the best interests of the Company based on, among other factors, the performance of such products in preclinical and/or clinical trials, our expectations regarding the potential future regulatory approval of the product and our view of the potential commercial viability of the product in light of market conditions.

R&D expenses, excluding upfront and milestone payments, are expected to continue to decrease as we plan to carefully invest in the near-term while preserving our capability to drive long-term organic growth. We are refocusing branded R&D on development capabilities and late-stage development programs, emphasizing the AMS footprint while preserving development expertise and select late-stage assets and further investing in Qualitest to strengthen generic capabilities in attractive markets. As we continue to execute on our strategy of being a specialty healthcare company that includes branded and generic prescription drugs, as well as medical devices, the composition of research and development expense may change reflecting our focus on these multiple products and platforms.

Patent litigation settlement, net. Amounts related to Patent litigation settlement, net in 2012 totaled \$85.1 million of expense, with no comparable amounts in 2013. This amount relates to the initial establishment of and subsequent change in estimate for the liability related to the Watson Settlement Agreement, as described in more detail in Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Litigation-Related and Other Contingencies. Charges for Litigation-related and other contingencies in 2013 totaled \$484.2 million compared to \$316.4 million in 2012. These amounts relate to charges associated with certain of the legal proceedings and other contingent matters that are described in more detail in Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Asset Impairment Charges. Asset impairment charges in 2013 totaled \$519.0 million compared to \$715.6 million in 2012. The amounts incurred during 2013 related primarily to a goodwill impairment charge of \$481.0 million, representing the difference between the implied fair value of the AMS reporting units' goodwill and the carrying amount, and an impairment charge of \$12.0 million to impair certain AMS IPR&D assets, representing the difference between the fair values and the carrying amounts of the assets. In addition, the Company recorded \$17.0 million of asset impairment charges during 2013 related to the write off of certain Qualitest IPR&D assets.

The amounts incurred during 2012 related primarily to a goodwill impairment charge of \$507.5 million, representing the difference between the implied fair value of the AMS reporting units' goodwill and the carrying amount, and a charge of \$128.5 million to impair the AMS reporting units' women's health developed technology intangible asset. Additional asset impairment charges for the year ended December 31, 2012 related to writing down our Sanctura XR® and AMS IPR&D intangible assets.

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These impairment charges are further discussed in Note 7. Fair Value Measurements and Note 10. Goodwill and Other Intangibles of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Acquisition-Related and Integration Items. Acquisition-related and integration items, net totaled \$8.0 million in expense in 2013 compared to \$19.4 million in expense in 2012. This decrease is primarily due to lower integration costs related to our acquisitions.

Interest Expense, net. The components of interest expense, net for the years ended December 31 and are as follows (in thousands):

	2013	2012
Interest expense	\$ 174,928	\$ 183,240
Interest income	(1,327)	(406)
Interest expense, net	\$ 173,601	\$ 182,834

Interest expense during 2013 totaled \$174.9 million compared to \$183.2 million in 2012. The decrease from 2012 to 2013 was primarily due to a decrease in our average total indebtedness from \$3.3 billion over the year ended December 31, 2012 to \$3.2 billion over the year ended December 31, 2013 and due to a lower Term Loan A interest rate.

Loss on Extinguishment of Debt. Loss on extinguishment of debt was \$11.3 million in 2013 compared to \$7.2 million in 2012. On March 26, 2013, we made a prepayment of \$100.0 million on our Term Loan B Facility. Approximately \$2.2 million of the remaining unamortized financing costs was written off in connection with this prepayment. Also, in March 2013, we amended and restated our existing 2011 Credit Agreement. Upon the closing of 2013 Credit Agreement, related debt issuance costs of \$0.5 million and previously deferred debt issuance costs of \$8.6 million associated with the 2011 Credit Agreement were charged to expense.

In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. Approximately \$5.4 million of the remaining unamortized financing costs associated with this facility was written off in connection with the February 2012 prepayment.

Other (Income) Expense, Net. Other (income) expense, net was \$51.0 million of income in 2013 compared to \$0.4 million of income in 2012. Approximately \$50.4 million of income was recognized and included in Other (income) expense, net during 2013 related to the Watson Settlement Agreement. For a complete description of the accounting for the Watson Settlement Agreement, see Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Income Tax. During 2013, we recognized income tax benefit of \$24.1 million compared to \$36.4 million of tax benefit in 2012. The effective income tax rate was 4.3% in 2013 compared to 5.0% in 2012. The fluctuation in the effective tax rate was primarily attributable to a larger impact of our goodwill impairment charge in 2013 compared to 2012 and an increase in the non-deductible Health Care Reform Fee in 2013 as compared to 2012. These decreases to the effective tax rate were mostly offset by certain non-deductible litigation-related and other contingent matters in 2012 that are not in the comparable 2013 period, a benefit for the 2013 and 2012 Research and Development Credits, as the credit was not renewed in 2012 but was reenacted into law in 2013, income in 2013 from our Irish manufacturing business as compared to a loss in 2012, and a lower state effective tax rate in 2013 as compared to 2012 due to changes in our business operations.

Discontinued Operations, Net of Tax. As a result of the Company's decision to sell its HealthTronics business, the operating results of this business are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. The results of our discontinued operations totaled \$96.9 million of expense, net of tax, during 2013 compared to \$6.0 million of income, net of tax, during 2012.

The decrease in discontinued operations, net of tax, was mainly related to an increase in asset impairment charges related to the fair value of the HealthTronics reporting unit goodwill and assets. In the fourth quarter of 2013, the Company recorded impairment charges of \$118.9 million to write down the book value of the reporting units' assets to fair value less estimated costs to sell. In the third quarter of 2013, the Company recorded an estimated goodwill impairment charge of \$38.0 million, representing the difference between the estimated implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. In the second quarter of 2013, the Company

recorded an impairment charge of \$4.2 million on property, plant and equipment, accounts receivable and other intangibles to write down the book value of the anatomical pathology services business to fair value less estimated costs to sell. In the fourth quarter of 2012, the Company recorded a goodwill impairment charge of \$49.9 million, representing the difference between the implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. Refer to Note 3. Discontinued Operations of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" for further discussion.

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Net Income Attributable to Noncontrolling Interests. HealthTronics, Inc. owns interests in various partnerships and limited liability corporations (LLCs) where HealthTronics, Inc., as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where HealthTronics, Inc. does not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interests totaled \$52.9 million in 2013 and \$52.3 million in 2012.

2014 Outlook. We estimate that our 2014 total revenues will be between \$2.5 billion and \$2.6 billion. This estimate is based on our expectation of growth for company revenues, exclusive of a decrease in revenues for Lidoderm® that is attributable to the end the product's branded exclusivity which occurred in September 2013.

In addition, the revenue outlook includes the acquisition of Boca Pharmacal, LLC and Paladin Labs Inc. Gross profit as a percentage of total revenues is expected to decrease when compared to 2013 primarily as a result of the simultaneous growth in lower margin generic pharmaceutical product sales and decline in higher margin branded pharmaceutical sales in 2014. Implementation of a lean operating model is expected to lead to a year-over-year decrease in operating expenses. The Company announced a series of cost reduction initiatives in June 2013 as part of the implementation of the new operating model that included: a reduction of worldwide headcount, streamlining of general and administrative expenses, optimization of commercial spend and refocusing research and development efforts onto lower-risk projects and higher-return investments in generic pharmaceuticals. The Company also intends to seek growth both internally and through acquisitions. There can be no assurance that the Company will achieve these results.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Revenues. Revenues in 2012 increased 12% to \$2.8 billion from \$2.5 billion in 2011. This increase in revenues was driven by revenue growth from our Endo Pharmaceuticals and Qualitest, as well as the timing of our acquisition of AMS during the second quarter of 2011, from which we derived a full year's revenue during 2012, compared to less than seven months during 2011.

The following table displays our revenues by category and as a percentage of total revenues for the years ended December 31(dollars in thousands):

	2012		2011	
	\$	%	\$	%
Lidoderm®	\$947,680	34	\$825,181	33
Opana® ER	299,287	11	384,339	15
Voltaren® Gel	117,563	4	142,701	6
Percocet®	103,406	4	104,600	4
Frova®	61,341	2	58,180	2
Fortesta® Gel	30,589	1	14,869	1
Supprelin® LA	57,416	2	50,115	2
Other brands	60,702	2	77,782	3
Total Endo Pharmaceuticals*	\$1,677,984	60	\$1,657,767	66
Qualitest	633,265	22	566,854	22
AMS	504,487	18	300,299	12
Total revenues*	\$2,815,736	100	\$2,524,920	100

\*Percentages may not add due to rounding.

Lidoderm®. Net sales of Lidoderm® in 2012 increased 15% to \$947.7 million from \$825.2 million in 2011. We were required to pay Hind royalties based on net sales of Lidoderm® until this obligation expired on November 23, 2011. Hind royalties were recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm®. Due to the expiration of the Hind royalty, net sales were \$77.9 million higher during 2012, respectively, compared to 2011. Beyond this change for the Hind royalty,

Lidoderm® had solid performance this year on increased scripts from 2011, and continues to generate strong cash flow that we can use to invest in our business to continue to further diversify our revenue base.

Opana® ER. Net Sales of Opana® ER in 2012 decreased 22% to \$299.3 million from \$384.3 million in 2011. In the first half of 2012, after our first quarter supply disruption associated with the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, we transitioned to our formulation of Opana® ER, designed to be crush-resistant.

While we believe our ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have

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contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. The decrease during 2012 compared to 2011, was driven by a combination of the reduced volumes associated with our previously discussed transition efforts as well as the direct impact of the first quarter 2012 supply disruption, which caused some patients to switch to other pain relief products.

Voltaren® Gel. Net Sales of Voltaren® Gel in 2012 decreased 18% to \$117.6 million from \$142.7 million in 2011.

Due to short-term Voltaren® Gel supply constraints resulting from the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, there were no sales of Voltaren® Gel during the three months ended March 31, 2012, which negatively impacted sales on a full-year basis, resulting in a sales decrease from 2012 to 2011. This decline was partially offset by the effect of the market's efforts to return stock of Voltaren® Gel to normal levels during the second quarter of 2012.

Percocet®. Net sales of Percocet® in 2012 decreased 1% to \$103.4 million from \$104.6 million in 2011. This decrease was primarily attributable to reduced volumes, partially offset by price increases.

Frova®. Net sales of Frova® in 2012 increased 5% to \$61.3 million from \$58.2 million in 2011. The increase was primarily attributable to price increases, partially offset by reduced volumes.

Supprelin® LA. Net sales of Supprelin® LA in 2012 increased 15% to \$57.4 million from \$50.1 million in 2011. This increase was driven by increases to both price and volume, resulting primarily from an increase in new patient starts and a growing base of continued care patients.

Other brands. Net sales of our other branded products in 2012 decreased 22% to \$60.7 million from \$77.8 million in 2011. This decrease was primarily driven by sales growth of Valstar® and Fortesta® Gel, partially offset by decreased sales of Opana® as demand continues to shift to Opana® ER.

A discussion of revenues by reportable segment is included below under the caption "Business Segment Results Review".

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the years ended December 31 (dollars in thousands):

	2012		2011	
	\$	% of Revenues	\$	% of Revenues
Cost of revenues	\$1,135,681	40	\$948,080	38
Selling, general and administrative	864,339	31	783,920	31
Research and development	219,139	8	179,838	7
Patent litigation settlement, net	85,123	3	—	—
Litigation-related and other contingencies	316,425	11	—	—
Asset impairment charges	715,551	25	116,089	5
Acquisition-related and integration items	19,413	1	32,015	1
Total costs and expenses*	\$3,355,671	119	\$2,059,942	82

\* Percentages may not add due to rounding.

Cost of Revenues and Gross Margin. Cost of revenues in 2012 increased 20% to \$1.1 billion from \$948.1 million in 2011. This increase was primarily driven by increased revenues and our June 2011 acquisition of AMS, which contributed approximately \$162.9 million to our Cost of revenues in 2012, compared to \$124.2 million in 2011. Cost of revenues was also impacted by the 2012 charge of \$102.0 million related to the 2010 Impax Settlement Agreement. In addition, gross profit margins decreased to 60% in 2012 from 62% in 2011. This decrease in gross profit was primarily due to changes in the mix of revenues and the corresponding margins.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in 2012 increased 10% to \$864.3 million from \$783.9 million in 2011. This increase was primarily attributable to the timing of our acquisition of AMS and the inclusion, during 2012, of \$272.6 million of a full year of AMS expense, compared to \$153.1 million in 2011, representing less than seven months of AMS Selling, general and administrative expense. Also contributing to this increase was an increase in expenses of \$9.0 million related to separation benefits incurred in connection with

continued efforts to enhance the Company's operations. These increases were partially offset by a decrease in Endo Pharmaceuticals sales, advertising and promotional expenses of approximately \$22.0 million, incentive compensation of approximately \$10.0 million and other expenses of approximately \$5.0 million.

**Research and Development Expenses.** Research and development expenses in 2012 increased 22% to \$219.1 million from \$179.8 million in 2011. This increase is primarily due to \$57.9 million in expense related to upfront and milestones payments in 2012, which included the initiation of the BEMA<sup>®</sup> Buprenorphine development program, compared to \$19.1 million in 2011. In addition,

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expenses increased \$29.4 million as a result of the addition of AMS's research and development portfolio upon our June 2011 acquisition of AMS. Due to the timing of our AMS acquisition, our AMS segment incurred Research and development expenses during the entire twelve month period ended December 31, 2012, as compared to a partial period's expense in 2011. These increases were partially offset by a decrease in expenses of approximately \$21.0 million related to our branded R&D programs as we focused our efforts on key products in development.

We invest in research and development because we believe it is important to our long-term competitiveness. As a percent of revenues, R&D expense was approximately 8% in 2012 and 7% in 2011. The variation in R&D expense as a percent of revenues is primarily due to upfront and milestone payments to third party collaborative partners included in R&D expense totaling \$57.9 million or 2% of revenue and \$19.1 million or 1% of revenue in 2012 and 2011, respectively. In addition to upfront and milestone payments, total research and development expenses include the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, as well as clinical trials, medical support of marketed products, other payments under third-party collaborations and contracts and other costs. Research and development spending also includes enterprise-wide costs which support our overall research and development infrastructure. These enterprise-wide costs, which primarily relate to our Endo Pharmaceuticals segment, are not allocated by product or to specific R&D projects. Unallocated enterprise-wide R&D costs were \$52.9 million and \$61.1 million in 2012 and 2011, respectively.

We manage our pharmaceutical R&D programs on a portfolio basis, investing resources in each stage of R&D with a primary focus on late-stage development. These stages include: (1) early-stage projects consisting of assets in both preclinical and Phase I programs; (2) middle-stage projects consisting of assets in Phase II programs, and (3) late-stage projects consisting of assets in Phase III programs, assets in which an NDA is currently pending approval, or on-market assets in post marketing stages, such as Phase IV programs and post marketing regulatory commitments.

We consider our branded R&D programs in Phase III, or late-stage development, to be our significant R&D programs as they could potentially have an impact on our near-term revenue and earnings. As of December 31, 2012, our late-stage branded pharmaceutical programs, excluding on-market assets, included Aved<sup>TM</sup> and BEMA<sup>®</sup> Buprenorphine.

The Company's pharmaceutical research and development efforts are also focused on the goal of developing a balanced, diversified portfolio of innovative and clinically differentiated generic products across a wide range of therapeutic areas. We generally focus on selective generics that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. We believe products with these characteristics will face a lesser degree of competition and therefore provide longer product life cycles and higher profitability than commodity generic products. For the years ended December 31, 2012 and 2011, the Company's direct R&D expense related to generics was \$29.1 million and \$29.1 million, respectively.

FDA approval of an ANDA is required before a generic equivalent of an existing or reference-listed drug can be marketed. As of December 31, 2012, we had approximately 40 ANDAs under active FDA review in multiple therapeutic areas. The timing of final FDA approval of ANDA applications depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the manufacturer of the reference listed drug is entitled to one or more statutory exclusivity periods, during which the FDA is prohibited from approving generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent and thus block ANDAs from being approved on the patent expiration date.

We are also committed to developing new products and improving our current products in our medical device business to provide physicians and patients with better clinical outcomes through less invasive and more efficiently delivered therapies. Most of these R&D activities are conducted in our Minnesota and California facilities, although we also work with physicians, research hospitals and universities around the world. Many of the ideas for new and improved products come from a global network of leading physicians who also work with us in evaluating new concepts and in conducting clinical trials to gain regulatory approvals. We conduct applied research in areas that we think will likely lead to product commercialization activities. This research is often done at a technology platform level such that the science can be utilized to develop a number of different products. The development process for any new product can range from months to several years, primarily depending on the regulatory pathway required for

approval.

Our product development engineers work closely with their marketing partners to identify important needs in the urology, gynecology, urogynecology and colorectal markets. The team then analyzes the opportunities to optimize the value of the product development portfolio. Our product development teams continue to improve our current product lines and develop new products to increase our market share and also expand the markets we serve. In addition, we believe our clinical data will continue to drive market expansion for our therapies and demonstrates our technology leadership position.

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The following table presents the composition of our total R&D expense as of December 31 and for our branded pharmaceuticals R&D portfolio, the number of projects by stage of development as of December 31, 2012:

	Research and Development Expense (in Number of Projects at December 31, 2012 thousands)					
	2012	2011	Preclinical and Phase I	Phase II	Phase III(1)	Phase IV
Early-stage	\$ 18,903	\$ 26,638	13			
Middle-stage	5,595	11,697		2		
Late-stage	53,510	21,447			2	2
Sub-Total(2)	\$ 78,008	\$ 59,782				
Qualitest portfolio(2)	29,057	29,121				
AMS portfolio(2)	59,207	29,850				
Enterprise-wide unallocated R&D costs	52,867	61,085				
Total R&D expense	\$ 219,139	\$ 179,838				

(1) Includes projects for which an NDA has been filed with the FDA.

(2) Excludes all costs not allocated to specific products and R&D projects.

These amounts are not necessarily indicative of our future R&D spend or our future R&D focus. Over time, our R&D spend among categories is unpredictable. We continually evaluate each product under development in an effort to allocate R&D dollars efficiently to projects we believe to be in the best interests of the Company based on, among other factors, the performance of such products in preclinical and/or clinical trials, our expectations regarding the potential future regulatory approval of the product and our view of the potential commercial viability of the product in light of market conditions.

Patent Litigation Settlement, net. On May 28, 2012, Endo Pharmaceuticals Inc. (EPI) entered into a Settlement and License Agreement (the Watson Settlement Agreement) among EPI and Teikoku, on the one hand, and Watson, on the other hand. The Watson Settlement Agreement settled all ongoing patent litigation among the parties relating to Watson's generic version of Lidoderm®. Under the terms of the Watson Settlement Agreement, the parties dismissed their respective claims and counterclaims without prejudice. As part of the settlement, Watson agreed not to challenge the validity or enforceability of Endo's and Teikoku's patents relating to Lidoderm® with respect to Watson's generic version of Lidoderm®. Watson also agreed not to sell its generic version of Lidoderm® until it received FDA approval and, in any event, no sooner than September 15, 2013, except in limited specific circumstances (such date being the Start Date). Endo and Teikoku agreed to grant Watson a license permitting the sale of generic Lidoderm® upon the Start Date in the U.S. The license to Watson is exclusive as to Endo's launch of an authorized generic version of Lidoderm® until the earlier of 1) the introduction of a generic version of Lidoderm® by a company other than Watson, or 2) seven and a half months after Watson launches its generic version of Lidoderm®. Endo will receive an at market royalty equal to 25% of the gross profit generated on Watson's sales of its generic version of Lidoderm® during Watson's period of exclusivity.

Additionally, the Watson Settlement Agreement provides that Endo and Teikoku will provide, at no cost, to Watson's wholesaler affiliate branded Lidoderm® product for Watson's wholesaler affiliate's distribution, subject to certain terms and conditions. Given that Watson received FDA approval of its generic version of Lidoderm® in August 2012, Endo and Teikoku will provide branded Lidoderm® of value totaling \$12.0 million each month (\$96.0 million in total for 2013) (valued at the then-prevailing wholesale acquisition cost) beginning on January 1, 2013 through August 1, 2013. The obligation of Endo and Teikoku to provide this branded product at no cost terminates immediately upon the launch of a third party's generic version of Lidoderm® in the U.S., including its territories, possessions and the Commonwealth of Puerto Rico (the Territory).

Endo will be responsible for the payment of all gross to net adjustments arising from Watson's sale of the branded Lidoderm® product.

In contemplation of the Watson Settlement Agreement, Teikoku has agreed to provide a rebate to Endo equal to 50% of the cost of branded Lidoderm<sup>®</sup> product that is required to be provided to Watson's wholesaler affiliate pursuant to Section 3(b), 3(c) and 3(d) of the Watson Settlement Agreement.

We have concluded that the Watson Settlement Agreement is a multiple-element arrangement and during the second quarter of 2012 recognized a liability and corresponding charge of \$131.4 million in Patent litigation settlement, net in the Consolidated Statements of Operations representing the initial estimated fair value of the settlement component. Fair value of the settlement component was estimated using the probability adjusted expected value of branded Lidoderm<sup>®</sup> product to be provided to Watson at the anticipated wholesaler acquisition cost (WAC) expected to be in place at the time of shipment, less a reasonable estimate of Watson's selling costs. The resultant probability-weighted values were then discounted using a discount rate of 5.1%.

We believe that the level and timing of branded Lidoderm<sup>®</sup> product to be shipped, discount rate, and probabilities used in the model appropriately reflect market participant assumptions. Because the liability is recorded at fair value using WAC, the net charge

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recognized in 2012 is comprised of several elements, including our cost of product to be shipped, estimated gross-to-net deductions to be paid by the Company and the estimated product profit margin. We believe this is the most appropriate measure of fair value as these components combined represent the value accruing to Watson. As a result of using a fair value measurement, the charge will be greater than the actual cost to the Company. As such, relief of the liability in subsequent periods through shipments of branded Lidoderm® product will result in income, which we expect to record as a component of Other income, net in the Company's Consolidated Statements of Operations. We intend to reclassify the portion of the settlement liability related to the gross-to-net component into our gross-to-net reserves as product is shipped to Watson, the effect of which will be to offset a portion of the income that will be recognized into Other income, net in the Company's Consolidated Statements of Operations, as the settlement liability is relieved. The rebate arrangement with Teikoku will also be accounted for prospectively as product purchased from Teikoku will be recorded into inventory at the discounted purchase price and relieved as shipments are made to Watson. The benefit associated with this rebate will be recorded as a component of Other income, net in the Company's Consolidated Statements of Operations.

On August 23, 2012, Watson announced it received FDA approval on its ANDA for its lidocaine patch 5%, a generic version of Lidoderm®. The Company anticipates Watson will launch its generic version of Lidoderm® on September 15, 2013 pursuant to the terms of the Watson Settlement Agreement. In light of Watson's anticipated September 2013 launch, the Company reassessed its obligation to Watson and believes it will not be obligated to provide to Watson's wholesaler affiliate branded Lidoderm® product beyond September 2013. Accordingly, in the third quarter of 2012, the Company recognized a change in estimate with respect to its obligation and reduced its liability associated with the Watson Settlement Agreement by \$46.2 million to \$85.1 million. The corresponding gain of \$46.2 million was recorded in Patent litigation settlement, net in the Consolidated Statements of Operations. Future changes, if any, resulting from revisions to the timing or the amount of the original estimate will be recognized as an increase or a decrease in the carrying amount of the litigation settlement liability and the related Patent litigation settlement, net during the period of change. Future changes in estimates to the settlement liability could have a material impact on our results of operations.

**Litigation-Related and Other Contingencies.** Charges for Litigation-related and other contingencies in 2012 totaled \$316.4 million. There were no charges for Litigation-related and other contingencies in 2011. The 2012 amount relates to charges associated with certain of our legal proceedings and other contingent matters as described in more detail in Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

**Asset Impairment Charges.** Asset impairment charges in 2012 totaled \$715.6 million compared to \$116.1 million in 2011. The amounts incurred during 2012 related primarily to a goodwill impairment charge of \$507.5 million, representing the difference between the implied fair value of the AMS reporting units' goodwill and the carrying amount, and a charge of \$128.5 million to impair the AMS reporting units' women's health developed technology intangible asset. Additional asset impairment charges for the year ended December 31, 2012 related to writing down our Sanctura XR® and AMS IPR&D intangible assets.

The amounts incurred during 2011 related primarily to a charge of \$71.0 million to write off a Qualitest IPR&D intangible asset and a charge of \$22.7 million to write off an investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer.

These impairment charges are further discussed in Note 10. Goodwill and Other Intangibles of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

**Acquisition-Related and Integration Items.** Acquisition-related and integration items, net totaled \$19.4 million in expense in 2012 compared to \$32.0 million in expense in 2011. The decrease is primarily a result of the nonrecurring transaction costs in 2011 directly associated with the closing of the AMS acquisition of \$25.8 million, partially offset by an unfavorable change in the fair value of contingent consideration in 2012, which resulted in a loss of \$0.2 million compared to a favorable change resulting in a gain of \$7.4 million in 2011. The remaining change is a result of integration costs related to our recent acquisitions.

**Interest Expense, net.** The components of interest expense, net for the years ended December 31 are as follows (in thousands):

	2012	2011
Interest expense	\$ 183,240	\$ 148,623
Interest income	(406	) (599
Interest expense, net	\$ 182,834	\$ 148,024

Interest expense during 2012 totaled \$183.2 million compared to \$148.6 million in 2011. The increase from 2011 to 2012 was primarily attributable to increases in our average total indebtedness resulting from our June 2011 borrowings of \$900.0 million of senior notes and \$2.2 billion of term loan indebtedness in connection with our June 2011 acquisition of AMS

Net Loss on Extinguishment of Debt. In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. We made additional prepayments of \$33.0 million and \$39.7 million in July 2012 and September 2012, respectively. In

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accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$7.2 million of the remaining unamortized financing costs were written off in connection with our 2012 prepayments. This amount was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

Upon the establishment of our 2011 Credit Facility, financing costs of \$56.2 million paid to establish the 2011 Credit Facility as well as financing costs of \$6.2 million associated with prior credit facilities, were deferred and are being amortized to interest expense over the life of the 2011 Credit Facility. Approximately \$8.5 million of the deferred financing costs associated with prior credit facilities were also written off at this time in accordance with the applicable accounting guidance for debt modifications and extinguishments and was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt. Additionally, in September 2011 and December 2011, we made prepayments of \$135.0 million and \$125.0 million, respectively, on our Term Loan B Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$3.4 million of the remaining unamortized financing costs were written off in connection with our 2011 prepayments and included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

Other Income, Net. Other income, net was \$0.4 million of expense in 2012 compared to \$1.4 million of income in 2011.

Income Tax. In 2012, we recognized \$36.4 million of income tax benefit compared to expense of \$112.1 million in 2011. The effective income tax rate was 5.0% in 2012 compared to 36.6% in 2011. The change in the effective tax rate is largely driven by charges not deductible for tax purposes in 2012, including our goodwill impairment charge and certain non-deductible litigation-related and other contingent matters.

Discontinued Operations, Net of Tax. As a result of the Company's decision to sell its HealthTronics business, the operating results of this business are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. The results of our discontinued operations totaled \$6.0 million of income, net of tax, during 2012 compared to \$47.7 million of income, net of tax, during 2011.

The decrease in discontinued operations, net of tax, was mainly related to an increase in asset impairment charges related to the fair value of the HealthTronics reporting unit goodwill. In the fourth quarter of 2012, the Company recorded a goodwill impairment charge of \$49.9 million, representing the difference between the implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. Refer to Note 3. Discontinued Operations of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" for further discussion.

Net Income Attributable to Noncontrolling Interests. As a result of our July 2010 acquisition of HealthTronics, Inc., we own interests in various partnerships and limited liability corporations (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interest totaled \$52.3 million in 2012 and \$54.5 million in 2011.

#### Business Segment Results Review

The Company has three reportable segments: (1) Endo Pharmaceuticals, (2) Qualitest and (3) AMS. These segments reflect the level at which executive management regularly reviews financial information to assess performance and to make decisions about resources to be allocated. Each segment derives revenue from the sales or licensing of their respective products and is discussed in more detail below.

We evaluate segment performance based on each segment's adjusted income (loss) from continuing operations before income tax, a financial measure not determined in accordance with U.S. GAAP, which we define as income (loss) from continuing operations before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income from continuing operations before income tax by adding the amounts for each of our reportable segments to Corporate unallocated adjusted loss from continuing operations before income tax.

We refer to adjusted income (loss) from continuing operations before income tax in making operating decisions because we believe it provides meaningful supplemental information regarding the Company's operational performance. For instance, we believe that this measure facilitates its internal comparisons to its historical operating results and comparisons to competitors' results. The Company believes this measure is useful to investors in allowing for greater transparency related to supplemental information used by us in our financial and operational decision-making. In addition, we have historically reported similar financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting at this time. Further,

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we believe that adjusted income (loss) from continuing operations before income tax may be useful to investors as we are aware that certain of our significant stockholders utilize adjusted income (loss) from continuing operations before income tax to evaluate our financial performance. Finally, adjusted income (loss) from continuing operations before income tax is utilized in the calculation of adjusted diluted net income per share, which is used by the Compensation Committee of the Company's Board of Directors in assessing the performance and compensation of substantially all of our employees, including our executive officers.

There are limitations to using financial measures such as adjusted income (loss) from continuing operations before income tax. Other companies in our industry may define adjusted income (loss) from continuing operations before income tax differently than we do. As a result, it may be difficult to use adjusted income (loss) from continuing operations before income tax or similarly named adjusted financial measures that other companies may use to compare the performance of those companies to our performance. Because of these limitations, adjusted income (loss) from continuing operations before income tax should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. The Company compensates for these limitations by providing reconciliations of our consolidated adjusted income from continuing operations before income tax to our consolidated (loss) income from continuing operations before income tax, which is determined in accordance with U.S. GAAP and included in our Consolidated Statements of Operations.

### Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm<sup>®</sup>, Opana<sup>®</sup> ER, Voltaren<sup>®</sup> Gel, Percocet<sup>®</sup>, Frova<sup>®</sup>, Fortesta<sup>®</sup> Gel, Supprelin<sup>®</sup> LA, Vantas<sup>®</sup> and Valstar<sup>®</sup>.

### Qualitest

The Qualitest segment is comprised of our legacy Endo non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. Our Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. With the addition of Qualitest Pharmaceuticals, the segment's product offerings now include products in the pain management, urology, CNS disorders, immunosuppression, oncology, women's health and hypertension markets, among others

### AMS

The AMS segment focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in men's health, women's health and prostate health. AMS distributes devices through its direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, AMS distributes devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of AMS's customers or distributors accounted for 10% or more of our total revenues during the years ended December 31, 2013, 2012 or 2011. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

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Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Revenues. The following table displays our revenue by reportable segment for the years ended December 31 (in thousands):

	2013	2012
Net revenues to external customers:		
Endo Pharmaceuticals	\$1,394,015	\$1,677,984
Qualitest	730,666	633,265
AMS(1)	492,226	504,487
Total consolidated net revenues to external customers	\$2,616,907	\$2,815,736

(1) The following table displays our AMS segment revenue by geography for the years ended December 31 (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2013	2012
AMS:		
United States	\$315,054	\$330,087
International	177,172	174,400
Total AMS revenues	\$492,226	\$504,487

Endo Pharmaceuticals. Revenues from our Endo Pharmaceuticals segment in 2013 decreased 17% to \$1.4 billion from \$1.7 billion in 2012. This decrease was primarily attributable to decreased revenues from Lidoderm® and Opana® ER, partially offset by increases from both Voltaren® Gel and Fortesta® Gel. Additionally, royalty income from Actavis based on its gross profit generated on sales of its generic version of Lidoderm® commenced on September 16, 2013.

Qualitest. Net sales of our generic products in 2013 increased 15% to \$730.7 million from \$633.3 million in 2012. This increase was primarily attributable to strong demand for Qualitest's diversified product portfolio, including significant revenue growth from certain existing products and new products launched in the second half of 2012 and first quarter of 2013. During the year ended December 31, 2013, revenues from Qualitest's top 15 products increased 11% to \$415.9 million from \$376.1 million in 2012, primarily attributable to increased volumes.

AMS. Revenues from our AMS segment in 2013 decreased 2% to \$492.2 million from \$504.5 million in 2012. This decrease was primarily attributable to lower sales in the women's health line, which relates primarily to a reduction in mesh procedural volumes, particularly as to pelvic organ prolapse (POP) repair procedures. This reduction in mesh procedural volumes is likely in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and stress urinary incontinence (SUI), as well as to the attorney advertising associated with transvaginal mesh litigation. This decrease was partially offset by an increase in the Men's Health business due to increased volumes.

Adjusted income (loss) from continuing operations before income tax. The following table displays our adjusted income (loss) from continuing operations before income tax by reportable segment for the years ended December 31 (in thousands):

	2013	2012
Adjusted income (loss) from continuing operations before income tax:		
Endo Pharmaceuticals	\$783,927	\$906,839
Qualitest	193,643	171,418
AMS	144,792	119,852
Corporate unallocated	(319,369)	(337,152)
Total consolidated adjusted income from continuing operations before income tax	\$802,993	\$860,957

Endo Pharmaceuticals. Adjusted income from continuing operations before income tax in 2013 decreased 14% to \$783.9 million from \$906.8 million in 2012. This decrease was primarily attributable to decreased revenues, partially offset by cost reductions realized in connection with our June 2013 restructuring and other cost reduction initiatives, particularly with respect to sales and marketing expenses.

Qualitest. Adjusted income from continuing operations before income tax in 2013 increased 13% to \$193.6 million from \$171.4 million in 2012. During the year ended December 31, 2013, revenues increased and operating expenses decreased, primarily with

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respect to research and development expense. Additionally, margins returned to more normal levels from the comparably higher 2012 amounts, which benefited from favorable pricing on certain of our generic products resulting from market opportunities.

AMS. Adjusted income from continuing operations before income tax in 2013 increased 21% to \$144.8 million from \$119.9 million in 2012. This increase was primarily attributable to cost reductions realized in connection with our June 2013 restructuring and other cost reduction initiatives, partially offset by decreased revenues.

Corporate unallocated. Corporate unallocated adjusted loss from continuing operations before income tax in 2013 decreased 5% to \$319.4 million from \$337.2 million in 2012. The decrease during the year ended December 31, 2013 was primarily attributable to decreased research and development, general and administrative and other costs, resulting from our June 2013 restructuring and other cost reduction initiatives, as well as the previously discussed decrease in interest expense.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income from continuing operations before income tax to our income from continuing operations before income tax, which is determined in accordance with U.S. GAAP for the years ended December 31 (in thousands):

	2013	2012
Total consolidated adjusted income from continuing operations before income tax:	\$802,993	\$860,957
Upfront and milestone payments to partners	(29,703 )	(60,778 )
Asset impairment charges	(519,011 )	(715,551 )
Acquisition-related and integration items(1)	(7,952 )	(19,413 )
Separation benefits and other cost reduction initiatives(2)	(100,253 )	(42,913 )
Amortization of intangible assets	(185,334 )	(220,320 )
Inventory step-up	—	(880 )
Non-cash interest expense	(22,742 )	(20,762 )
Loss on extinguishment of debt	(11,312 )	(7,215 )
Watson litigation settlement income, net	50,400	—
Accrual for payment to Impax Laboratories Inc. related to sales of Opana® ER	—	(102,000 )
Patent litigation settlement items, net	—	(85,123 )
Certain litigation-related charges(3)	(537,701 )	(316,425 )
Other income, net	1,048	—
Total consolidated loss from continuing operations before income tax	\$(559,567 )	\$(730,423 )

Acquisition-related and integration-items include costs directly associated with the closing of certain immaterial (1) acquisitions, changes in the fair value of contingent consideration and the costs of integration activities related to both current and prior period acquisitions.

Separation benefits and other cost reduction initiatives include employee separation costs of \$42.4 million for 2013 and \$39.5 million for 2012. Contract termination fees recognized during 2013 totaling \$5.8 million are also included in this amount. Refer to Note 4. Restructuring of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules" for discussion of our material restructuring (2) initiatives. Additionally, Separation benefits and other cost reduction initiatives during the year ended December 31, 2013 includes an expense recorded upon the cease use date of our Chadds Ford, Pennsylvania properties in the first quarter of 2013, representing a liability for our remaining obligations under the respective lease agreements of \$7.2 million. These expenses were primarily recorded as Selling, general and administrative and Research and development expense in our Consolidated Statements of Operations.

(3) This amount includes charges for Litigation-related and other contingencies, consisting primarily of mesh-related product liability charges, as well as mesh litigation-related defense costs for the year ended December 31, 2013.

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Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Revenues. The following table displays our revenue by reportable segment for the years ended December 31 (in thousands):

	2012	2011
Net revenues to external customers:		
Endo Pharmaceuticals	\$1,677,984	\$1,657,767
Qualitest	633,265	566,854
AMS(1)	504,487	300,299
Total consolidated net revenues to external customers	\$2,815,736	\$2,524,920

(1) The following table displays our AMS segment revenue by geography for the years ended December 31 (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2012	2011
AMS:		
United States	\$330,087	\$202,462
International	174,400	97,837
Total AMS revenues	\$504,487	\$300,299

Endo Pharmaceuticals. Revenues from our Endo Pharmaceuticals segment in 2012 increased 1% to \$1.7 billion from \$1.7 billion in 2011. This increase was primarily driven by increased revenues from Lidoderm<sup>®</sup>, partially offset by decreases from Voltaren<sup>®</sup> Gel and Opana<sup>®</sup> ER.

Qualitest. Net sales of our generic products in 2012 increased 12% to \$633.3 million from \$566.9 million in 2011. This increase was primarily driven by strong demand for Qualitest's diversified product portfolio and favorable pricing as a result of market opportunities, which drove gross profit of over 35%. During the year ended December 31, 2012, revenues from Qualitest's top 15 products increased 28% to \$376.1 million in 2012 from \$294.9 million in 2011. This increase, which was largely driven by increased volumes and pricing upside, was partially offset by reduced revenues from products impacted by the supply disruption associated with the previously disclosed shutdown of Novartis Consumer Health's Lincoln, Nebraska manufacturing facility.

AMS. Revenues from our AMS segment in 2012 increased 68% to \$504.5 million from \$300.3 million in 2011. This increase is attributable to the timing of our acquisition of AMS, which contributed revenue during the full year ended December 31, 2012 compared to less than seven months of revenue during 2011. However, this increase was partially offset by lower than usual sales in AMS's women's health line, which relates primarily to a reduction in mesh procedural volumes, particularly as to POP repair procedures. This reduction in mesh procedural volumes may be in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI, as well as to the attorney advertising associated with transvaginal mesh litigation.

Adjusted income (loss) from continuing operations before income tax. The following table displays our adjusted income (loss) from continuing operations before income tax by reportable segment for the years ended December 31 (in thousands):

	2012	2011
Adjusted income (loss) before income tax:		
Endo Pharmaceuticals	\$906,839	\$890,951
Qualitest	171,418	107,204
AMS	119,852	82,418
Corporate unallocated	(337,152 )	(318,277 )
Total consolidated adjusted income before income tax	\$860,957	\$762,296

Endo Pharmaceuticals. Adjusted income before income tax in 2012 increased 2% to \$906.8 million from \$891.0 million in 2011. This increase was primarily driven by increased revenues as described above as well as decreased operating expenses associated with our ongoing efforts to improve our operating efficiency.

Qualitest. Adjusted income before income tax in 2012 increased 60% to \$171.4 million from \$107.2 million in 2011. This increase was primarily driven by the continued revenue growth of our generics business. Additionally, favorable pricing as a result of market opportunities on certain of our generics products resulted in higher overall margins in our Qualitest segment.

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AMS. Adjusted income before income tax in 2012 increased 45% to \$119.9 million from \$82.4 million in 2011. This increase was primarily driven by the timing of our June 2011 acquisition of AMS, which contributed a full period's results during the year ended December 31, 2012, compared to less than seven months in 2011.

Corporate unallocated. Corporate unallocated adjusted loss before income tax in 2012 increased 6% to \$337.2 million from \$318.3 million in 2011. This increase was primarily driven by the previously discussed increase in interest expense, partially offset by decreased general and administrative expenses associated with our ongoing efforts to improve our operating efficiency.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income from continuing operations before income tax to our consolidated (loss) income from continuing operations before income tax, which is determined in accordance with U.S. GAAP for the years ended December 31 (in thousands):

	2012	2011
Total consolidated adjusted income from continuing operations before income tax:	\$ 860,957	\$ 762,296
Upfront and milestone payments to partners	(60,778 )	(28,098 )
Asset impairment charges	(715,551 )	(116,089 )
Acquisition-related and integration items	(19,413 )	(32,015 )
Separation benefits and other cost reduction initiatives	(42,913 )	(17,390 )
Amortization of intangible assets	(220,320 )	(185,017 )
Inventory step-up	(880 )	(49,010 )
Non-cash interest expense	(20,762 )	(18,952 )
Net loss on extinguishment of debt	(7,215 )	(11,919 )
Accrual for payment to Impax related to sales of Opana® ER	(102,000 )	—
Patent litigation settlement items, net	(85,123 )	—
Litigation-related and other contingencies	(316,425 )	—
Other income, net	—	2,636
Total consolidated (loss) income from continuing operations before income tax	\$ (730,423 )	\$ 306,442

**LIQUIDITY AND CAPITAL RESOURCES**

Our principal source of liquidity is cash generated from operations. Our principal liquidity requirements are for working capital for operations, licenses, milestone payments, capital expenditures and debt service payments. The Company continues to maintain a sufficient level of working capital, which was approximately \$1.2 billion at December 31, 2013 compared to \$461.9 million at December 31, 2012. Working capital includes \$770.0 million of restricted cash and cash equivalents which is held in escrow and may not be utilized until the Paladin transaction closes. If the transaction is not consummated before July 1, 2014 this restricted cash and cash equivalents would then be used for general corporate purposes, which may include strategic transactions. In addition, we have historically had broad access to financial markets that provide liquidity. Cash and cash equivalents, which primarily consisted of bank deposits, time deposits and/or money market accounts, totaled approximately \$526.6 million at December 31, 2013 compared to \$529.7 million at December 31, 2012.

In 2014, we expect that sales of our subsidiaries' current portfolios of products will allow us to continue to generate positive cash flow from operations. We expect cash generated from operations together with our cash, cash equivalents and unused Revolving Credit Facility to be sufficient to cover cash needs for working capital and general corporate purposes, including our recent acquisition of Boca, certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due.

We depend on patents or other forms of intellectual property protection for most of our branded pharmaceutical revenues, cash flows and earnings. In recent years, various generic manufacturers have filed ANDAs seeking FDA approval for generic versions of certain of the EPI's key pharmaceutical products, including but not limited to Lidoderm® and both the original and crush-resistant formulations of Opana® ER. In connection with such filings, these manufacturers have challenged the validity and/or enforceability of one or more of the underlying patents protecting our products. To the extent these manufacturers are successful in these patent challenges and in obtaining

FDA approval of these generic products, the impact of generic competition may cause a decline in future revenue from the affected products. Such revenue declines could have a material adverse effect on our future liquidity and financial position. However, the extent to which our revenues will be affected in future periods is subject to a number of uncertainties. Our goal is to mitigate the effect of these competitive activities by leveraging growth across the remainder of our portfolio and by acquiring and in-licensing additional products, product rights or technologies. Additionally, the Company has recently outlined and implemented strategic, operational and organizational steps to reduce annual operating expenses, explore strategic alternatives for our branded

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pharmaceutical discovery platform, enhance organic growth drivers across business lines through more effective execution, pursue accretive acquisitions within a disciplined capital allocation framework and attract, retain and develop talent across the organization within the context of a lean operating model.

Beyond 2014, we expect cash generated from operations together with our cash, cash equivalents and unused Revolving Credit Facility to continue to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, our currently approved common stock repurchase plan and any regulatory and/or sales milestones that may become due. At this time, we cannot accurately predict the effect of certain developments on the rate of sales growth, such as the degree of market acceptance, patent protection and exclusivity of our products, the impact of competition, the effectiveness of our sales and marketing efforts and the outcome of our current efforts to develop, receive approval for and successfully launch our near-term product candidates.

Additionally, we may not be successful in implementing, or may face unexpected changes or expenses in connection with our announced strategic, operational and organizational changes, including the potential for opportunistic corporate development transactions such as the recently announced agreement to acquire Paladin as discussed in more detail below. Any of the above could adversely affect our future cash flows. We may need to obtain additional funding for future transactions, to repay our outstanding indebtedness, or for our future operational needs, and we cannot be certain that funding will be available on terms acceptable to us, or at all. Any issuances of equity securities or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact net income per share in future periods. An acquisition may be accretive or dilutive and, by its nature, involves numerous risks and uncertainties.

On November 5, 2013, the Company announced that it had reached a definitive agreement to acquire Paladin in a stock and cash transaction valued at approximately \$2.7 billion as of February 20, 2014. Pursuant to the acquisition, each of Endo and Paladin will be acquired by Endo International, a newly-formed Irish holding company.

Under the terms of the transaction, Paladin shareholders will receive 1.6331 shares of Endo International stock and C\$1.16 in cash. Current Endo shareholders will receive one share of Endo International for each share of Endo they own upon closing. Upon closing of the transaction, Endo shareholders are expected to own approximately 77.4% of Endo International, and Paladin shareholders are expected to own approximately 22.6%.

Paladin is a specialty pharmaceutical company headquartered in Montreal, Canada, focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. Key products serve growing drug markets including ADHD, pain, urology and allergy. In addition to its Canadian operations, Paladin owns a controlling stake in Ativa Pharma S.A. in Mexico and a 61.5% ownership stake in publicly traded Litha Healthcare Group Limited in South Africa.

Paladin's stable and growing cash flows and strong Canadian franchise complement Endo's existing portfolio and further diversifies Endo's pharmaceutical product mix and geographic reach. The Company believes the transaction will generate operational and tax synergies and will create a financial platform to facilitate organic growth with broader options for future strategic activity.

In addition, pursuant to the plan of arrangement, for each Paladin share owned upon closing, shareholders of Paladin will also receive one share of Knight Therapeutics Inc. (Knight Therapeutics), a newly formed Canadian company that will be separated as part of the transaction. Knight Therapeutics will hold rights to Impavido and certain related rights. The cash consideration to be received by Paladin shareholders will be increased if Endo's volume weighted average share price during an agreed reference period declines more than 7%. Cash compensation will be provided by Endo to Paladin shareholders if the share price declines more than 7% but less than 20%. If Endo's share price declines between 20% and 24% during the agreed reference period, Endo will provide partial cash compensation to Paladin shareholders. Any decline in Endo's share price beyond 24% will not be subject to further cash compensation to Paladin shareholders. The maximum amount by which the aggregate cash consideration to be received by Paladin shareholders would be increased by this price protection mechanism is approximately \$233.0 million.

For U.S. federal income tax purposes, the merger is intended to qualify as a non-taxable "reorganization". Under current U.S. federal income tax law, it is uncertain whether U.S. shareholders of Endo will be required to recognize gain or

loss on the Endo share exchange. There is risk that U.S. holders on the Endo share exchange because non-recognition treatment depends on the application of new and complex provisions of U.S. federal income tax law as well as certain facts that are subject to change and that could be affected by actions taken by Endo and other events beyond Endo's control. More specifically, U.S. holders of Endo common stock will be required to recognize a gain on the Endo share exchange if the U.S. shareholders gain amount exceeds the Endo International income amount. The U.S. shareholders gain amount has been and will continue to be affected by changes in Endo's stock price, trading activity in Endo's common stock, and the tax basis of U.S. holders of Endo common stock on the closing date. As a result, the U.S. shareholders gain amount cannot be known until after the closing of the merger. In this regard, Endo notes that there has been a substantial increase in Endo's stock price during the period from the signing of the arrangement agreement. The Endo International income amount will depend, in part, on the earnings and profits of Endo U.S. Inc. for the taxable year that includes the closing date

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(which Endo expects will be 2014). Such earnings and profits, if any, will depend on overall business conditions and the overall tax position of Endo U.S. Inc. for such taxable year and will take into account, among other things, taxable operating income and loss as

well as taxable non-operating income and loss (including dispositions outside the ordinary course of business and extra-ordinary items), subject to certain adjustments, and cannot be determined until the end of the year in which the merger is completed.

Following completion of the transaction, the combined company will be led by Endo's current management team. Paladin will continue to be led by Paladin's current management team (other than Mr. Goodman) and will maintain its current headquarters location in Montreal. The Canadian operations will continue under the Paladin name.

While the Paladin acquisition is primarily equity based, Endo will adjust certain parts of its capital structure to complete the transaction. The Company has entered into a new credit facility with Deutsche Bank AG New York Branch and Royal Bank of Canada and certain other lenders, which will replace Endo's existing credit facility upon closing of the Paladin acquisition. The new credit facility consists of a five-year senior secured term loan "A" facility in an amount up to \$1.1 billion, a seven-year senior secured term loan "B" facility in an amount up to \$425.0 million, and a five-year revolving credit facility with an initial borrowing capacity of up to \$750.0 million. We expect that the new credit facility will contain an uncommitted expansion option which will permit up to \$1.0 billion (or an unlimited amount if the secured leverage ratio, as to be defined in the new credit facility, is less than or equal to an amount to be agreed to in the new credit facility) of additional revolving or term loan commitments from one or more of the lenders under the new credit facility or other lenders after the closing date.

We expect that under the new credit facility, \$50.0 million will be available for letters of credit and up to \$50.0 million will be available for swing line loans on same-day notice, both of which may be increased to up to \$75.0 million, subject to consents as described in the new credit facility. Upon the effectiveness of the new credit facility, the existing credit facility will be terminated and canceled, with all indebtedness under the existing credit facility repaid and all liens terminated and released. The borrowers' obligations under the new credit facility are expected to be guaranteed by all of Endo's direct and indirect wholly-owned material restricted subsidiaries and secured by substantially all of the borrowers' assets and those of the guarantors.

Upon closing of the transaction, a change in control would occur under the terms of our existing senior secured credit facilities (the Credit Facilities). If for any reason the committed financing is not available, and Endo is unable to refinance the Credit Facilities prior to the closing of the transaction, the change in control under the Credit Facilities would be considered an event of default, which would permit the lenders to cause all amounts outstanding with respect to that debt to be due and payable immediately and terminate all commitments to extend further credit. An acceleration of the debt under the Credit Facilities, if not repaid, could result in an event of default under our other debt agreements, including the Existing Notes.

On December 2, 2013, following the completion of consent solicitations, Endo, certain guarantors party thereto and Wells Fargo Bank, National Association, as trustee, entered into supplemental indentures to the 2019, 2020 and 2022 Notes Indentures, providing, among other things, that the Paladin transaction will not constitute a change of control under the Indentures.

The transaction is currently expected to close on February 28, 2014, subject to certain conditions and approvals, including regulatory approvals in the United States, Canada and South Africa, the approval of both companies' shareholders, the approval of the Superior Court of Quebec, the registration and listing of Endo International shares and customary closing conditions. Shareholders representing approximately 34% of Paladin outstanding shares have agreed to vote in favor of the transaction and Paladin announced on February 24, 2014 that an overwhelming majority voted to approve the transaction. These shareholders have the right to terminate this agreement if Endo's volume weighted average share price declines more than 24% during an agreed reference period. Shares of Endo International are expected to trade on the NASDAQ and Toronto Stock Exchange.

Borrowings. On March 26, 2013, we entered into an amendment and restatement agreement, pursuant to which we amended and restated our existing credit agreement to extend its term and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our \$500.0 million Revolving Credit Facility and our Term Loan A Facility which, at the time of

the amendment and restatement, had a remaining principal balance of \$1.4 billion, to March 15, 2018. The 2013 Credit Agreement provides the Company with greater flexibility under certain of its affirmative and negative covenants, including, without limitation, the designation of unrestricted subsidiaries, capital expenditures, asset sales, indebtedness and restricted payments. Under the 2013 Credit Agreement, the Company is required to maintain a leverage ratio (as the definition of such ratio has been modified in the 2013 Credit Agreement) of no greater than 3.75 to 1.00, which provides the Company with greater financial and operating flexibility than the prior credit agreement. The 2013 Credit Agreement continues to require the Company to maintain a minimum interest coverage ratio of 3.50 to 1.00.

The 2013 Credit Agreement keeps in place the Company's Term Loan B Facility which matures on June 17, 2018 and, at the time of the amendment and restatement, had a remaining principal balance of \$60.6 million. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to \$500.0 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

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The obligations of the Company under our credit facility continue to be guaranteed by certain of the Company's domestic subsidiaries (the Subsidiary Guarantors) and continue to be secured by substantially all of the assets of the Company and the Subsidiary Guarantors, subject to certain exceptions. The 2013 Credit Agreement contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company's affiliates. As set forth in the 2013 Credit Agreement, borrowings under our credit facility will continue to bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company's leverage ratio, as defined in the 2013 Credit Agreement. For the Term Loan A Facility and Revolving Credit Facility, the Company may elect to pay interest based on an adjusted London Inter-Bank Offer Rate (LIBOR) plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2013 Credit Agreement) plus between 0.75% and 1.50%. For the Term Loan B Facility, the Company may elect to pay interest based on an adjusted LIBOR plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

At December 31, 2013, the Company's indebtedness also includes senior notes with aggregate principal amounts totaling \$2.0 billion. These notes mature between 2019 and 2022, subject to earlier repurchase or redemption in accordance with the terms of the respective indentures. Interest rates on these notes range from 5.75% to 7.25%. These notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries.

On December 19, 2013, we issued \$700.0 million in aggregate principal amount of 5.75% Senior Notes due 2022 (the New 2022 Notes) at an issue price of par. The notes have not been registered under the Securities Act of 1933, as amended, or the Securities Act, or the securities laws of any other jurisdiction, and we have no intention to register the notes in the future. We are not required to, nor do we intend to, offer to exchange the notes for a new issue of substantially identical notes registered under the Securities Act or otherwise register the notes for resale under the Securities Act. The notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, we offered the notes in the United States only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act. The New 2022 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. Interest on the New 2022 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2014. The New 2022 Notes will mature on January 15, 2022, subject to earlier repurchase or redemption in accordance with the terms of the Indenture incorporated by reference herein.

At December 31, 2013, the Company's indebtedness also includes \$379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes), which became convertible at the option of holders beginning October 1, 2013. The conversion right was triggered on September 17, 2013, when the closing sale price of the Company's common stock on the NASDAQ Stock Exchange exceeded \$37.96 (130% of the conversion price of \$29.20) for the 20th trading day in the 30 consecutive trading days ending on September 30, 2013. The conversion right was reassessed on December 31, 2013, and the Convertible Notes remained convertible. We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash. As a result of the Convertible Notes becoming convertible, the Company has included the Convertible Notes in the current portion of long-term debt on its consolidated balance sheet as of December 31, 2013. The Convertible Notes will remain convertible through March 31, 2014, at which point they will be reassessed based on the conversion right trigger described above. Holders of the Convertible Notes may surrender their notes for conversion after October 15, 2014 at any time prior to the close of business on the second business day immediately preceding the stated maturity date. Accordingly, the Company will treat the Convertible Notes as short-term in nature hereafter. There have been no conversions as of the date of this filing.

Concurrently with the issuance of the Convertible Notes, we entered into a privately negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call

options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Convertible Notes to \$40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of \$24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately \$107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately \$50.4 million in cash proceeds from the sale of these warrants. The warrant transaction could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the strike price of the warrants at exercise.

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The Convertible Notes are only included in the dilutive net (loss) income per share calculations using the treasury stock method during periods in which the average market price of our common stock was above the applicable conversion price of the Convertible Notes, or \$29.20 per share and the impact would not be anti-dilutive. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included if the warrants were exercised is approximately 13.0 million at December 31, 2013.

The following table provides the range of shares that would be included in the dilutive net (loss) income per share calculations for the convertible notes and warrants based on share price sensitivity (in thousands except per share data):

	Three Months Ended March 31, 2013				Three Months Ended June 30, 2013					
	-5%	Actual	+5%	+10%	-5%	Actual	+5%	+10%		
Average market price of Endo common stock:	\$27.79	\$29.25	\$30.71	\$32.18	\$34.15	\$35.95	\$37.75	\$39.55		
Impact on dilutive shares:										
Convertible notes	—	21	639	1,204	1,884	2,439	2,944	3,401		
Warrants	—	—	—	—	—	—	—	—		
	—	21	(1)	639	1,204	1,884	2,439	(1)	2,944	3,401
	Three Months Ended September 30, 2013				Three Months Ended December 31, 2013 (2)					
	-5%	Actual	+5%	+10%	-5%	Actual	+5%	+10%		
Average market price of Endo common stock:	\$38.21	\$40.22	\$42.23	\$44.24	\$54.21	\$57.06	\$59.91	\$62.77		
Impact on dilutive shares:										
Convertible Notes	3,065	3,561	4,010	4,418	5,996	6,345	6,662	6,951		
Warrants	—	72	686	1,246	3,408	3,886	4,320	4,716		
	3,065	3,633	(1)	4,696	5,664	9,404	10,231	(3)	10,982	11,667

(1) Amounts included in total diluted shares outstanding of 113.2 million, 117.2 million and 120.3 million for the three month periods ended March 31, 2013, June 30, 2013 and September 30, 2013 respectively.

Because the Company reported a Net loss attributable to Endo Health Solutions Inc. during the three month period ended December 31, 2013, the Convertible Notes and Warrants had no dilutive impact during this period and (2) would not have had a dilutive impact given any of the assumed share prices above. Therefore, these amounts are included for informational purposes only and are not indicative of actual results or results that would have occurred given the assumed share prices above.

Represents, for the three month period ended December 31, 2013, the amounts that would have been included in (3) total diluted shares outstanding of 115.5 million had the Company reported Net income attributable to Endo Health Solutions Inc. as opposed to a Net loss attributable to Endo Health Solutions Inc.

Share Repurchase Programs. Pursuant to our share repurchase programs, we did not purchase any shares of our common stock during the year ended December 31, 2013. We purchased approximately 8.3 million shares of our

common stock during the year ended December 31, 2012 totaling \$256.0 million and 0.9 million shares of our common stock during the year ended December 31, 2011 totaling \$34.7 million.

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Working Capital. The components of our working capital and our current ratio at December 31, 2013 and December 31, 2012 are below (dollars in thousands):

	December 31, 2013	December 31, 2012
Total current assets	\$ 2,854,507	\$ 2,213,095
Less: total current liabilities	(1,696,672 )	(1,751,188 )
Working capital	\$ 1,157,835	\$ 461,907
Current ratio	1.7:1	1.3:1

Working capital increased by \$695.9 million from December 31, 2012 to December 31, 2013. This increase related primarily to proceeds from the New 2022 Notes, cash from operations and cash from the exercise of stock options, partially offset by the reclassification of our convertible notes from non-current to current and the prepayment on the Term Loan B Facility.

The following table summarizes our Consolidated Statements of Cash Flows and liquidity for the years ended December 31 (dollars in thousands):

	2013	2012	2011
Net cash flow provided by (used in):			
Operating activities	\$ 298,517	\$ 733,879	\$ 702,115
Investing activities	(883,639 )	(88,467 )	(2,374,092 )
Financing activities	579,525	(645,547 )	1,752,681
Effect of foreign exchange rate	1,692	431	702
Net (decrease) increase in cash and cash equivalents	\$(3,905 )	\$ 296	\$ 81,406
Less: net (decrease) increase in cash and cash equivalents of discontinued operations	(813 )	(2,749 )	4,488
Net (decrease) increase in cash and cash equivalents of continuing operations	\$(3,092 )	\$ 3,045	\$ 76,918
Cash and cash equivalents, beginning of period	\$ 529,689	\$ 526,644	\$ 449,726
Cash and cash equivalents, end of period	\$ 526,597	\$ 529,689	\$ 526,644
Days sales outstanding	45	45	45

Net cash provided by operating activities. Net cash provided by operating activities was \$298.5 million for the year ended December 31, 2013 compared to \$733.9 million provided by operating activities in 2012 and \$702.1 million provided by operating activities in 2011. Significant components of our operating cash flows for the years ended December 31 are as follows (in thousands):

	2013	2012	2011
Cash Flow Data-Operating Activities:			
Consolidated net (loss) income	\$(632,414 )	\$(688,021 )	\$ 242,065
Depreciation and amortization	255,663	285,524	237,414
Stock-based compensation	38,998	59,395	46,013
Amortization of debt issuance costs and premium / discount	36,264	36,699	32,788
Deferred income taxes	(155,727 )	(193,960 )	(75,877 )
Loss on extinguishment of debt	11,312	7,215	11,919
Asset impairment charges	680,198	768,467	116,089
Changes in assets and liabilities which provided cash	59,731	454,393	99,581
Other, net	4,492	4,167	(7,877 )
Net cash provided by operating activities	\$ 298,517	\$ 733,879	\$ 702,115

Net cash provided by operating activities represents the cash receipts and cash disbursements from all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting our Consolidated net (loss) income for non-cash operating items, gains and losses attributed to investing and financing activities and changes in operating assets and liabilities resulting from timing differences between the receipts and payments of cash and when the transactions are recognized in our results of operations. As a result, changes in cash from operating

activities reflect, among other things, the timing of cash collections from customers, payments to suppliers, managed care organizations and government agencies, collaborative partners, employees, and tax payments in the ordinary course of business.

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The \$435.4 million decrease in Net cash provided by operating activities in 2013 compared to 2012 was primarily the result of the timing of cash collections and cash payments, including payment of \$102.0 million related to the Impax Settlement Agreement, the first annual royalty payment to Teikoku in the amount of \$56.0 million and payments to settle pricing litigation cases of \$29.0 million. These decreases were partially offset by an increase in cash due to improved operating performance generated by the 2013 restructuring initiatives.

The \$31.8 million increase in Net cash provided by operating activities in 2012 compared to 2011 was a result of a full-year of cash flow contribution from AMS and working capital initiatives, partially offset by operating performance, which was negatively impacted by the previously disclosed supply disruptions related to the shutdown of Novartis Consumer Health Inc.'s Lincoln, Nebraska manufacturing facility.

Net cash used in investing activities. Net cash used in investing activities was \$883.6 million in 2013 compared to \$88.5 million used in investing activities in 2012. This \$795.2 million increase in cash used in investing activities relates primarily to an increase in restricted cash and cash equivalents of \$770.0 million related to the pending close of the Paladin transaction, the establishment of a net \$11.5 million escrow settlement fund related to the mesh Master Settlement Agreement, which is further described in Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules". Also contributing to this fluctuation is a decrease in proceeds from investments of \$18.8 million associated with the 2012 repayment at par value of our remaining auction-rate securities, an increase in patent acquisition costs and license fees of \$6.3 million and a decrease in purchases of property, plant and equipment of \$3.3 million.

Net cash used in investing activities was \$88.5 million in 2012 compared to \$2.4 billion used in investing activities in 2011. This \$2.3 billion decrease in cash used relates primarily to net cash paid for acquisitions, which was \$3.2 million in 2012 compared to \$2.4 billion in 2011. The cash spent in 2011 was primarily for our acquisition of AMS

Net cash provided by (used in) financing activities. Net cash provided by financing activities was \$579.5 million in 2013 compared to \$645.5 million used in financing activities in 2012. Items contributing to this \$1.2 billion fluctuation in cash provided by financing activities include proceeds from the issuance of the New 2022 Notes of \$700.0 million, a decrease in principal payments on term loan indebtedness totaling \$210.0 million, a decrease in cash used to repurchase stock of \$256.0 million and an increase in cash from the exercise of stock options of \$77.8 million. These items were partially offset by an increase in cash paid for deferred financing fees of \$10.5 million and an increase in payments of tax withholding for restricted shares of \$9.8 million.

Net cash used in financing activities was \$645.5 million in 2012 compared to \$1.8 billion provided by financing activities in 2011. This \$2.4 billion fluctuation was primarily attributable to our June 2011 debt restructuring related to our AMS acquisition, which provided net cash of \$1.8 billion in 2011, and the subsequent principal repayment activity related to the term loan portion of this debt, which used net cash of \$362.1 million in 2012. Additionally, in 2012, we completed net repurchases of Common stock totaling \$249.9 million.

Research and Development. Over the past few years, we have incurred significant expenditures related to conducting clinical studies to develop new products and exploring the value of our existing products in treating disorders beyond those currently approved in their respective labels. We may seek to mitigate the risk in, and expense of, our research and development programs by entering into collaborative arrangements with third parties. However, we intend to retain a portion of the commercial rights to these programs and, as a result, we still expect to spend funds on our share of the cost of these programs, including the costs of research, preclinical development, clinical research and manufacturing.

As previously disclosed, we have recently undertaken initiatives to optimize commercial spend and refocus our research and development efforts. Accordingly, we expect our research and development costs to decrease in future periods. However, we expect to continue to incur moderate levels of research and development expenditures as we focus on the development and advancement of our product pipeline. There can be no assurance that results of any ongoing or future preclinical or clinical trials related to these projects will be successful, that additional trials will not be required, that any drug or product under development will receive FDA approval in a timely manner or at all, or that such drug or product could be successfully manufactured in accordance with U.S. cGMP, or successfully marketed in a timely manner, or at all, or that we will have sufficient funds to develop or commercialize any of our products.

Manufacturing, Supply and Other Service Agreements. Our subsidiaries contract with various third party manufacturers, suppliers and service providers to provide raw materials used in our subsidiaries' products and semi-finished and finished goods, as well as certain packaging and labeling services. The most significant of these agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively, Novartis), Teikoku Seiyaku Co., Ltd., Noramco, Inc., Grünenthal GmbH, Sharp Corporation, and UPS Supply Chain Solutions, Inc. If, for any reason, our subsidiaries are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for their products needed to conduct their business, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. For additional discussion of commitments under manufacturing, supply and other service agreements, see Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

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License and Collaboration Agreements. Our subsidiaries have agreed to certain contingent payments in certain license, collaboration and other agreements. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. Due to the fact that it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded in our Consolidated Balance Sheets. In addition, under certain arrangements, we or our subsidiaries may have to make royalty payments based on a percentage of future sales of the products in the event regulatory approval for marketing is obtained. From a business perspective, we view these payments favorably as they signify that the products are moving successfully through the development phase toward commercialization. For additional discussion of our contingent payments involving our license and collaboration agreements, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 11. License and Collaboration Agreements and Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Acquisitions. As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings for merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure costs or costs of restructuring activities.

Legal Proceedings. We are subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Contingent accruals are recorded when we determine that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events. For additional discussion of legal proceedings, see Note 14. Commitments and Contingencies of the Consolidated Financial Statements included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Contractual Obligations. The following table lists our enforceable and legally binding noncancelable obligations as of December 31, 2013.

Contractual Obligations	Payment Due by Period (in thousands)						
	Total	2014	2015	2016	2017	2018	Thereafter
Long-term debt obligations (1)	\$4,902,338	\$620,228	\$266,755	\$298,849	\$364,988	\$1,348,983	\$2,002,535
Capital lease obligations (2)	69,484	5,752	5,846	5,977	6,112	6,249	39,548
Operating lease obligations (3)	37,287	13,891	9,561	6,741	3,916	1,532	1,646
Minimum Voltaren® royalty obligations due to Novartis (4)	45,000	30,000	15,000	—	—	—	—
Minimum purchase commitments to Teikoku (5)	18,000	18,000	—	—	—	—	—
Minimum advertising and promotion spend (6)	1,542	1,542	—	—	—	—	—
Other obligations and commitments	39,145	9,545	4,800	6,800	4,000	4,000	10,000

(7)

Total (8)	\$5,112,796	\$698,958	\$301,962	\$318,367	\$379,016	\$1,360,764	\$2,053,729
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Includes minimum cash payments related to principal and interest, including commitment fees, associated with our indebtedness. Since future interest rates on our variable rate borrowings are unknown, for purposes of this (1) contractual obligations table, amounts scheduled above were calculated using the greater of (i) the respective contractual interest rate spread corresponding to our current leverage ratios or (ii) the respective contractual interest rate floor, if any.

Includes minimum cash payments related to certain fixed assets, primarily related to technology. In addition, (2) includes minimum cash payments related to the direct financing arrangement for the new company headquarters in Malvern, Pennsylvania.

Includes minimum cash payments related to our leased automobiles, machinery and equipment and facilities. (3) Under the terms of our leases for our former headquarters' in Chadds Ford, Pennsylvania, we are required to continue to pay all future minimum lease payments to the landlord.

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Under the terms of the five-year Voltaren® Gel Agreement, Endo has agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds all as defined in the Voltaren® Gel Agreement. In addition, subject to certain limitations, Endo has agreed to make certain guaranteed minimum annual royalty payments beginning in the fourth year of the Voltaren® Gel Agreement, which may be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product. These guaranteed minimum royalties will be creditable against royalty payments on a Voltaren® Gel Agreement year basis such that Endo's obligation with respect to each Voltaren® Gel Agreement year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Agreement year. In December 2013, pursuant to the provisions of this Voltaren® Gel Agreement, the term was automatically renewed for an additional one year period.

(4) On April 24, 2007, we amended our Supply and Manufacturing Agreement with Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (collectively, Teikoku) dated as of November 23, 1998, pursuant to which Teikoku manufactures and supplies Lidoderm® (lidocaine patch 5%) (the Product) to Endo. This amendment is referred to as the Amended Agreement. Under the terms of the Amended Agreement, Endo agreed to purchase a minimum number of Lidoderm® patches per year through 2012, representing the noncancelable portion of the Amended Agreement. The minimum purchase requirement remains in effect subsequent to 2012, except that Endo has the right to terminate the Amended Agreement if we fail to meet the annual minimum requirement in subsequent years. (5) The supply price of Lidoderm® is adjusted annually based on a price index defined in the Amended Agreement. Since future price changes are unknown, for purposes of this contractual obligations table, all amounts scheduled above represent the minimum patch quantities at the price currently existing under the Amended Agreement. Effective November 1, 2010, the parties amended the Amended Agreement. Pursuant to this amendment, Teikoku has agreed to supply additional Product at no cost to Endo in 2014 in the event Endo's firm orders of Product exceed certain thresholds in those years. We will update the Teikoku purchase commitments upon future price changes made in accordance with the Amended Agreement.

Under the terms of the five-year Voltaren® Gel Agreement, Endo has agreed to certain minimum advertising and promotional spending, subject to certain thresholds as defined in the Voltaren® Gel Agreement. Future minimum advertising and promotional spending are determined based on a percentage of net sales of the licensed product. On (6) December 31, 2012, Endo and Novartis entered into an amendment to the Voltaren® Gel Agreement which reduced the minimum amount of annual advertising and promotional expenses required to be spent by Endo on the commercialization of Voltaren® Gel during each year of the Voltaren® Gel Agreement.

(7) Other obligations and commitments include agreements to purchase third-party assets, products and services.

Total does not include contractual obligations already included in current liabilities on our Consolidated Balance (8) Sheet (except for current portion of long-term debt, short-term capital lease obligations and short-term royalty obligations) or certain purchase obligations, which are discussed below.

For purposes of the table above, obligations for the purchase of goods or services are included only for significant noncancelable purchase orders that are enforceable, legally binding and specify all significant terms including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the timing of the obligation. Our purchase orders are based on our current manufacturing needs and are typically fulfilled by our suppliers within a relatively short period. At December 31, 2013, we have open purchase orders that represent authorizations to purchase rather than binding agreements that are not included in the table above.

As of December 31, 2013, our liability for unrecognized tax benefits amounted to \$64.5 million (including interest and penalties). Due to the nature and timing of the ultimate outcome of these uncertain tax positions, we cannot make a reasonably reliable estimate of the amount and period of related future payments. Therefore, our liability has been excluded from the above contractual obligations table.

As of December 31, 2013, our product liability accrual amounted to \$520.0 million. Due to the inherent uncertainty as to the ultimate timing and costs of resolving this litigation, we cannot make a reasonably reliable estimate of the amount and period of related future payments.

Fluctuations. Our quarterly results have fluctuated in the past and may continue to fluctuate. These fluctuations may be due to the timing of new product launches, purchasing patterns of our customers, market acceptance of our

products, the impact of competitive products and pricing, asset impairment charges, restructuring costs, including separation benefits, business combination transaction costs, upfront, milestone and certain other payments made or accrued pursuant to licensing agreements and changes in the fair value of financial instruments and contingent assets and liabilities recorded as part of a business combination. Further, a substantial portion of our total revenues are through three wholesale drug distributors who in turn supply our products to pharmacies, hospitals and physicians. Accordingly, we are potentially subject to a concentration of credit risk with respect to our trade receivables.

**Growth Opportunities.** We continue to evaluate growth opportunities including strategic investments, licensing arrangements, acquisitions of businesses, product rights or technologies, and strategic alliances and promotional arrangements which could require significant capital resources. We intend to continue to focus our business development activities on further diversifying our revenue base through product licensing and company acquisitions, as well as other opportunities to enhance stockholder value. Through execution of our business strategy we intend to focus on developing new products through both an internal and a virtual research and

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development organization with greater scientific and clinical capabilities; expanding the Company's subsidiaries' product lines by acquiring new products and technologies in existing therapeutic and complementary areas, including international opportunities; increasing revenues and earnings through sales and marketing programs for our subsidiaries' innovative product offerings and effectively using the Company's and its subsidiaries' resources; and providing additional resources to support our generics business.

Non-U.S. Operations. Our operations outside of the U.S. were not material during the year ended December 31, 2013. As a result, fluctuations in foreign currency exchange rates did not have a material effect on our Consolidated Financial Statements.

Inflation. We do not believe that inflation had a material adverse effect on our financial statements for the periods presented.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in the financial markets, including interest rates and foreign currency exchange rates.

#### Interest Rate Risk

Our exposure to interest rate risk relates primarily to our Term Loan Facility, money market funds, and long-term marketable debt securities portfolio. Additionally, if we were to utilize amounts under our Revolving Credit Facility, we could be exposed to interest rate risk. At December 31, 2013, our Term Loan Facility includes floating-rate debt of approximately \$1.4 billion. Based on this amount, a 1% rise in interest rates would result in approximately \$14.0 million in incremental annual interest expense.

In general, our investments in marketable securities are governed by our investment policy, which has been approved by our Board of Directors. Our investment policy seeks to preserve the value of capital, consistent with maximizing return on the Company's investment, while maintaining adequate liquidity. To achieve this objective, we maintain our portfolio in a variety of high credit quality debt securities. Generally, our interest rate risk with respect to these investments is limited due to yields earned, which approximate current interest rates. We attempt to mitigate default risk by maintaining our portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository.

As of December 31, 2013 and 2012, we had no other assets or liabilities with significant interest rate sensitivity.

#### Investment Risk

At December 31, 2013 and 2012, we had publicly traded equity securities totaling \$3.0 million and \$1.7 million, respectively, included in long-term marketable securities. The fair values of our investments are subject to significant fluctuations due to the volatility of the stock market, changes in general economic conditions and changes in the financial condition of the companies we invest in. Based on the fair value of the publicly traded equity securities we held at December 31, 2013, an assumed 25%, 40% and 50% adverse change in the market prices of these securities would result in a corresponding decline in total fair value of approximately \$0.7 million, \$1.2 million and \$1.5 million, respectively. Based on the fair value of the publicly traded equity securities we held at December 31, 2012, an assumed 25%, 40% and 50% adverse change in the market prices of these securities would result in a corresponding decline in total fair value of approximately \$0.4 million, \$0.7 million and \$0.9 million, respectively. Any decline in value below our original investments will be evaluated to determine if the decline in value is considered temporary or other-than-temporary. An other-than-temporary decline in fair value would be included as a charge to earnings.

#### Foreign Currency Risk

Our operations outside of the U.S. are maintained primarily in their local currency. All assets and liabilities of our international subsidiaries, which maintain their financial statements in local currency, are translated to U.S. dollars at period-end exchange rates. Translation adjustments arising from the use of differing exchange rates are included in accumulated other comprehensive income in stockholders' equity. Gains and losses on foreign currency transactions and short term inter-company receivables from foreign subsidiaries are included in Other income, net.

The reported results of our foreign operations will be influenced by their translation into U.S. dollars by currency movements against the U.S. dollar. We have entered into various foreign exchange forward contracts to manage a portion of our exposure to foreign exchange rate fluctuations on our forecasted sales to and receivables from certain subsidiaries, denominated in euros, British pounds, Canadian dollars, Australian dollars, and Swedish krona. In addition, we purchase Lidoderm® in U.S. dollars from Teikoku Seiyaku Co., Ltd., a Japanese manufacturer. As part of the purchase agreement with Teikoku, there is a price adjustment feature that prevents the cash payment in U.S. dollars from falling outside of a certain pre-defined range in Japanese yen even if the spot rate is outside of that range. In addition, we have certain licensing arrangements which could require us to make payments upon certain regulatory and sales milestones, denominated in euros.

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A 10% change in foreign currency exchange rates would not have a material impact on our financial condition, results of operations or cash flows.

Inflation

We do not believe that inflation has had a significant impact on our revenues or operations.

Item 8. Financial Statements and Supplementary Data

The information required by this item is contained in the financial statements set forth in Item 15 under the caption "Consolidated Financial Statements" as part of this Annual Report on Form 10-K.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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 defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2013. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

(b) Management's Report on Internal Control over Financial Reporting

The report of management of the Company regarding internal control over financial reporting is set forth in Item 15 of this Annual Report on Form 10-K under the caption "Management's Report on Internal Control Over Financial Reporting" and incorporated herein by reference.

(c) Attestation Report of Independent Registered Public Accounting Firm

The attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 15 of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm" and incorporated herein by reference.

(d) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

The information concerning our directors required under this Item is incorporated herein by reference from our proxy statement, which will be filed with the Securities and Exchange Commission, relating to our 2014 Annual Meeting of Stockholders (2014 Proxy Statement).

Executive Officers

For information concerning Endo's executive officers, see Part I, Item 1. of this report "Business" under the caption "Executive Officers of the Registrant" and our 2014 Proxy Statement.

Code of Ethics

The information concerning our Code of Conduct, which was recently updated in early 2013, is incorporated herein by reference from our 2014 Proxy Statement and can be viewed on our website, the internet address for which is <http://www.endo.com>.

Audit Committee

The information concerning our Audit Committee is incorporated herein by reference from our 2014 Proxy Statement.

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## Audit Committee Financial Experts

The information concerning our Audit Committee Financial Experts is incorporated herein by reference from our 2014 Proxy Statement.

## Item 11. Executive Compensation

The information required under this Item is incorporated herein by reference from our 2014 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters  
Equity Compensation Plan Information. The following information relates to plans in effect as of December 31, 2013 under which equity securities of Endo may be issued to employees and directors. The Endo Health Solutions Inc. 2004, 2007 and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan (formerly known as the American Medical Systems Holdings, Inc. 2005 Stock Incentive Plan) provide that stock options may be granted thereunder to non-employee consultants.

Plan Category	Column A Number of securities to be issued upon exercise of outstanding options, warrants and rights	Column B Weighted-average exercise price of outstanding options, warrants and rights <sup>(1)</sup>	Column C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A)
Equity compensation plans approved by security holders			
Endo Health Solutions Inc. Assumed Stock Incentive Plan	720,777	\$ 28.23	3,060,614
Endo Health Solutions Inc. 2000 Stock Incentive Plan	101,307	\$ 21.22	—
Endo Health Solutions Inc. 2004 Stock Incentive Plan	617,299	\$ 23.64	16,215
Endo Health Solutions Inc. 2007 Stock Incentive Plan	886,774	\$ 21.19	97,610
Endo Health Solutions Inc. 2010 Stock Incentive Plan	4,179,143	\$ 33.62	5,763,146

<sup>(1)</sup>Excludes shares of restricted stock units outstanding

The other information required under this Item is incorporated herein by reference from our 2014 Proxy Statement.

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

The information required under this Item is incorporated herein by reference from our 2014 Proxy Statement.

## Item 14. Principal Accounting Fees and Services

Information about the fees for 2013 and 2012 for professional services rendered by our independent registered public accounting firm is incorporated herein by reference from our 2014 Proxy Statement. Our Audit Committee's policy on pre-approval of audit and permissible non-audit services of our independent registered public accounting firm is incorporated by reference from our 2014 Proxy Statement.

The information required under this Item is incorporated herein by reference from our 2014 Proxy Statement.

## PART IV

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## Item 15. Exhibits, Financial Statement Schedules

Documents filed as part of this Annual Report on Form 10-K

1. Consolidated Financial Statements: See accompanying Index to Financial Statements.

2. Consolidated Financial Statement Schedule:

## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	Balance at Beginning of Period	Additions, Costs and Expenses	Deductions, Write-offs	Balance at End of Period
Allowance For Doubtful Accounts:				
Year Ended December 31, 2011	\$754	\$12,005	\$(7,504)	) \$5,255
Year Ended December 31, 2012	\$5,255	\$2,817	\$(2,539)	) \$5,533
Year Ended December 31, 2013	\$5,533	\$1,358	\$(1,297)	) \$5,594

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits: The information called for by this Item is incorporated by reference to the Exhibit Index of this Report.

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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.

ENDO HEALTH SOLUTIONS INC.

(Registrant)

/s/ RAJIV DE SILVA

Name: Rajiv De Silva

Title: President and Chief Executive Officer

Date: February 28, 2014

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Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ RAJIV DE SILVA Rajiv De Silva	Director, President and Chief Executive Officer (Principal Executive Officer)	February 28, 2014
/S/ SUKETU P. UPADHYAY Suketu P. Upadhyay	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	February 28, 2014
/S/ DANIEL A. RUDIO Daniel A. Rudio	Vice President, Controller (Principal Accounting Officer)	February 28, 2014
* Roger H. Kimmel	Chairman and Director	February 28, 2014
* John J. Delucca	Director	February 28, 2014
* Nancy J. Hutson, Ph.D.	Director	February 28, 2014
* Arthur J. Higgins	Director	February 28, 2014
* Michael Hyatt	Director	February 28, 2014
* William P. Montague	Director	February 28, 2014
* David B. Nash, M.D., M.B.A.	Director	February 28, 2014
* Jill D. Smith	Director	February 28, 2014
* 	Director	

February 28,  
2014

William F. Spengler

\*By: /S/ CAROLINE B.  
MANOGUE  
Caroline B. Manogue

Attorney-in-fact pursuant to a Power of Attorney filed with this  
Report as Exhibit 24

February 28,  
2014

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Consolidated Balance Sheets as of December 31, 2013 and 2012	F-5
Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011	F-6
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Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2013, 2012 and 2011	F-8
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Endo Health Solutions Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Endo Health Solutions Inc.'s internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of its published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Endo Health Solutions Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992). Based on our assessment we believe that, as of December 31, 2013, the Company's internal control over financial reporting is effective based on those criteria.

Endo Health Solutions Inc.'s independent registered public accounting firm has issued its report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. This report appears on page F-4.

/S/ RAJIV DE SILVA

Rajiv De Silva

Director, President and Chief Executive Officer (Principal Executive Officer)

/S/ SUKETU P. UPADHYAY

Suketu P. Upadhyay

Executive Vice President, Chief Financial Officer (Principal Financial Officer)

February 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Endo Health Solutions Inc.

Malvern, Pennsylvania

We have audited the accompanying consolidated balance sheets of Endo Health Solutions Inc. and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and 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, such consolidated financial statements present fairly, in all material respects, the financial position of Endo Health Solutions Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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 have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2014 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania  
February 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Endo Health Solutions Inc.  
Malvern, Pennsylvania

We have audited the internal control over financial reporting of Endo Health Solutions Inc. and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s 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 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Company and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/S/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania  
February 28, 2014



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ENDO HEALTH SOLUTIONS INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2013 AND 2012

(In thousands, except share and per share data)

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 526,597	\$ 529,689
Restricted cash and cash equivalents	770,000	—
Accounts receivable, net of allowance of \$5,594 and \$5,533 at December 31, 2013 and 2012, respectively	725,827	650,547
Inventories, net	374,439	344,935
Prepaid expenses and other current assets	39,402	21,834
Income taxes receivable	—	36,489
Deferred income taxes	257,985	298,938
Assets held for sale (NOTE 3)	160,257	330,663
Total current assets	\$ 2,854,507	\$ 2,213,095
MARKETABLE SECURITIES	2,979	1,746
PROPERTY, PLANT AND EQUIPMENT, NET	372,077	359,293
GOODWILL	1,372,832	1,853,566
OTHER INTANGIBLES, NET	1,872,926	2,047,292
OTHER ASSETS	96,535	93,567
TOTAL ASSETS	\$ 6,571,856	\$ 6,568,559
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 263,241	\$ 412,065
Accrued expenses	979,964	1,142,196
Current portion of long-term debt	414,929	132,156
Acquisition-related contingent consideration	3,878	6,195
Income taxes payable	3,089	—
Liabilities related to assets held for sale (NOTE 3)	31,571	58,576
Total current liabilities	\$ 1,696,672	\$ 1,751,188
DEFERRED INCOME TAXES	310,764	496,778
ACQUISITION-RELATED CONTINGENT CONSIDERATION	869	2,729
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,323,844	3,035,031
OTHER LIABILITIES	654,491	149,627
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 40,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 350,000,000 shares authorized; 144,413,074 and 140,040,882 shares issued; 115,354,393 and 110,793,855 shares outstanding at December 31, 2013 and December 31, 2012, respectively	1,444	1,400
Additional paid-in capital	1,166,375	1,035,115
Retained earnings	126,234	811,573
Accumulated other comprehensive loss	(4,915	) (6,802
Treasury stock, 29,058,681 and 29,247,027 shares at December 31, 2013 and December 31, 2012, respectively	(763,120	) (768,430
Total Endo Health Solutions Inc. stockholders' equity	\$ 526,018	\$ 1,072,856

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Noncontrolling interests (NOTE 3)	59,198	60,350
Total stockholders' equity	\$ 585,216	\$ 1,133,206
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 6,571,856</b>	<b>\$ 6,568,559</b>

See Notes to Consolidated Financial Statements.

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ENDO HEALTH SOLUTIONS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011  
(In thousands, except per share data)

	2013	2012	2011
REVENUES:			
Net pharmaceutical product sales	\$2,061,916	\$2,297,685	\$2,209,089
Devices revenues	492,226	504,487	300,299
Other revenues	62,765	13,564	15,532
TOTAL REVENUES	\$2,616,907	\$2,815,736	\$2,524,920
COSTS AND EXPENSES:			
Cost of revenues	1,039,516	1,135,681	948,080
Selling, general and administrative	849,339	864,339	783,920
Research and development	142,472	219,139	179,838
Patent litigation settlement, net	—	85,123	—
Litigation-related and other contingencies	484,242	316,425	—
Asset impairment charges	519,011	715,551	116,089
Acquisition-related and integration items	7,952	19,413	32,015
OPERATING (LOSS) INCOME FROM CONTINUING OPERATIONS	\$(425,625 )	\$(539,935 )	\$464,978
INTEREST EXPENSE, NET	173,601	182,834	148,024
LOSS ON EXTINGUISHMENT OF DEBT	11,312	7,215	11,919
OTHER (INCOME) EXPENSE, NET	(50,971 )	439	(1,407 )
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	\$(559,567 )	\$(730,423 )	\$306,442
INCOME TAX	(24,067 )	(36,415 )	112,084
(LOSS) INCOME FROM CONTINUING OPERATIONS	(535,500 )	(694,008 )	194,358
DISCONTINUED OPERATIONS, NET OF TAX (NOTE 3)	(96,914 )	5,987	47,707
CONSOLIDATED NET (LOSS) INCOME	\$(632,414 )	\$(688,021 )	\$242,065
Less: Net income attributable to noncontrolling interests	52,925	52,316	54,452
NET (LOSS) INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$(685,339 )	\$(740,337 )	\$187,613
NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC. COMMON STOCKHOLDERS—BASIC:			
Continuing operations	\$(4.73 )	\$(6.00 )	\$1.67
Discontinued operations	\$(1.32 )	\$(0.40 )	\$(0.06 )
Basic	\$(6.05 )	\$(6.40 )	\$1.61
NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC. COMMON STOCKHOLDERS—DILUTED:			
Continuing operations	\$(4.73 )	\$(6.00 )	\$1.60
Discontinued operations	\$(1.32 )	\$(0.40 )	\$(0.05 )
Diluted	\$(6.05 )	\$(6.40 )	\$1.55
WEIGHTED AVERAGE SHARES:			
Basic	113,295	115,719	116,706
Diluted	113,295	115,719	121,178

See Notes to Consolidated Financial Statements.

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ENDO HEALTH SOLUTIONS INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME  
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011  
(In thousands)

	2013	2012	2011	
CONSOLIDATED NET (LOSS) INCOME		\$(632,414)	\$(688,021)	\$242,065
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Net unrealized gain (loss) on securities:				
Unrealized gains (losses) arising during the period	\$775	\$1,403	\$(2,334 )	
Less: reclassification adjustments for losses realized in net (loss) income	—	775	1,403	1,915 (419 )
Foreign currency translation gain (loss)	714		2,164	(8,071 )
Fair value adjustment on derivatives designated as cash flow hedges:				
Fair value adjustment on derivatives designated as cash flow hedges arising during the period	546	(1,212 )	216	
Less: reclassification adjustments for cash flow hedges settled and included in net (loss) income	(148 )	398	279	(933 ) (1 ) 215
OTHER COMPREHENSIVE INCOME (LOSS)	\$1,887		\$2,634	\$(8,275 )
CONSOLIDATED COMPREHENSIVE (LOSS) INCOME	\$(630,527)		\$(685,387)	\$233,790
Less: Comprehensive income attributable to noncontrolling interests	52,925		52,316	54,452
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$(683,452)		\$(737,703)	\$179,338

See Notes to Consolidated Financial Statements.

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ENDO HEALTH SOLUTIONS INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands, except share data)

	Endo Health Solutions Inc. Shareholders Common Stock				Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Total Endo Health Solutions Inc. Stockholders' Equity	Noncontro Interests (NOTE '3)
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings		Number of Shares	Amount		
BALANCE, JANUARY 1, 2011	136,309,917	\$ 1,363	\$ 860,882	\$ 1,364,297	\$(1,161)	(20,252,022)	\$(483,790)	\$ 1,741,591	\$ 61,738
Net income	—	—	—	187,613	—	—	—	187,613	54,452
Other comprehensive loss	—	—	—	—	(8,275 )	—	—	(8,275 )	—
Compensation related to stock-based awards	—	—	46,013	—	—	—	—	46,013	—
Forfeiture of restricted stock awards	(8,009 )	—	—	—	—	—	—	—	—
Exercise of options	1,274,280	12	28,946	—	—	—	—	28,958	—
Tax benefits of stock awards, net	—	—	3,780	—	—	—	—	3,780	—
Common stock issued	760,814	8	479	—	—	—	—	487	—
Treasury stock acquired	—	—	—	—	—	(926,100 )	(34,702 )	(34,702 )	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(53,997 )
Buy-out of noncontrolling interests, net	—	—	—	—	—	—	—	—	(292 )
Replacement equity issued in connection with the AMS acquisition	—	—	12,220	—	—	—	—	12,220	—
Other	—	—	5	—	—	—	—	5	—
BALANCE, DECEMBER 31, 2011	138,337,002	\$ 1,383	\$ 952,325	\$ 1,551,910	\$(9,436)	(21,178,122)	\$(518,492)	\$ 1,977,690	\$ 61,901

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Net (loss) income	—	—	—	(740,337 )	—	—	—	(740,337 )	52,316
Other comprehensive income	—	—	—	—	2,634	—	—	2,634	—
Compensation related to stock-based awards	—	—	59,395	—	—	—	—	59,395	—
Forfeiture of restricted stock awards	(19,624 )	—	—	—	—	—	—	—	—
Exercise of options	853,794	8	19,350	—	—	—	—	19,358	—
Tax benefits of stock awards, net	—	—	2,537	—	—	—	—	2,537	—
Common stock issued	869,710	9	469	—	—	—	—	478	—
Treasury stock acquired	—	—	—	—	—	(8,304,330 )	(256,000 )	(256,000 )	—
Issuance of common stock from treasury	—	—	—	—	—	235,425	6,062	6,062	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(53,269 )
Buy-out of noncontrolling interests, net	—	—	—	—	—	—	—	—	(598 )
Other	—	—	1,039	—	—	—	—	1,039	—
BALANCE, DECEMBER 31, 2012	140,040,882	\$ 1,400	\$ 1,035,115	\$ 811,573	\$(6,802)	(29,247,027)	\$(768,430)	\$ 1,072,856	\$ 60,350

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	Endo Health Solutions Inc. Shareholders Common Stock				Treasury Stock		Total Endo Health Solutions Inc. Stockholders' Equity	Noncontrolling Interests (NOTE 3)	Total To Stock Equity	
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Number of Shares				Amount
Net (loss) income	—	—	—	(685,339 )	—	—	—	(685,339 )	52,925	(63,414 )
Other comprehensive income	—	—	—	—	1,887	—	—	1,887	—	1,887
Compensation related to stock-based awards	—	—	38,998	—	—	—	—	38,998	—	38,998
Forfeiture of restricted stock awards	(12,191 )	—	—	—	—	—	—	—	—	—
Exercise of options	3,836,560	39	97,090	—	—	—	—	97,129	—	97,129
Tax benefits of stock awards, net	—	—	4,265	—	—	—	—	4,265	—	4,265
Common stock issued	547,823	5	263	—	—	—	—	268	—	268
Tax withholding for restricted shares	—	—	(9,781 )	—	—	—	—	(9,781 )	—	(9,781 )
Treasury stock acquired	—	—	—	—	—	—	—	—	—	—
Issuance of common stock from treasury	—	—	—	—	—	188,346	5,310	5,310	—	5,310
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(52,711 )	(52,711 )
Buy-out of noncontrolling interests, net	—	—	—	—	—	—	—	—	(1,366 )	(1,366 )
Other	—	—	425	—	—	—	—	425	—	425
<b>BALANCE, DECEMBER 31, 2013</b>	<b>144,413,074</b>	<b>\$1,444</b>	<b>\$1,166,375</b>	<b>\$126,234</b>	<b>\$(4,915)</b>	<b>(29,058,681)</b>	<b>\$(763,120)</b>	<b>\$526,018</b>	<b>\$59,198</b>	<b>\$585,816</b>

See Notes to Consolidated Financial Statements.



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ENDO HEALTH SOLUTIONS INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011  
(In thousands)

	2013	2012	2011
<b>OPERATING ACTIVITIES:</b>			
Consolidated net (loss) income	\$ (632,414 )	\$ (688,021 )	\$ 242,065
Adjustments to reconcile consolidated net (loss) income to Net cash provided by operating activities:			
Depreciation and amortization	255,663	285,524	237,414
Stock-based compensation	38,998	59,395	46,013
Amortization of debt issuance costs and premium / discount	36,264	36,699	32,788
Provision for bad debts	3,495	3,402	—
Selling, general and administrative expenses paid in shares of common stock	268	478	234
Deferred income taxes	(155,727 )	(193,960 )	(75,877 )
Net loss on disposal of property, plant and equipment	2,571	50	76
Change in fair value of acquisition-related contingent consideration	823	237	(7,363 )
Loss on extinguishment of debt	11,312	7,215	11,919
Asset impairment charges	680,198	768,467	116,089
Gain on sale of business	(2,665 )	—	(824 )
Changes in assets and liabilities which (used) provided cash:			
Accounts receivable	(80,195 )	40,395	(107,609 )
Inventories	(29,286 )	(95,438 )	(8,703 )
Prepaid and other assets	(23,600 )	18,227	(2,156 )
Accounts payable	(159,532 )	142,609	(30,269 )
Accrued expenses	(167,107 )	424,340	205,020
Other liabilities	487,625	(809 )	(3,029 )
Income taxes payable/receivable	31,826	(74,931 )	46,327
Net cash provided by operating activities	\$ 298,517	\$ 733,879	\$ 702,115
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(96,483 )	(99,818 )	(59,383 )
Proceeds from sale of property, plant and equipment	1,857	1,426	1,626
Acquisitions, net of cash acquired	(3,645 )	(3,175 )	(2,393,397 )
Proceeds from sale of investments	—	18,800	85,025
Purchases of investments	—	—	(14,025 )
Other investments	—	—	(4,628 )
Patent acquisition costs and license fees	(12,000 )	(5,700 )	(2,300 )
Proceeds from sale of business, net	8,150	—	12,990
Settlement escrow	(11,518 )	—	—
Increase in restricted cash and cash equivalents	(770,000 )	—	—
Net cash used in investing activities	\$ (883,639 )	\$ (88,467 )	\$ (2,374,092 )

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## FINANCING ACTIVITIES:

Capital lease obligations repayments	(457	) (859	) (1,444	)
Direct financing arrangement repayments	(3,464	) —	—	
Proceeds from issuance of New 2022 Notes	700,000	—	—	
Proceeds from issuance of 2019 and 2022 Notes	—	—	900,000	
Proceeds from issuance of Term Loans	—	—	2,200,000	
Proceeds from other indebtedness	1,247	—	500	
Principal payments on Term Loans	(152,032	) (362,075	) (689,876	)
Payment on AMS Convertible Notes	(773	) (66	) (519,040	)
Principal payments on other indebtedness	—	(899	) —	
Deferred financing fees	(10,475	) —	(82,504	)
Payment for contingent consideration	(5,000	) —	(827	)
Tax benefits of stock awards	12,017	4,949	5,909	
Payments of tax withholding for restricted shares	(9,781	) —	—	
Exercise of Endo Health Solutions Inc. stock options	97,129	19,358	28,954	
Purchase of common stock	—	(256,000	) (34,702	)
Issuance of common stock from treasury	5,310	6,062	—	
Cash distributions to noncontrolling interests	(52,711	) (53,269	) (53,997	)
Cash buy-out of noncontrolling interests, net of cash contributions	(1,485	) (2,748	) (292	)
Net cash provided by (used in) financing activities	\$579,525	\$(645,547	) \$1,752,681	
Effect of foreign exchange rate	1,692	431	702	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(3,905	) \$296	\$81,406	
LESS: NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS	(813	) (2,749	) 4,488	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS	\$(3,092	) \$3,045	\$76,918	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	529,689	526,644	449,726	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$526,597	\$529,689	\$526,644	
SUPPLEMENTAL INFORMATION:				
Cash paid for interest	\$128,452	\$152,097	\$81,458	
Cash paid for income taxes	\$70,160	\$192,647	\$150,299	
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Purchases of property, plant and equipment financed by capital leases	\$497	\$1,373	\$4,279	
Purchases of property, plant and equipment financed by direct financing arrangement	\$—	\$57,008	\$—	
Accrual for purchases of property, plant and equipment	\$8,351	\$12,237	\$11,704	
See Notes to Consolidated Financial Statements.				

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ENDO HEALTH SOLUTIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 1. DESCRIPTION OF BUSINESS

On May 23, 2012, we changed our name from Endo Pharmaceuticals Holdings Inc. to Endo Health Solutions Inc., which we refer to herein as "Endo", the "Company", "we", "our" or "us". Endo Health Solutions Inc., together with its subsidiaries is a U.S. based, specialty healthcare company focused on branded and generic pharmaceuticals and devices. We aim to partner with healthcare professionals and payment providers to deliver a suite of complementary branded and generic drugs, devices and clinical data to meet the needs of patients in areas such as pain management, urology, oncology and endocrinology. The Company was incorporated on November 18, 1997 under the laws of the State of Delaware.

On July 2, 2010, we acquired HealthTronics, Inc. a provider of healthcare services and manufacturer of certain related medical devices, primarily for the urology community. On September 20, 2010, we acquired Penwest, a drug development company. On November 30, 2010, we acquired Qualitest Pharmaceuticals, a privately-held generics company in the U.S. On June 17, 2011, we acquired AMS, a worldwide developer and provider of technology solutions to physicians treating men's and women's pelvic health conditions.

The Company previously divested two operating divisions of HealthTronics, its image guided radiation therapy (IGRT) in 2011 and its anatomical pathology laboratory business in the third quarter of 2013. On December 28, 2013 the Company's Board of Directors approved a plan to sell the remainder of the HealthTronics business, in its entirety. On February 3, 2014, we completed the sale of HealthTronics.

The assets and liabilities of the HealthTronics business segment are classified as held for sale in the Consolidated Balance Sheets for all periods presented. Depreciation and amortization expense are not recorded on assets held for sale. The operating results of this business segment are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. For additional information, see Note 3. Discontinued Operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation—The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The Consolidated Financial Statements include the accounts of wholly owned subsidiaries, after elimination of intercompany accounts and transactions. Certain prior period amounts have been reclassified to conform to the current period presentation.

Through our ownership in HealthTronics, we own interests in various partnerships and limited liability corporations, or LLCs. We consolidate our investments in these partnerships or LLCs, where we, as the general partner or managing member, exercise effective control, even though our ownership is less than 50%. The related governing agreements provide us with broad powers, and the other parties do not participate in the management of the entity and do not have the substantial ability to remove us. We have reviewed each of the underlying agreements and determined we have effective control. If circumstances changed and it was determined this control did not exist, these investments would be reflected using the equity method of accounting. Although this would change individual line items within our Consolidated Financial Statements it would have no effect on our net income attributable to Endo Health Solutions Inc. and/or total stockholders' equity attributable to Endo Health Solutions Inc.

Use of Estimates—The preparation of our Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in the determination of revenue recognition and sales deductions for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. Significant estimates and assumptions are also required when determining the fair value of certain financial instruments, the valuation of long-lived and indefinite-lived assets, income taxes, contingencies and stock-based compensation. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. Our estimates often are based on complex judgments, probabilities and assumptions that we believe to be reasonable but that are inherently uncertain and

unpredictable. For any given individual estimate or assumption made by us, there may also be other estimates or assumptions that are reasonable.

We regularly evaluate our estimates and assumptions using historical experience and other factors, including the economic environment. As future events and their effects cannot be determined with precision, our estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. Market conditions, such as illiquid credit markets, volatile equity markets, dramatic fluctuations in foreign currency rates and economic downturn, can increase the uncertainty already inherent in our estimates and assumptions. We adjust our estimates and

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assumptions when facts and circumstances indicate the need for change. Those changes generally will be reflected in our consolidated financial statements on a prospective basis unless they are required to be treated retrospectively under the relevant accounting standard. It is possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. We also are subject to other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, litigation, legislation and regulations.

**Customer, Product and Supplier Concentration**—We primarily sell our products directly to a limited number of large pharmacy chains and through a limited number of wholesale drug distributors who, in turn, supply products to pharmacies, hospitals, governmental agencies and physicians. Total revenues from customers who accounted for 10% or more of our total consolidated revenues during the years ended December 31 are as follows:

	2013	2012	2011	
Cardinal Health, Inc.	21	% 25	% 27	%
McKesson Corporation	26	% 26	% 26	%
AmerisourceBergen Corporation	15	% 12	% 14	%

Revenues from these customers are included within our Endo Pharmaceuticals and Qualitest segments.

The Company derives a majority of its total revenues from a limited number of products. Products that accounted for 10% or more of our total revenues during the years ended December 31 were as follows:

	2013	2012	2011	
Lidoderm®	23	% 34	% 33	%
Opana® ER	9	% 11	% 15	%

We have agreements with Novartis Consumer Health, Inc., Novartis AG, Teikoku Seiyaku Co., Ltd., Noramco, Inc., Grünenthal GMBH and Sharp Corporation for the manufacture and supply of a substantial portion of our existing pharmaceutical products. Additionally, we utilize UPS Supply Chain Solutions, Inc. for certain customer service support, warehouse and distribution services, see Note 14. Commitments and Contingencies.

**Revenue Recognition—****Pharmaceutical Products**

Our net pharmaceutical product sales consist of revenues from sales of our pharmaceutical products, less estimates for chargebacks, rebates, sales incentives and allowances, distribution service fees, returns and allowances (collectively revenue reserves). We recognize revenue for product sales when title and risk of loss has passed to the customer, which is typically upon delivery to the customer, when estimated provisions for revenue reserves are reasonably determinable, and when collectability is reasonably assured. Revenue from the launch of a new or significantly unique product, for which we are unable to develop the requisite historical data on which to base estimates of returns and allowances due to the uniqueness of the therapeutic area or delivery technology as compared to other products in our portfolio and in the industry, may be deferred until such time that an estimate can be determined, all of the conditions above are met and when the product has achieved market acceptance, which is typically based on dispensed prescription data and other information obtained during the period following launch.

**Devices**

For inventory on consignment or with field representatives, revenue is recognized at the time the product has been used or implanted. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to our customers providing there are no remaining performance obligations required from us or any matters requiring customer acceptance. In cases where we utilize distributors or ship product directly to the end user, we recognize revenue upon shipment provided all revenue recognition criteria have been met.

**Services**

Our fees for the urology and pathology services performed by HealthTronics are recorded when the procedure is performed and are based on contracted rates. Management fees from our HealthTronics, Inc. limited partnerships are recorded monthly when earned. The assets of this business segment and related liabilities are classified as held for sale in the Consolidated Balance Sheets for all periods presented. The operating results of this business segment are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. For additional information, see Note 3. Discontinued Operations.



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## Other

Product royalties received from third party collaboration partners and licensees of our products and patents are recorded as other revenues. Royalties are recognized as earned in accordance with the contract terms when royalties from third parties can be reasonably estimated and collectability is reasonably assured. If royalties cannot be reasonably estimated or collectability of a royalty amount is not reasonably assured, royalties are recognized as revenue when the cash is received.

**Sales Deductions**—When we recognize net sales from the sale of our pharmaceutical products, we record an adjustment to revenue for estimated revenue reserves. These provisions, are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these adjustments do not appropriately reflect future activity, our financial position, results of operations and cash flows could be materially impacted.

**Research and Development**—Expenditures for research and development are expensed as incurred. Property, plant and equipment that are acquired or constructed for research and development activities and that have alternate future uses are capitalized and depreciated over their estimated useful lives on a straight-line basis. Upfront and milestone payments made to third parties in connection with agreements with third parties are generally expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are generally capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in Other intangibles, net on the Consolidated Balance Sheets.

**Cash and Cash Equivalents**—The Company considers all highly liquid money market instruments with an original maturity of three months or less when purchased to be cash equivalents. At December 31, 2013, cash equivalents were deposited in financial institutions and consisted of immediately available fund balances. The Company maintains its cash deposits and cash equivalents with well-known and stable financial institutions.

**Restricted Cash and Cash Equivalents** —Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in Restricted cash and cash equivalents on our Consolidated Balance Sheets. At December 31, 2013, restricted cash and cash equivalents consists of \$700.0 million from the proceeds of the issuance of the New 2022 Notes and \$70.0 million of additional cash. At December 31, 2013, the proceeds of the issuance of the New 2022 Notes and the additional \$70.0 million are restricted and held in escrow and may not be utilized by the Company until the Paladin Labs, Inc. (Paladin) transaction closes. If the transaction is not consummated before July 1, 2014 the restricted cash and cash equivalents would then be used for general corporate purposes, which may include strategic transactions.

**Cost of Revenues**—Cost of revenues includes all costs directly related to bringing both purchased and manufactured products to their final selling destination. It includes purchasing and receiving costs, direct and indirect costs to manufacture products, including direct materials, direct labor, and direct overhead expenses necessary to acquire and convert purchased materials and supplies into finished goods. Cost of revenues also includes royalties paid or owed by Endo on certain in-licensed products, inspection costs, depreciation, amortization of intangible assets, warehousing costs, freight charges, costs to operate our equipment, and other shipping and handling activity.

**Concentrations of Credit Risk**—Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, marketable debt securities and accounts receivable. We invest our excess cash in high-quality, liquid money market instruments maintained by major U.S. banks and financial institutions. We have not experienced any losses on our cash equivalents.

We perform ongoing credit evaluations of our customers and generally do not require collateral. We have no history of significant losses from uncollectible accounts. Approximately 66% and 68% of our trade accounts receivable balance represent amounts due from three customers at December 31, 2013 and 2012, respectively.

We do not expect our current or future credit risk exposures to have a significant impact on our operations. However, there can be no assurance that our business will not experience any adverse impact from credit risk in the future.

**Inventories**—Inventories consist of finished goods held for distribution, raw materials and work-in-process. Our inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. We write-down inventories to net realizable value based on forecasted demand and market conditions, which may differ

from actual results.

**Property, plant and equipment**—Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful life of the related assets, ranging from 1 to 35 years, on a straight-line basis. Leasehold improvements and capital lease assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the terms of their respective leases. Depreciation is not recorded on assets held for sale.

**Lease Accounting**—The Company accounts for operating lease transactions by recording rent expense on a straight-line basis over the expected life of the lease, commencing on the date it gains possession of leased property. The Company includes tenant

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improvement allowances and rent holidays received from landlords and the effect of any rent escalation clauses as adjustments to straight-line rent expense over the expected life of the lease.

Capital lease transactions are reflected as a liability at the inception of the lease based on the present value of the minimum lease payments or, if lower, the fair value of the property. Assets under capital leases are recorded in Property, plant and equipment, net on the Consolidated Balance Sheets and depreciated in a manner similar to other Property, plant and equipment.

Certain construction projects may be accounted for as direct financing arrangements, whereby the Company records, over the construction period, the full cost of the asset in Property, plant and equipment, net on the Consolidated Balance Sheets. A corresponding liability is also recorded, net of leasehold improvements paid for by the Company, and is amortized over the expected lease term through monthly rental payments using an effective interest method. Assets recorded under direct financing arrangements are depreciated over the lease term.

License Rights—The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from 1 to 15 years, with a weighted average useful life of approximately 8 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms. Amortization expense is not recorded on assets held for sale.

Customer Relationships—Acquired customer relationships are recorded at fair value upon acquisition and are amortized using estimated useful lives ranging from 13 to 17 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for customer relationships based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the customer relationships, contractual terms and our plans regarding our future relations with our customers. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. Amortization expense is not recorded on assets held for sale.

Tradenames—Acquired tradenames are recorded at fair value upon acquisition and, if deemed to have definite lives, are amortized using estimated useful lives ranging from 15 to 30 years, with a weighted average useful life of approximately 24 years. We determine amortization periods for tradenames based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the tradename and our plans regarding the future use of the tradename. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. Amortization expense is not recorded on assets held for sale.

Developed Technology—Acquired developed technology is recorded at fair value upon acquisition and amortized using estimated useful lives ranging from 3 to 20 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for developed technology based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired assets. Such factors include the strength of the intellectual property protection of the product and various other competitive and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. Amortization expense is not recorded on assets held for sale. The value of these assets is subject to continuing scientific, medical and marketplace uncertainty.

Long-Lived Asset Impairment Testing—Long-lived assets, which includes property, plant and equipment and definite-lived intangible assets, are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The impairment testing involves comparing the carrying amount of the asset to the forecasted undiscounted future cash flows generated by that asset. In the event the carrying amount of the asset exceeds the undiscounted future cash flows generated by that asset and the carrying amount is not considered recoverable, an impairment exists. An impairment loss is measured as the excess of the asset's carrying

amount over its fair value. An impairment loss is recognized in net income in the period that the impairment occurs.

**In-Process Research and Development Assets (IPR&D)**—The fair value of IPR&D acquired in a business combination is determined based on the present value of each research project’s projected cash flows using an income approach. Future cash flows are predominately based on the net income forecast of each project, consistent with historical pricing, margins and expense levels of similar products. Revenues are estimated based on relevant market size and growth factors, expected industry trends, individual project life cycles and the life of each research project’s underlying patent. In determining the fair value of each research project, expected cash flows are adjusted for the technical and regulatory risk of completion.

IPR&D is initially capitalized and considered indefinite-lived intangible assets subject to impairment reviews. The reviews, which occur annually on October 1st of each year or more frequently upon the occurrence of certain events, requires the determination

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of the fair value of the respective intangible assets. If the fair value of the intangible assets is less than its carrying amount, an impairment loss is recognized for the difference. For those assets that reach commercialization, the assets are amortized over the expected useful lives.

**Goodwill**—Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is carried at cost. Goodwill is not amortized; rather, it is subject to a periodic assessment for impairment by applying a fair value based test. Goodwill is assessed for impairment on an annual basis as of October 1st of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment model permits, and we utilize, a two-step method for determining goodwill impairment. In the first step, we determine the fair value of our reporting units using a discounted cash flow analysis. If the net book values of a reporting unit exceeds its fair value, we would then perform the second step of the impairment test which requires allocation of the reporting unit's fair value to all of its assets and liabilities using the acquisition method prescribed under authoritative guidance for business combinations. Any residual fair value is being allocated to goodwill. An impairment charge is recognized only when the implied fair value of our reporting unit's goodwill is less than its carrying amount.

**Advertising Costs**—Advertising costs are expensed as incurred and included in Selling, general and administrative expenses and amounted to \$38.3 million, \$41.8 million and \$54.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**Income Taxes**—Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse.

Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

**Contingencies**—The Company is subject to various patent challenges, product liability claims, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses. Contingent accruals are recorded with a corresponding charge to Litigation-related and other contingencies in the Consolidated Statements of Operations when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgment regarding future events.

**Stock-Based Compensation**—The Company accounts for its stock-based compensation plans in accordance with FASB Codification Topic 718, Stock Compensation. Accordingly, stock-based compensation for employees and non-employee directors is measured at the grant date based on the estimated fair value of the award and is recognized as an expense over the requisite service period. Stock-based compensation expense is reduced for estimated future forfeitures. These estimates are revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation expense in the period in which the change in estimate occurs.

**Segment Information**— The Company operates in three reportable segments. These segments are: (1) Endo Pharmaceuticals (formerly Branded Pharmaceuticals), (2) Qualitest (formerly Generics) and (3) AMS (formerly Devices). A summary of our total revenues to external customers and adjusted income before income tax for each of

our segments is found in Note 6. Segment Results.

**Comprehensive Income**—Comprehensive income includes all changes in equity during a period except those that resulted from investments by or distributions to a company's stockholders. Other comprehensive income or loss refers to revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity.

**Treasury Stock**—Treasury stock consists of shares of Endo Health Solutions Inc. that have been issued but subsequently reacquired. We account for treasury stock purchases under the cost method. In accordance with the cost method, we account for the entire cost of acquiring shares of our stock as treasury stock, which is a contra equity account. When these shares are reissued, we use an average cost method for determining cost. Proceeds in excess of cost are then credited to Additional paid-in capital.

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**Foreign Currency Translation**—The financial statements for operations outside the U.S. are maintained primarily in their local currency. All assets and liabilities of our international subsidiaries are translated to U.S. dollars at year-end exchange rates, while elements of the statement of operations are translated at average exchange rates in effect during the year. Translation adjustments arising from the use of differing exchange rates are included in accumulated other comprehensive income in stockholders' equity with the exception of inter-company balances not considered permanently invested which are included in Other income, net. The balance of cumulative translation adjustments included in accumulated other comprehensive income was a loss of \$5.2 million at December 31, 2013 and a loss of \$5.9 million at December 31, 2012. Gains and losses on foreign currency transactions are also included in Other (income) expense, net.

**Convertible Senior Subordinated Notes**—We accounted for the issuance of our 1.75% Convertible Senior Subordinated Notes due April 2015 (the Convertible Notes) in accordance with the guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion, which among other items, specifies that contracts issued or held by an entity that are both (1) indexed to the entities own common stock and (2) classified in stockholders' equity in its statement of financial position are not considered to be derivative financial instruments if the appropriate provisions are met. Accordingly, we have recorded the Convertible Notes as long-term debt in the accompanying Consolidated Balance Sheets.

**Convertible Notes Hedge & Warrants**—Concurrent with the issuance of the Convertible Notes we entered into privately negotiated common stock call options with affiliates of the initial purchasers. In addition, we sold warrants to affiliates of certain of the initial purchasers. In addition to entering into the convertible note hedge transaction and the warrant transaction, we entered into a privately-negotiated accelerated share repurchase agreement with the same counterparty, as part of our broader share repurchase program described in Note 16. Stockholders' Equity. We accounted for the call options, warrants, and accelerated share repurchase agreement in accordance with the guidance regarding the accounting derivative financial instruments indexed to, and potentially settled in, a company's own stock. The call options, warrants, and accelerated share repurchase agreement meet the requirements to be accounted for as equity instruments. The cost of the call options and the proceeds related to the sale of the warrants are included in additional paid-in capital in the accompanying Consolidated Balance Sheets.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The amendments in this update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. This guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective on a retrospective basis for fiscal years and interim periods within those fiscal years beginning after December 15, 2013 and early adoption is permitted. The Company is currently evaluating ASU 2013-04 but does not expect the impact of adoption to be material to the Company's Consolidated Financial Statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, in order to eliminate the diversity in practice in the presentation of unrecognized tax benefits in such instances. This guidance generally requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the

entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company is currently evaluating ASU 2013-11 but does not expect the impact of adoption to be material to the Company's Consolidated Financial Statements.

**NOTE 3. DISCONTINUED OPERATIONS**

On December 28, 2013 the Company's Board of Directors approved a plan to sell its HealthTronics business and the Company entered into a definitive agreement to sell the business on January 9, 2014 to Altaris Capital Partners LLC for an upfront cash payment of \$85.0 million, subject to cash and other working capital adjustments. In addition, the Company received rights to additional cash payments of up to \$45.0 million based on the future operating performance of HealthTronics for a total consideration of up to \$130.0

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million. Additional cash payments, if any will be recorded when earned. The Company also retained income taxes payable, certain deferred tax assets related to net operating loss carryforwards and unrecognized tax benefits which were approximately \$50.7 million, \$28.0 million, and \$9.3 million, respectively, at December 31, 2013. The sale was completed on February 3, 2014. The anticipated pre-tax loss on the sale is approximately \$118.9 million, which is the amount of the charge the Company recognized to write down the book value of the assets to fair value less costs to sell.

The assets of this business segment and related liabilities are classified as held for sale in the Consolidated Balance Sheets for all periods presented. Depreciation and amortization expense are not recorded on assets held for sale. The operating results of this business segment are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. Financial results are only related to disposed of or to-be-disposed of businesses.

The following table provides the operating results of Discontinued operations, net of tax for the three years ended December 31 (in thousands):

	2013	2012	2011
Revenue	\$207,194	\$211,627	\$205,201
(Loss) income from discontinued operations before income taxes	\$(119,690)	\$(11,160)	\$45,249
Income taxes	(22,776)	(17,147)	(2,458)
Discontinued operations, net of tax	\$(96,914)	\$5,987	\$47,707

In the fourth quarter of 2013, the Company recorded an estimated loss on sale of \$118.9 million to write down the book value of the reporting units' assets to fair value less estimated costs to sell. In the third quarter of 2013, the Company recorded an estimated goodwill impairment charge of \$38.0 million, representing the difference between the estimated implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. In the second quarter of 2013, the Company recorded an estimated loss on sale charge of \$4.2 million on property, plant and equipment, accounts receivable and other intangibles to write down the book value of the anatomical pathology services business to fair value less estimated costs to sell. Upon sale, the Company recognized a pre-tax gain of \$2.7 million. In the fourth quarter of 2012, the Company recorded a goodwill impairment charge of \$49.9 million, representing the difference between the implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. In 2011, the Company divested its image guided radiation therapy (IGRT) business for total consideration of approximately \$13.0 million, resulting in a pre-tax gain of \$0.8 million.

The following table provides the components of Assets held for sale and Liabilities related to assets held for sale as of December 31 (in thousands):

	2013	2012
Current assets	\$69,131	\$86,802
Property, plant and equipment	23,461	26,375
Goodwill and other intangibles, net	58,761	212,466
Other assets	8,904	5,020
Assets held for sale	\$160,257	\$330,663
Current liabilities	\$27,656	\$35,408
Long term debt, less current portion, net	3,354	2,916
Other liabilities	561	20,252
Liabilities related to assets held for sale	\$31,571	\$58,576

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## NOTE 4. RESTRUCTURING

## June 2013 Restructuring Initiative

On June 4, 2013, the Company's Board of Directors (the Board) approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value. These actions were the result of a comprehensive assessment of the Company's strengths and challenges, its cost structure and execution capabilities, and its most promising opportunities to drive future cash flow and earnings growth. The cost reduction initiatives include a reduction in headcount of approximately 15% worldwide, streamlining of general and administrative expenses, optimizing commercial spend and refocusing research and development efforts.

As a result of the June 2013 restructuring initiative, the Company incurred restructuring expenses of \$56.3 million during the year ended December 31, 2013, consisting of \$41.4 million of employee severance and other benefit-related costs, \$12.0 million of other costs associated with the restructuring, mainly contract termination fees and \$2.8 million of asset impairment charges. The Company anticipates there will be additional pre-tax restructuring expenses of \$3.7 million, primarily attributable to certain facility exit costs and employee severance and other benefit-related costs which will be incurred throughout 2014. The majority of these restructuring costs, with the exception of the costs related to HealthTronics, are included in Selling, general and administrative expense in the Consolidated Statements of Operations. The operating results of Healthtronics are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented.

As of December 31, 2013, the accrual related to the June 2013 restructuring initiative was \$12.3 million. Approximately \$10.9 million is included in Accrued expenses and approximately \$1.4 million is included in Liabilities related to assets held for sale in the Consolidated Balance Sheets. There was no such restructuring accrual for these actions as of December 31, 2012. Changes to this accrual during the year ended December 31, 2013 were as follows, with the exception of non-cash impairment charges, which were excluded (in thousands):

	Employee Severance and Other Benefit-Related Costs	Other Restructuring Costs	Total
Liability balance as of December 31, 2012	\$ —	\$ —	\$ —
Expenses	41,435	11,966	53,401
Cash distributions	(34,056 )	(6,076 )	(40,132 )
Other non-cash adjustments	—	(971 )	(971 )
Liability balance as of December 31, 2013	\$ 7,379	\$ 4,919	\$ 12,298

A summary of expenses related to the June 2013 restructuring initiatives is included below by reportable segment and other for the year ended December 31, 2013 (in thousands):

	Employee Severance and Other Benefit-Related Costs	Asset Impairment Charges	Other Restructuring Costs	Total
Endo Pharmaceuticals	\$ 22,847	\$ 2,849	\$ 8,780	\$ 34,476
Qualitest	262	—	1,142	1,404
AMS	6,645	—	2,004	8,649
Discontinued operations (NOTE 3)	3,260	—	40	3,300
Corporate unallocated	8,421	—	—	8,421
Total	\$ 41,435	\$ 2,849	\$ 11,966	\$ 56,250

Of the \$3.7 million of additional pre-tax restructuring expenses the Company expects to incur, \$2.1 million relates to Corporate, \$1.4 million relates to the AMS segment and \$0.2 million relates to the Endo Pharmaceuticals segment. Segment operating results do not include restructuring expenses as segment performance is evaluated excluding such expenses. See further discussion in Note 6. Segment Results.

**Other Restructuring Initiatives**

During 2013 and 2012, the Company undertook certain other restructuring initiatives that were individually not material to the Company's Consolidated Financial Statements for any of the periods presented. On an aggregate basis, the Company recorded charges related to these initiatives totaling \$10.3 million during the year ended December 31, 2013, which primarily consisted of employee

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severance and other benefit-related costs, accelerated depreciation and asset impairment charges. Additionally, the Company incurred lease-exit costs of \$7.8 million during the year ended December 31, 2013 upon the cease use dates of our Chadds Ford, Pennsylvania and Westbury, New York properties, consisting of our remaining obligations under the respective lease agreements. During the year ended December 31, 2012 the Company recorded \$43.6 million related to these initiatives, primarily related to employee severance and other benefit-related costs. The majority of these costs are included in Selling, general and administrative expense in the Consolidated Statements of Operations. The liability related to these initiatives totaled \$16.1 million and \$19.2 million at December 31, 2013 and December 31, 2012, respectively. The majority of the liability is included in Accrued expenses in the Consolidated Balance Sheets. The change in the liability relates primarily to cash payments made during 2013, partially offset by the recognition of the expenses mentioned in the preceding paragraph.

## NOTE 5. ACQUISITIONS

## AMS

On June 17, 2011 (the AMS Acquisition Date), the Company completed its acquisition of all outstanding shares of common stock of AMS for approximately \$2.4 billion in aggregate consideration, including \$70.8 million related to existing AMS stock-based compensation awards and certain other amounts, at which time AMS became a wholly-owned, indirect subsidiary of the Company. AMS's shares were purchased at a price of \$30.00 per share. AMS is a worldwide developer and provider of technology solutions to physicians treating men's and women's pelvic health conditions. The AMS business and applicable services include:

## Men's Health.

AMS supplies surgical solutions for the treatment of male urinary incontinence, the involuntary release of urine from the body. The fully implantable AMS 800<sup>®</sup> system includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. Since 2000, AMS has also been selling the InVance<sup>®</sup> sling system, a less-invasive procedure for men with moderate incontinence, and in 2007, AMS released the Advance<sup>®</sup> sling system for the treatment of mild to moderate stress urinary incontinence. AMS also offers the UroLume<sup>®</sup> endoprosthesis stent as a less invasive procedure for patients who may not be good surgical candidates, as well as for men suffering from bulbar urethral strictures.

AMS also supplies penile implants to treat erectile dysfunction, the inability to achieve or maintain an erection sufficient for sexual intercourse, with a series of semi-rigid malleable prostheses and a complete range of more naturally functioning inflatable prostheses, including the AMS 700<sup>®</sup> MS. AMS has refined its implants over the years with improvements to the AMS 700<sup>®</sup> series of inflatable prostheses, including the AMS 700 LGX<sup>®</sup> and the MS Pump<sup>®</sup>. Another key factor that distinguishes AMS's products is the use of the InhibiZone<sup>®</sup> antibiotic coating, which received FDA approval in July 2009 for AMS's product claim that InhibiZone<sup>®</sup> reduces the rate of revision surgery due to surgical infections.

## Women's Health.

AMS offers a broad range of systems, led by Monarc<sup>®</sup> and MiniArc<sup>®</sup>, to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. Monarc<sup>®</sup> incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramin. AMS's MiniArc<sup>®</sup> Single-Incision Sling for stress incontinence was released in 2007 and requires just one incision to surgically place a small sling under the urethra, which minimizes tissue disruption and potential for blood loss, thereby allowing the procedure to be done with less anesthesia on an outpatient basis. In 2010, AMS launched the MiniArc<sup>®</sup> Precise<sup>™</sup>, which is designed to enhance the ease and accuracy of placement of the MiniArc device.

AMS also offers solutions for pelvic floor prolapse and other pelvic floor disorders, which may be caused by pregnancy, labor, and childbirth. In 2008, AMS introduced the Elevate<sup>®</sup> transvaginal pelvic floor repair system, with no external incisions. Using an anatomically designed needle and self-fixating tips, Elevate<sup>®</sup> allows for safe, simple and precise mesh placement through a single vaginal incision. The posterior system was launched in 2008 and the anterior system was launched in 2009.

## Prostate Health.

AMS's products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. AMS offers men experiencing a physical obstruction of the prostatic urethra an alternative to a transurethral resection of the prostate (TURP), with the GreenLight™ photovaporization of the prostate. This laser therapy is designed to reduce the comorbidities associated with TURP. AMS's GreenLight™ XPS and MoXy™ Liquid Cooled Fiber provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and providing enhanced surgical

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control compared to other laser systems. AMS also offers the StoneLight® laser and SureFlex™ fiber optics for the treatment of urinary stones. StoneLight® is a lightweight and portable 15-watt holmium laser that offers the right amount of power to effectively fragment most urinary stones. The SureFlex™ fiber optic line is engineered to deliver more energy safely and effectively, even under maximum scope deflection, for high performance holmium laser lithotripsy.

AMS's TherMatrx® product is designed for those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired. It is a less-invasive tissue ablation technique that can be performed in a physician's office using microwave energy delivered to the prostate.

The acquisition of AMS strengthens our leading core urology franchise and expands our presence in the medical devices market. We believe the combination of AMS with Endo's existing platform will provide additional cost-effective solutions across the entire urology spectrum.

The operating results of AMS from and including June 18, 2011 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012 reflect the acquisition of AMS, effective June 18, 2011.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the AMS Acquisition Date (in thousands):

	June 17, 2011 (As adjusted)
Cash and cash equivalents	\$47,289
Commercial paper	71,000
Accounts receivable	73,868
Other receivables	630
Inventories	74,988
Prepaid expenses and other current assets	7,133
Income taxes receivable	9,154
Deferred income taxes	15,432
Property, plant and equipment	56,413
Other intangible assets(1)	1,260,000
Other assets	4,581
Total identifiable assets	\$1,620,488
Accounts payable	\$10,327
Accrued expenses	45,835
Deferred income taxes	416,745
Long-term debt	520,375
Other liabilities	25,891
Total liabilities assumed	\$1,019,173
Net identifiable assets acquired	\$601,315
Goodwill(2)	1,798,661
Net assets acquired	\$2,399,976

(1) Subsequent pre-tax non-cash impairment charges totaling \$12.0 million and \$135.5 million related to Other intangible assets were recorded in 2013 and 2012, respectively.

(2) Subsequent pre-tax non-cash impairment charges of \$481.0 million and \$507.5 million related to this Goodwill were recorded in the fourth quarter of 2013 and 2012, respectively. These impairment charges are further discussed in Note 10. Goodwill and Other Intangibles.

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the AMS Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. Our measurement period adjustments are complete.



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The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Customer Relationships:		
Men's Health	\$97	17
Women's Health	37	15
Prostate Health	26	13
Total	\$160	16
Developed Technology:		
Men's Health	\$690	18
Women's Health(1)	150	9
Prostate Health	161	18
Total	\$1,001	16
Tradenames:		
AMS	\$45	30
GreenLight	12	15
Total	\$57	27
In Process Research & Development:		
Oracle(2)	\$12	n/a
Genesis(3)	14	n/a
TOPAS(4)	8	n/a
Other(5)	8	n/a
Total	\$42	n/a
Total other intangible assets	\$1,260	n/a

(1) A subsequent pre-tax non-cash impairment charge of \$128.5 million was recorded in the fourth quarter of 2012.

(2) A subsequent pre-tax non-cash impairment charge of \$4.0 million was recorded in the fourth quarter of 2012.

(3) A subsequent pre-tax non-cash impairment charge of \$6.0 million was recorded in the fourth quarter of 2013.

(4) A subsequent pre-tax non-cash impairment charge of \$2.0 million was recorded in the fourth quarter of 2013.

Subsequent pre-tax non-cash impairment charges of \$4.0 million and \$3.0 million were recorded in the fourth (5) quarter of 2013 and the second quarter of 2012, respectively. These impairment charges are further discussed in Note 10. Goodwill and Other Intangibles.

The fair value of the developed technology, IPR&D and customer relationship assets were estimated using a discounted present value income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. The fair value of the AMS and GreenLight tradenames were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the AMS or GreenLight tradename. Thus, we derived the hypothetical royalty income from the projected revenues of AMS and GreenLight products, respectively. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The \$1.8 billion of goodwill has been assigned to our AMS segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the entire urology spectrum, expected corporate synergies, the assembled workforce of AMS and other factors. Approximately \$16.5 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$15.4 million are related primarily to federal net operating loss and credit carryforwards of AMS and its subsidiaries. Deferred tax liabilities of \$416.7 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

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The Company recognized \$1.1 million, \$7.7 million and \$28.8 million of AMS acquisition-related and integration costs that were expensed during the years ended December 31, 2013, 2012 and 2011 respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2013	2012	2011
Bank fees	\$—	\$—	\$16,070
Legal, separation, integration, and other costs	1,124	7,672	12,684
Total	\$1,124	\$7,672	\$28,754

Transaction costs directly associated with the closing of the acquisition in 2011 and included in the table above totaled \$25.8 million.

The amounts of revenue and net loss of AMS included in the Company's Consolidated Statements of Operations from and including June 18, 2011 to December 31, 2011 are as follows (in thousands, except per share data):

Revenue	\$300,299
Net loss attributable to Endo Health Solutions Inc.	\$(329)
Basic and diluted net loss per share	\$—

The following supplemental pro forma information presents the financial results as if the acquisition of AMS had occurred on January 1, 2011 for the year ended December 31, 2011. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2011, nor are they indicative of any future results.

	Year Ended December 31, 2011
Unaudited pro forma consolidated results (in thousands, except per share data):	
Revenue	\$2,968,497
Net income attributable to Endo Health Solutions Inc.	\$214,487
Basic net income per share	\$1.84
Diluted net income per share	\$1.77

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of AMS to reflect factually supportable adjustments that give effect to events that are directly attributable to the AMS Acquisition, including borrowings to finance the acquisition as well as the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, inventory, and intangible assets, had been applied on January 1, 2011, together with the consequential tax effects.

**NOTE 6. SEGMENT RESULTS**

On December 28, 2013 the Company's Board of Directors approved a plan to sell its HealthTronics business segment and the Company entered into a definitive agreement to sell the business segment on January 9, 2014. The assets of this business segment and related liabilities are classified as held for sale in the Consolidated Balance Sheets for all periods presented. Depreciation and amortization expense are not recorded on assets held for sale. The operating results of this business segment are reported as Discontinued operations, net of tax in the Consolidated Statements of Operations for all periods presented. For additional information, see Note 3. Discontinued Operations.

The three remaining reportable business segments in which the Company now operates are: (1) Endo Pharmaceuticals, (2) Qualitest and (3) AMS. Each segment derives revenue from the sales or licensing of their respective products or services.

We evaluate segment performance based on each segment's adjusted income (loss) from continuing operations before income tax, which we define as income (loss) from continuing operations before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.



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Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income from continuing operations before income tax by adding the amounts for each of our reportable segments to Corporate unallocated adjusted loss from continuing operations before income tax

**Endo Pharmaceuticals**

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm®, Opana® ER, Voltaren® Gel, Percocet®, Frova®, Fortesta® Gel, Supprelin® LA, Vantas® and Valstar®.

**Qualitest**

The Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. The product offerings of this segment include products in the pain management, urology, CNS disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

**AMS**

The AMS segment focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and benign prostatic hyperplasia (BPH) therapy. AMS distributes devices through its direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, AMS distributes devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of AMS's customers or distributors accounted for 10% or more of our total revenues during the years ended December 31, 2013, 2012 or 2011. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

The following represents selected information for the Company's reportable segments for the years ended December 31 (in thousands):

	2013	2012	2011
Net revenues to external customers:			
Endo Pharmaceuticals	\$1,394,015	\$1,677,984	\$1,657,767
Qualitest	730,666	633,265	566,854
AMS(1)	492,226	504,487	300,299
Total consolidated net revenues to external customers	\$2,616,907	\$2,815,736	\$2,524,920
Adjusted income (loss) from continuing operations before income tax:			
Endo Pharmaceuticals	\$783,927	\$906,839	\$890,951
Qualitest	193,643	171,418	107,204
AMS	144,792	119,852	82,418
Corporate unallocated	(319,369)	(337,152)	(318,277)
Total consolidated adjusted income from continuing operations before income tax	\$802,993	\$860,957	\$762,296

(1) The following table displays our AMS segment revenue by geography for the years ended December 31 (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2013	2012	2011
AMS:			
United States	\$315,054	\$330,087	\$202,462
International	177,172	174,400	97,837
Total AMS revenues	\$492,226	\$504,487	\$300,299

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The table below provides reconciliations of our consolidated adjusted income from continuing operations before income tax to our consolidated (loss) income from continuing operations before income tax, which is determined in accordance with U.S. GAAP, for the years ended December 31 (in thousands):

	2013	2012	2011
Total consolidated adjusted income from continuing operations before income tax:	\$802,993	\$860,957	\$762,296
Upfront and milestone payments to partners	(29,703	) (60,778	) (28,098
Asset impairment charges	(519,011	) (715,551	) (116,089
Acquisition-related and integration items(1)	(7,952	) (19,413	) (32,015
Separation benefits and other cost reduction initiatives(2)	(100,253	) (42,913	) (17,390
Amortization of intangible assets	(185,334	) (220,320	) (185,017
Inventory step-up	—	(880	) (49,010
Non-cash interest expense	(22,742	) (20,762	) (18,952
Loss on extinguishment of debt	(11,312	) (7,215	) (11,919
Watson litigation settlement income, net	50,400	—	—
Accrual for payment to Impax Laboratories Inc. related to sales of Opana® ER	—	(102,000	) —
Patent litigation settlement items, net	—	(85,123	) —
Certain litigation-related charges(3)	(537,701	) (316,425	) —
Other income, net	1,048	—	2,636
Total consolidated (loss) income from continuing operations before income tax	\$ (559,567	) \$ (730,423	) \$ 306,442

Acquisition-related and integration-items include costs directly associated with the closing of certain immaterial (1) acquisitions, changes in the fair value of contingent consideration and the costs of integration activities related to both current and prior period acquisitions.

Separation benefits and other cost reduction initiatives include employee separation costs of \$42.4 million and \$39.5 million for the years ended December 31, 2013 and 2012, respectively. Contract termination fees of \$5.8 million for the year ended December 31, 2013 are also included in this amount. Refer to Note 4. Restructuring for discussion of our material restructuring initiatives. Additionally, Separation benefits and other cost reduction (2) initiatives during the year ended December 31, 2013 includes an expense recorded upon the cease use date of our Chadds Ford, Pennsylvania properties in the first quarter of 2013, representing a liability for our remaining obligations under the respective lease agreements of \$7.2 million. These expenses were primarily recorded as Selling, general and administrative and Research and development expense in our Consolidated Statements of Operations.

(3) This amount includes charges for Litigation-related and other contingencies, consisting primarily of mesh-related product liability charges, as well as mesh litigation-related defense costs for the year ended December 31, 2013.

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The following represents additional selected financial information for our reportable segments for the three years ended December 31 (in thousands):

	2013	2012	2011
Depreciation expense:			
Endo Pharmaceuticals	\$19,828	\$15,540	\$13,264
Qualitest	13,354	12,343	11,468
AMS	10,215	10,667	4,984
Corporate unallocated	8,354	5,033	3,799
Total depreciation expense	\$51,751	\$43,583	\$33,515
	2013	2012	2011
Amortization expense:			
Endo Pharmaceuticals	\$80,223	\$105,974	\$104,439
Qualitest	43,924	41,524	39,078
AMS	61,788	73,422	42,099
Total amortization expense	\$185,935	\$220,920	\$185,616

Interest income and expense are considered corporate items and are not allocated to our segments. Asset information is not accounted for at the segment level and consequently is not reviewed or included within our internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

**NOTE 7. FAIR VALUE MEASUREMENTS****Financial Instruments**

The financial instruments recorded in our Consolidated Balance Sheets include cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, marketable securities, equity and cost method investments, accounts payable and accrued expenses, acquisition-related contingent consideration, debt obligations, and derivative instruments. Included in cash and cash equivalents and restricted cash and cash equivalents are money market funds representing a type of mutual fund required by law to invest in low-risk securities (for example, U.S. government bonds, U.S. Treasury Bills and commercial paper). Money market funds are structured to maintain the fund's net asset value at \$1.00 per unit, which assists in providing adequate liquidity upon demand by the holder. Money market funds pay dividends that generally reflect short-term interest rates. Thus, only the dividend yield fluctuates. Due to their short-term maturity, the carrying amounts of non-restricted and restricted cash and cash equivalents (including money market funds), accounts receivable, accounts payable and accrued expenses approximate their fair values.

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The following table presents the carrying amounts and estimated fair values of our other financial instruments at December 31, 2013 and December 31, 2012 (in thousands):

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term assets:				
Equity securities	\$2,979	\$2,979	\$1,746	\$1,746
Equity and cost method investments	15,654	N/A	14,604	N/A
	\$18,633		\$16,350	
Current liabilities:				
Acquisition-related contingent consideration—short-term	\$3,878	\$3,878	\$6,195	\$6,195
Current portion of 1.75% Convertible Senior Subordinated Notes Due 2015, net	345,421	372,481	—	—
Current portion of Term Loan A Facility Due 2018	69,375	69,375	131,250	131,250
3.25% AMS Convertible Notes due 2036	22	22	795	795
4.00% AMS Convertible Notes due 2041	111	111	111	111
Derivative instruments	—	—		