UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 2, 2015

ENDO INTERNATIONAL PLC
(Exact Name of Registrant as Specified in Charter)

Ireland	001-36326	Not Applicable
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

First Floor, Minerva House, Simmonscourt Road, Ballsbridge, Dublin 4, Ireland
(Address of principal executive offices)

Registrant's telephone number, including area code 011-353-1-268-2000

Not Applicable
Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On January 29, 2015, Endo International plc (the "Company") completed the acquisition of Auxilium Pharmaceuticals, Inc. ("Auxilium") whereby, pursuant to an Amended and Restated Agreement and Plan of Merger among the Company, Auxilium and the Company's subsidiaries, Endo U.S. Inc. and Avalon Merger Sub Inc. ("Auxilium Merger Sub"), Auxilium Merger Sub merged with and into Auxilium (the "Auxilium Merger"), with Auxilium surviving the Auxilium Merger as an indirect wholly-owned subsidiary of the Company.

On May 18, 2015, the Company entered into an Agreement and Plan of Merger with Par Pharmaceutical Holdings, Inc. ("Par"), the Company's subsidiaries, Endo Limited, Endo Health Solutions Inc., Banyuls Limited (in the process of changing its name to Hawk Acquisition Ireland Limited) and Hawk Acquisition ULC ("Par Merger Sub"), and Shareholder Representative Services LLC, solely as representative of the Par stockholders, pursuant to which Par Merger Sub will merge with and into Par (the "Par Merger"), with Par surviving the Par Merger as an indirect wholly-owned subsidiary of the Company.

The Company is filing this Current Report on Form 8-K to provide: (1) the audited consolidated financial statements of Auxilium as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, attached hereto as Exhibit 99.1, (2) the audited consolidated financial statements of Par as of December 31, 2014 and 2013 and for the years ended December 31, 2014 and 2013 (successor), for the period July 12, 2012 (inception) to December 31, 2012 (successor) and the period January 1, 2012 to September 28, 2012 (predecessor), attached hereto as Exhibit 99.2 , (3) the condensed consolidated financial statements of Par as of March 31, 2015 (unaudited) and December 31, 2014 and for the three months ended March 31, 2015 and 2014 (unaudited), attached hereto as Exhibit 99.3 and (4) the Company's unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2015 and for the year ended December 31, 2014, attached hereto as Exhibit 99.4. The information in Exhibits 99.1, 99.2, 99.3 and 99.4 is incorporated by reference into this Item 8.01.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of Auxilium as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 are filed herewith as Exhibit 99.1 and are incorporated into this Item 9.01(a) by reference.

The audited consolidated financial statements of Par as of December 31, 2014 and 2013 and for the years ended December 31, 2014 and 2013 (successor), for the period July 12, 2012 (inception) to December 31, 2012 (successor) and the period January 1, 2012 to September 28, 2012 (predecessor) are filed herewith as Exhibit 99.2 and incorporated into this Item 9.01(a) by reference.

The condensed consolidated financial statements of Par as of March 31, 2015 (unaudited) and December 31, 2014 and for the three months ended March 31, 2015 and 2014 (unaudited) are filed herewith as Exhibit 99.3 and are incorporated into this Item 9.01(a) by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of the Company as of and for the three months ended March 31, 2015 and for the year ended December 31, 2014 are filed herewith as Exhibit 99.4 and are incorporated into this Item 9.01(b) by reference.

(d) Exhibits.

23.1	Consent of PricewaterhouseCoopers LLP related to Auxilium Pharmaceuticals, Inc.
23.2	Consent of Ernst & Young LLP related to Par Pharmaceutical Holdings, Inc.
23.3	Consent of Deloitte & Touche LLP related to Par Pharmaceutical Holdings, Inc. (Successor)
23.4	Consent of Deloitte & Touche LLP related to Par Pharmaceutical Companies, Inc. (Predecessor)
99.1	Audited Consolidated Financial Statements of Auxilium Pharmaceuticals, Inc. as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012
99.2	Audited Consolidated Financial Statements of Par Pharmaceutical Holdings, Inc. as of December 31, 2014 and 2013 and for the years ended December 31, 2013 and 2014 (Successor), for the period July 12, 2012 (Inception) to December 31, 2012 (Successor) and the period January 1, 2012 to September 28, 2012 (Predecessor)
99.3	Condensed Consolidated Financial Statements of Par Pharmaceutical Holdings, Inc. as of March 31, 2015 (Unaudited) and December 31, 2014 and for the three months ended March 31, 2015 and 2014 (Unaudited)
99.4	Unaudited Pro forma Condensed Combined Financial Statements of Endo International plc as of and for the three months ended March 31, 2015 and for the year ended December 31, 2014

SIGNATURE

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

Dated: June 2, 2015

ENDO INTERNATIONAL PLC

By: /s/ Matthew J. Maletta
Name: Matthew J. Maletta
Title: Executive Vice President
and Chief Legal Officer

Index of Exhibits

Exhibit Number	Description
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Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 (No.333-194253) of Endo International PLC of our report dated April 2, 2015, relating to the financial statements of Auxilium Pharmaceutical Inc., which appears in this Current Report on Form 8-K of Endo International PLC dated June 2, 2015.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
June 2, 2015

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-194253 on Form S-8 of Endo International plc of our report dated March 12, 2015 with respect to the consolidated financial statements of Par Pharmaceutical Holdings, Inc. included in this Current Report on Form 8-K.

/s/ Ernst & Young LLP
MetroPark, New Jersey
June 2, 2015

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-194253 on Form S-8 of Endo International plc of our report dated March 12, 2015, relating to the consolidated financial statements of Par Pharmaceutical Holdings, Inc. and subsidiaries comprised of the consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the period July 12, 2012 (Date of Inception) through December 31, 2012 (Successor) (which report expresses an unqualified opinion on the consolidated financial statements and includes an explanatory paragraph referring to the merger transaction with Par Pharmaceutical Companies, Inc. and Sky Growth Acquisition Corporation) appearing in this Current Report on Form 8-K of Endo International plc filed on June 2, 2015.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
June 2, 2015

Exhibit 23.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-194253 on Form S-8 of Endo International plc of our report dated March 20, 2013, relating to the consolidated financial statements of Par Pharmaceutical Companies, Inc. and subsidiaries comprised of the consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the period January 1, 2012 through September 28, 2012 (Predecessor) (which report expresses an unqualified opinion on the consolidated financial statements and includes an explanatory paragraph referring to the merger transaction with Par Pharmaceutical Companies, Inc. and Sky Growth Acquisition Corporation) appearing in this Current Report on Form 8-K of Endo International plc filed on June 2, 2015.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
June 2, 2015

Exhibit 99.1

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

To Board of Directors of Auxilium Pharmaceuticals, Inc.

We have audited the accompanying consolidated financial statements of Auxilium Pharmaceuticals, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, consolidated statements of comprehensive income (loss), consolidated statement of stockholders' equity, and consolidated statements of cash flows for each of the three years ended December 31, 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Auxilium Pharmaceuticals, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

April 2, 2015

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 80,747	$ 47,749
Short-term investments	—	23,437
Accounts receivable, trade, net	88,326	89,407
Accounts receivable, other	9,261	7,050
Inventories, current	67,034	42,498
Prepaid expenses and other current assets	6,827	13,714
Deferred tax asset	20,276	14,737
Total current assets	272,471	238,592
Inventories, non-current	45,077	54,561
Property and equipment, net	31,254	35,270
Intangible assets, net	654,406	749,452
Goodwill	91,392	104,146
Other assets	16,918	19,155
Total assets	$ 1,111,518	$ 1,201,176
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,364	$ 940
Accrued expenses	127,106	121,964
Deferred revenue, current portion	2,622	2,059
Deferred rent, current portion	1,474	1,185
Current portion of debt	16,250	13,609
Endo loan payable	28,400	—
Contingent consideration, current	12,911	56,741
Total current liabilities	202,127	196,498
Term loan, long-term portion	275,290	241,536
Senior convertible notes	305,289	293,747
Deferred revenue, long-term portion	30,702	24,678
Deferred rent, long-term portion	6,055	7,528
Contingent consideration, long-term portion	64,005	161,903
Deferred tax liability	21,334	23,821
Total liabilities	904,802	949,711
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Series A Junior Participating Preferred stock, par value $0.01 per share; 1,500,000 shares authorized; no shares issued or outstanding	—	—
Preferred stock, $0.01 par value per share; 3,500,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value per share; 150,000,000 shares authorized; 53,601,407 and 49,744,521 shares issued; 53,418,170 and 49,599,463 shares outstanding at December 31, 2014 and 2013, respectively	536	497
Additional paid-in capital	692,548	594,970
Accumulated deficit	(481,741)	(340,180)
Treasury stock at cost, 183,237 and 145,058 at December 31, 2014 and 2013, respectively	(4,546)	(3,490)
Accumulated other comprehensive loss	(81)	(332)
Total stockholders' equity	206,716	251,465
Total liabilities and stockholders' equity	$ 1,111,518	$ 1,201,176

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except share and per share amounts)

	Years Ended December 31,		
	2014	2013	2012
Net revenues	$ 360,146	$ 400,715	$ 395,281
Operating expenses:			
Cost of goods sold	105,006	112,015	78,337
Research and development	40,868	50,211	45,932
Selling, general and administrative	285,064	250,190	185,535
Amortization of purchased intangibles	78,726	44,988	—
Intangible asset impairment	19,920	—	—
Contingent consideration	(95,465)	11,396	—
Total operating expenses	434,119	468,800	309,804
Income (loss) from operations	(73,973)	(68,085)	85,477
Interest expense	(39,108)	(28,655)	(39)
QLT termination fee	(28,400)	—	—
Other (expense) income, net	(46)	378	506
Income (loss) before income taxes	(141,527)	(96,362)	85,944
Income tax (expense) benefit	(34)	78,297	—
Net income (loss)	$ (141,561)	$ (18,065)	$ 85,944
Net income (loss) per common share:			
Basic	$ (2.80)	$ (0.37)	$ 1.76
Diluted	$ (2.80)	$ (0.37)	$ 1.74
Shares used to compute net income (loss) per common share:			
Basic	50,610,400	49,337,724	48,770,229
Diluted	50,610,400	49,337,724	49,277,570

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	$(141,561)	$(18,065)	$85,944
Other comprehensive income:			
Unrealized gains on investments, net of tax	251	105	249
Foreign currency translation adjustment	—	71	(22)
Total	251	176	227
Comprehensive income (loss)	$(141,310)	$(17,889)	$86,171

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

Year Ended December 31, 2014

(In thousands, except share amounts)

	Common stock		Additional paid-in capital	Accumulated deficit	Treasury stock		Accumulated other comprehensive loss	Total
	Shares	Amount			Shares	Cost		
Balance, January 1, 2014	49,744,521	$ 497	$594,970	$ (340,180)	145,058	$(3,490)	$ (332)	$ 251,465
Exercise of common stock options	3,616,202	36	77,575	—	—	—	—	77,611
Cancellation of restricted stock	(549)	—	—	—	—	—	—	—
Stock-based compensation	164,793	2	18,700	—	—	—	—	18,702
Employee Stock Plan Purchases	76,440	1	1,303	—	—	—	—	1,304
Treasury stock acquisition	—	—	—	—	38,179	(1,056)	—	(1,056)
Comprehensive income	—	—	—	—	—	—	251	251
Net loss	—	—	—	(141,561)	—	—	—	(141,561)
Balance, December 31, 2014	53,601,407	$ 536	$692,548	$ (481,741)	183,237	$(4,546)	$ (81)	$ 206,716

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

Year Ended December 31, 2013

(In thousands, except share amounts)

	Common stock		Additional paid-in capital	Accumulated deficit	Treasury Stock		Accumulated other comprehensive loss	Total
	Shares	Amount			Shares	Cost		
Balance, January 1, 2013	49,419,104	$ 494	$525,354	$ (322,115)	136,405	$(3,337)	$ (508)	$199,888
Equity component of Senior Convertible Notes	—	—	64,361	—	—	—	—	64,361
Deferred tax benefit related to issuance of Senior Convertible Notes	—	—	1,253	—	—	—	—	1,253
Convertible Note Hedge	—	—	(70,000)	—	—	—	—	(70,000)
Sale of warrants	—	—	41,475	—	—	—	—	41,475
Issuance of warrants in business acquisition	—	—	12,000	—	—	—	—	12,000
Exercise of common stock options	149,304	1	1,319	—	—	—	—	1,320
Employee Stock Plan Purchases	129,755	1	1,877	—	—	—	—	1,878
Issuance of restricted stock	10,000	—	0	—	—	—	—	—
Cancellation of restricted stock	(250)	—	0	—	—	—	—	—
Stock-based compensation	33,190	—	17,269	—	—	—	—	17,269
Proceeds from Board of Directors stock purchases	3,418	—	62	—	—	—	—	62
Treasury stock acquisition	—	—	0	—	8,653	(153)	—	(153)
Comprehensive income	—	—	0	—	—	—	176	176
Net loss	—	—	0	(18,065)	—	—	—	(18,065)
Balance, December 31, 2013	49,744,521	$ 497	$594,970	$ (340,180)	145,058	$(3,490)	$ (332)	$251,465

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

Year Ended December 31, 2012

(In thousands, except share amounts)

	Common stock		Additional paid-in capital	Accumulated deficit	Treasury stock		Accumulated other comprehensive loss	Total
	Shares	Amount			Shares	Cost		
Balance, January 1, 2012	48,236,137	$ 482	$495,949	$ (408,059)	131,591	$(3,239)	$ (735)	84,398
Exercise of common stock options	960,864	10	10,497	—	—	—	—	10,507
Employee Stock Purchase Plan purchases	153,260	2	2,522	—	—	—	—	2,524
Issuance of restricted stock	43,700	—	—	—	—	—	—	0
Proceeds from Board of Directors stock purchases	4,956	—	106	—	—	—	—	106
Stock based compensation	20,187	—	16,280	—	—	—	—	16,280
Treasury stock acquisition	—	—	—	—	4,814	(98)	—	(98)
Other comprehensive income	—	—	—	—	—	—	227	227
Net income	—	—	—	85,944	—	—	—	85,944
Balance, December 31, 2012	49,419,104	494	525,354	(322,115)	136,405	(3,337)	(508)	199,888

See accompanying notes to consolidated financial statements.

AUXILIUM PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net (loss) income	$(141,561)	$ (18,065)	$ 85,944
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation, amortization and asset impairment	11,414	10,873	18,089
Stock-based compensation	17,241	15,522	15,007
Amortization of purchased intangibles	78,726	44,988	—
Intangible asset impairment charge	19,920	—	—
Amortization of debt discount and issuance costs	16,418	13,618	—
Contingent consideration	(95,465)	11,396	—
Payment of contingent consideration and accreted interest	(333)	—	—
Release of valuation allowance for deferred tax assets	—	(77,919)	—
Inventory obsolescence reserve	13,266	—	—
Changes in operating assets and liabilities:			
Increase in accounts receivable	(1,130)	(13,276)	(12,404)
Increase in inventories	(26,895)	(1,890)	(17,455)
Decrease (increase) in prepaid expenses, other current assets and other assets	1,787	2,340	(2,372)
Increase in accounts payable and accrued expenses	23,308	11,509	2,185
Increase (decrease) in deferred revenue	6,587	(11,385)	(89,814)
Increase (decrease) in deferred rent	(1,184)	433	(1,461)
Net cash used in operating activities	(77,901)	(11,856)	(2,281)
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	—	(620,493)	—
Purchases of property and equipment	(8,107)	(10,386)	(8,762)
Purchases of short-term investments	(22,604)	(76,995)	(191,496)
Redemptions of short-term investments	46,292	175,078	186,723
Sales and redemptions of long-term investments	—	1,600	1,100
Net cash provided by (used in) investing activities	15,581	(531,196)	(12,435)
Cash flows from financing activities:			
Proceeds from issuance of term loan, net of issuance costs	48,222	262,852	—
Repayment of term loan	(14,738)	(9,617)	—
Proceeds from Endo loan	28,400	0	—
Proceeds from issuance of convertible debt, net of issuance costs	—	338,921	—
Payments of contingent consideration	(44,463)	(11,762)	—
Purchase of convertible note hedge	—	(70,000)	—
Proceeds from sale of warrants	—	41,475	—
Employee Stock Purchase Plan purchases	1,304	1,878	2,524
Proceeds from exercise of common stock options	77,611	1,320	10,507
Purchases of treasury stock	(1,056)	(153)	(98)
Other	38	62	106
Net cash provided by financing activities	95,318	554,976	13,039
Effect of exchange rate changes on cash	0	(32)	(1)
Increase (decrease) in cash and cash equivalents	32,998	11,892	(1,678)
Cash and cash equivalents, beginning of period	47,749	35,857	37,535
Cash and cash equivalents, end of period	$ 80,747	$ 47,749	$ 35,857
Supplemental data:			
Business acquisitions:			
Fair value of assets acquired, net of cash acquired	$ —	$ 949,004	—
Purchase consideration representing compensation	—	8,309	—
Fair value of liabilities assumed and contingent consideration	—	(324,820)	—
Fair value of warrants issued	—	(12,000)	—
Net cash paid for acquisitions	—	$ 620,493	0
Interest paid	$ 22,597	$ 12,582	0

See accompanying notes to consolidated financial statements.

(1) Organization and Description of Business

(a) The Company

Auxilium Pharmaceuticals, Inc. along with its subsidiaries, (the "Company") is a fully integrated specialty biopharmaceutical company with a focus on developing and commercializing innovative products for specialist audiences. With a broad range of first- and second-line products across multiple indications, the Company is an emerging leader in the men's healthcare area and has strategically expanded its product portfolio and pipeline in orthopedics, dermatology and other therapeutic areas. The Company now has a broad portfolio of 12 approved products. Among other products in the U.S., the Company markets edex® (alprostadil for injection), an injectable treatment for erectile dysfunction, Osbon® ErecAid®, the leading device for aiding erectile dysfunction, STENDRA® (avanafil), an oral erectile dysfunction therapy, TESTOPEL® (testosterone pellets) a long-acting implantable testosterone replacement therapy, XIAFLEX® (collagenase clostridium histolyticum or CCH) for the treatment of Peyronie's disease and XIAFLEX for the treatment of Dupuytren's contracture, Testim® (testosterone gel) for the topical treatment of hypogonadism and an Authorized Generic version of Testim (testosterone gel) with its partner Prasco, LLC ("Prasco"). The Company also has programs in Phase 2 clinical development for the treatment of Frozen Shoulder syndrome and cellulite. The Company's mission is to improve the lives of patients throughout the world by successfully identifying, developing and commercializing innovative specialty biopharmaceutical products. Its vision is to be the most consistently successful and most admired specialty biopharmaceutical company.

On October 8, 2014, the Company entered into a merger agreement with Endo International plc ("Endo"), Endo HoldCo and Endo AcquireCo, providing for the merger of Endo AcquireCo with and into the Company, with the Company as the surviving corporation and a wholly-owned indirect subsidiary of Endo (the "Endo Merger Agreement"). The merger with Endo was completed on January 29, 2015.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Auxilium Pharmaceuticals, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c) Change in functional currency

The Company established a foreign subsidiary in the United Kingdom ("Auxilium UK") in 2000, which used the pound sterling as its functional currency prior to January 1, 2014. Assets and liabilities of the Company's foreign subsidiary were translated at the year-end rate of exchange and the statements of operations and cash flows for this subsidiary were translated at the average rate of exchange for the year. Gains or losses from translating foreign currency financial statements were previously accumulated in other comprehensive income (loss) in stockholders' equity. Effective January 1, 2014, the Company changed the functional currency of its Auxilium UK subsidiary from pounds sterling to the U.S. Dollar ("USD"). Significant changes in economic facts and circumstances supported this change, including the Company's recent collaboration agreement with Swedish Orphan Biovitrium AB ("Sobi"), whereby transactions are settled in USD. In accordance with Accounting Standards Codification 830, *Foreign Currency Matters,* this change was applied on a prospective basis and translation adjustments for prior periods will not be removed from equity. In addition, translated amounts for nonmonetary assets at December 31, 2013 became the accounting basis for those assets in the period of the change.

(d) Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash, cash equivalents, short –term investments, restricted cash deposits and long-term investments are stated at fair value. Due to their short-term maturity, the carrying amounts of accounts receivable, accounts payable and accrued expenses approximate fair value.

(e) Revenue Recognition

Net revenues for the three years ended December 31, 2014 comprise the following:

	Years ended December 31,		
	2014	2013	2012
XIAFLEX revenues-			
Net U.S. revenues	$123,288	$ 62,535	$ 55,174
International revenues	13,914	17,605	102,627
	137,202	80,140	157,801
Testim revenues-			
Net U.S. revenues—brand	47,192	206,240	233,441
Net U.S. revenues—authorized generic	28,739	—	—
International revenues	3,453	4,933	4,039
	79,384	211,173	237,480
Other net U.S. revenue			
TESTOPEL	72,281	59,975	—
Edex	25,832	21,884	—
Other	45,447	27,543	—
	143,560	109,402	—
Total net revenues	$360,146	$400,715	$395,281

Net U.S. revenues shown in the above table represent the product sales of the Company within the U.S., net of allowances provided on such sales. In addition, net distributable profits earned pursuant to a Distribution and Supply Agreement (the "AG Agreement") entered into with Prasco are also included in net U.S. revenues in the above table. International revenues represent the amortization of deferred up-front and milestone payments the Company has received on its out-licensing agreements, together with royalties earned on product sales by the licensees.

Revenue is recognized when the following revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the selling price is fixed or determinable; and collectability is reasonably assured.

U.S. product sales-

In the U.S., the Company's products are sold to wholesalers, which are provided fees for service based on shipment activity. The product return policies of the Company permit product returns during a specified period, dependent on the specific product, prior to the product's expiration date until a certain number of months subsequent to the expiration date. Future product returns are estimated based on historical experience of the Company. The Company accrues the estimated contractual rebates per unit of product for each individual payor plan using the most recent historically invoiced plan prescription volumes, adjusted for each individual plan's prescription growth or contraction. In addition, the Company provides coupons to physicians for use with Testim and STENDRA prescriptions as promotional incentives and the Company established in September 2011 a co-pay assistance program for XIAFLEX (collagenase clostridium histolyticum or "CCH") prescriptions. A contract service provider is utilized to process and pay claims to patients for actual coupon usage. All revenue from product sales are recorded net of the applicable provisions for wholesaler management fees, returns, rebates, and discounts in the same period the related sales are recorded. As products of the Company become more widely used and as the Company continues to add managed care and pharmacy benefit managers, actual results may differ from the Company's previous estimates. Any adjustment resulting from differences between the Company's estimates and actual results will be recorded as a charge or credit to revenue, as appropriate.

XIAFLEX for the treatment of Peyronie's Disease ("PD") is the first and only FDA-approved non-surgical treatment for PD in men with a palpable plaque and a curvature deformity of >30° at the start of therapy and was approved by the U.S. Food and Drug Administration ("FDA") in December 2013. The Company launched XIAFLEX for PD in January 2014 and revenue from sales is recognized when title and risk of loss transfers to the customers, who are specialty distributors, specialty pharmacies and wholesalers. The Company has determined that it has the ability to make reasonable estimates of product returns in order to recognize revenue at the time that title and risk of loss transfers to the customer based on the following factors: (i) the Company has sufficient historical experience with XIAFLEX for Dupuytren's contracture ("DC"), which is the same drug and is distributed through the same distribution channels as XIAFLEX for PD; (ii) due to the price of XIAFLEX for PD and a limited patient population, the Company's customers have not built up significant levels of inventory; and (iii) the Company believes there is limited risk of return of inventory in the channel due to expiration based on the shelf life of inventory in the channel.

STENDRA, a new first-line oral therapy for erectile dysfunction ("ED") approved by the FDA in April 2012, was in-licensed from VIVUS, Inc. ("VIVUS") in October 2013. The Company launched STENDRA in the U.S. in January 2014 and revenue from sales is recognized when title and risk of loss transfers to the customers, who are wholesalers. The Company has determined that it has the ability to make reasonable estimates of STENDRA product returns in order to recognize revenue at the time that title and risk of loss transfers to the customer based on the following factors: (i) the Company has sufficient historical experience with its other products, including Testim, which the Company distributes through the same distribution channels and which is prescribed by a similar physician customer base (i.e. primarily urologists and primary care physicians); (ii) the fact that STENDRA is entering a well-established market; (iii) the efficacy and label of STENDRA, which the Company believes provides a competitive advantage over the other products in the ED market.

On June 9, 2014, the Company authorized Prasco to commence purchasing, distributing and selling an authorized generic version of Testim (the "Generic Testosterone Product") in the United States of America and its territories and possessions pursuant to the AG Agreement entered into by the parties. Prasco commenced initial commercialization activities for the Generic Testosterone Product on June 9, 2014 and commenced shipping the Generic Testosterone Product on June 10, 2014. During the term of the AG Agreement, Prasco will pay the Company a price agreed to by the parties for the Generic Testosterone Product. Any such price will remain unchanged for an initial period of time and may thereafter be adjusted based on changes to costs and materials. The Company recognizes revenue from shipments to Prasco at the invoice supply price and the related cost of product sales when title and risk of loss transfers, which is generally at the time of shipment. The Company is also entitled to receive a percentage of the net distributable profits on sales of the Generic Testosterone Product by Prasco, which the Company recognizes as net revenues when Prasco reports to the Company the net distributable profits from the ultimate sale of the Generic Testosterone Product. The Company has recorded all net distributable profits reported by Prasco for the year ended December 31, 2014. Any adjustments to the net distributable profits related to Prasco's estimated sales discounts and other deductions are recognized in the period Prasco reports the amounts to the Company. There were not any adjustments for the year ended December 31, 2014. Receivables for product sold to Prasco as well the Company's share of net distributable profits under the AG Agreement are included within Account Receivable, Other on the Company's Consolidated balance sheet.

Collaboration and out-license agreements-

International revenues shown in the above table represent the amortization of deferred up-front, milestone payments and royalty payments previously received under the collaboration and out-licensing agreements. These agreements contain multiple elements. The Company evaluates all deliverables within an arrangement to determine whether or not each deliverable has stand-alone value to its partners. Based on this evaluation, deliverables are separated into units of accounting. Several deliverables may be combined into a single unit of accounting in order to establish stand-alone value. Arrangement consideration is allocated to each unit of accounting based on estimated selling price. For units of accounting for which delivery has been made and there is no further performance obligations, revenue is recognized when the related consideration is fixed and determinable and collectability is reasonably assured. Where the Company has continuing performance obligations, revenue is recognized over the performance period. In the case of license, development and marketing deliverables, such deliverables are normally combined into a single unit of accounting. The related consideration is recognized as revenue over the term of the arrangement. In addition, unless evidence suggests otherwise, revenue from consideration received is recognized on a straight-line basis over the expected period of the arrangement during which continuing performance obligations exist. If the estimated term of the arrangement changes, a cumulative catch-up adjustment on the date of such change is recorded under the contingency-adjusted performance model of accounting in order to reflect the revised contract term.

As part of the Pfizer Agreement, the Company received upfront and milestone cash payments from Pfizer. The agreement with the Company's licensor for XIAFLEX, BioSpecifics, required that the Company pay a portion of this amount to them. These amounts were recorded as deferred revenues and deferred costs, respectively, on the Company's balance sheet at the time paid and the Company was required under U.S. generally accepted accounting principles ("GAAP") to amortize the deferred revenues and deferred costs into its income statement over the course of the Pfizer collaboration agreement. The Company originally estimated that the life of the Pfizer Agreement would be 20 years. When the agreement to mutually terminate the collaboration was reached, with a termination date of April 24, 2013, the balance of the deferred revenues and costs that existed at that time on the Company's balance sheet was required to be adjusted to record the cumulative impact of the revised, shorter life of the agreement.

At September 30, 2012 the balance of deferred revenues related to the Pfizer Agreement (described below) was $103,404 and the balance of the deferred costs was $9,311. During 2012, the Company recorded $93,601 in revenue and $8,429 in cost of goods sold as the amortization of these deferred revenues and costs, respectively. Had the Company not reached agreement with Pfizer to mutually terminate the Pfizer Agreement, it would have recognized $1,593 and $143 of revenue and costs, respectively. Therefore, the impact of this change in estimate of the life of the Pfizer Agreement was an increase in 2012 revenues of $92,008, cost of goods sold of $8,285 and net income of $83,723, or $1.70 per share, fully diluted (representing the incremental $92,008 in deferred revenues less the incremental $8,285 in deferred costs). The remaining deferred revenue and deferred cost balances of $9,803 and $883, respectively, were amortized into the Company's income statement in 2013.

In addition, in the case of contingent consideration related to this single unit of accounting is earned during the performance period, the Company will record as revenue a cumulative catch-up adjustment on the date the contingent consideration is earned for the period of time since contract commencement through the date the milestone.

Customer concentration-

The following individual customers each accounted for at least 10% of total product shipments for any of the respective periods:

	Years Ended December 31,		
	2014	2013	2012
AmerisourceBergen Corporation	48%	29%	23%
Cardinal Health, Inc.	15%	25%	34%
McKesson Corporaton	30%	27%	34%
	93%	81%	91%

(f) Cash Equivalents, Short-term and Long-term Investments

Investments classified as Cash equivalents, Short-term investments and Long-term investments are considered to be "available for sale". Cash equivalents include only securities having a maturity of three months or less at the time of purchase. These investments are carried at fair value and unrealized gains and losses on them are recorded as a separate component of Stockholders' equity in Accumulated other comprehensive loss. All realized gains and losses on these investments are recognized in results of operations.

(g) Accounts Receivable

Accounts receivable, trade consist of amounts due from wholesalers for the purchase of products. Ongoing credit evaluations of customers are performed and collateral is generally not required.

Accounts receivable, trade are net of allowances for cash discounts, actual returns and bad debts of $3,217 and $2,985 at December 31, 2014 and 2013, respectively.

The following individual customers each accounted for at least 10% of accounts receivable, trade on either of the respective dates:

	December 31,	
	2014	2013
AmerisourceBergen Corporation	68%	47%
Cardinal Health, Inc.	6%	15%
McKesson Corporaton	19%	24%
	93%	86%

(h) Inventories

The Company operates production facilities for XIAFLEX and TESTOPEL. All other products are supplied to the Company under agreements with various contract manufacturers. Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventory costs for the Company's internal manufacturing operations assume full absorption of direct and indirect manufacturing costs and normal capacity utilization. Excess or idle capacity costs, resulting from the plant utilization below normal capacity, if incurred, are recognized as Cost of goods sold in the period incurred. To date, there have been no excess or idle capacity charges.

Inventory costs are based on the Company's judgment of net realizable value considering probable future commercial use and net realizable value. Inventories produced prior to approval are expensed unless management believes it is probable that the inventory will be salable. The Company continually evaluates and provides reserves for inventory on hand that is in excess of expected future demand or that is not expected to meet approved or anticipated specifications. Inventories expected to be utilized in the next 12-month period are classified as current, and inventories expected to be utilized beyond that period are classified as non-current. In determining the classification of inventory, the Company considers a number of factors, including historical sales experience and trends, wholesaler inventory levels, estimates of future sales growth and forecasts of demand provided by the Company's collaboration partners.

(i) Concentration of Supply

The Company has limited sources of supply for raw materials for its products. The Company attempts to mitigate the risk of supply interruption by maintaining adequate safety stock of raw materials and by scheduling production runs to create safety stock of finished goods. The Company evaluates secondary sources of supply for all its raw materials and finished goods. The Company has long-term minimum commitments for finished goods production (see Note 13).

(j) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred, and costs of improvements are capitalized. Depreciation is recognized using the straight-line method based on the estimated useful life of the related assets. Amortization of leasehold improvements is recognized using the straight-line method based on the shorter of the estimated useful life of the related assets or the remaining lease term.

(k) Valuation of Long-Lived Assets and Goodwill

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or its useful life has declined, the Company assesses the impairment of long-lived assets for potential impairment or its remaining useful life. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill is tested annually or more frequently if changes in circumstance or the occurrence of events suggests impairment may exist. To determine if there is goodwill impairment, the fair value of the reporting unit is compared to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss is recorded to the extent that the fair value of the goodwill is less than the carrying amount of the goodwill. In the Company's specific circumstances, the balance of Goodwill has been assigned to the Company's single reporting unit, which is the single operating segment by which the chief decision maker manages the Company. For purposes of assessing the impairment of goodwill, the Company has selected the date of November 30 for its annual testing and uses its market capitalization as an input to its determination of fair value.

Included in Other assets as of December 31, 2014 and 2013 is the unamortized balance of the license agreement payment to BioSpecifics, associated with the up-front and milestone payments received under the out-licensing agreements with Actelion and Asahi Kasei (see Note 10). These payments are being amortized over the estimated life of the related agreement. In addition, as discussed in Note 2(e) above and Note 10, the Company recorded in 2012 a change in estimate of the Pfizer Agreement deferred cost to reflect its revised term.

(l) Contingent Consideration

Contingent consideration was recorded on the balance sheet at the acquisition date fair value based on the consideration expected to be transferred, discounted to present value of such payments. The discount rate is determined at the time of measurement in accordance with accepted valuation methods. Each period thereafter, the fair value of contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense in operating income. Increases or decreases in fair value of contingent consideration can result from updates to assumptions such as the expected timing or probability of achieving the specified milestones, changes in projected revenues and related royalty payments or changes in discount rates. Significant judgment is employed in determining these assumptions as of the acquisition date and for each subsequent period. Updates to assumptions could have a significant impact on the Company's results of operations in any given period. Actual results may differ from estimates.

(m) Research and Development Costs

Research and development costs include salaries and related expenses for development personnel and fees and costs paid to external service providers. These costs also include certain costs of operation of the Horsham manufacturing facilities for development of a larger scale manufacturing process and other projects. Costs of external service providers include both clinical trial costs and the costs associated with non-clinical support activities such as toxicology testing, manufacturing process development and regulatory affairs. External service providers include contract research organizations, contract manufacturers, toxicology laboratories, physician investigators and academic collaborators. Research and development costs, including the cost of product licenses prior to regulatory approval, are charged to expense as incurred.

(n) Income Taxes

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period such tax rate changes are enacted. Interest and penalties related to uncertain tax positions are classified as income tax expense.

(o) Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. All grants under stock-based payment programs are accounted for at fair value and that cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (vesting period).

(p) Comprehensive Income (Loss)

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. The Company's comprehensive income (loss) is presented in Consolidated Statements of Comprehensive Income (Loss).

(q) Net Income (Loss) Per Common Share

Basic income (loss) per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is computed based on the weighted average number of common shares outstanding and, if there is net income during the period, the dilutive impact of common stock equivalents

outstanding during the period. Common stock equivalents are measured using the treasury stock method. Because the inclusion of potential common stock would be anti-dilutive for periods with a net loss, diluted net loss per share is the same as basic net loss per share for these periods.

The following is a reconciliation of net income (loss) and weighted average common shares outstanding for purposes of calculating basic and diluted net income (loss) per common share.

Basic income (loss) per share:	**Years Ended December 31,**		
	2014	**2013**	**2012**
Numerator:			
Net income (loss)	$ (141,561)	$ (18,065)	$ 85,944
Denominator:			
Weighted-average common shares outstanding	50,631,365	49,369,405	48,802,870
Weighted-average unvested restricted common shares	20,965	31,681	32,641
Shares used in calculating basic net income (loss) per common share	50,610,400	49,337,724	48,770,229
Basic net income (loss) per common share	$ (2.80)	$ (0.37)	$ 1.76

Diluted income (loss) per share:	**Years Ended December 31,**		
	2014	**2013**	**2012**
Numerator:			
Net income (loss)	$ (141,561)	$ (18,065)	$ 85,944
Denominator:			
Weighted-average common shares outstanding	50,631,365	49,369,405	48,802,870
Weighted-average unvested restricted common shares	20,965	31,681	32,641
Incremental shares from assumed conversions of stock compensation plans	0	0	507,341
Shares used in calculating diluted net income (loss) per common share	50,610,400	49,337,724	49,277,570
Diluted net income (loss) per common share	$ (2.80)	$ (0.37)	$ 1.74

Diluted net income (loss) per common share is computed giving effect to all potentially dilutive securities. Potentially dilutive shares include outstanding stock options and awards, outstanding warrants, and incremental shares issuable upon conversion of 1.50% Convertible Senior Notes due 2018 (the “2018 Convertible Notes”) as described in Note 12. The following number of stock options and awards were antidilutive and, therefore, excluded from the computation of diluted net income (loss) per common share as of December 31, 2014, 2013 and 2012: 5,030,053; 6,488,298; and 5,983,597, respectively.

The Company has 1,250,000 warrants outstanding issued in connection with the acquisition of Actient as discussed in Note 3 and 14,481,950 warrants sold in connection with the issuance of convertible debt as discussed in Note 12. The warrants are not considered in calculating the total dilutive weighted average shares outstanding until the price of the Company’s common stock exceeds the exercise price of the warrants. When the market price of the Company’s common stock exceeds the exercise price of the warrants, the effect of the additional shares that may be issued upon exercise of the warrants will be included in total dilutive weighted average shares outstanding using the treasury stock method if the impact of their inclusion is dilutive. For the year ended December 31, 2014, the Company’s average stock price, which was $25.83, exceeded the exercise

price of the 1,250,000 warrants issued in connection with the acquisition of Actient; however, these potentially dilutive shares were anti-dilutive as a result of a net loss for the period. For the year ended December 31, 2013, the Company's average stock price did not exceed the exercise price of the 1,250,000 warrants issued in connection with the acquisition of Actient. In addition, the Company's average stock price for the years ended December 31, 2014 and 2013 did not exceed the exercise price of the 14,481,950 warrants sold in connection with the issuance of the convertible debt.

As of December 31, 2014, it was the intention of the Company to settle conversions of the 2018 Convertible Notes through combination settlement, which involves repayment of the principal amount in cash and any excess of the conversion value over the principle amount (the "conversion spread") in shares of common stock. Therefore, only the impact of the conversion spread will be included in total dilutive weighted average shares outstanding using the treasury stock method. For the year ended December 31, 2014, the average price of the Company's common stock did exceed the conversion price; however, these potentially dilutive shares were anti-dilutive as a result of a net loss for the period. For the year ended December 31, 2013, the average price of the Company's common stock did not exceed the conversion price; therefore, the 2018 Convertible Notes did not have any dilutive impact on per share results.

The call options to purchase the Company's common stock, which were purchased to hedge against potential dilution upon conversion of the 2018 Convertible Notes, as discussed in Note 12, are not considered in calculating the total dilutive weighted average shares outstanding, as their effect would be anti-dilutive. Upon exercise, the call options will mitigate the dilutive effect of the 2018 Convertible Notes.

(r) Segment Information

The Company is managed and operated as one business. The entire business is managed by a single management team that reports to the chief executive officer. The Company does not operate separate lines of business or separate business entities with respect to any of its product candidates. Accordingly, the Company does not prepare discrete financial information with respect to separate product areas and does not have separately reportable segments.

(s) Advertising Costs

Advertising costs, included in selling, general and administrative expenses, are charged to expense as incurred. Advertising expenses for the years ended December 31, 2014, 2013 and 2012 were $15,103, $10,746, and $16,877, respectively.

(t) New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") on income taxes, which provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This guidance is effective for the Company beginning January 1, 2014. The Company adopted this guidance as of January 1, 2014 and its adoption did not have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange for those goods or services. The standard will be effective for the Company beginning in the first quarter of 2017 and early adoption is not permitted. The new standard permits the use of either the retrospective or cumulative effect transition method on adoption. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures, including which transition method it will adopt.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern,* which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements upon adoption.

(u) Revisions to previously issued financial statements

Business Combinations

During the year ended December 31, 2014, the Company identified prior period errors related to its accounting for business combinations for the year ended December 31, 2013. As a result of the errors, the Company reclassified $12,168 from Goodwill to Deferred Tax Liabilities ($6,768), Intangible Assets ($3,600) and Contingent Consideration ($1,800) on the balance sheet and adjusted certain related footnotes for these items. In addition, the Company recorded additional amortization expense of $380 on its Consolidated statement of operations during the year ended December 31, 2014 related to these items. These adjustments represent corrections to immaterial errors related to the classification of certain assets and liabilities as well as the related amortization expense recorded in connection with the acquisitions of Actient and STENDRA. The Company has evaluated these items, both individually and in the aggregate, in relation to the current period financial statements as well as the period in which they originated and concluded that these adjustments are not material to any of the impacted periods. These adjustments were recorded during the year ended December 31, 2014.

(3) Business Acquisitions

(a) Actient

The Company completed the acquisition of Actient Holdings, LLC ("Actient") on April 26, 2013 to expand its specialty therapeutic offerings and expects to benefit from greater leverage in its commercial infrastructure and significant cross-selling opportunities. The total consideration for Actient included base cash consideration of $585,000 plus adjustments for working capital and cash acquired, contingent consideration based on future sales of certain acquired products, and the issuance of 1,250,000 warrants to purchase the Company's common stock. The Company funded the cash payments with cash on hand and a $225,000 senior secured term loan (the "Term Loan") (see Note 12).

The following table summarizes the fair value of the total consideration at April 26, 2013:

	Total Acquisition-Date Fair value
Base cash consideration	$ 585,000
Cash and working capital adjustment	14,863
Contingent consideration	40,569
Warrants	12,000
Total consideration	652,432
Consideration representing compensation	(8,309)
Consideration assigned to net assets acquired	$ 644,123

The above consideration representing compensation is the amount payable to former management of Actient upon completion of their retention period with the Company. This amount was amortized to expense by the Company as compensation cost over such retention period which ended during 2013.

The above contingent consideration represents a risk adjusted net present value relating to cash payments on achievement of certain sales milestones for Actient urology products as defined in the purchase agreement.

The warrants issued in the acquisition have an exercise price of $17.80 and a 10 year life. In accordance with governing accounting guidance, the Company concluded that the warrants were indexed to its stock and therefore they have been classified as an equity instrument.

The transaction was accounted for as a business combination under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed were recorded at fair value, with the remaining purchase price recorded as goodwill.

As of the end of the measurement period and including the items described in Note 2(u), the Company had finalized the valuation of the acquired assets and liabilities of Actient. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	April 26, 2013
Cash	$ 11,514
Accounts receivable, trade	25,511
Inventory	21,704
Prepaid expenses and other current assets	3,573
Property and equipment	2,376
Purchased intangibles	672,000
Goodwill	91,392
Other long-term assets	5,348
Total assets acquired	833,418
Contingent consideration assumed	(81,685)
Other liabilities assumed	(25,415)
Deferred tax liabilities	(82,195)
Total net assets acquired	$ 644,123

In conjunction with the accounting associated with the Actient acquisition, the Company recorded deferred tax liabilities related principally to outside tax basis differences in the acquired subsidiaries. These deferred tax liabilities will serve as reversible temporary differences that give rise to future taxable income and, therefore, they serve as a source of income that permits the recognition of certain existing deferred tax assets of the Company. Solely on this basis, management determined that it is more likely than not that a portion of its valuation allowance was no longer required. As a result of the release of the valuation allowance, the Company recorded a tax benefit of $78,297 in its Consolidated statement of operations for the year ended December 31, 2013.

The purchased intangibles represent acquired product rights. The costs of these purchased product rights are being amortized to income on a straight-line basis over the below disclosed estimated lives and are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recovered. The following is a summary of the fair value assigned to the product rights acquired and the amortization period assigned to these rights.

	Fair value	Estimated life in years
TESTOPEL	$490,500	12
Edex	70,700	10
Timm Medical	23,000	11
Striant	8,000	10
Theo-24	39,000	9
Semprex-D	36,800	10
Other products	4,000	2
Total	$672,000	

The contingent consideration assumed is earn-out consideration relating to acquisitions that were previously undertaken by Actient and principally represent royalties on future sales of certain Actient products. Of the amount shown in the above summary of net assets, $60,848 and $15,752 represent royalties payable on future sales of TESTOPEL and Edex, respectively. The TESTOPEL obligation is a 12% royalty payable on net sales of TESTOPEL through December 31, 2017, at which time such royalty obligation ceases. The Edex obligation is a 15% royalty payable on annual net sales in excess of $20,000. The Edex obligation will cease upon a generic market launch of a competitive product. The remaining amount of contingent consideration represent 6% to 15% royalty obligations on various Actient products, of which approximately $4,000 of such royalty obligation ceased in July 2013 and were paid, and certain milestone obligations associated with the Company launch of implantable TRT products defined in Actient's purchase agreements.

The difference between the total consideration and the fair value of the net assets acquired was recorded to goodwill in the consolidated balance sheet. This goodwill represents the excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed, principally representing the tax attributes of the acquisition and certain operational synergies. The above tables include immaterial adjustments for the items described in Note 2(u). Approximately $430,000 of the intangibles and goodwill are expected to be deductible for tax purposes.

The operating results of Actient are reported in the Company's financial statements beginning on April 26, 2013. The following table provides pro forma results of operations for 2013 and 2012, as if Actient had been acquired as of January 1, 2012, and both the initial Term Loan borrowing of $225,000, and the 2018 Convertible Notes, used to fund the transaction had also occurred on January 1, 2012. The pro forma results include certain purchase accounting adjustments such as the estimated changes in depreciation and amortization expense on the acquired tangible and intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the integration of Actient. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated or which may occur in the future.

	Unaudited pro forma consolidated results	
	Year ended December 31,	
	2013	2012
Net revenues	$449,854	$510,165
Net income (loss) attributable to the Company	$ (71,544)	$ 41,948
Net income (loss) per common share-		
Basic	$ (1.45)	$ 0.86
Diluted	$ (1.45)	$ 0.85

(b) STENDRA

On October 10, 2013, the Company and VIVUS entered into a license and commercialization agreement (the "STENDRA License Agreement") and commercial supply agreement (the "STENDRA Supply Agreement"). Under the STENDRA License Agreement, the Company was granted the exclusive right to commercialize VIVUS's pharmaceutical product STENDRA for the treatment of any urological disease or condition in humans, including male erectile dysfunction, in the US and Canada and their respective territories (the "STENDRA Territory"). The Company paid to VIVUS a one-time license fee of $30,000 and $2,144 reimbursement of certain expenditures previously incurred. As discussed below, the STENDRA License Agreement also provides for a regulatory milestone payment and sales-based royalty and milestones payments to be made by the Company. Subject to each party's termination rights, the STENDRA License Agreement will remain in effect until the later of, on a country by country basis, (i) 10 years from the date STENDRA launches in such country, and (ii) the expiration of the last to expire patent covering the product in such country. Upon the expiration of the term of the STENDRA License Agreement, the license grant by VIVUS to the Company will become fully paid-up, royalty-free, perpetual and irrevocable.

Under the STENDRA Supply Agreement, VIVUS is the exclusive supplier to the Company for STENDRA under the terms of the STENDRA License Agreement. Under the STENDRA Supply Agreement, VIVUS transferred certain of its inventory of STENDRA to the Company at no charge to be used solely for sampling purposes. The Company pays to VIVUS its manufacturing cost plus a certain percentage mark up for each unit of STENDRA. Subject to each party's termination rights, the term of the STENDRA Supply Agreement will remain until December 31, 2018. At a time selected by the Company, but no later than the third anniversary of the effective date of the STENDRA License Agreement, the Company may elect to transfer control of the supply chain for STENDRA to itself or its designee (the "Supply Chain Transfer"). The STENDRA Supply Agreement will automatically terminate upon the completion of the Supply Chain Transfer. A summary of certain terms of the STENDRA Supply Agreement is provided below.

These agreements were accounted for as a business combination under the acquisition method of accounting. Accordingly, the assets acquired under the STENDRA License Agreement and the related STENDRA Supply Agreement were recorded at fair value. The valuation of consideration and the assets acquired was completed as of December 31, 2013. The following table summarizes the fair value of the total consideration and the estimated fair values of the net assets acquired at October 10, 2013.

	Total Acquisition-Date Fair value
Consideration:	
Base cash consideration	$ 32,144
Contingent consideration	94,956
Total consideration allocated to net assets acquired	$ 127,100
Assets acquired:	
Sample inventory	$ 1,060
STENDRA product rights	126,040
Total assets acquired	$ 127,100

The above tables include immaterial adjustments for the items described in Note 2(u). STENDRA product rights are being amortized to income on a straight-line basis over a seven year estimated life. The unamortized cost of this asset is tested for impairment whenever events or circumstances indicate that the carrying amount may not be recovered. The STENDRA sample inventory is being expensed as used. The above contingent consideration represents a risk adjusted net present value relating to cash payments on achievement of certain milestones and royalty payments as defined in the STENDRA License Agreement. On September 18, 2014, the Company and VIVUS announced that the FDA approved a supplemental new drug application for STENDRA. This approval triggered a $15,000 milestone payment to VIVUS, which the Company paid in October 2014.

VIVUS is responsible for conducting any post-regulatory approval studies that are required by the FDA. The costs of conducting such studies shall be shared equally, up to a maximum additional aggregate payment by the Company of $1,856, and once such maximum is reached, VIVUS will be solely responsible for such costs. Any additional post-regulatory approval studies that the Company determines to conduct with respect to the product will be conducted by the Company at its sole expense. The Company is solely responsible for commercializing STENDRA in the STENDRA Territory during the term of the STENDRA License Agreement, subject to its annual marketing plans, and is solely responsible for all costs and expenses associated with such commercialization activities.

The Company makes royalty payments to VIVUS based on tiered percentages of the aggregate annual net sales of STENDRA in the STENDRA Territory on a quarterly basis. The percentage of the Company's aggregate annual net sales to be paid to VIVUS increases in accordance with the achievement of specified thresholds of aggregate annual net sales of the product in the Territory. At the lowest tier, the royalty payable is in the range of 5% to 10% and, at the highest tier, the royalty payable is in the range of 15% to 20%. If the Company's net sales of STENDRA in a country are reduced by certain amounts following the entry of a generic product to the market, royalty payments will be reduced by an amount that will be a function of the degree to which VIVUS and the Company agree the market for STENDRA has been reduced. The Company may also make royalty payments and, if a certain annual sales threshold is met, a milestone payment to VIVUS in satisfaction of VIVUS's payment obligations to Mitsubishi Tanabe Pharma Corporation ("MTPC") set forth in an agreement between MTPC and VIVUS, as amended, pursuant to which MTPC granted VIVUS certain intellectual property rights relating to the product in exchange for certain royalty and milestone payments to MTPC. Should any royalties be payable to MTPC, they will be in a range of 4% to 7%. The maximum amount payable for the future milestone (assuming there are no sales anywhere outside of the United States) is $6,000 and is payable only if annual sales exceed a certain threshold.

STENDRA Commercial Supply-

Under the STENDRA Supply Agreement, VIVUS manufactures STENDRA, directly or through one or more third party subcontractors. VIVUS currently obtains STENDRA solely from MTPC and will continue to obtain product supply solely from MTPC (who will have an obligation to supply VIVUS until June 30, 2015) unless and until VIVUS qualifies with the FDA a third party manufacturer who is able to manufacture STENDRA in accordance with required specifications and applicable laws. The Company purchases all of its requirements for the product from VIVUS, subject to the Supply Chain Transfer described above. For 2015 and each subsequent year during the term, should the Company fail to purchase an agreed minimum amount of the product from VIVUS, it will reimburse VIVUS for the shortfall as it relates to VIVUS's out-of-pocket costs to acquire certain raw materials needed to manufacture STENDRA.

On a pro forma basis assuming the Company had acquired STENDRA as of the April 27, 2012 (the date of its FDA approval), the Company would have recorded additional expenses for the accretion of contingent consideration and amortization of STENDRA product rights amounting to $25,440 and $19,937 for the year ended December 31, 2013 and 2012, respectively.

The Company incurred a total of $15,714 in transaction and integration costs to complete its 2013 business acquisitions, of which $15,489 is included in selling, general and administrative expenses and $225 is included in cost of goods sold.

(4) Restructuring Activities

September 2014 Restructuring Initiative

On September 9, 2014, the Company announced steps it is taking to reduce its costs and more fully support the Company's goal to drive earnings growth and build shareholder value. These steps are being launched after a comprehensive assessment of the Company's broadened product portfolio and current cost structure and what management believes to be the Company's growth assets, commercial strengths, opportunities and challenges and the Company's manufacturing needs and

capabilities. The Company's restructuring initiative includes reducing headcount by approximately 20%, realigning the commercial organization from three into two sales forces, focusing its research and development efforts and expenditures and improving manufacturing efficiency. Although the initial initiative targeted a reduction of approximately 30% of the Company's headcount, approximately 33 employees who were initially scheduled to be terminated on December 31, 2014 remained with the Company until the closing of the merger with Endo (as described below). The restructuring was substantially complete by the end of 2014.

As a result of the September 2014 restructuring initiative, the Company incurred restructuring expenses during the year ended December 31, 2014 of $9,259, consisting of $8,406 of employee severance and other benefit-related costs and an $853 non-cash impairment charge primarily related to the abandonment of several capital projects. The Company does not anticipate any additional significant restructuring expenses. Of the restructuring costs recorded for the year ended December 31, 2014, $7,648 are included in Selling, general and administrative expense and $1,611 are included in Research and development expense in the Company's Consolidated statements of Operations.

As of December 31, 2014, the accrual related to the September 2014 restructuring was $3,892, which is included in Accrued expenses on the Company's Consolidated balance sheet. There was no such restructuring accrual for these actions as of December 31, 2013. Changes to this accrual for the year ended December 31, 2014 were as follows:

	Employee-Related Severance Costs	Asset Impairment Charges	Total
Balance at December 31, 2013	$ —	$ —	$ —
Plus: Restructuring charge	8,406	853	9,259
Less: payments made during the period	(4,514)	—	(4,514)
Non-cash impairment	—	(853)	(853)
Balance at December 31, 2014	$ 3,892	—	3,892

Actient Acquisition-Related Cost-Rationalization and Integration Initiatives

In connection with the acquisition of Actient in April 2013, the Company undertook actions to realign its sales, sales support, and management activities and staffing, which included severance benefits to former Actient employees. For former Actient employees that agreed to continue employment with the Company for a merger transition period, the severance payable upon completion of their retention period is being expensed over their respective retention period. All severance obligations are expected to amount to $5,710, of which $5,584 was recorded to selling, general and administrative expense during the year ended December 31, 2013. The remaining severance payments will be made in the first quarter of 2015.

The following table summarizes the activity within the restructuring liability:

	Employee-Related Severance Costs
Balance at December 31, 2012	$ —
Plus: Restructuring charge	13,893
Less: payments made during the period	(10,165)
Balance at December 31, 2013	$ 3,728
Plus: Restructuring charge	234
Less: payments made during the period	(3,777)
Balance at December 31, 2014	$ 185

(5) Fair Value Measurement

As of December 31, 2014, the Company held certain investments that are required to be measured at fair value on a recurring basis. The following tables present the Company's fair value hierarchy for these financial assets as of December 31, 2014 and 2013:

	December 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 80,747	$80,747	$ 0	0
Liabilities				
Contingent Consideration	$ 76,916	$ 0	$ 0	$ 76,916

	December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 47,749	$47,749	$ 0	$ 0
Short-term investments	23,437	8,430	15,007	0
Total financial assets	$ 71,186	$56,179	$15,007	0
Liabilities				
Contingent consideration	$218,644	$ 0	$ 0	$218,644

Financial assets

The Company considers its short-term investments to be “available for sale” and accordingly classifies them as current, as management can sell these investments at any time at their option. The cost basis of short-term investments held approximated the fair value of these securities. Related unrealized gains and losses are recorded as a component of accumulated other comprehensive income (loss) in the equity section of the accompanying balance sheet. The amount of unrealized loss on short-term investments amounted to $250 as of December 31, 2013. The Company did not hold any short-term investments as of December 31, 2014.

Fair value for Level 1 is based on quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Fair value for Level 3 is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no transfers between Level 1 and 2 during the year ended December 31, 2014. The following table summarizes the changes in the financial assets measured at fair value using Level 3 inputs for the years ended December 31, 2014 and 2013:

	Years ended December 31,	
Long -term investments	2014	2013
Beginning balance	$ —	$ 1,442
Transfers into Level 3	0	0
Redemption of securities by issuer	—	(1,528)
Unrealized gain- included in other comprehensive income	—	86
Ending balance	$ 0	$ 0
Total realized loss on sale of securities included in Investment income (loss), net for the period	$ —	$ (72)

Contingent consideration

The Level 3 liability is contingent consideration related to the acquisition of Actient and STENDRA described in Note 3. The range of the undiscounted amounts of contingent consideration ultimately payable is principally dependent on future sales of the products acquired. Fair value is determined based on assumptions and projections relevant to revenues and a discounted cash flow model using a risk-adjusted discount rate of 13.0% and 14.5% for Actient and STENDRA, respectively. Assumptions include the expected value of royalties and milestone payments due on estimated settlement dates, volatility of product supply, demand and prices, and the Company's cost of money. The Company assesses these assumptions on an ongoing basis as additional information impacting the assumptions is obtained. A 1% change in this discount rate would have a $2.2 million change in the contingent consideration liability. Changes in the fair value of contingent consideration related to the updated assumptions and estimates are recognized in the consolidated statements of operations. The $95,465 change in contingent consideration charged to operations in 2014 is based on lower expected royalty and milestone payments, which is a result of a reduction in expectations of the relevant products performance.

The table below provides a roll forward of the fair value of contingent consideration.

Contingent consideration	Actient	STENDRA	Total
Fair value at Actient acquisition, April 26, 2013	$122,654	$ —	$122,654
Fair value at STENDRA acquisition, October 10, 2013	—	96,356	96,356
Change in contingent consideration charged to operations	9,552	1,844	11,396
Payments of contingent consideration	(11,762)	—	(11,762)
Ending balance, December 31, 2013	120,444	98,200	218,644
Change in contingent consideration charged to operations	(53,923)	(41,542)	(95,465)
Payments of contingent consideration	(26,206)	(18,257)	(44,463)
Adjustments	(400)	(1,400)	(1,800)
Ending balance, December 31, 2014	$ 39,915	$ 37,001	$ 76,916

The $1,800 of adjustments included in the above table is related to the items discussed in Note 2(u). The Company reduced $1,800 of Goodwill and Contingent consideration on its Consolidated balance sheet related to business combination accounting for the Actient and STENDRA acquisitions.

Debt outstanding

The Company's Term Loan and 2018 Convertible Notes are measured at amortized cost in the Company's Consolidated balance sheets and not fair value.

Management estimates that the fair value of the Term Loan outstanding at December 31, 2014 approximates its principal value of $300,312 based upon market interest rates (a Level 2 fair value measurement). As of December 31, 2014, the principal balance outstanding of the Company's 2018 Convertible Notes is $350,000 with a carrying value of $305,289 and a fair value of approximately $519,295 based on active trading activity in this security (a Level 1 fair value measurement).

(6) Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents include only securities having a maturity of three months or less at the time of purchase. At December 31, 2014 and 2013, the composition and duration of cash, cash equivalents and short-term investments was as follows:

	December 31, 2014		
	Fair value	Duration of one year or less	Duration of one year to two years
Cash and cash equilvalents:			
Demand deposits	$80,594	$ 80,594	$ 0
Money market accounts	153	153	0
	$80,747	$ 80,747	$ 0

	December 31, 2013		
	Fair value	Duration of one year or less	Duration of one year to two years
Cash and cash equilvalents:			
Demand deposits	$29,822	$ 29,822	$ 0
Money market accounts	17,927	17,927	0
	$47,749	$ 47,749	$ 0
Short-term investments:			
U.S. Treasury securities	$ 8,430	$ 6,928	$ 1,502
Commercial paper	3,200	3,200	0
Corporate notes	8,738	7,891	847
U.S. government agency obligations	3,069	2,287	782
	$23,437	$ 20,306	$ 3,131

The Company considers its short-term investments to be “available for sale” and accordingly classifies them as current, as management can sell these investments at any time at their option. The cost basis of short-term investments held at December 31, 2013 approximated the fair value of these securities. The Company did not hold any short-term investments as of December 31, 2014. Related unrealized gains and losses are recorded as a component of Accumulated other comprehensive income loss in the equity section of the accompanying balance sheet. The amount of unrealized loss on short-term investments amounted to $250 as of December 31, 2013.

(7) Inventories

Inventories consist of the following:

	December 31,	
	2014	2013
Raw materials	$ 8,374	$ 6,680
Work-in-process	79,057	71,890
Finished goods	24,680	18,489
	112,111	97,059
Inventories, current	67,034	42,498
Inventories, non-current	$ 45,077	$54,561

During the year ended December 31, 2014, the Company recorded a $6,200 inventory charge to cost of goods sold related to excess Testim branded inventory. The excess inventory charge resulted from the Company’s decision to launch the Generic Testosterone Product, which the Company believes had the impact of decreasing the demand forecast for the branded Testim product. In addition, the Company recorded a $7,066 inventory charge to cost of goods sold during the year ended December 31, 2014 as a result of two XIAFLEX batches being deemed unsaleable due to test failure and abandoned process validation, respectively. These two batches had previously been capitalized as the inventory was being manufactured.

(8) Property and Equipment

Property and equipment consists of the following:

	Estimated useful life	December 31, 2014	December 31, 2013
Office furniture, computer equipment and software	3 to 5 years	$ 29,528	$ 22,017
Manufacturing equipment	3 to 10 years	6,576	7,270
Laboratory equipment	7 years	8,657	8,556
Leasehold improvements	lease term	23,606	22,895
		68,367	60,738
Less accumulated depreciation and amortization		(39,471)	(30,510)
		28,896	30,228
Construction-in-progress		2,358	5,042
		$ 31,254	$ 35,270

Depreciation expense was $10,105, $9,180, and $9,165 for the years ended December 31, 2014, 2013 and 2012, respectively.

(9) Intangible assets

Intangible assets as of December 31, 2014 and 2013, respectively, represent the product rights received in the Actient and STENDRA acquisitions described in Note 3. The accumulated amortization related to these assets was 120,634 and $44,988 at December 31, 2014 and 2013, respectively. Amortization expense for the years ended December 31, 2014 and 2013 related to these assets amounted to $78,726 and $44,988, respectively. Future estimated amortization expense related to these purchased intangibles for the next five years is expected to be as follows.

Years ending December 31,	Amortization expense
2015	75,404
2016	74,764
2017	74,764
2018	74,764
2019	74,764

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company assesses the impairment of long-lived assets for potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2014, a significant customer of the Company's Timm Medical device business communicated to the Company that it would not be renewing its contract. As a result, the Company determined that the carrying value of the Timm Medical intangible asset exceeded its fair value and the Company recorded an asset impairment charge of $19,920 for the year ended December 31, 2014. This charge was recorded to Intangible asset impairment on the Company's Consolidated statement of operations.

(10) Collaboration and License Agreements

(a) BioSpecifics

In June 2004, the Company entered into a development and license agreement with BioSpecifics and amended such agreement in May 2005, December 2005, December 2008 and August 2011 (the "BioSpecifics Agreement"). Under the BioSpecifics Agreement, the Company was granted exclusive worldwide rights to develop, market and sell certain products containing BioSpecifics's enzyme XIAFLEX. The Company's licensed rights concern the development and commercialization of products, other than dermal formulations labeled for topical administration, and currently, the Company's licensed rights cover the indications of Dupuytren's, Peyronie's, Frozen Shoulder syndrome and cellulite. The Company may further expand the BioSpecifics Agreement, at its option, to cover other indications as they are developed by the Company or BioSpecifics.

The BioSpecifics Agreement extends, on a country-by-country and product-by-product basis, for the longer of the patent life, the expiration of any regulatory exclusivity period or 12 years. Either party may terminate the BioSpecifics Agreement as a result of the other party's breach or bankruptcy. The Company may terminate the BioSpecifics Agreement with 90 days written notice.

The Company is responsible, at its own cost and expense, for developing the formulation and finished dosage form of products and arranging for the clinical supply of products.

The Company must pay BioSpecifics on a country-by-country and product-by-product basis a specified percentage within a range of 5% to 15% of net sales for products covered by the BioSpecifics Agreement. This royalty applies to net sales of the Company or its sublicensees, including Actelion, Asahi Kasei, Sobi and formerly Pfizer. Under the December 2008 amendment to the license with BioSpecifics, which became effective upon execution of the Pfizer Agreement, the Company has paid BioSpecifics 8.5% of the up-front and regulatory milestone payments received from Pfizer. The Company will also owe BioSpecifics 8.5% of any future regulatory or commercial milestone payments received from Sobi (or any successor or subsequent licensee). In addition, the Company has paid BioSpecifics 5.0% of the payments received from Actelion and Asahi Kasei during 2014, 2012 and 2011 and will owe BioSpecifics a specified percentage within a range of 5% to 15%, dependent on the licensed indication, of any future regulatory or commercial milestone payments received from Actelion and Asahi Kasei. In addition, the Company must pay BioSpecifics an amount equal to a specified mark-up on the cost of goods related to supply of XIAFLEX (which mark-up is capped at a specified percentage within the range of 5% to 15% of the cost of goods of XIAFLEX for the applicable country) for products sold by the Company or its sublicensees, including Actelion, Asahi Kasei, Pfizer and Sobi.

Royalties paid to BioSpecifics on the up-front and milestones payments received under the Actelion Agreement, the Asahi Agreement, the Sobi Agreement and previously the Pfizer Agreement (all described below) are being amortized on a straight-line basis to Cost of goods sold over the estimated life of each respective contract. When contingent milestones are earned, the Company records as Cost of goods sold a cumulative catch-up adjustment for the amount payable to BioSpecifics on the date each milestone is earned for the period of time since contract commencement through the date the milestone. In addition, as discussed in Notes 2(e) and 10(d), the Company and Pfizer mutually terminated the Pfizer Agreement, effective April 24, 2013. As a result, the Company recorded in 2012 a change in estimate of the unamortized payments related to the Pfizer Agreement in order to reflect its revised term as described in Note 2(e). At December 31, 2014 and 2013, the unamortized balance of $1,544 and $1,210, respectively, is included in Other assets.

Finally, the Company is obligated to make contingent milestone payments upon the filing of regulatory applications and receipt of regulatory approval. As a result of the U.S. approval of XIAFLEX for Dupuytren's on February 2, 2010, the Company paid BioSpecifics $1,000. In January 2013, the Company exercised its option to include cellulite as an additional indication by making a license fee payment to BioSpecifics of $500. Also in January 2013, the Company paid BioSpecifics $1,000 upon the acceptance by the FDA of our sBLA for XIAFLEX for the treatment of PD. As a result of the U.S. approval of XIAFLEX for Peyronie's on December 6, 2013, the Company paid BioSpecifics $2,000. In addition, the Company opted to exercise the canine lipoma option for $500 during the fourth quarter of 2014. Each of these payments was recorded as research and development expense. Additional contingent milestone payments that the Company may be obligated to pay BioSpecifics for product currently in development amount to $3,000. The option exercise fee for each additional medical indication is $500.

(b) Actelion

On February 22, 2012, the Company entered into a collaboration agreement (the "Actelion Agreement") with Actelion. Under the Actelion Agreement, the Company granted Actelion exclusive rights to develop and commercialize XIAFLEX for the treatment of Dupuytren's contracture and Peyronie's disease in Canada, Australia, Brazil and Mexico (the "Actelion Territory") upon receipt of the applicable regulatory approvals. Actelion was also granted the right of first negotiation to obtain exclusive rights to commercialize any new XIAFLEX indications in the Actelion Territory during the term of the Actelion Agreement. Actelion is primarily responsible for the applicable regulatory and commercialization activities for XIAFLEX in these countries. The Company will be responsible for all clinical and commercial drug manufacturing and supply. Actelion is responsible for clinical development activities and associated costs corresponding to any additional trials required for the Actelion Territory. In 2013, Actelion notified the Company that it intended to no longer pursue commercialization of XIAFLEX in Mexico. The Company has agreed to waive any further milestone payments in connection with Mexico as the Company and Actelion formulate a transition arrangement with respect to Mexico.

The Company received an up-front payment of $10,000 from Actelion upon contract signing. The Company has been granted approval of XIAFLEX for the treatment of Dupuytren's contracture in adults with a palpable cord in Canada and Australia in July 2012 and 2013, respectively. As a result of these approval milestones, Actelion paid the Company $500 for each approval milestone. In addition to these payments, Actelion may also make up to $53,500 in potential payments, with $11,000 tied to regulatory, pricing, and reimbursement milestone payments and $42,500 tied to achievement of aggregate

annual sales thresholds. Actelion will obtain the product exclusively from the Company at a supply price equal to the Company's prevailing manufacturing cost at the time of the applicable order, plus a specified, tiered mark-up, provided that Actelion's cost is subject to a specified cap. In addition, the Actelion Agreement provides for quarterly royalty payments based on tiered, double-digit percentages of the aggregate annual net sales of XIAFLEX in these countries. The royalty percentage tiers feature royalty percentages within the ranges of 15-25%, 20-30%, and 25-35%. The applicable royalty percentage increases upon the achievement of a specified threshold of aggregate annual net sales of XIAFLEX and decreases if a generic to XIAFLEX is marketed in these countries.

Subject to each party's termination rights, the term of the Actelion Agreement extends on a product-by-product and country-by-country basis from the date of the Actelion Agreement until the last to occur of (i) the date on which the product is no longer covered by a valid claim of a patent or patent application controlled by the Company in such country, (ii) the 15th anniversary of the first commercial sale of the product in such country after receipt of required regulatory approvals, (iii) the achievement of a specified market share of generic versions of the product in such country or (iv) the loss of certain marketing rights or data exclusivity in such country.

For accounting purposes, the Company has determined that the Actelion Agreement requires several deliverables, including development and commercialization rights, and manufacturing and product supply. In accordance with the accounting guidance on revenue recognition for multiple-element agreements, the product supply element of the Actelion Agreement meets the criteria for separation. Therefore, it will be treated as a single unit of accounting and, accordingly, the supply price of product shipped to Actelion, together with associated royalties on net sales of the product, will be recognized as revenue for the supply element when earned. All other deliverables under the contract are being accounted for as one unit of accounting since each of these elements does not have stand-alone value to Actelion. The up-front payment and milestone payments received from Actelion and all potential future milestone payments are considered to relate to this one combined unit of accounting and will be amortized to revenue on a straight-line basis over the life of the Actelion Agreement, which is estimated to be 18 years. When milestones are earned, the Company will record as revenue a cumulative catch-up adjustment on the date each milestone is earned for the period of time since contract commencement through the date of the milestone. The resulting amortization of the payments received from Actelion included in Net revenues for the years ended December 31, 2014 and 2013 were $611 and $634, respectively.

The Company paid BioSpecifics $599 for its share of the up-front and milestone payments received from Actelion.

(c) Asahi Kasei

In March 2011, the Company entered into a development, commercialization and supply agreement with Asahi Kasei (the "Asahi Agreement"). Under the Asahi Agreement, the Company granted Asahi Kasei the exclusive right to develop and commercialize XIAFLEX for the treatment of Dupuytren's and Peyronie's in Japan. Asahi Kasei also was granted the right of first negotiation to obtain exclusive rights to commercialize any new XIAFLEX indications in Japan during the term of the Agreement. In addition to an up-front payment of $15,000 that the Company received in March 2011, Asahi paid the Company $10,000 in August 2014 as a result of Asahi Kasei successfully submitting a regulatory application to the Japanese Pharmaceutical and Medical Device Agency ("JPMDA") for XIAFLEX for DC. The review by the JPMDA is expected to be completed by mid-2015. Asahi Kasei may make up to $237,000 in potential payments, with $27,000 tied to development and regulatory milestones and $210,000 tied to achievement of aggregate annual net sales thresholds. In addition, the Asahi Agreement provides for quarterly royalty payments based on tiered, double-digit percentages of the aggregate annual net sales of XIAFLEX in Japan. Subject to the requirement that Asahi Kasei make certain specified minimum royalty payments, the royalty percentage tiers feature royalty percentages within the ranges of 30-40% and 35-45%. The applicable royalty percentage increases from tier to tier upon the achievement of a specified threshold of aggregate annual net sales of XIAFLEX and decreases if a generic to XIAFLEX is marketed in Japan.

Under the Asahi Agreement, Asahi Kasei is responsible for all clinical development, regulatory and commercialization activities for the Japanese market and the Company will be reimbursed for all costs it may incur in connection with these activities. The Company is responsible for all clinical and commercial manufacturing and supply of XIAFLEX for the Japanese market. Subject to each party's termination rights, the term of the Asahi Agreement extends on a product-by-product basis from the date of the agreement until the last to occur of (i) the date on which the product is no longer covered by a valid claim of a patent, (ii) the 15th anniversary of the first commercial sale of the product, or (iii) the entry of a generic to XIAFLEX in the Japanese market.

For accounting purposes, the Company has determined that the Asahi Agreement includes multiple deliverables, including development and commercialization rights and manufacturing and product supply. In accordance with the accounting guidance on revenue recognition for multiple-element agreements, the product supply element of the Asahi Agreement meets the criteria for separation. Therefore, it is being treated as a single unit of accounting and, accordingly, the associated royalties on net sales of the product will be recognized as revenue when earned. All other deliverables under the contract are being accounted for as one unit of accounting since each of these elements does not have stand-alone value to Asahi Kasei. The up-front and regulatory payments received from Asahi Kasei and all potential future milestone payments are considered to relate to this one combined unit of accounting and will be amortized to revenue on a straight-line basis over the life of the Asahi Agreement, which is estimated to be 20 years. When future milestones are earned, the Company will record as revenue a cumulative catch-up adjustment on the date each milestone is earned for the period of time since contract commencement through the date of the milestone. The resulting amortization of the up-front and regulatory approval payments received from Asahi Kasei included in Net revenues for the year ended December 31, 2014, 2013 and 2012 was $2,625, $750 and $750, respectively.

The Company paid BioSpecifics $1,250 for its share of the up-front and regulatory payments received from Asahi Kasei.

(d) Pfizer

In December 2008, the Company entered into a development, commercialization and supply agreement with Pfizer (the "Pfizer Agreement"). Under the Pfizer Agreement, the Company granted to Pfizer the right to develop and commercialize, with the right to sublicense, XIAPEX (EU tradename for XIAFLEX) for the treatment of Peyronie's and Dupuytren's in the 27 member countries of the EU as it existed as of the effective date of the Pfizer Agreement (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the U.K.), as well as Albania, Armenia, Azerbaijan, Belarus, Bosnia & Herzegovina, Croatia, Georgia, Iceland, Kazakhstan, Kirghiz Republic, Macedonia, Moldova, Montenegro, Norway, Serbia, Switzerland, Tajikistan, Turkey and Uzbekistan (the "Pfizer Territory"). As of December 31, 2012, Pfizer received marketing authorization by the European Commission on February 28, 2011 and XIAPEX is now available in Austria, Denmark, Finland, Norway, Spain, Switzerland, Sweden, and the UK.

On November 6, 2012, the Company and Pfizer (together with the Company, the "Parties") entered into an amendment (the "Pfizer Amendment") to the Pfizer Agreement in which the Parties agreed to mutually terminate the Pfizer Agreement, effective April 23, 2013 (the Termination Date"). On March 28, 2013, the Company and Pfizer entered into a transition services agreement (the "Transition Services Agreement") relating to the transition from Pfizer to the Company of the development and commercialization activities related to XIAPEX for the treatment of Dupuytren's and, if approved, for the treatment of Peyronie's. Notwithstanding the Pfizer Amendment, the Transition Services Agreement provided, and set out schedules, for, among other matters, an orderly transition of regulatory approvals and licenses, packaging and labeling responsibilities, distribution activities, pharmacovigilance obligations, recall obligations, product testing activities, ongoing clinical trial activities and redesign of packaging.

A summary of certain terms of the Transition Services Agreement is set forth below:

- Pfizer assigned to the Company the ongoing management and continued performance of certain clinical trials for XIAPEX, including the transfer of data, effective May 31, 2013.
- Until July 31, 2013, Pfizer continued to sell in the Territory any of its XIAPEX inventories that remained on hand and paid to the Company any commercialization payments due under the original Pfizer Agreement.
- Pfizer and the Company cooperated in working toward the transfer of the EU and the Swiss marketing authorizations to the Company. The EU marketing authorization has now been transferred to the Company and the Swiss marketing authorization has now been transferred to Medius AG on our behalf. In addition to Pfizer's selling of its own inventory, Pfizer distributed XIAPEX on behalf of the Company until July 31, 2013.
- Pfizer agreed to package and label XIAPEX bulk product, manufactured by the Company, for the Company's distribution in the Territory to the extent ordered by the Company by April 5, 2013. (Such order was placed with Pfizer.) The Company has packaging and labeling responsibility for all subsequent production of XIAPEX.
- After February 28, 2014, Pfizer did not provide any further support to the Company with respect to the supply of XIAPEX.
- The term of the Transition Services Agreement commenced on March 28, 2013 and ended on April 24, 2014.

For accounting purposes, the Company determined that the Pfizer Agreement includes multiple deliverables, including development and commercialization rights and manufacturing and product supply. In accordance with the accounting guidance on revenue recognition for multiple-element agreements, the product supply element of the Pfizer Agreement meets the criteria for separation. Therefore, it was treated as a single unit of accounting and, accordingly, the associated royalties on net sales of the product were recognized as revenue when earned. All other deliverables under the contract are being accounted for as one unit of accounting since each of these elements does not have stand-alone value to Pfizer. The up-front payment of $75,000 under the Pfizer Agreement and milestones earned which amounted to $60,000 were considered to relate to this one combined unit of accounting and were being amortized to revenue on a straight-line basis over the life of the Pfizer Agreement, which was estimated to be 20 years prior to the Pfizer Amendment. When milestones were earned, the Company recorded as revenue a cumulative catch-up adjustment on the date each milestone was earned for the period of time since contract commencement through the date of the milestone.

For purposes of recording deferred revenue, the up-front payment from Pfizer received in December 2008 was reduced by initial transaction costs of $3,656 and the milestone earned in April 2011 was reduced by certain development and regulatory costs of $3,909 that Pfizer was contractually allowed to recoup upon achievement of the milestone. The resulting amortization of the up-front and milestone payments received from Pfizer for the years ended December 31, 2013 and 2012 were $9,803 and $98,380 (including the cumulative catch-up adjustment resulting from the Pfizer Amendment), respectively.

(e) Sobi

On July 15, 2013, the Company and Sobi announced that they had entered into a collaboration agreement (the “Sobi Agreement”). Under the Sobi Agreement, Sobi was granted the right to develop and commercialize XIAPEX (the European Union tradename for XIAFLEX) for the treatment in humans of Peyronie’s disease, if approved, and Dupuytren’s contracture in 28 European Union member countries, Switzerland, Norway, Iceland, 18 Central Eastern Europe/Commonwealth of Independent countries, including Russia and Turkey, and 22 Middle Eastern & North African countries (the “Sobi Territory”).

Under the Sobi Agreement, Sobi is responsible for all development costs specific to the Sobi Territory and the Company will be responsible for development costs not specific to the Sobi Territory. In addition, Sobi is solely responsible for costs associated with obtaining and maintaining regulatory approval for XIAPEX in the Sobi Territory as well as post-regulatory approval filing date development activities. The Company is responsible for all clinical and commercial manufacturing and supply of XIAPEX for the Sobi Territory.

Under the terms of the Sobi Agreement, the Company expects to receive significant tiered royalties, within the range of 55-65%, 50-60% and 45-55% based on sales of XIAPEX in the Sobi Territory, which include payment for product supply. The tiered royalty percentages will decrease by approximately 10% upon the occurrence of certain manufacturing milestones or July 1, 2016, whichever is earlier. Additionally, Sobi could make up to $40 million in potential sales milestone payments to the Company.

Subject to each party’s termination rights, the term of the Sobi Agreement extends on a product-by-product basis from the date of the Sobi Agreement until the 10th anniversary of the date of the Sobi Agreement. The term of the Sobi Agreement will be automatically extended for sequential two year periods unless a notice of non-renewal is provided in writing to the other party at least six months prior to expiration of the then current term.

For accounting purposes, the Company has determined that the Sobi Agreement includes multiple deliverables, including development and commercialization rights and manufacturing and product supply. In accordance with the accounting guidance on revenue recognition for multiple-element agreements, the product supply element of the Sobi Agreement meets the criteria for separation. Therefore, it is being treated as a single unit of accounting and, accordingly, the associated royalties on net sales of the product will be recognized as revenue when earned. All other deliverables under the contract are being accounted for as one unit of accounting since each of these elements does not have stand-alone value to Sobi. All potential future milestone payments are considered to relate to this one combined unit of accounting and will be amortized to revenue on a straight-line basis over the life of the Sobi Agreement. When future milestones are earned, the Company will record as revenue a cumulative catch-up adjustment on the date each milestone is earned for the period of time since contract commencement through the date of the milestone.

(f) FCB

In May 2000, Bentley Pharmaceuticals, Inc. ("Bentley") granted the Company an exclusive, worldwide, royalty-bearing license to make and sell products incorporating its patented transdermal gel formulation technology that contains testosterone (the "May 2000 License"). The Company produces Testim under the May 2000 License. The term of the May 2000 License is determined on a country-by-country basis and extends until the later of patent right expiration in a country or 10 years from the date of first commercial sale. Under this agreement, the Company was required to make up-front and milestone payments upon contract signing, the decision to develop the underlying product, and the receipt of FDA approval. In June 2008, CPEX Pharmaceuticals, Inc. ("CPEX") was spun out of Bentley and became the assignee of certain Bentley assets, including the license agreement governing the May 2000 License and patents we licensed under that agreement. In April 2011, CPEX was acquired by FCB I Holdings Inc. ("FCB"), a newly formed company which is controlled by Footstar Corporation, and the licensed patents were assigned to FCB. The rights and obligations under the license agreement described above inure to FCB and continue to be effective, as will the Company's rights and obligations thereunder.

Under the May 2000 License, the Company is obligated to make quarterly royalty payments to FCB based on tiered percentages of the annual net sales of Testim. For net sales of Testim in countries in which FCB holds an applicable enforceable patent, the royalty percentage is within the range of 5-15% for annual net sales per country in the U.S. and Canada and, in all other countries, is equal to a single digit percentage plus a portion of certain additional payments received by us for the sale of Testim. For net sales of Testim in countries in which FCB does not hold an applicable enforceable patent, the royalty percentage is a single digit percentage, the precise value of which is dependent upon whether FCB holds any applicable enforceable patents in other countries at the applicable time of sale.

Each party may terminate the May 2000 License as a result of the other party's bankruptcy, provided that FCB may not so terminate the May 2000 License so long as it continues to receive royalty payments from us under the May 2000 License. The Company may terminate the May 2000 License as a result of FCB's breach or dissolution or cessation of operations. FCB may terminate the May 2000 License as a result of material non-payment by us that continues for thirty days after FCB provides notice of such non-payment.

(g) Ferring

In November 2008, the Company entered into a distribution and license agreement with Ferring. Pursuant to the agreement, the Company appointed Ferring as its exclusive distributor of Testim in certain European countries. The Company also granted Ferring an exclusive, royalty-bearing license to import, market, sell and distribute Testim in these countries. The exclusive appointment and license commenced on a country-by-country basis upon the transfer of the relevant marketing authorizations from Ipsen. Ferring is required to purchase all Testim supply from us and to make certain sales milestone and quarterly royalty payments. Such royalty payments are based on a single digit percentage of net sales of Testim on a country-by-country basis. The precise applicable royalty percentage is greater for net sales in countries where Testim is covered by an applicable valid patent. In addition, Ferring made to the Company up-front and milestone payments upon the transfer to it of the marketing authorizations in each European country within the territory which totaled $6,200, and may make up to an aggregate of $30,000 in additional milestone payments based on the initial achievement of specified increasing annual net sales milestones. The payments received from Ferring were deferred and are being recognized as revenue on a straight-line basis over the contract term which is estimated to be 120 months. When earned by the Company in future periods, additional milestone payments achieved will be amortized over the estimated life of the contract. The resulting amortization included in Net revenues for years ended December 31, 2014, 2013 and 2012 were $636, $636, and $636, respectively.

(h) Paladin

The Company entered into a license and distribution agreement with Paladin in December 2006. Under this agreement, Paladin was granted an exclusive license to use and sell Testim in Canada. The terms of this agreement require Paladin to purchase all Testim supply from the Company. Paladin has made payments amounting to $1,000 and may pay the Company up to an aggregate of $5,000 in additional milestone payments based on the initial achievement of specified increasing annual net sales milestones. In addition, under the Paladin Agreement, Paladin is obligated to make quarterly royalty payments to the Company on net sales in Canada in an amount equal to the royalty payments the Company is obligated to make to FCB under the terms of the May 2000 License. The payments received from Paladin are being recognized as revenue on a straight-line basis over the contract term which is estimated to be 192 months. When earned by the Company in future periods, additional milestone payments achieved will be amortized over the life of the contract. The resulting amortization included in Net revenues for years ended December 31, 2014, 2013 and 2012 amounted to $125, $62 and $62, respectively.

(i) Co-promotion Agreement with GlaxoSmithKline LLC

On May 18, 2012, the Company and GlaxoSmithKline LLC ("GSK") entered into a co-promotion agreement (the "GSK Agreement"). Under the GSK Agreement, the Company granted to GSK the exclusive right to co-promote the sale of Testim in the U.S. and its territories and possessions (the "GSK Territory"). Subject to certain rights of early termination, the GSK Agreement would terminate on September 30, 2015. GSK began promoting Testim using a sizeable established field sales force in the U.S. in mid-July 2012.

On a quarterly basis, the Company agreed to pay GSK a promotional payment equal to 65% of incremental net sales above a baseline established under the GSK Agreement. If the GSK Agreement was not terminated prior to September 30, 2015, then, in addition to the promotional payments, the Company was, under certain circumstances, make post-expiration payments to GSK for up to the following two years. The Company believed that the GSK Agreement would extend to its full term through September 30, 2015 and, in such case, it would be obligated to make post-expiration payments to GSK. Such post-expiration payments were estimated and accrued in Selling, general and administrative expenses on a straight-line basis over the term of the GSK Agreement. The amount of this expense recorded during the year ended December 31, 2012 was $815. On July 31, 2013, the Company and GSK agreed to mutually terminate their co-promotion agreement for the sale of Testim. As a result, the Company reversed to income in 2013 the accrual recorded in 2012 for post-expiration obligations to GSK.

(j) STENDRA

On October 10, 2013, the Company and VIVUS entered into STENDRA License Agreement. This license and commercialization agreement for STENDRA is described in Note (3)(b).

(11) Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2014	2013
Payroll and related expenses	$ 18,216	$ 20,435
Royalty expenses	11,195	11,638
Research and development expenses	3,117	6,206
Sales and marketing expenses	6,074	15,283
Rebates, discounts and returns accrual	74,268	52,044
Interest	2,494	2,406
Other	11,742	13,952
	$127,106	$121,964

(12) Long-term Debt

Term Loan

In order to partially fund a portion of the costs and related expenses of the acquisition of Actient described in Note (3), the Company entered into a Term Loan agreement in April 2013 with a syndicate of banks to borrow $225,000 in principal value (the "Term Loan Agreement"). In September 2013 and September 2014, the Company borrowed additional amounts of $50,000 each under the Term Loan Agreement. The original issue discount together with issuance costs of the Term Loan, amounting to $13,926, is being accreted to Interest expense over the stated term of the Term Loan Agreement and the unamortized balance has been deducted from the Term Loan balance shown in the Balance Sheet. The net carrying amount of the Term Loan as of December 31, 2014 and December 31, 2013, was $291,540 and $255,145, respectively.

The Term Loan principal must be repaid in equal quarterly installments of 1.25% per quarter commencing on June 30, 2013, with the remainder of the borrowings to be paid on the maturity date of April 26, 2017, unless otherwise prepaid prior to such date in accordance with the terms of the Term Loan Agreement. The principal amount outstanding is subject to mandatory prepayment from excess positive cash flow and upon the happening of certain events including: (i) receipt of net cash proceeds from dispositions; (ii) receipt of net cash proceeds from the sale or issuance of debt or equity; and (iii) receipt of proceeds from casualty and condemnation events, in each case subject to certain limitations and conditions set forth in the Term Loan Agreement. The Company can elect loans to bear interest at a rate equal to either Base Rate (as defined in the agreement) or LIBOR, plus a margin. Under the current terms of the Term Loan Agreement, the Base Rate interest rate margin is 4.00% and the LIBOR interest rate margin is 5.00%. The Term Loan Agreement also establishes a floor rate for both the Base Rate and LIBOR options. As of the date hereof, the Company has elected to base the interest rate of the borrowings on LIBOR. As of December 31, 2014, the total interest rate on the Term Loan principal was 6.25%.

The Term Loan Agreement currently contains no financial covenants but contains usual and customary operating and restrictive covenants for a facility of this type. Events of default under the Term Loan are also usual and customary for transactions of this type. As of December 31, 2014, the Company was in compliance with the Term Loan covenants.

Senior Convertible Notes

In January 2013, the Company issued $350,000 aggregate principal amount of the 2018 Convertible Notes, in a registered public offering. Interest is payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

The Company received net proceeds of $310,396 from issuance of the 2018 Convertible Notes, which amount is net of $11,079 debt issuance costs and net payments of $28,525 related to its hedge transactions. The debt issuance costs have been allocated on a pro-rata basis to the debt ($8,975) and equity ($2,104) components of the transaction. The debt component of the issuance costs is included in Other assets and is being accreted to interest expense over the stated term of the 2018 Convertible Notes. The equity component was netted against the proceeds and included in additional paid-in capital. The net carrying amount of the 2018 Convertible Notes as of December 31, 2014 and December 31, 2013, was $305,289 and $293,747, respectively.

The initial conversion rate for the 2018 Convertible Notes is 41.3770 shares of common stock per $1,000 principal amount of the 2018 Convertible Notes, representing an initial effective conversion price of approximately $24.17 per share of the Company's common stock. The conversion rate is subject to adjustment for certain events as outlined in the indenture governing the 2018 Convertible Notes, but will not be adjusted for accrued and unpaid interest.

Prior to July 15, 2018, the 2018 Convertible Notes are convertible by the holders only under the following circumstances: (1) during any fiscal quarter commencing after March 31, 2013 (and only during such fiscal quarter), if the last reported sale price of the Company common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the " 2018 Convertible Notes Measurement Period") in which, for each trading day of such 2018 Convertible Notes Measurement Period, the trading price per $1,000 principal amount of 2018 Convertible Notes on such trading day was less than 98% of the product of the last reported sale price of the Company's common stock on such trading day and the applicable conversion rate on such trading day; or (3) upon the occurrence of specified distributions and corporate events, including the Company becoming party to a consolidation, merger, binding share exchange for similar transactions pursuant to which the Company common stock would be converted into cash, securities or other assets.

On June 27, 2014, the Company provided a notice to the trustee for the 2018 Convertible Notes and the holders of the Convertible Notes that, in connection with the then-planned merger with QLT Inc. (the "QLT Merger"), the 2018 Convertible Notes may be surrendered for conversion from the date that is 70 scheduled trading days prior to the anticipated effective date of the QLT Merger until the date that is 35 trading days after the actual effective date of the QLT Merger. A closing date for the QLT Merger was never announced and the QLT Merger was terminated.

On October 14, 2014, the Company provided a notice to the trustee for the 2018 Convertible Notes and the holders of the Convertible Notes that, in connection with the proposed merger with Endo, as described in Note 17, the Convertible Notes may be surrendered for conversion from the date that is 70 scheduled trading days prior to the anticipated effective date of the merger (or, if later, the business day after the Company gave notice of the merger with Endo) until the date that is 35 trading days after the actual effective date of the merger or until the related fundamental change purchase date, as defined in the indenture.

The Company may not redeem the 2018 Convertible Notes prior to maturity. However, in the event of a fundamental change, as defined in the indenture, the holders of the 2018 Convertible Notes may require the Company to purchase all or a portion of its 2018 Convertible Notes at a purchase price equal to 100% of the principal amount of the 2018 Convertible Notes, plus accrued and unpaid interest, if any, to the repurchase date. Holders who convert their 2018 Convertible Notes in connection with a make-whole fundamental change, as defined in the indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Completion of the merger with Endo, as described in Note 17, constituted a fundamental change and a make-whole fundamental change pursuant to the indenture governing the 2018 Convertible Notes.

In accordance with the governing accounting guidance, the Company determined that the embedded conversion option in the 2018 Convertible Notes is not required to be separately accounted for as a derivative. However, since the 2018 Convertible Notes are within the scope of the accounting guidance for debt with conversion and other options, the Company is required to separate the 2018 Convertible Notes into a liability component and equity component. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option is determined by deducting the fair value of the liability component from the initial proceeds ascribed to the 2018 Convertible Notes as a whole. The excess of the principal amount of the liability component over its carrying amount is amortized to interest cost over the expected life of a similar liability that does not have an associated equity component using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification in the accounting guidance for contracts in an entity's own equity.

Prior to the completion of the proposed merger with Endo, as described in Note 17, upon conversion of a note, holders of the 2018 Convertible Notes will receive up to the principal amount of the converted note in cash and any excess conversion value (conversion spread) in shares of the Company's common stock. The amount of cash and the number of shares of our common stock, if any, will be based on a 60 trading day observation period as described in the indenture. As described in Note 2, Summary of Significant Accounting Policies, the conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method, if the effect is dilutive.

As discussed above, to hedge against potential dilution upon conversion of the 2018 Convertible Notes, the Company purchased call options on its common stock. The call options gave the Company the right to purchase up to 14,481,950 shares of its common stock at $24.17 per share subject to certain adjustments that correspond to the potential adjustments to the conversion rate for the 2018 Convertible Notes. The Company paid an aggregate of $70,000 to purchase these call options. The call options were set to expire on July 15, 2018, unless earlier terminated or exercised. To reduce the cost of the hedge, in a separate transaction, the Company sold warrants. These warrants gave the holder the right to purchase up to 14,481,950 shares of common stock of the Company at $27.36 per share, subject to certain adjustments. These warrants were exercisable and were set to expire in equal installments for a period of 140 trading days beginning on October 15, 2018. The Company received an aggregate of $41,475 from the sale of these warrants. In accordance with governing accounting guidance, the Company concluded that the call options and warrants were indexed to the Company's stock. Therefore, the call options and warrants were classified as equity instruments and were not marked to market prospectively. The net amount of $28,525 was recorded as a reduction to additional paid-in capital. The settlement terms of the call options provide for net share settlement and the settlement terms of the warrants provide for net share or cash settlement at the option of the Company. In connection with the merger with Endo, on January 29, 2015 the call options and warrants were terminated and the Company paid a net amount of $71,266 in connection with the termination.

Endo Loan

On June 25, 2014, the Company entered into a merger agreement with QLT Inc, QLT HoldCo, and QLT AcquireCo (the "QLT Merger Agreement"). The QLT Merger Agreement provided for a business combination whereby QLT AcquireCo would be merged with and into the Company. Concurrently with the execution of the Endo Merger Agreement on October 8, 2014, the Company delivered to QLT written notice terminating the QLT Merger Agreement. In connection with the Endo Merger Agreement described in Note 17, Endo advanced to QLT, Inc. the amount required to fund the payment of a termination fee of $28.4 million ("QLT Termination Fee") to terminate its agreement with the Company. QLT terminated its agreement with the Company effective October 8, 2014. The QLT Termination Fee is to be repaid, together with interest thereon, within 12 months of the day after signing the proposed merger agreement (by October 10, 2015), or earlier under certain circumstances. The loan shall bear interest at a rate per annum equal to 2.56%. The Company recorded $28,400 of expense to QLT Termination Fee on its consolidated statement of operations for the year ended December 31, 2014 related to the QLT Termination Fee.

Aggregate maturities of the Company's long-term debt as of December 31, 2014 are as follows:

2015	$ 44,650
2016	16,250
2017	267,813
2018	350,000
2019	—
Thereafter	—
	$678,713

(13) Commitments and Contingencies

(a) Leases

On January 1, 2013, the Company commenced the lease of a new corporate headquarters in Chesterbrook, Pennsylvania. The initial term of the lease is 132 months. The Company has an option to extend the lease term for two additional five-year periods at fair market rental value determined in accordance with the provisions of the lease. The lease provides, for the first year of the lease, the abatement of rent payments (subject to the Company's obligation to repay the unamortized portion of the abated amounts on terms specified in the lease in the event of early termination or an uncured default by the Company) and, thereafter, escalating minimum monthly rent payments. In addition to rent obligations, the Company will be responsible for certain costs and charges specified in the lease, including certain operating expenses, utility expenses, and maintenance and repair costs relating to the facility, taxes, and insurance. The Company, subject to certain limitations described in the lease, has the right of first offer commencing on and after January 1, 2016, to lease all or a part of the approximately 10,000 rentable square feet in a building adjacent to the leased facility. The landlord provided a tenant improvement allowance of $3,204 for improvements to the facility. The Company will record the cost of the improvements as a fixed asset and the allowance as a deferred rent credit.

The Company also leased office space in Malvern, Pennsylvania (its previously headquarters) under a noncancellable operating lease that expired in 2013 and its Horsham, Pennsylvania manufacturing facility under a noncancellable operating lease that expire in 2017. As a result of the decision to move to the new Chesterbrook headquarters facility, the Company accrued in 2012 an abandonment charge totaling $1,905, representing the remaining rent obligations under the Malvern lease and the advancement of amortization of the Malvern leasehold improvements. The lease agreement for the manufacturing facility in Horsham, Pennsylvania has an initial term ending January 1, 2017 and may be extended for two consecutive five-year periods. Supporting warehouse, laboratory and office space in Horsham are also leased under noncancellable operating leases that will expire in 2017 and 2022, respectively. These leases include periods of free rent and escalating minimum rent payments, and provide allowances to improve the leased facility and other lease incentives.

The Company records rent expense for the minimum lease payments on a straight-line basis over the noncancellable lease term. The Company has recorded the cost of the improvements as a fixed asset and the allowance as a deferred rent credit. The Company amortizes the leasehold improvement asset over the shorter of the life of the improvements or the remaining life of the lease. The Company amortizes the deferred rent credit as a reduction of rent expense on a straight-line basis over the life of the lease. The Company also leases office equipment and automobiles. Rent expense was $7,379, $5,732, and $6,063 for the years ended December 31, 2014, 2013, and 2012, respectively.

As security deposits for the leases of the new corporate headquarters and the Horsham manufacturing facility, the Company maintains bank letters of credit in the amount of $456 and $1,900, respectively. These bank deposits are included in Other long-term assets at December 31, 2014.

Future minimum lease payments under noncancellable operating leases for manufacturing facilities, office space, equipment and automobiles as of January 1, 2015, together with the obligations under the lease of new corporate headquarters, are as follows:

January 1, 2015 to December 31, 2015	$7,185
January 1, 2016 to December 31, 2016	$7,163
January 1, 2017 to December 31, 2017	$3,461
January 1, 2018 to December 31, 2018	$3,273
January 1, 2019 to December 31, 2020	$2,867
January 1, 2020 and thereafter	$9,892

(b) Supply Agreements

Testim

The Company has supply agreements for the production of Testim with DPT Laboratories, Ltd. ("DPT"), which expires on December 31, 2015. Under the agreement, DPT is required to manufacture, and the Company is required to purchase, a specified percentage of the Company's annual requirements for Testim. The Company owns packaging equipment that is used by DPT in Testim production and was placed in service at the end of 2003. The equipment is being amortized over its expected future life. With the Company's consent, the packaging equipment may be used by DPT to produce products for other customers of DPT, provided DPT pays the Company a royalty and gives the Company manufacturing priority.

XIAFLEX

On June 26, 2008, the Company entered into a supply agreement with Jubilant HollisterStier Laboratories LLC ("JHS"), pursuant to which JHS fills and lyophilizes the XIAFLEX bulk drug substance manufactured by the Company and produces sterile diluent. The agreement sets forth specifications, specific services, timelines, pricing, and responsibilities of the parties. It was effective for an initial term of three years and is automatically renewed thereafter for subsequent two year terms, unless or until either party provides notification prior to expiration of the then current term of the contract.

The Company is required to purchase a specified percentage of its total forecasted volume of XIAFLEX from JHS each year. This purchase obligation is only relieved in the event that JHS is not able to supply XIAFLEX within the timeframe established under such forecasts. In the event the Company does not order forecasted batches, it is responsible for the aggregate amounts of components and raw materials purchased by JHS to manufacture XIAFLEX for the first twelve (12) months in each forecast, unless JHS is unable to supply XIAFLEX in a timely manner. The Supply Agreement provides for cross-indemnification of the parties with JHS's indemnification obligation to the Company for third party claims being limited to $5,000.

The Company currently is the sole supplier of the active pharmaceutical ingredient for commercial supply of XIAFLEX, but it is currently in the process of qualifying a new secondary manufacturer for XIAFLEX.

STENDRA

On October 10, 2013, the Company and VIVUS entered into STENDRA Supply Agreement. This supply agreement for STENDRA is described in Note (3)(b).

(c) Litigation

TRT Products Civil Litigation

As of March 30, 2015, the Company was involved in 218 individual civil actions related to its TRT products, Testim and TESTOPEL, wherein the plaintiffs allege, among other things, bodily injury and, in some cases, wrongful death, based on theories of strict liability, fraud and inadequacy of the product warning labels. The first complaint was served on the Company on February 27, 2014, shortly after the FDA announced that it had commenced a safety investigation into TRT products. These lawsuits have been filed in certain federal and state courts. The federal court cases are currently being handled in the Northern District of Illinois as a Multi-District Litigation (the "TRT Multi-District Litigation"). In several of the complaints filed against the Company, the Company is named as a co-defendant with certain of its competitors who also sell TRT products such as AbbVie Inc., Eli Lilly and Company, Endo, Actavis, Inc. and Pfizer, Inc., and in one lawsuit, McKesson Corporation ("McKesson"), a distributor of pharmaceutical products, including TRT, has been named as a co-defendant.

DPT Laboratories, Inc. ("DPT"), a contract manufacturer of Testim, GlaxoSmithKline LLC ("GSK"), Auxilium's prior co-promotion partner, and McKesson Corporation ("McKesson"), a distributor of pharmaceutical products including certain Auxilium testosterone products, have also been named as codefendants in certain of these lawsuits. Auxilium has acknowledged a duty to indemnify and defend DPT, GSK and McKesson in these lawsuits.

The Company has timely notified the carriers of those of its insurance policies with coverage it believes is applicable to the liability of the litigation related to its TRT products. The Company's primary insurer has acknowledged that it has a duty to defend and indemnify the Company with respect to the allegations made in plaintiffs' complaints as originally filed with the relevant courts; it has, however, reserved its rights to deny coverage on the basis of certain allegations in the relevant complaints related to dishonest, fraudulent, malicious or intentionally wrongful acts.

In addition, on November 5, 2014, a civil class action complaint was filed in the Northern District of Illinois against the Company and various other manufacturers of testosterone products on behalf of a proposed class of health insurance companies and other third party payers that had paid for certain testosterone products, alleging that the marketing efforts of the Company and other defendant manufacturers with respect to certain testosterone products constituted racketeering activity in violation of 18 U.S.C. §1962(c), and other civil RICO claims. Further, the complaint alleges that the Company and other defendant manufacturers violated various state consumer protection laws through their marketing of certain testosterone products.

The Company intends to vigorously defend against the foregoing matters. These pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable the Company to determine a loss, if any, is probable. The Company is unable to estimate the possible loss or range of loss for the legal

proceedings described above. Litigation is unpredictable and, while it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows. The Company has incurred and expects to continue to incur significant legal fees in the defense of these actions, which legal fees the Company currently expenses as incurred.

(14) Income Taxes

The income tax benefit (expense) is as follows.

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	$ 0	$ 0	$ 0
State	(1,050)	(270)	0
Foreign	(23)	(84)	0
	(1,073)	(354)	0
Deferred			
Federal	0	76,411	0
State	1,046	2,020	0
Foreign	(7)	220	0
	1,039	78,651	0
Valuation allowance			
Income tax (expense) benefit	($ 34)	$78,297	$0.0

A reconciliation of the United States Federal statutory rate to the Company's effective tax rate is as follows.

	Years Ended December 31,		
	2014	2013	2012
Federal income tax statutory rate	34.00%	34.00%	34.00%
State income taxes, net of federal benefit	0.18%	1.91%	1.21%
Permanent Items	-2.14%	-2.20%	1.56%
Contingent consideration	7.39%	-2.54%	0.00%
Tax credits	0.71%	3.05%	-4.28%
Transaction costs	-8.87%	0.00%	0.00%
Other	-1.22%	-0.51%	-1.07%
Valuation allowance	-30.07%	47.54%	-31.42%
Effective income tax rate	-0.02%	81.25%	0.0%

The components of the net deferred tax assets (liabilities) are as follows:

	December 31,	
	2014	2013
Gross deferred tax assets-		
Net operating losses	$ 82,043	$ 36,208
Orphan Drug Credit	55,575	55,888
Research and development credit	3,662	2,091
Depreciation and amortization	0	2,894
Accruals and reserves	44,134	32,031
Deferred revenue	8,843	9,320
Stock compensation	12,216	21,511
Other temporary differences	548	1,219
	207,021	161,162
Gross deferred tax liabilities-		
Outside basis difference	(58,342)	(77,761)
Depreciation and amortization	(15,261)	0
	(73,603)	(77,761)
Deferred tax assets valuation allowance	(134,476)	(92,460)
Net deferred tax liability	($ 1,058)	($ 9,059)

Since inception through March 31, 2013, the Company has maintained a full valuation allowance equal to its cumulative net deferred tax assets given its history of operating losses. During 2013, in conjunction with the accounting associated with the Actient acquisition described in Note (3)(a), the Company recorded deferred tax liabilities related principally to outside tax basis differences in acquired subsidiaries. These deferred tax liabilities will serve as reversible temporary differences that give rise to future taxable income and, therefore, they serve as a source of income that permits the recognition of certain existing deferred tax assets of the Company. Solely on this basis, management determined that it is more likely than not that a portion of its valuation allowance was no longer required. As a result of the release of the valuation allowance, the Company recorded a tax benefit of $77,919 in the consolidated statement of operations for the year ended December 31, 2013 and an additional tax benefit of $1,253 in Additional paid-in capital related to the 2018 Convertible Notes.

Since the Company has only looked to reversible taxable differences and feasible tax-planning strategies in assessing the need for the valuation allowance, a portion of its deferred tax assets are not more likely than not to be utilized and remain offset by a valuation allowance. On a quarterly basis, management assesses whether it remains more likely than not that the deferred tax assets will not be realized. In the event the Company determines at a future time that it would realize additional deferred tax assets, the Company will decrease its deferred tax asset valuation allowance and record an income tax benefit in the period when the Company makes such determination.

At December 31, 2014, the Company had Federal tax return net operating loss carryforwards of approximately $300,408 which will expire in 2019 through 2034, if not utilized, and of which $44,121 is a result of windfall stock compensation deductions. The recorded deferred tax asset for net operating losses shown in the above table is net of these windfall stock compensation deductions which, when realized, will be recorded directly to Additional paid-in capital. The Federal Orphan Drug and research and development credits of $59,237 at December 31, 2014 shown in the above table will expire in 2020 through 2034, if not utilized.

In addition, the Company had overall state tax return net operating loss carryforwards of approximately $224,616, of which $104,318 relate to Pennsylvania, which expire in 2014 through 2034 if not utilized, and which include windfall stock compensation deductions. Future utilization of Pennsylvania net operating loss carryforwards is limited to the greater of 25% of Pennsylvania taxable income or $4,000 per year for tax years ending before January 1, 2015. Thereafter, future utilization of Pennsylvania net operating loss carryforwards is limited to the greater of 30% of Pennsylvania taxable income or $5,000 per year.

The Tax Reform Act of 1986 (the “Act”) provides for a limitation on the annual use of net operating loss and tax credit carryforwards following certain ownership changes (as defined by the Act) that could limit the Company’s ability to utilize these carryforwards. Generally, a change in ownership of a company of greater than 50% within a three-year period results in an annual limitation on that company’s ability to utilize its carryforwards from the tax periods prior to the ownership

change. The Company has conducted a study to determine whether it has experienced any ownership changes, as defined by the Act. As a result of the study, the Company has concluded that it has undergone multiple ownership changes in previous years. Accordingly, the Company's ability to utilize the aforementioned carryforwards will be limited on an annual basis. The Company believes that such limitations may result in approximately $10,700 and $9,400 of Federal and state net operating loss carryforwards, respectively, expiring prior to utilization. Additionally, the Company believes $521 of its Federal research and development credits will be limited.

The Company and its subsidiaries file income tax returns in the U.S., local tax jurisdictions in the U.S. and the U.K. During the prior year, the IRS opened and closed an audit of the 2010 tax year that resulted in no changes. Presently, the Company has not been contacted by any state taxing jurisdictions for examination of its income tax returns for open periods. As the Company has generated losses for each tax year since inception (except for 2009, 2011, and 2012), all of its prior tax years are open to examination.

As of December 31, 2014, the total amount of gross unrecognized tax benefits was $20,343. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2014 is $0. Any increase or decrease to the gross unrecognized tax benefit would result in a corresponding increase or decrease to the valuation allowance against deferred tax assets.

Unrecognized tax benefits for the three years ended December 31, 2014 were:

	Years Ended December 31,		
	2014	**2013**	**2012**
Unrecognized Tax benefits beginning of year	$ 6,499	$3,443	$3,372
Gross change for current year positions	13,844	331	71
Increase for prior period positions associated business combinations	0	2,725	—
Decrease for prior period positions	0	0	0
Decrease due to settlements and payments	0	0	0
Decrease due to statute expirations	0	0	0
Unrecognized tax benefits end of year	$20,343	$6,499	$3,443

The Company does not believe the total amount of unrecognized tax benefits will increase or decrease significantly over the next twelve months.

In connection with the adoption of stock-based compensation guidance in 2006, the Company elected to follow the with-and-without approach to determine the sequence in which deductions and NOL carryforwards are utilized. Accordingly, no tax benefit related to stock options was recognized in any year as a result of the utilization of NOL carryforwards to offset any taxable income. The table of deferred tax assets shown above does not include certain deferred tax assets at December 31, 2014 and 2013 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for book purposes. Additionally, paid in capital will be increased by approximately $16,025 if and when such deferred tax assets are ultimately realized.

(15) Stockholders' Equity

(a) Shareholder Rights Plan

On September 16, 2014, the Board of Directors of the Company (the "Board") authorized and directed the issuance, and declared a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share, of the Company to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, of the Company (the "Preferred Stock") at a price of $100.00 per one one-hundredth of a share of Preferred Stock, subject to adjustment as provided in the Rights Agreement (as defined below). The dividend was payable to stockholders of record at the close of business on September 29, 2014. The description and terms of the Rights are set forth in the Rights Agreement, dated as of September 17, 2014 and amended on October 8, 2014 (the "Rights Agreement"), between the Company and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent.

Pursuant to the terms of Amendment No. 1, dated as of October 8, 2014, to the Rights Agreement, all Rights established under the Rights Agreement automatically expired immediately prior to the closing of the Company's merger with Endo.

(b) Employee Stock Purchase Plan

Under the Company's 2006 Employee Stock Purchase Plan ("ESPP"), as approved by the stockholders of the Company, employees may purchase shares of the Company's common stock at a 15% discount through payroll deductions. Employees may contribute up to 10% of their compensation to the ESPP. The purchase price is 85% of the fair value per share of common stock on the date the purchase period begins or the date on which the purchase period ends, whichever is lower. The ESPP restricts the maximum number of shares that an employee may purchase to 15,000 shares during each semi-annual purchase period and to $25,000 worth of common stock during each year. In January 2012, June 2012, December 2012, July 2013, December 2013 and July 2014, employees purchased 47,210, 55,015, 51,035, 66,458, 63,297 and 76,440 shares of common stock at a price of $16.8215, $16.8300, $15.7585, $14.4755, $14.4755 and $17.0510 per share, respectively. As of December 31, 2014, there were 71,713 shares available for future grant under the ESPP.

(c) Stock Options and Stock Awards

Under the Company's 2004 Equity Compensation Plan, amended and restated December 1, 2009 and May 21, 2014, (the "2004 Plan"), as approved by the stockholders of the Company, qualified and nonqualified stock options and stock awards may be granted to employees, non-employee directors and service providers. In May 2014, the stockholders approved the increase of shares authorized for issuance under the 2004 Plan to 18,300,000. The Compensation Committee of the Board of Directors (the "Compensation Committee") administers the 2004 Plan and has delegated to each of the Company's Chief Executive Officer and Chief Financial Officer the authority to grant stock options to newly hired employees and promoted employees below the Vice President level within specified parameters. The members of the Board of Directors may annually elect to receive all, or a designated portion, of their fees in the form of common stock instead of cash. The shares issued pursuant to such elections by Board members are issued under the 2004 Plan. During the years ended December 31, 2014, 2013 and 2012, such issuances amounted to 1,458, 3,418, and 4,956 shares having an aggregate fair value of $38, $62 and , $106, respectively, on the dates of issuance. Otherwise, the Company has, to date, granted only nonqualified stock options and restricted stock awards under the 2004 Plan. The Company issues new shares of common stock upon exercise of stock options or vesting of stack awards. At December 31, 2014, there were 4,333,575 shares available for future grants under the 2004 Plan.

(d) Stock Options

Stock options are granted with an exercise price equal to 100% of the market value of the common stock on the date of grant, and generally have a 10-year contractual term and vest no later than four years from the date of grant (with some providing for automatic vesting upon a change of control of the Company unless an acquirer in a change of control transaction assumes such outstanding option). The following tables summarize stock option activity for the three years ended December 31, 2014:

	Years Ended December 31,		
	2014	2013	2012
Options outstanding:			
Outstanding at beginning of period	7,345,535	6,626,176	7,262,718
Granted	1,307,865	1,245,069	1,829,884
Exercised	(3,616,202)	(149,304)	(960,864)
Cancelled	(869,227)	(376,406)	(1,505,562)
Outstanding at end of period	4,167,971	7,345,535	6,626,176
Exercisable at end of period	1,508,630	4,090,046	3,258,010
Weighted average exercise prices:			
Outstanding at beginning of period	$ 21.82	$ 22.50	$ 22.53
Granted	27.50	17.70	20.07
Exercised	21.84	8.85	10.93
Cancelled	23.68	25.18	27.10
Outstanding at end of period	23.18	21.82	22.50
Exercisable at end of period	24.63	23.60	23.42

During the year ended December 31, 2014, the Company granted standard non-qualified stock options to employees and directors to purchase shares of the Company's common stock pursuant to the 2004 Plan. The options expire ten years from date of grant and their exercise prices represent the closing price of the common stock of the Company on the respective dates that the options were granted. The standard non-qualified stock options granted to employees vest no later than four years from the grant date, assuming continued employment of the grantee.

Of the options cancelled during 2014, 685,319 represented unvested options forfeited with an average exercise price of $22.04 and 183,908 represented vested options cancelled with a weighted average exercise price of $30.42. The aggregate intrinsic value of options outstanding and of exercisable options as of December 31, 2014 was $46,869 and $14,892 respectively. These aggregate intrinsic values represent the total pretax intrinsic value, based on the Company's stock closing price of $34.38 as of December 31, 2014, that would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised in 2014, 2013 and 2012 was $38,081, $2,923, and $9,287, respectively. As of December 31, 2014, the weighted average remaining contractual life of outstanding options and of exercisable options was 7.2 and 5.4 years, respectively.

The total number of in-the-money options exercisable as of December 31, 2014 was 1,333,655.

(e) Performance-Based Restricted Stock Units ("PRSUs")

During the year ended December 31, 2014, the Company granted a total of 217,600 PRSUs to certain senior management employees. The PRSUs will be earned based on the Company's total shareholder return ("TSR") as compared to a peer group of companies at the end of the performance period, which performance period is January 1, 2014 to December 31, 2016. These PRSUs were granted with a weighted average grant date fair value of $29.71 and the number of PRSUs reflected as granted represents the target number of shares that are eligible to vest subject to the attainment of the performance goal. Depending on the outcome of the performance goal, a recipient may ultimately earn a number of shares greater or less than their target number of shares granted, ranging from 0% to 150% of the PRSUs granted. Shares of the Company's common stock are issued on a one-for-one basis for each PRSU earned and participants vest in their PRSUs at the end of the performance period.

The fair value of the TSR PRSUs granted during the year ended December 31, 2014 was determined using a Monte Carlo simulation and utilized the following weighted average inputs and assumptions:

Closing stock price on grant date	$27.70
Performance period starting price	$20.36
Term of award (in years)	2.84
Volatility	38.29%
Risk-free interest rate	0.62%
Expected dividend yield	0.00%
Fair value per TSR PSU	$29.71

The performance period starting price is measured as the average closing price over the last 20 trading days prior to the performance period start. The Monte Carlo simulation model also assumed correlations of returns of the prices of the Company's common stock and the common stocks of the comparator group of companies and stock price volatilities of the comparator group of companies.

Compensation expense for the PRSUs is based upon the number and value of shares expected to vest and compensation expense is recognized over the applicable vesting period. All compensation cost for the PRSUs will be recognized if the requisite service period is fulfilled, even if the market condition is never satisfied. The following table summarizes the PSRU activity for the year ended December 31, 2014:

	PRSUs
At beginning of period	174,333
Granted	217,600
Vested	(39,826)
Cancelled	(113,285)
At end of period	238,822
Weighted average grant date fair value:	
At beginning of period	$ 18.44
Granted	29.71
Vested	18.74
Cancelled	21.88
At end of period	27.22

(f) Restricted Stock Units ("RSUs")

The Company also granted RSUs to directors and employees. These RSUs generally vest ratably over three years at one year intervals from the grant date. Upon vesting, RSU is converted into one share of the common stock of the Company. The following table summarizes the restricted common stock activity for the year ended December 31, 2014:

	RSUs
At beginning of period	318,888
Granted	366,313
Vested	(100,009)
Cancelled	(97,478)
At end of period	487,714
Weighted average grant date fair value:	
At beginning of period	$ 17.93
Granted	29.10
Vested	18.26
Cancelled	24.95
At end of period	24.79

(g) Restricted Stock Awards ("RSAs")

RSAs are considered issued and outstanding at the time of grant, but are still subject to vesting and forfeiture. The compensation cost of restricted stock awards is determined by their intrinsic value on the grant date. The following table summarizes the restricted common stock activity for the three years ended December 31, 2014:

	RSAs
At beginning of period	21,460
Granted	20,000
Vested	(16,831)
Cancelled	(549)
At end of period	24,080
Weighted average grant date fair value:	
At beginning of period	$ 18.50
Granted	18.98
Vested	19.45
Cancelled	24.62
At end of period	19.27

(h) Valuation and Expense Information

Total stock-based compensation expense recorded for the year ended December 31, 2014, 2013 and 2012 amounted to $17,241, $15,522, and $15,007 respectively. Stock-based compensation costs capitalized as part of inventory amounted to $8,036 and $6,613 at December 31, 2014 and 2013, respectively.

All stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the income statement over the requisite service period. The fair value of RSUs and RSAs is based on the market value of the Company's stock on the date of grant. The Company measures the fair value of options on the date of grant using the Black-Scholes model and applying the assumptions in the following table. For awards granted during the three years ended December 31, 2014, the expected volatility is based on the historical volatility of the Company. Prior to the first quarter of 2014, the Company had used the simplified calculation of expected option life prescribed in the guidance issued by the Securities and Exchange Commission because the Company's history was inadequate to determine a reasonable estimate of the option life. Effective the first quarter of 2014, the Company determined that it had sufficient historical data to develop an expected option life to be used in its Black Scholes calculation. The dividend yield is determined based on the Company's history to date and management's estimate of dividends over the option life. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of the grant.

	2014	2013	2012
Weighted average assumptions:			
Expected life of options (in years)	5.49	6.27	6.26
Risk-free interest rate	1.77%	1.24%	1.05%
Expected volatility	45.27%	48.69%	50.66%
Expected dividend yield	0.00%	0.00%	0.00%

The weighted-average grant date fair value of the options issued in 2014, 2013 and 2012 was $11.97, $8.47 and $9.85, respectively. As of December 31, 2014, there was approximately $31,707 of total unrecognized stock-based compensation cost related to all share-based payments that will be recognized over the weighted-average period of 2.2 years. Future grants will add to this total, whereas future amortization and the vesting of existing grants will reduce this total.

(16) Common Stock and Redeemable Convertible Preferred Stock

(a) Common Stock

The Company is authorized to issue 150,000,000 shares of common stock, with a par value of $0.01 per share.

(c) Common stock reserved for future issuance

The following table summarizes common shares reserved for issuance at December 31, 2014 on the exercise or conversion of:

Common stock options-	
Issued and outstanding	4,167,971
Available for future grant	4,333,575
Available for issuance under ESPP	71,713
Issued and outstanding RSUs and PRSUs	726,536
Senior convertible notes	19,188,575
Senior convertible note warrants	28,963,900
Actient warrants	1,250,000
Total shares reserved for future issuance	58,702,270

(c) Preferred Stock

The Company is authorized to issue 1,500,000 shares of Series A Junior Participating preferred stock, with a par value of $0.01, and 3,500,000 shares of preferred stock, with a par value of $0.01 per share. No preferred stock is issued or outstanding.

(17) Subsequent Events

Merger Agreement with Endo

On January 29, 2015, pursuant to the Merger Agreement among the Company, Endo, Endo HoldCo and Avalon Merger Sub Inc., a Delaware corporation and direct subsidiary of HoldCo ("Merger Sub"), Merger Sub merged with and into the Company, with the Company continuing as the surviving entity and as an indirect wholly owned subsidiary of Endo (the "Merger").

Pursuant to the Merger Agreement, and upon the terms and subject to the conditions thereof, at the effective time of the Merger (the "Effective Time"), each share of Auxilium common stock issued and outstanding immediately prior to the Effective Time (other than (i) shares owned by Endo, Merger Sub or any other direct or indirect wholly owned subsidiary of Endo, and shares owned by the Company or any direct or indirect wholly owned subsidiary of the Company, and in each case not held on behalf of third parties, (ii) shares that were owned by stockholders who had perfected and not withdrawn a demand for appraisal rights pursuant to Section 262 of the General Corporation Laws of the State of Delaware and (iii) shares of restricted stock of the Company) was converted into the right to receive, at each Auxilium stockholder's election, either (1) a combination of $16.625 in cash and 0.2440 Endo Shares (the "Standard Election Consideration"), (2) $33.25 in cash (the "Cash Election Consideration") or (3) 0.4880 Endo Shares (the "Stock Election Consideration," and together with the Standard Election Consideration and the Cash Election Consideration the "Merger Consideration"). Auxilium stockholders who did not make an election are entitled to receive the Standard Election Consideration.

Of the 54,966,186 Auxilium shares outstanding that were eligible to make an election, 52,154,714, or 94.9%, elected to receive the Stock Election Consideration, 249,408, or 0.4%, elected to receive the Cash Election Consideration, 110,448, or 0.2%, elected to receive the Standard Election Consideration, and the remaining 2,451,616, or 4.5%, did not make any election and thus received the Standard Election Consideration. The result of the elections led to an oversubscription of the Stock Election Consideration. In accordance with the proration method described in the Merger Agreement and proxy statement/prospectus provided to Auxilium stockholders, each Auxilium share for which an election was made to receive the Stock Election Consideration will instead be entitled to receive approximately $9.75 in cash and 0.3448 Endo Shares.

In connection with the closing of the Merger, the Company notified the NASDAQ Global Select Market ("NASDAQ") of the consummation of the Merger and trading in Auxilium common stock was suspended prior to the commencement of trading on January 30, 2015. In addition, Auxilium common stock was withdrawn from listing on NASDAQ as of the opening of business on January 30, 2015 and the Company requested that NASDAQ file with the SEC a Notification of Removal from Listing and/or Registration under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on Form 25 to delist and deregister the Auxilium common stock. As a result of the Merger, each Auxilium Share issued and outstanding immediately prior to the Effective Time was converted into the right to receive the applicable Merger Consideration.

On January 29, 2015, in connection with the consummation of the Merger, the Company and Endo, and Wells Fargo Bank, National Association, as trustee (the "Trustee"), entered into a second supplemental indenture, dated as of January 29, 2015 (the "Second Supplemental Indenture") to an indenture, dated as of January 30, 2013, between Auxilium and the Trustee (the "Base Indenture"), as supplemented by a first supplemental indenture, dated as of January 30, 2013, between Auxilium and the Trustee (the "First Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), relating to the Company's 2018 Convertible Notes.

Pursuant to the Second Supplemental Indenture, the 2018 Convertible Notes are no longer convertible into shares of Auxilium common stock and instead are convertible into cash and ordinary shares of Endo ("Endo Shares") based on the weighted average of the cash and Endo Shares received by Auxilium stockholders that affirmatively made an election in connection with the Merger. As a result of such elections, a holder of 2018 Convertible Notes is entitled to receive upon conversion of 2018 Convertible Notes (subject to subsequent adjustment pursuant to the terms of the Indenture), $408.83 in cash and 14.1918 Endo Shares per $1 principal amount of 2015 Convertible Notes converted.

In addition, pursuant to the Second Supplemental Indenture, Endo became a co-obligor of Auxilium's obligations under the 2018 Convertible Notes and expressly agreed to assume, jointly and severally with Auxilium, liability for (a) the due and punctual payment of the principal of (and premium, if any, on) and interest, if any, on all of the 2018 Convertible Notes issued under the Indenture, (b) the due and punctual delivery of Endo Shares and/or cash upon conversion of the 2018 Convertible Notes upon the exercise by a holder of 2018 Convertible Notes of the conversion rights under the First Supplemental Indenture and (c) the due and punctual performance and observance of all of the covenants and conditions of the Indenture to be performed by Auxilium.

The completion of the Merger constituted a "Fundamental Change" under the terms of the Indenture. Accordingly, holders were provided the opportunity to require the Company to purchase on March 5, 2015, for cash, any or all 2018 Convertible Notes at a price equal to the principal amount of such 2018 Convertible Notes. No holder exercised such right.

The completion of the Merger constituted a "Make-Whole Fundamental Change" under the terms of the Indenture. Accordingly, holders electing to convert 2018 Convertible Notes from January 29, 2015 to March 4, 2015 (the "Make-Whole Conversion Period") were entitled to an increased conversion rate of $425.61 in cash and 14.7795 Endo Shares per $1 principal amount of 2015 Convertible Notes. Holders of all but $55 of 2018 Convertible Notes exercised their conversion right during the Make-Whole Conversion Period.

On January 29, 2015, in connection with the Merger, all fees and other amounts outstanding under the Term Loan Agreement were paid, and the Term Loan Agreement was terminated. Auxilium did not incur any penalties in connection with the termination of the Term Loan Agreement.

Exercise of Actient Warrants

On January 22, 2015, holders of the Actient warrants described in Note 3 exercised their 1,250,000 warrants for total cash proceeds of $22,250.

Index to consolidated financial statements

Consolidated financial statements as of December 31, 2014 and December 31, 2013 and for the years ended December 31, 2014 and December 31, 2013, for the period July 12, 2012 (inception) to December 31, 2012 and the period January 1, 2012 to September 28, 2012

Report of independent registered public accounting firm

The Board of Directors and Stockholders of
Par Pharmaceutical Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Par Pharmaceutical Holdings, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Par Pharmaceutical Holdings, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

MetroPark, New Jersey
March 12, 2015

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of
Par Pharmaceutical Holdings, Inc.

We have audited the accompanying consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows of Par Pharmaceutical Holdings, Inc. and subsidiaries (the "Company") for the period July 12, 2012 (Date of Inception) through December 31, 2012 (Successor). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the period July 12, 2012 (Date of Inception) through December 31, 2012 (Successor), in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, Par Pharmaceutical Companies, Inc. was acquired at the close of business on September 28, 2012 through a merger transaction with Sky Growth Acquisition Corporation, a wholly-owned subsidiary of Par Pharmaceutical Holdings, Inc. The acquisition was accomplished through a reverse subsidiary merger of Sky Growth Acquisition Corporation with and into the Company, with the Company being the surviving entity. The transaction was accounted for as a business combination and the basis of assets and liabilities were adjusted to their estimated fair values.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 12, 2015

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of
Par Pharmaceutical Holdings, Inc.

We have audited the accompanying consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows of Par Pharmaceutical Companies, Inc. and subsidiaries (the "Company") for the period January 1, 2012 through September 28, 2012 (Predecessor). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the period January 1, 2012 through September 28, 2012 (Predecessor), in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, Par Pharmaceutical Companies, Inc. was acquired at the close of business on September 28, 2012 through a merger transaction with Sky Growth Acquisition Corporation, a wholly-owned subsidiary of Par Pharmaceutical Holdings, Inc. The acquisition was accomplished through a reverse subsidiary merger of Sky Growth Acquisition Corporation with and into the Company, with the Company being the surviving entity. The transaction was accounted for as a business combination and the basis of assets and liabilities were adjusted to their estimated fair values.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 20, 2013

Par Pharmaceutical Holdings, Inc.
Consolidated balance sheets
(In thousands, except share and per share data)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 244,440	$ 130,080
Available for sale marketable debt securities	—	3,541
Accounts receivable, net	158,732	143,279
Inventories	154,687	117,307
Prepaid expenses and other current assets	28,255	15,438
Deferred income tax assets	66,936	55,932
Total current assets	653,050	465,577
Property, plant and equipment, net	217,314	127,276
Intangible assets, net	1,040,753	1,092,648
Goodwill	1,012,108	855,726
Other assets	83,909	96,342
Total assets	$ 3,007,134	$ 2,637,569
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 14,503	$ 21,462
Accounts payable	79,987	31,181
Payables due to distribution agreement partners	53,213	79,117
Accrued salaries and employee benefits	32,246	20,700
Accrued government pricing liabilities	42,647	35,829
Accrued legal settlements	—	41,367
Accrued interest payable	7,529	7,629
Accrued expenses and other current liabilities	47,679	21,686
Total current liabilities	277,804	258,971
Long-term liabilities	17,004	20,322
Non-current deferred tax liabilities	242,177	288,783
Long-term debt, less current portion	1,904,069	1,516,057
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, $0.001 par value per share, 900,000,000 shares authorized in 2014 and 2013; 784,335,270 and 703,791,017 issued and outstanding in 2014 and 2013, respectively	784	704
Additional paid-in capital	835,880	714,509
Accumulated deficit	(266,094)	(160,577)
Accumulated other comprehensive loss	(3,648)	(799)
Treasury stock	(842)	(401)
Total stockholders' equity	566,080	553,436
Total liabilities and stockholders' equity	$ 3,007,134	$ 2,637,569

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

Par Pharmaceutical Holdings, Inc.
Consolidated statements of operations
(In thousands)

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Revenues:				
Net product sales	$ 1,278,106	$ 1,062,453	$ 237,338	$ 780,797
Other product related revenues	30,515	35,014	8,801	23,071
Total revenues	1,308,621	1,097,467	246,139	803,868
Cost of goods sold, excluding amortization expense	643,851	595,166	157,893	431,174
Amortization expense	185,655	184,258	42,801	30,344
Total cost of goods sold	829,506	779,424	200,694	461,518
Gross margin	479,115	318,043	45,445	342,350
Operating expenses:				
Research and development	119,095	100,763	19,383	66,606
Selling, general and administrative	181,136	155,164	73,760	165,604
Intangible asset impairment	146,934	100,093	—	5,700
Settlements and loss contingencies, net	90,107	25,650	10,059	45,000
Restructuring costs	5,413	1,816	241	—
Total operating expenses	542,685	383,486	103,443	282,910
Loss on sale of product rights	(3,042)	—	—	—
Operating (loss) income	(66,612)	(65,443)	(57,998)	59,440
Gain on marketable securities and other investments, net	—	1,122	—	—
Gain on bargain purchase	—	—	5,500	—
Interest income	18	87	50	424
Interest expense	(108,427)	(95,484)	(25,985)	(9,159)
Loss on debt extinguishment	(3,989)	(7,335)	—	—
Other income	500	—	—	—
(Loss) income before (benefit) provision for income taxes	(178,510)	(167,053)	(78,433)	50,705
(Benefit) provision for income taxes	(72,993)	(61,182)	(23,727)	29,530
Net (loss) income	$ (105,517)	$ (105,871)	$ (54,706)	$ 21,175

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

Par Pharmaceutical Holdings, Inc.
Consolidated statements of comprehensive (loss) income
(In thousands)

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Net (loss) income	$ (105,517)	$ (105,871)	$ (54,706)	$ 21,175
Other comprehensive (loss) income:				
Unrealized (loss) gain on marketable securities, net of tax	(3)	(27)	(10)	36
Unrealized loss on cash flow hedges, net of tax	(5,765)	(1,411)	—	—
Less: reclassification adjustment for net losses included in net income (loss), net of tax	2,880	649	—	—
Other	39	—	—	—
Other comprehensive (loss) income	(2,849)	(789)	(10)	36
Comprehensive (loss) income	$ (108,366)	$ (106,660)	$ (54,716)	$ 21,211

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

Par Pharmaceutical Holdings, Inc.
Consolidated statements of stockholders' equity
(In thousands)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings / (accumulated deficit)	Accumulated other comprehensive income/(loss)	Treasury stock	Total stockholders' equity
Balance, December 31, 2011 (Predecessor)	39,678	$397	$389,166	$ 302,984	$ 13	$(82,979)	$ 609,581
Net income	—	—	—	21,175	—	—	21,175
Unrealized loss on available for sale securities, $48 net of tax of $12	—	—	—	—	36	—	36
Exercise of stock options	394	4	11,312	—	—	—	11,316
Tax benefit related to share-based compensation	—	—	7,946	—	—	—	7,946
Employee stock purchase program	—	—	266	—	—	—	266
Purchase of treasury stock	—	—	—	—	—	(2,163)	(2,163)
Compensatory arrangements	—	—	7,282	—	—	—	7,282
Restricted stock grants	99	1	(1)	—	—	—	—
Forfeitures of restricted stock	(10)	—	—	—	—	—	—
Balance, September 28, 2012 (Predecessor)	40,161	402	415,971	324,159	49	(85,142)	655,439
Balance, July 12, 2012 (Successor)	—	—	—	—	—	—	—
Net loss	—	—	—	(54,706)	—	—	(54,706)
Unrealized loss on available for sale securities, $17 net of tax of $7	—	—	—	—	(10)		(10)
Issuance of common stock	703,701	704	702,997	—	—	—	703,701
Compensatory arrangements	—	—	2,240	—	—	—	2,240
Other	—	—	(56)	—	—	—	(56)
Balance, December 31, 2012 (Successor)	703,701	704	705,181	(54,706)	(10)	—	651,169
Net loss	—	—	—	(105,871)	—	—	(105,871)
Unrealized loss on available for sale securities, $43 net of tax of $16	—	—	—	—	(27)	—	(27)
Unrealized loss on cash flow hedges, $2,203 net of tax of $792	—	—	—	—	(1,411)	—	(1,411)
Reclassification adjustment for realized losses included in net loss, $1,014 net of tax of $365	—	—	—	—	649	—	649
Compensatory arrangements	—	—	9,154	—	—	—	9,154
Issuance of common stock	100	—	100	—	—	—	100
Stock-based compensation plan settlements	(50)	—	(154)				(154)
Vesting of restricted stock	40	—	—	—	—	—	—
Excess tax benefit on exercise of stock options		—	228	—	—	—	228
Purchase of treasury stock	—	—	—	—	—	(401)	(401)
Balance, December 31, 2013 (Successor)	703,791	704	714,509	(160,577)	(799)	(401)	553,436
Net loss	—	—	—	(105,517)	—	—	(105,517)
Unrealized loss on available for sale securities, $5 net of tax of $2	—	—	—	—	(3)	—	(3)
Unrealized loss on cash flow hedges, $9,011 net of tax of $3,246	—	—	—	—	(5,765)	—	(5,765)
Reclassification adjustment for realized losses included in net loss, $4,500 net of tax of $1,620	—	—	—	—	2,880	—	2,880
Compensatory arrangements	—	—	8,678	—	—	—	8,678
Issuance of common stock	80,540	80	112,676	—	—	—	112,756
Stock-based compensation plan settlements	(46)	—	(126)	—	—	—	(126)
Vesting of restricted stock	50	—	—	—	—	—	—
Excess tax benefit on exercise of stock options	—	—	143	—	—	—	143
Purchase of treasury stock	—	—	—	—	—	(441)	(441)
Other	—	—	—	—	39	—	39
Balance, December 31, 2014 (Successor)	784,335	$784	$835,880	$ (266,094)	$ (3,648)	$ (842)	$ 566,080

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

Par Pharmaceutical Holdings, Inc.
Consolidated statements of cash flows
(In thousands)

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Cash flows from operating activities:				
Net (loss) income	$ (105,517)	$ (105,871)	$ (54,706)	$ 21,175
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Deferred income taxes	(128,377)	(81,847)	(27,060)	12,103
Resolution of tax contingencies	—	—	—	(5,256)
Non-cash interest expense	10,363	10,734	2,633	1,876
Depreciation and amortization	213,564	207,646	50,348	44,426
Cost of goods on acquired inventory step up	9,031	6,557	21,543	4,048
Intangible asset impairment	146,934	100,093	—	5,700
Allowances against accounts receivable	148,221	44,367	33,232	19,206
Share-based compensation expense	8,678	9,154	2,240	7,282
Gain on bargain purchase	—	—	(5,500)	—
Loss on debt extinguishment	3,989	7,335	—	—
Loss sale of product rights	3,042	—	—	—
Other, net	612	439	367	242
Changes in assets and liabilities:				
Increase in accounts receivable	(158,262)	(64,554)	(42,421)	(7,168)
(Increase) decrease in inventories	(12,712)	(11,690)	(15,013)	11,790
(Increase) decrease in prepaid expenses and other assets	(11,345)	16,846	(20,700)	(21,315)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	36,503	(44,891)	(23,351)	58,050
(Decrease) increase in payables due to distribution agreement partners	(25,910)	12,597	10,537	(13,376)
Decrease in income taxes receivable/payable	6,431	6,130	13,106	14,977
Net cash provided by (used in) operating activities	145,245	113,045	(54,745)	153,760
Cash flows from investing activities:				
Capital expenditures	(45,460)	(17,465)	(10,306)	(11,454)
Sky Growth Merger	—	—	(1,908,725)	—
Business acquisitions, net of any cash acquired	(478,226)	(1,733)	(110,000)	(34,868)
Purchases of intangibles	(153)	(1,000)	—	(15,000)
Purchases of available for sale marketable debt securities	—	—	—	(6,566)
Proceeds from available for sale of marketable debt securities	3,514	8,000	2,500	17,500
Other, net	750	—	—	3,786
Net cash used in investing activities	(519,575)	(12,198)	(2,026,531)	(46,602)
Cash flows from financing activities:				
Proceeds from debt	525,541	198,889	1,545,000	—
Proceeds from equity contributions, net	112,756	100	703,701	—
Stock-based compensation plan settlements	(126)	(154)	—	—
Payments of debt	(146,032)	(206,881)	(339,512)	(8,750)
Payments to extinguish debt	—	(1,412)	—	—
Debt issuance costs	(3,150)	—	(67,928)	—
Proceeds from share-based compensation plans	—	—	—	11,582
Excess tax benefits on share-based compensation	142	228	—	8,536
Purchase of treasury stock	(441)	(401)	—	(2,163)
Net cash provided by (used in) financing activities	488,690	(9,631)	1,841,261	9,205
Net increase (decrease) in cash and cash equivalents	114,360	91,216	(240,015)	116,363
Cash and cash equivalents at beginning of period	130,080	38,864	278,879	162,516
Cash and cash equivalents at end of period	$ 244,440	$ 130,080	$ 38,864	$ 278,879
Supplemental disclosure of cash flow information:				
Cash paid (received) during the period for:				
Income taxes, net	$ 39,215	$ 14,902	$ (11,667)	$ 6,165
Interest paid	$ 97,305	$ 86,187	$ 13,969	$ 6,615
Non-cash transactions:				
Capital expenditures incurred but not yet paid	$ 1,242	$ 2,254	$ 460	$ 708
Equity contribution from management shareholders	$ —	$ —	$ 4,131	$ —

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

Par Pharmaceutical Holdings, Inc., ("Holdings"), formerly known as Sky Growth Holdings Corporation, formed July 12, 2012, operates primarily through its indirect, wholly owned domestic subsidiaries Par Pharmaceutical Companies, Inc. ("PPCI"), issuer of the outstanding public debt and Par Pharmaceutical Inc. (collectively with Holdings and PPCI, referred to herein as "the Company," "we," "our," or "us"). PPCI was the holding company prior to the Merger. Prior to the Merger, we conducted our operations through the subsidiaries of PPCI and we continue to do so subsequent to the Merger. On March 4, 2015, Sky Growth Holdings Corporation changed its name to Par Pharmaceutical Holdings, Inc. The Company operates in two business segments or divisions. The generic products division, Par Pharmaceutical ("Par"), develops (including through third party development arrangements and product acquisitions), manufactures and distributes generic and sterile pharmaceuticals in the United States. The branded products division, Par Specialty Pharmaceuticals ("Par Specialty"), formerly known as Strativa Pharmaceuticals, acquires, manufactures and distributes branded pharmaceuticals in the United States. The products we market are principally in the solid oral dosage form (tablet, caplet and two-piece hard-shell capsule), although we also distribute several oral suspension products, and nasal spray products.

PPCI entered into an Agreement and Plan of Merger on July 14, 2012 (the "Merger Agreement) and was acquired at the close of business on September 28, 2012, through a merger transaction with Sky Growth Acquisition Corporation, a wholly owned subsidiary of the Company. Holdings was formed on July 12, 2012 by investment funds affiliated with TPG Capital, L.P. ("TPG" and, together with certain affiliated entities, collectively, the "Sponsor"). PPCI is owned by affiliates of the Sponsor and members of management. The acquisition was accomplished through a reverse subsidiary merger of Sky Growth Acquisition Corporation with and into PPCI, with PPCI being the surviving entity (the "Merger"). Subsequent to the Merger, PPCI became an indirect, wholly owned subsidiary of Holdings (see Note 2—"Sky Growth Merger"). Prior to September 29, 2012, PPCI operated as a public company with its common stock traded on the New York Stock Exchange.

Although PPCI continued as the same legal entity after the Merger, the accompanying consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows are presented for two periods in 2012: Predecessor and Successor, which relate to the period preceding the September 28, 2012 consummation of the Merger (January 1, 2012 to September 28, 2012) and the period succeeding the execution of the Merger Agreement with Holdings (July 14, 2012 to December 31, 2012). After the Merger, consolidated PPCI and consolidated Holdings have the same financial statements, excluding merger-related costs that were recorded on the books and records of Holdings (see Note 2—"Sky Growth Merger"). The Merger and the allocation of the purchase price were recorded as of September 29, 2012. Although the accounting policies followed by Holdings are consistent for the Predecessor and Successor periods, with the exception of the change in the annual evaluation date for goodwill from December 31st to October 1st, financial information for such periods have been prepared under two different historical cost bases of accounting and are therefore not comparable. The results of the periods presented are not necessarily indicative of the results that may be achieved in future periods.

Note 1—Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, where the operations are conducted and who are the obligators under the Senior Credit Facilities and the 7.375% Senior Notes (refer to Note 14—"Debt"). All intercompany transactions are eliminated in consolidation.

Basis of financial statement presentation:

Our accounting and reporting policies conform to the accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board ("FASB") codified all the accounting standards and principles in the Accounting Standards Codification ("ASC") as the single source of U.S. GAAP recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All content within the ASC carries the same level of authority.

As a result of the Merger, a new basis of accounting was established as of September 29, 2012. The consolidated financial statements and notes differentiate the results of operations and cash flows for the period from July 12, 2012 (inception) to December 31, 2012 denoting the new basis of accounting as "Successor" in such statements, with a black line separating that information from the results of operations and cash flows for the period from January 1, 2012 to September 28, 2012, which is identified as "Predecessor" in such statements and which reflects the basis of accounting prior to the Merger. For additional information on the effects of the Merger, including a discussion of the Company's accounting for the Merger, refer to Note 2, "Sky Growth Merger".

Use of estimates:

The consolidated financial statements include certain amounts that are based on management's best estimates and judgments. Estimates are used in determining such items as provisions for sales returns, rebates and incentives, chargebacks, and other sales allowances, depreciable/amortizable lives, asset impairments, excess inventory, valuation allowance on deferred taxes, purchase price allocations and amounts recorded for contingencies and accruals. Because of the uncertainties inherent in such estimates, actual results may differ from these estimates. Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness.

Use of forecasted financial information in accounting estimates:

The use of forecasted financial information is inherent in many of our accounting estimates, including but not limited to, determining the estimated fair value of goodwill and intangible assets, matching intangible amortization to underlying benefits (e.g. sales and cash inflows), establishing and evaluating inventory reserves, and evaluating the need for valuation allowances for deferred tax assets. Such forecasted financial information is comprised of numerous assumptions regarding our future revenues, cash flows, and operational results. Management believes that its financial forecasts are reasonable and appropriate based upon current facts and circumstances. Because of the inherent nature of forecasts, however, actual results may differ from these forecasts. Management regularly reviews the information related to these forecasts and adjusts the carrying amounts of the applicable assets prospectively, if and when actual results differ from previous estimates.

Cash and cash equivalents:

We consider all highly liquid money market instruments with an original maturity of three months or less when purchased to be cash equivalents. These amounts are stated at cost, which approximates fair value. At December 31, 2014, cash equivalents were held in a number of money market funds and consisted of immediately available fund balances. We maintain our cash deposits and cash equivalents with well-known and stable financial institutions. At December 31, 2014, our cash and cash equivalents were invested primarily in AAA-rated money market funds, which hold high-grade corporate securities or invest in government and/or government agency securities. We have not experienced any losses on our deposits of cash and cash equivalents to date.

Our primary source of liquidity is cash received from customers. In the years ended December 31, 2014 and December 31, 2013 (Successor), we collected $1,462.0 million and $1,150.0 million with respect to net product sales. In the period from July 12, 2012 (inception) to December 31, 2012 (Successor), we collected $258.0 million with respect to net product sales. In the period from January 1, 2012 to September 28, 2012 (Predecessor), we collected $854.0 million with respect to net product sales. Our primary use of liquidity includes funding of general operating expenses, normal course payables due to distribution agreement partners, capital expenditures, business development and product acquisition activities, and corporate acquisitions.

The ability to monetize our current product portfolio, our product pipeline, and future product acquisitions and generate sufficient operating cash flows that along with existing cash, cash equivalents and available for sale securities will allow us to meet our financial obligations over the foreseeable future. The timing of our future financial obligations and the introduction of products in the pipeline as well as future product acquisitions may require additional debt and/or equity financing; there can be no assurances that we will be able to obtain any such additional financing when needed or on acceptable or favorable terms.

Concentration of credit risk:

Financial instruments that potentially subject us to credit risk consist of trade receivables. We market our products primarily to wholesalers, drug store chains, supermarket chains, mass merchandisers, distributors, mail order accounts and drug distributors. We believe the risk associated with this concentration is somewhat limited due to the number of customers and their geographic dispersion and our performance of certain credit evaluation procedures (see Note 9 —"Accounts Receivable—Major Customers—Gross Accounts Receivable").

Investments in debt securities:

We determine the appropriate classification of all debt securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluate such classification as of each balance sheet date in accordance with FASB ASC 320. We assess whether temporary or other-than-temporary unrealized losses on our marketable securities have occurred due to declines in fair value or other market conditions based on the extent and duration of the decline, as well as other factors. Because we have determined that all of our debt securities are available for sale, unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Any other-than-temporary unrealized losses would be recorded in the consolidated statement of operations.

Inventories:

Inventories are typically stated at the lower of cost (first-in, first-out basis) or market value. The nature of the costs capitalized for inventories are generally related to amounts required to acquire materials and amounts incurred to produce salable goods. We establish reserves for our inventory to reflect situations in which the cost of the inventory is not expected to be recovered. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, estimated time required to sell such inventory, remaining shelf life, remaining contractual terms of any supply and distribution agreements including authorized generic agreements, and current expected market conditions, including level of competition. Such evaluations utilize forecasted financial information. We record provisions for inventory to cost of goods sold.

Property, plant and equipment:

As detailed in Note 2—"Sky Growth Merger" and Note 3—"Par Sterile Acquisition", property, plant and equipment was increased to its fair value in the allocation of purchase price as of September 28, 2012 and February 20, 2014, respectively. The revised carrying values of the property, plant and equipment are depreciated over their remaining useful lives. The costs of repairs and maintenance are expensed when incurred, while expenditures for refurbishments and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized.

Depreciation and amortization:

Property, plant and equipment are reported at acquisition cost, less accumulated depreciation and amortization, and are generally depreciated or amortized over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful life or the term of the lease. The following is the estimated useful life for each applicable asset group:

Buildings	10 to 40 years
Machinery and equipment	3 to 15 years
Office equipment, furniture and fixtures	3 to 7 years
Computer software and hardware	3 to 7 years

Impairment of long-lived assets:

We evaluate long-lived assets, including intangible assets with definite lives, for impairment periodically or whenever events or other changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If such circumstances are determined to exist, the estimated fair value is compared to the carrying value to determine whether impairment exists at its lowest level of identifiable cash flows. If impairment is identified, the assets are adjusted to fair value and a loss is recorded. Our judgments related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as ongoing maintenance and improvements of the assets, changes in economic and market conditions, our ability to successfully launch products, and changes in operating performance. In addition, we regularly evaluate our other assets and may accelerate depreciation over the revised useful life if the asset has limited future value.

Costs of computer software:

We capitalize certain costs associated with computer software developed or obtained for internal use in accordance with the provisions of FASB ASC 350-40. We capitalize those costs from the acquisition of external materials and services associated with developing or obtaining internal use computer software. We capitalize certain payroll costs for employees that are directly associated with internal use computer software projects once specific criteria of ASC 350-40 are met. Those costs that are associated with preliminary stage activities, training, maintenance, and all other post-implementation stage activities are expensed as they are incurred. All costs capitalized in connection with internal use computer software projects are amortized on a straight-line basis over a useful life of three to seven years, beginning when the software is ready for its intended use.

Research and development agreements:

Research and development costs are expensed as incurred. These expenses include the costs of our internal product development efforts, acquired in-process research and development purchased in an asset acquisition outside of a business combination, as well as costs incurred in connection with our third party collaboration efforts. Milestone payments made under contract research and development arrangements or product licensing arrangements prior to regulatory approval of the associated product are expensed when the milestone is achieved. Once the product receives regulatory approval we record any subsequent milestone payments as intangible assets. We make the determination to capitalize or expense amounts related to the development of new products and technologies through agreements with third parties based on our ability to recover our cost in a reasonable period of time from the estimated future cash flows anticipated to be generated pursuant to each agreement. Market (including competition), regulatory and legal factors, among other things, may affect the realizability of the projected cash flows that an agreement was initially expected to generate. We regularly monitor these factors and subject all capitalized costs to periodic impairment testing.

Costs for patent litigation and legal proceedings:

Costs for patent litigation or other legal proceedings are expensed as incurred and included in selling, general and administrative expenses.

Goodwill and intangible assets:

We determine the estimated fair values of goodwill and intangible assets with definite and/or indefinite lives based on valuations performed at the time of their acquisition in accordance with FASB ASC 350 and in accordance with FASB ASC 805, “Business Combinations,” (“ASC 805”), including acquired in-process research and development, which is capitalized as part of business combinations. Such valuations utilize forecasted financial information. In addition, certain amounts paid to third parties related to the development of new products and technologies, as described above, are capitalized and included in intangible assets on the accompanying consolidated balance sheets.

Goodwill and indefinite lived intangible assets are evaluated for impairment at least annually. We may first consider qualitative factors as set forth in the guidance, when appropriate to determine if it is more likely than not (defined as 50% or more) that the fair value of the reporting unit is less than its carrying amount. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no additional steps are taken. If we chose not to consider qualitative factors or it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the Company then uses a two-step process that compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit’s carrying amount, including goodwill. The first step is to identify a potential impairment, and the second step measures the amount of the impairment loss, if any. Goodwill is impaired if the carrying amount of a reporting unit’s goodwill exceeds its estimated fair value. As of October 1, 2014, the Company performed its annual goodwill and indefinite lived intangible asset impairment assessments noting no impairment of goodwill and impairment of certain of our intangible assets. Refer to Note 12—“Intangible Assets, net”. No changes in business or other factors are known as of the December 31, 2014 balance sheet date that would necessitate an evaluation for impairment.

Definite-lived intangibles are amortized over the period in which the related cash flows are expected to be generated or on a straight-line basis over the products’ estimated useful life if the estimated cash flows method approximates straight-line basis.

We review the carrying value of our long-term assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

As discussed above with respect to determining an asset's fair value and useful life, because this process involves management making certain estimates and because these estimates form the basis of the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates. We will continue to assess the carrying value of our goodwill and intangible assets in accordance with applicable accounting guidance.

Income taxes:

We account for income taxes in accordance with FASB ASC 740. Deferred taxes are provided using the asset and liability method, whereby deferred income taxes result from temporary differences between the reported amounts in the financial statements and the tax basis of assets and liabilities, as measured by presently enacted tax rates. We establish valuation allowances against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In establishing valuation allowances, management makes estimates such as projecting future taxable income. Such estimates utilize forecasted financial information.

ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition, measurement and disclosure of tax positions that a company has taken or expects to be taken in a tax return. Additionally, ASC 740-10 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and transition. See Note 18—"Income Taxes".

Revenue recognition and accounts receivable reserves and allowances:

We recognize revenues for product sales when title and risk of loss transfer to our customers, when reliable estimates of rebates, chargebacks, returns and other adjustments can be made, and collectability is reasonably assured. Included in our recognition of revenues are estimated provisions for sales allowances, the most significant of which include rebates, chargebacks, product returns, and other sales allowances, recorded as reductions to gross revenues, with corresponding adjustments to the accounts receivable reserves and allowances (see Note 9—"Accounts Receivable"). In addition, we record estimates for rebates paid under federal and state government Medicaid drug reimbursement programs as reductions to gross revenues, with corresponding adjustments to accrued liabilities. We have the experience and access to relevant information that we believe are necessary to reasonably estimate the amounts of such deductions from gross revenues. Some of the assumptions we use for certain of our estimates are based on information received from third parties, such as customers' inventories at a particular point in time and market data, or other market factors beyond our control. The estimates that are most critical to our establishment of these reserves, and therefore would have the largest impact if these estimates were not accurate, are our estimates of non-contract sales volumes, average contract pricing, customer inventories, processing time lags, and return volumes. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

Distribution costs:

We record distribution costs related to shipping product to our customers, primarily through the use of common carriers or external distribution services, in selling, general and administrative expenses. Distribution costs for the years ended December 31, 2014 and December 31, 2013 (Successor) were approximately $3.4 million and $3.3 million, respectively. Distribution costs for the period from July 12, 2012 (inception) to December 31, 2012 (Successor) were approximately $1.0 million. Distribution costs for the period from January 1, 2012 to September 28, 2012 (Predecessor) were approximately $2.3 million.

Fair value of financial instruments:

The carrying amounts of our cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values based upon the relatively short-term nature of these financial instruments.

Concentration of suppliers of distributed products and internally manufactured products:

We have entered into a number of license and distribution agreements pursuant to which we distribute generic pharmaceutical products and brand products developed and/or supplied to us by certain third parties. We have also entered into contract manufacturing agreements for third-parties to manufacture some of our own generic products for us. For the year ended December 31, 2014 (Successor), a significant percentage of our total net product sales were generated from such contract-manufactured and/or licensed products. We cannot provide assurance that the efforts of our contractual partners will continue to be successful, that we will be able to renew such agreements or that we will be able to enter into new agreements in the future. Any alteration to or termination of our current material license and distribution agreements, our failure to enter into new and similar agreements, or the interruption of the supply of our products under such agreements or under our contract manufacturing agreements, could have a material adverse effect on our business, condition (financial and other), prospects or results of operations.

We produce substantially all of our internally manufactured products at our manufacturing facilities in New York, Michigan, and California as of December 31, 2014. A significant disruption at those facilities, even on a short-term basis, could impair our ability to produce and ship products to the market on a timely basis, which could have a material adverse effect on our business, financial position and results of operations.

Segments:

FASB ASC 280-10 codifies the standards for reporting of financial information about operating segments in annual financial statements. Management considers our business to be in two reportable business segments, generic and brand pharmaceuticals. Refer to Note 20—"Segment Information". Our four largest customers in terms of our consolidated total revenues accounted for approximately 70% of our total revenues as of December 31, 2014, as follows: McKesson Drug Co. (24.7%), Cardinal Health Inc. (18.3%), CVS Health Corporation (14.5%) and AmerisourceBergen Corporation (13.4%) for the year ended December 31, 2014.

Contingencies and legal fees:

We are subject to various patent litigations, product liability litigations, 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 when we determine 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.

Debt issuance costs:

We capitalize direct costs incurred with obtaining debt financing, which are included in other assets on the consolidated balance sheet. Debt issuance costs are amortized to interest expense over the term of the underlying debt using the effective interest method. We recognized amortized debt issuance costs of $10.7 million for the year ended December 31, 2014 (Successor), $10.7 million for the year ended December 31, 2013 (Successor), $2.8 million for the period July 12, 2012 (inception) to December 31, 2012 (Successor), and $1.9 million for the period January 1, 2012 to September 28, 2012 (Predecessor).

Derivative instruments and hedging activities:

As required by FASB ASC 815, Derivatives and Hedging ("ASC 815"), we record all derivatives on our consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting under ASC 815.

Recent accounting pronouncements:

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 amends guidance for reporting discontinued operations and disposals of components of an entity. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The guidance also expands the disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure is intended to provide users with information about the ongoing trends in a reporting organization's results from continuing operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 with early adoption permitted only for disposals that have not been previously reported. We currently do not anticipate an impact of ASU 2014-08 on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of ASU 2014-09 is to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle: 1) identify the contract with a customer, 2) identify the separate performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the separate performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. ASU 2014-09 can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application in retained earnings or accumulated deficit. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements and related disclosures and we have not yet selected a transition method.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which defines management’s responsibility to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. We currently do not anticipate an impact of ASU 2014-15 on our consolidated financial statements and related disclosures.

In November 2014, the FASB issued ASU 2014-17, “Business Combinations (Topic 805): Pushdown Accounting” (“ASU 2014-17”). The amendments in ASU 2014-17 provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The pronouncement is effective for annual reporting periods ending after November 14, 2014 with early adoption permitted. There is no impact from ASU 2014-17 on our consolidated financial statements and related disclosures.

Note 2—Sky Growth merger:

The transactions

PPCI was acquired at the close of business on September 28, 2012 through the Merger. Holdings and its wholly-owned subsidiaries were formed by affiliates of TPG solely for the purposes of completing the Merger and the related transactions. At the time of the Merger, each share of our common stock issued and outstanding immediately prior to the close of the Merger was converted into the right to receive cash. Aggregate consideration tendered at September 28, 2012 was for 100% of the equity of PPCI. Subsequent to the Merger, PPCI became an indirect, wholly owned subsidiary of Holdings.

The Merger was accounted for as a purchase business combination in accordance with FASB ASC 805, “Business Combinations,” (“ASC 805”) whereby the purchase price paid to effect the Merger was allocated to recognize the acquired assets and liabilities assumed at fair value. The acquisition method of accounting uses the fair value concept defined in ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”).

The sources and uses of funds in connection with the Transactions are summarized below ($ in thousands):

Sources:		Uses:	
Senior secured term loan	$1,055,000	Cash purchase of equity	$1,908,725
7.375% Senior notes	490,000	Prior debt and accrued interest	337,704
Sponsor equity contribution	690,000	Total purchase price	2,246,429
Company cash on hand	144,791	Transaction costs	133,362
Total source of funds	$2,379,791	Total use of funds	$2,379,791

The final allocation of the purchase price at September 29, 2012 was as follows ($ in thousands):

	As of September 29, 2012
Cash on hand	$ 278,879
Accounts receivable, net	113,902
Inventories	118,704
Property, plant and equipment, net	129,416
Intangible assets	1,303,300
Other current and non-current assets	83,493
Total identifiable assets	2,027,694
Accounts payable	36,304
Payables due to distribution agreement partners	55,983
Accrued government pricing liabilities	43,010
Accrued legal settlements	58,917
Other current liabilities	89,231
Other long-term liabilities	12,568
Deferred income taxes	340,978
Total liabilities assumed	636,991
Net identifiable assets acquired	1,390,703
Goodwill	855,726
Total purchase price allocation	$ 2,246,429

The excess of the purchase price (consideration transferred) over the estimated amounts of identifiable assets acquired and liabilities assumed as of the effective date of the Merger was allocated to goodwill in accordance with ASC 805, which mainly represents intangible assets related to our know-how, including our workforce's expertise in R&D and manufacturing that do not qualify for separate recognition. The purchase price allocation was subject to completion of our analysis of the fair value of the assets and liabilities as of the effective date of the Merger. The final valuation was completed as of September 30, 2013. Refer to Note 13—"Goodwill", for changes during the year ended December 31, 2013. None of the goodwill identified above will be deductible for income tax purposes.

Transactions with manager

In connection with the Merger and the related transactions, PPCI entered into a management services agreement with an affiliate of TPG (the "Manager"). Pursuant to the agreement, in exchange for on-going consulting and management advisory services, the Manager receives an annual monitoring fee paid quarterly

equal to 1% of EBITDA as defined under the credit agreement for the Senior Credit Facilities (as defined in Note 14—"Debt"). There is an annual cap of $4.0 million for this fee. The Manager also receives reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement. Holdings recorded an expense of $4.0 million and $3.6 million for consulting and management advisory service fees which are included in selling, general and administrative expenses in the consolidated statement of operations in the years ended December 31, 2014 (Successor), December 31, 2013 (Successor), and $0.7 million in the period from July 12, 2012 (inception) to December 31, 2012 (Successor). Also, in the period from July 12, 2012 (inception) to December 31, 2012 (Successor), Holdings incurred merger-related costs of $28.2 million. There costs were primarily investment bank fees, accounting fees, legal fees, and other fees.

Note 3—Par Sterile acquisition:

On February 20, 2014, the Company completed its acquisition of JHP Group Holdings, Inc. and its subsidiaries (collectively, "JHP"), a privately-held, specialty sterile products pharmaceutical company. The acquisition was accomplished through a reverse subsidiary merger of an indirect subsidiary of the Company with and into JHP Group Holdings, Inc., in which JHP Group Holdings, Inc. was the surviving entity and became an indirect, wholly owned subsidiary of the Company (the "Par Sterile Acquisition"). The consideration for the Par Sterile Acquisition consisted of $487.0 million in cash, after finalization of certain customary working capital adjustments. The Company financed the Par Sterile Acquisition with proceeds received in connection with the debt financing provided by third party lenders of $395.0 million and an equity contribution of $110.0 million from certain investment funds associated with TPG. Among the primary reasons the Company acquired JHP and the factors that contributed to the preliminary recognition of goodwill was that the Par Sterile Acquisition expanded its capability and presence into the rapidly growing sterile drug market for injectable products including ophthalmics and otics. The result is a broader and more diversified product portfolio, and an expanded development pipeline.

JHP operated principally through its operating subsidiary, JHP Pharmaceuticals, LLC, which was renamed Par Sterile Products, LLC ("Par Sterile") subsequent to the Par Sterile Acquisition. We continue to operate Par Sterile as a specialty pharmaceutical company developing and manufacturing sterile injectable products. Par Sterile's products are primarily sold through wholesalers, often via an arrangement with a group purchasing organization, prior to being dispensed at hospitals or directly administered by physicians. Par Sterile targets products with limited competition due to difficulty in manufacturing and/or the product's market size. Our Par Sterile manufacturing facility in Rochester, Michigan has the capability to manufacture small-scale clinical through large-scale commercial products.

The operating results of Par Sterile from February 20, 2014 to December 31, 2014 are included in the accompanying consolidated statement of operations as part of the Par Pharmaceutical segment, reflecting total revenues of approximately $140.3 million. Par Sterile's contribution to the overall Par Pharmaceutical segment's operating (loss) or income is not tracked separately. The consolidated balance sheet as of December 31, 2014 reflects the acquisition, including goodwill, which represents Par Sterile's workforce expertise in research & development, marketing and manufacturing.

The acquisition has been accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805. The acquisition method of accounting uses the fair value concept defined in ASC 820. ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date and that the fair value of acquired in-process research and development ("IPR&D") be recorded on the balance sheet regardless of the likelihood of success of the related product or technology as of the completion of the acquisition. The process for estimating the fair values of IPR&D, identifiable intangible assets and certain tangible assets requires the

use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, timing and probability of success to complete in-process projects and projecting regulatory approvals. Under ASC 805, transaction costs are not included as a component of consideration transferred and were expensed as incurred. The acquisition and financing transaction costs totaled $12.4 million of which $8.2 million were included in operating expenses as selling, general and administrative expenses on the consolidated statements of operations and $4.1 million were capitalized as deferred financing costs or debt discount on the consolidated balance sheet. The acquisition-related transaction costs were comprised of bank fees ($10.4 million), legal fees ($1.5 million), and other fees ($0.5 million). The excess of the purchase price (consideration transferred) over the estimated amounts of identifiable assets and liabilities of Par Sterile as of the effective date of the acquisition was allocated to goodwill, as part of the Par Pharmaceutical segment, in accordance with ASC 805. The purchase price allocation was finalized with the completion of our analysis of the fair value of the assets and liabilities of Par Sterile as of the effective date of the acquisition. The establishment of the fair value of the consideration for an acquisition, and the allocation to identifiable tangible and intangible assets and liabilities, requires the extensive use of accounting estimates and management judgment. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable estimates and assumptions.

The sources and uses of funds in connection with the Par Sterile Acquisition are summarized below ($ in thousands):

Sources:		Uses:	
Senior secured term loan	$395,000	Cash purchase of equity	$487,429(a)
Sponsor equity contribution	110,000	Transaction costs	12,350
Company cash on hand	1,133(a)	Accrued interest on Company debt	6,354
Total source of funds	$506,133	Total use of funds	$506,133

(a) Adjusted to reflect the finalization of working capital adjustments noted above.

Fair value estimate of assets acquired and liabilities assumed

The purchase price of Par Sterile has been allocated to the following assets and liabilities ($ in thousands):

	As of February 20, 2014
Cash and cash equivalents	$ 9,204
Accounts receivable, net	5,413
Inventories	35,959
Prepaid expenses and other current assets	10,583
Property, plant and equipment	73,579
Intangible assets	283,500
Total identifiable assets	418,238
Accounts payable	13,796
Accrued expenses and other liabilities	1,902
Deferred tax liabilities	71,493
Total liabilities assumed	87,191
Net identifiable assets acquired	331,047
Goodwill	156,382
Net assets acquired	$ 487,429

Approximately $20.0 million of the goodwill identified above and recorded on the consolidated balance sheet as of December 31, 2014 will be deductible for income tax purposes.

Supplemental pro forma information (unaudited)

The following unaudited pro forma information for the years ended December 31, 2014 , and December 31, 2013 assumes the Par Sterile Acquisition occurred as of January 1, 2013. The pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized had the acquisition been consummated during the periods for which pro forma information is presented, nor is it intended to be a projection of future results or trends.

	For the Year Ended	
(In thousands)	December 31, 2014	December 31, 2013
Total revenues	$ 1,327,683	$ 1,249,682
Net loss	$ (97,444)	$ (136,599)

These amounts have been calculated after adjusting for the additional expense that would have been recorded assuming the fair value adjustments to long-lived assets ($205.1 million) and inventory ($9.0 million) had been applied on January 1, 2013, and the debt incurred as a result of the Par Sterile Acquisition ($395.0 million) had been outstanding since January 1, 2013, along with the related repricing of the Term Loan Facility (as defined in Note 14—"Debt"), together with the consequential tax effects.

Pro forma loss from continuing operations for the year ended December 31, 2014 was adjusted to exclude $8.2 million of Par Sterile Acquisition-related costs incurred in 2014 with the consequential tax effects. These costs were primarily bank fees, accounting fees, and legal fees. Pro forma loss from continuing operations for the year ended December 31, 2014 was adjusted to include the Par Sterile Acquisition-related costs with the consequential tax effects. Pro forma loss from continuing operations for the years ended December 31, 2014 and 2013 have been adjusted to exclude certain historical amounts such as intangible asset amortization.

Note 4—Acquisition of divested products from the Watson/Actavis Merger:

In connection with the merger of Watson Pharmaceuticals, Inc. and Actavis Group on November 6, 2012 (the "Watson/Actavis Merger"), we acquired the U.S. marketing rights to five generic products that were marketed by Watson or Actavis, as well as eight Abbreviated New Drug Applications ("ANDA") awaiting regulatory approval, and a generic product in late-stage development, for $110.0 million. We also acquired a number of related supply agreements, each with a term of three years. The purchase price was paid in cash and funded from our cash on hand.

The acquisition was accounted for as a business combination resulting in a bargain purchase under ASC 805. The purchase price of the acquisition was allocated to the assets acquired, with the excess of the fair value of assets acquired over the purchase price recorded as a gain. The bargain purchase was mainly attributed to the FTC-mandated divestiture of products by Watson and Actavis in conjunction with the approval of the related Watson/Actavis Merger.

Note 5—Edict acquisition:

On February 17, 2012, through Par Pharmaceutical, Inc., our wholly-owned subsidiary, we completed our acquisition of privately-held Edict Pharmaceuticals Private Limited, which has been renamed Par Formulations Private Limited (referred to as "Par Formulations"), for cash and our repayment of certain additional pre-close indebtedness (the "Edict Acquisition"). The operating results of Par Formulations were included in our consolidated financial results from the date of acquisition. The operating results were reflected as part of the Par Pharmaceutical segment. We funded the purchase from cash on hand.

The addition of Par Formulations broadened our industry expertise and expanded our research & development and manufacturing capabilities. The Edict Acquisition was revalued as part of the business combination accounting for the Merger. Refer to Note 2—"Sky Growth Merger."

Note 6—Pending acquisitions as of December 31, 2014:

In December 2014, our wholly-owned subsidiary, Par Formulations Private Limited, entered into an agreement to purchase certain assets of privately-held Nuray Chemicals Private Limited ("Nuray"), a Chennai, India based developer and manufacturer of active pharmaceutical ingredients ("API") for approximately $20.0 million in cash, contingent payments and other consideration. A vice president of the Company is a minority shareholder of Nuray. The assets to be acquired via a definitive agreement consist of a FDA approved facility that manufactures API, including real property, improvements and related assets. The closing of the acquisition is subject to the receipt of applicable regulatory approvals and other customary closing terms and conditions. The acquisition will be accounted for as a business combination under the guidance of ASC 805. The operating results of the acquired business will be included in our consolidated financial results from the date of the closing of the acquisition as part of the Par Pharmaceutical segment. We intend to fund the purchase from cash on hand.

In January 2015, we completed our acquisition of Innoteq, Inc., a privately-held domestic corporation that is engaged in the business of researching, developing and manufacturing transdermal patches and thin film, slow dissolve film, coated/non-woven film and other coated pharmaceutical and consumer products, for approximately $27.0 million.

In January 2015, we acquired Par Biosciences Private Limited (formerly Ethics Bio Lab Private Limited), a clinical research organization located in India for $10.0 million.

The Company will account for these transactions as business combinations using the acquisition method of accounting in accordance with ASC 805, Business Combinations. The Company will provide this information in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 for the acquisitions completed in January 2015.

Note 7—Available for sale marketable debt securities:

At December 31, 2014, we had no marketable debt securities. As of December 31, 2013, all of our investments in marketable debt securities were classified as available for sale and, as a result, were reported at their estimated fair values on the condensed consolidated balance sheets. Refer to Note 8—"Fair Value Measurements."

Available for sale marketable debt securities are generally classified as current on our consolidated balance sheet.

The following is a summary of amortized cost and estimated fair value of our investments in marketable debt securities available for sale at December 31, 2013 ($ in thousands):

	Cost	Unrealized Gain	Unrealized (Loss)	Estimated Fair Value
Corporate bonds	$3,522	$ 19	$—	$ 3,541

Note 8—Fair value measurements:

ASC 820-10 Fair Value Measurements and Disclosures defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets and liabilities. Active market means a market in which transactions for assets or liabilities occur with "sufficient frequency" and volume to provide pricing information on an ongoing unadjusted basis. Cash equivalents include highly liquid investments with an original maturity of three months or less at acquisition. We have determined that our cash equivalents in their entirety are classified as Level 1 within the fair value hierarchy.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Level 2 assets primarily include debt securities, including corporate bonds with quoted prices that are traded less frequently than exchange-traded instruments. All of our Level 2 asset values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The pricing model information is provided by third party entities (e.g., banks or brokers). In some instances, these third party entities engage external pricing services to estimate the fair value of these securities. We have a general understanding of the methodologies employed by the pricing services in their pricing models. We corroborate the estimates of non-binding quotes from the third party entities' pricing services to an independent source that provides quoted market prices from broker or dealer quotations. We investigate large differences, if any. Based on historical differences, we have not been required to adjust quotes provided by the third party entities' pricing services used in estimating the fair value of these securities.

Level 3: Unobservable inputs that are not corroborated by market data.

Financial assets and liabilities

The fair value of our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 were as follows ($ in thousands):

	Estimated fair value at December 31, 2014 (Successor)	Level 1	Level 2	Level 3
Cash equivalents	$ 100,002	$ 100,002	$ —	$ —
Senior secured term loan (Note 14)	$ 1,399,941	$ —	$ 1,399,941	$ —
7.375% senior notes (Note 14)	$ 507,763	$ —	$ 507,763	$ —
Derivative instruments—Interest rate caps (Note 15)	$ 5,700	$ —	$ 5,700	$ —

The fair value of our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 were as follows ($ in thousands):

	Estimated fair value at December 31, 2013 (Successor)	Level 1	Level 2	Level 3
Corporate bonds (Note 7)	$ 3,541	$ —	$ 3,541	$ —
Cash equivalents	$ 66,782	$66,782	$ —	$ —
Senior secured term loan (Note 14)	$1,063,255	$ —	$1,063,255	$ —
7.375% senior notes (Note 14)	$ 507,150	$ —	$ 507,150	$ —
Derivative instruments—Interest rate caps (Note 15)	$ 1,189	$ —	$ 1,189	$ —

The carrying amount reported in the consolidated balance sheets for accounts receivables, net, inventories, prepaid expenses and other current assets, accounts payable, payables due to distribution agreement partners, accrued salaries and employee benefits, accrued government pricing liabilities, accrued legal settlements, and accrued expenses and other current liabilities approximate fair value because of their short-term nature.

Non-financial assets and liabilities

The Company's non-financial assets, such as intangible assets and property, plant and equipment are only recorded at fair value if an impairment charge is recognized.

Intangible assets

During the years ended December 31, 2014 and December 31, 2013, we recorded intangible asset impairments totaling $146.9 million and $100.1 million, respectively, as detailed in Note 12—"Intangible Assets, net". During the period from January 1, 2012 to September 28, 2012 (Predecessor), we abandoned an in-process research and development project that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $2.0 million, and we exited the market of a commercial product that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $3.7 million.

Derivative instruments—interest rate caps

We use interest rate cap agreements to manage our interest rate risk on our variable rate long-term debt. Refer to Note 15—"Derivative Instruments and Hedging Activities," for further information.

Note 9—Accounts receivable:

We account for revenue in accordance with ASC 605 "Revenue Recognition". In accordance with that standard, we recognize revenue for product sales when title and risk of loss have transferred to our customers, when reliable estimates of rebates, chargebacks, returns and other adjustments can be made, and when collectability is reasonably assured. This is generally at the time that products are received by our direct customers. We also review available trade inventory levels at certain large wholesalers to evaluate any potential excess supply levels in relation to expected demand. We determine whether we will recognize revenue at the time that our products are received by our direct customers or defer revenue recognition until a later date on a product by product basis at the time of launch. Upon recognizing revenue from a sale, we record estimates for chargebacks, rebates and incentive programs, product returns, cash discounts and other sales reserves that reduce accounts receivable.

The following tables summarize the impact of accounts receivable reserves and allowance for doubtful accounts on the gross trade accounts receivable balances at each balance sheet date ($ in thousands):

	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Gross trade accounts receivable	$ 565,694	$ 383,347
Chargebacks	(96,492)	(48,766)
Rebates and incentive programs	(138,989)	(75,321)
Returns	(84,330)	(78,181)
Cash discounts and other	(86,797)	(37,793)
Allowance for doubtful accounts	(354)	(7)
Accounts receivable, net	$ 158,732	$ 143,279

Allowance for doubtful accounts

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Balance at beginning of period	$ (7)	$ —	$ (100)	$ (1)
Par Sterile opening balance	(278)	—	—	—
Anchen opening balance	—	—	—	(100)
Additions—charge to expense	(597)	(2)	—	—
Adjustments and/or deductions	528	(5)	100	1
Balance at end of period	$ (354)	$ (7)	$ —	$ (100)

The following tables summarize the activity for the years ended December 31, 2014, 2013 and 2012 in the accounts affected by the estimated provisions described below ($ in thousands):

	For the year ended December 31, 2014 (Successor)					
Accounts receivable reserves	Beginning balance	Par Sterile beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (48,766)	$ (6,296)	$ (871,139)	$ 2,628(1)	$ 827,081	$ (96,492)
Rebates and incentive programs	(75,321)	(5,489)	(480,949)	—	422,770	(138,989)
Returns	(78,181)	(4,820)	(31,361)	—	30,032	(84,330)
Cash discounts and other	(37,793)	(1,792)	(291,153)	(1,449)(3)	245,390	(86,797)
Total	$(240,061)	$(18,397)	$(1,674,602)	$ 1,179	$1,525,273	$(406,608)
Accrued liabilities(2)	$ (35,829)	$ (382)	$ (84,840)	$ 2,805(4)	$ 75,599	$ (42,647)

Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
	For the year ended December 31, 2013 (Successor)				
Chargebacks	$ (41,670)	$ (630,097)	$ — (1)	$ 623,001	$ (48,766)
Rebates and incentive programs	(59,426)	(290,934)	659	274,380	(75,321)
Returns	(68,062)	(37,956)	—	27,837	(78,181)
Cash discounts and other	(26,544)	(195,632)	1,564	182,819	(37,793)
Total	$(195,702)	$(1,154,619)	$ 2,223	$1,108,037	$(240,061)
Accrued liabilities(2)	$ (42,162)	$ (80,726)	$ 3,566(5)	$ 83,493	$ (35,829)

Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
	For the period July 12, 2012 to December 31, 2012 (Successor)				
Chargebacks	$ (24,223)	$ (132,834)	$ — (1)	$ 115,387	$ (41,670)
Rebates and incentive programs	(43,866)	(69,749)	—	54,189	(59,426)
Returns	(64,119)	(8,522)	—	4,579	(68,062)
Cash discounts and other	(30,817)	(46,053)	—	50,326	(26,544)
Total	$(163,025)	$ (257,158)	$ —	$ 224,481	$(195,702)
Accrued liabilities(2)	$ (42,455)	$ (24,437)	$ —	$ 24,730	$ (42,162)

Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
	For the period January 1, 2012 to September 28, 2012 (Predecessor)				
Chargebacks	$ (20,688)	$ (309,411)	$ — (1)	$ 305,876	$ (24,223)
Rebates and incentive programs	(35,132)	(147,112)	(59)	138,437	(43,866)
Returns	(58,672)	(24,793)	1,602(6)	17,744	(64,119)
Cash discounts and other	(28,672)	(102,718)	(809)	101,382	(30,817)
Total	$(143,164)	$ (584,034)	$ 734	$ 563,439	$(163,025)
Accrued liabilities(2)	$ (39,614)	$ (49,536)	$ —	$ 46,695	$ (42,455)

(1) Unless specific in nature, the amount of provision or reversal of reserves related to prior periods for chargebacks is not determinable on a product or customer specific basis; however, based upon historical analysis and analysis of activity in subsequent periods, we believe that our chargeback estimates remain reasonable. During the year ended December 31, 2014 (Successor), the Company settled a dispute with a customer resulting in a recovery payment of $3.6 million of which $2.6 million pertained to prior year transactions.

(2) Includes amounts due to indirect customers for which no underlying accounts receivable exists and is principally comprised of Medicaid rebates and rebates due under other U.S. Government pricing programs, such as TriCare and the Department of Veterans Affairs.

(3) During the year ended December 31, 2014, the Company recorded expense of approximately $1.0 million related to a re-procurement claim from one customer for the period September 2012 through October 2012. In addition, we settled post audit claims from customers for the period January 2009 through December 2012 that resulted in net expense of approximately $0.5 million.

(4) During 2014, we received further additional information related to Managed Medicaid utilization in California and performed a recalculation of average manufacturer's price. As a result we reduced our 2014 Medicaid accruals by approximately $3.6 million related to the periods March 2010 through December 2013. This activity was partially offset by the expense of $0.8 million related to disputed TriCare claims for the period from January 2009 through December 2013. Our Medicaid and TriCare accruals represent our best estimate at this time.

(5) During 2013, we received additional information related to Managed Medicaid utilization in California and performed a recalculation of average manufacturer's price. As a result we reduced our 2013 Medicaid accruals by approximately $3.6 million related to the periods January 2010 through December 2012. Our Medicaid accrual represents our best estimate at this time.

(6) The amount principally represents the resolution of a customer dispute in the first quarter of 2012 regarding invalid deductions taken in prior years of approximately $1.6 million.

The Company sells its products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers as well as customers that purchase its products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers. The Company often negotiates product pricing directly with health care providers that purchase products through the Company's wholesale customers. In those instances, chargeback credits are issued to the wholesaler for the difference between the invoice price paid to the Company by our wholesale customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product. The information that the Company considers when establishing its chargeback reserves includes contract and non-contract sales trends, average historical contract pricing, actual price changes, processing time lags and customer inventory information from its three largest wholesale customers. The Company's chargeback provision and related reserve vary with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventory.

Customer rebates and incentive programs are generally provided to customers as an incentive for the customers to continue carrying the Company's products or replace competing products in their distribution channels with our products. Rebate programs may be based on either a wholesale or non-wholesale customer's direct purchases. Rebates may also be based on a non-wholesale customer's indirect purchases of the Company's products from a wholesaler under a contract with us. The incentive programs include stocking or trade show promotions where additional discounts may be given on a new product or certain existing products as an added incentive to stock the Company's products. We may, from time to time, also provide price and/or volume incentives on new products that have multiple competitors and/or on existing products that confront new competition in order to attempt to secure or maintain a certain market share. The information that the Company considers when establishing its rebate and incentive program reserves are rebate agreements with, and purchases by, each customer, tracking and analysis of promotional offers, projected annual sales for customers with annual incentive programs, actual rebates and incentive payments made, processing time lags, and for indirect rebates, the level of inventory in the distribution channel that will be subject to indirect rebates. We do not provide incentives designed to increase shipments to our customers that we believe would result in out-of-the-ordinary course of business inventory for them. The Company regularly reviews and monitors estimated or actual customer inventory information at its three largest wholesale customers for its key products to ascertain whether customer inventories are in excess of ordinary course of business levels.

Pursuant to a drug rebate agreement with the Centers for Medicare and Medicaid Services, TriCare and similar supplemental agreements with various states, the Company provides a rebate on drugs dispensed under such government programs. The Company determines its estimate of the Medicaid rebate accrual primarily based on historical experience of claims submitted by the various states and any new information regarding changes in the Medicaid program that might impact the Company's provision for Medicaid rebates. In determining the appropriate accrual amount we consider historical payment rates; processing lag for outstanding claims and payments; levels of inventory in the distribution channel; and the impact of the healthcare reform acts. The Company reviews the accrual and assumptions on a quarterly basis against actual claims data to help ensure that the estimates made are reliable. On January 28, 2008, the Fiscal Year 2008 National Defense Authorization Act was enacted, which expands TriCare to include prescription drugs dispensed by TriCare retail network pharmacies. TriCare rebate accruals reflect this program and are based on actual and estimated rebates on Department of Defense eligible sales.

The Company accepts returns of product according to the following criteria: (i) the product returns must be approved by authorized personnel with the lot number and expiration date accompanying any request and (ii) we generally will accept returns of products from any customer and will provide the customer with a credit memo for such returns if such products are returned between 6 months prior to, and 12 months following, such products' expiration date. The Company records a provision for product returns based on historical experience, including actual rate of expired and damaged in-transit returns, average remaining shelf-lives of products sold, which generally range from 12 to 48 months, and estimated return dates. Additionally, we consider other factors when estimating the current period return provision, including levels of inventory in the distribution channel, significant market changes that may impact future expected returns, and actual product returns, and may record additional provisions for specific returns that we believe are not covered by the historical rates. The Company generally will accept returns of injectable products from any customer and provide the customer with a credit memo for returns if such products are returned between six months prior to and six months following, such products' expiration date. The Company's returns policy also states that refrigerated and temperature controlled injectable products are non-returnable.

The Company offers cash discounts to its customers, generally 2% of the sales price, as an incentive for paying within invoice terms, which generally range from 30 to 90 days. The Company accounts for cash discounts by reducing accounts receivable by the full amount of the discounts that we expect our customers to take.

In addition to the significant gross-to-net sales adjustments described above, we periodically make other sales adjustments. The Company generally accounts for these other gross-to-net adjustments by establishing an accrual in the amount equal to its estimate of the adjustments attributable to the sale.

The Company may at its discretion provide price adjustments due to various competitive factors, through shelf-stock adjustments on customers' existing inventory levels. There are circumstances under which we may not provide price adjustments to certain customers as a matter of business strategy, and consequently may lose future sales volume to competitors and risk a greater level of sales returns on products that remain in the customer's existing inventory.

As detailed above, we have the experience and access to relevant information that we believe are necessary to reasonably estimate the amounts of such deductions from gross revenues, except as described below. Some of the assumptions we use for certain of our estimates are based on information received from third parties, such as wholesale customer inventories and market data, or other market factors beyond our control. The estimates that are most critical to the establishment of these reserves, and therefore, would have the largest impact if these estimates were not accurate, are estimates related to contract sales volumes, average contract pricing, customer inventories and return volumes. The Company regularly reviews the information related to these estimates and adjusts its reserves accordingly, if and when actual experience differs from previous estimates. With the exception of the product returns allowance, the ending balances of accounts receivable reserves and allowances generally are processed during a two-month to four-month period.

Use of estimates in reserves

We believe that our reserves, allowances and accruals for items that are deducted from gross revenues are reasonable and appropriate based on current facts and circumstances. It is possible however, that other parties applying reasonable judgment to the same facts and circumstances could develop different allowance and accrual amounts for items that are deducted from gross revenues. Additionally, changes in actual experience or changes in other qualitative factors could cause our allowances and accruals to fluctuate, particularly with

newly launched or acquired products. We review the rates and amounts in our allowance and accrual estimates on a quarterly basis. If future estimated rates and amounts are significantly greater than those reflected in our recorded reserves, the resulting adjustments to those reserves would decrease our reported net revenues; conversely, if actual product returns, rebates and chargebacks are significantly less than those reflected in our recorded reserves, the resulting adjustments to those reserves would increase our reported net revenues. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

As is customary and in the ordinary course of business, our revenue that has been recognized for product launches included initial trade inventory stocking that we believed was commensurate with new product introductions. At the time of each product launch, we were able to make reasonable estimates of product returns, rebates, chargebacks and other sales reserves by using historical experience of similar product launches and significant existing demand for the products.

Note 10—Inventories:

($ in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Raw materials and supplies	$ 60,020	$ 44,403
Work-in-process	26,343	9,834
Finished goods	68,324	63,070
	$ 154,687	$ 117,307

Inventory write-offs (inclusive of pre-launch inventories detailed below)

($ in thousands)	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Inventory write-offs	$ 12,941	$ 18,299	$ 2,567	$ 17,209

Par capitalizes inventory costs associated with certain products prior to regulatory approval and product launch, based on management's judgment of reasonably certain future commercial use and net realizable value, when it is reasonably certain that the pre-launch inventories will be saleable. The determination to capitalize is made once Par (or its third party development partners) has filed an ANDA that has been acknowledged by the FDA as containing sufficient information to allow the FDA to conduct its review in an efficient and timely manner and management is reasonably certain that all regulatory and legal hurdles will be cleared. This determination is based on the particular facts and circumstances relating to the expected FDA approval of the generic drug product being considered, and accordingly, the time frame within which the determination is made varies from product to product. Par could be required to write down previously capitalized costs related to pre-launch inventories upon a change in such judgment, or due to a denial or delay of approval by regulatory bodies, or a delay in commercialization, or other potential factors. As of December 31, 2014, Par had approximately $4.4 million in inventories related to generic products that were not yet available to be sold.

Par Specialty also capitalizes inventory costs associated with in-licensed branded products subsequent to FDA approval but prior to product launch based on management's judgment of probable future commercial use and net realizable value. We believe that numerous factors must be considered in determining probable future

commercial use and net realizable value including, but not limited to, Par Specialty's limited number of historical product launches, as well as the ability of third party partners to successfully manufacture commercial quantities of product. Par Specialty could be required to expense previously capitalized costs related to pre-launch inventory upon a change in such judgment, due to a delay in commercialization, product expiration dates, projected sales volume, estimated selling price or other potential factors. As of December 31, 2014, Par Specialty had approximately $0.6 million in inventories related to a brand product that was not yet available to be sold.

The amounts in the table below represent inventories related to products that were not yet available to be sold and are also included in the total inventory balances presented above.

Pre-launch inventories

($ in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Raw materials and supplies	$ 4,515	$ 6,308
Work-in-process	386	93
Finished goods	134	118
	$ 5,035	$ 6,519

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Pre-launch inventory write-offs, net of partner allocation	$ 4,733	$ 2,310	$ 1,730	$ 10,208

Note 11 – Property, plant and equipment, net:

($ in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Land	$ 11,063	$ 4,553
Buildings	63,589	29,491
Machinery and equipment	97,129	58,556
Office equipment, furniture and fixtures	12,849	5,433
Computer software and hardware	26,369	21,582
Leasehold improvements	26,774	25,828
Construction in progress	37,981	12,286
	275,754	157,729
Accumulated depreciation and amortization	(58,440)	(30,453)
	$ 217,314	$ 127,276

Depreciation and amortization expense related to property, plant and equipment

($ in thousands)	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Depreciation and amortization expense	$ 27,837	$ 23,323	$ 7,547	$ 13,230

Note 12 – Intangible assets, net:

($ in thousands)	December 31, 2014 (Successor)			December 31, 2013 (Successor)		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Developed products (1)	$ 957,166	$ (373,602)	$ 583,564	$ 878,607	$ (204,218)	$ 674,389
Other product related royalty streams	115,600	(37,334)	78,266	115,600	(22,709)	92,891
IPR&D (2)	351,614	—	351,614	298,100	—	298,100
Trade names (3)	27,100	(118)	26,982	26,400	—	26,400
Other	1,153	(826)	327	1,000	(132)	868
	$1,452,633	$ (411,880)	$1,040,753	$1,319,707	$ (227,059)	$1,092,648

(1) Developed products include intangible assets related to commercial products as part of the Merger, subsequently developed IPR&D, products acquired from the Watson/Actavis Merger, and intangible assets related to commercial products as part of the Par Sterile Acquisition. These products are amortized based on its remaining useful life.

(2) IPR&D indefinite-lived assets include IPR&D as part of the Merger, IPR&D acquired from the Watson/Actavis Merger, and IPR&D acquired as part of the Par Sterile Acquisition.

(3) Trade names include Par and Par Sterile Acquisition related trade name. The Par Sterile Acquisition related trade name is being amortized over its useful life, while the Par trade name is treated as an indefinite-lived asset and is not amortized.

We recorded amortization expense related to intangible assets of approximately $184.8 million for the year ended December 31, 2014 (Successor), $184.3 million for the year ended December 31, 2013 (Successor), $42.8 million for the period July 12, 2012 (inception) to December 31, 2012 (Successor), and $31.2 million for the period January 1, 2012 to September 28, 2012 (Predecessor). After the Merger, amortization expense was included in cost of goods sold.

Intangible asset impairment

During the year ended December 31, 2014, we recorded intangible asset impairments totaling $146.9 million related to an adjustment to the forecasted operating results for two IPR&D intangible asset groups and eight Par Pharmaceutical segment products compared to their originally forecasted operating results at date of acquisition, inclusive of one discontinued product, one partially impaired product primarily due to the contract ending with the partner and a partially impaired IPR&D project from the Par Sterile Acquisition due to an adverse court ruling pertaining to related patent litigation. The estimated fair values of the assets were determined by completing updated discounted cash flow models. During the year ended December 31, 2013, we recorded intangible asset impairments totaling approximately $100.1 million for IPR&D classes of products and projects that were evaluated as part of the annual evaluation of indefinite lived intangible assets, as well as five products not expected to achieve their originally forecasted operating results and we ceased selling a product that had been acquired with the divested products from the Watson/Actavis Merger. During the period from January 1, 2012 to September 28, 2012 (Predecessor), we abandoned an in-process research and development project that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $2.0 million, and we exited the market of a commercial product that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $3.7 million.

Intangible assets presented in the Successor period are principally comprised of product related assets recognized at fair value in accordance with ASC 805 and are inclusive of assets that had previously been recognized in the Predecessor period and revalued as part of the Merger as well as assets initially recognized in connection with the Merger. Intangible assets presented in the Predecessor period are principally comprised of assets previously recognized at estimated fair value under ASC 805 as well as numerous asset acquisitions and acquisition of product and intellectual property rights recorded at cost. Intangible assets are amortized over

the period in which the related cash flows are expected to be generated or on a straight-line basis over the products' estimated useful life if the estimated cash flows method approximates straight-line basis. We evaluate all intangible assets for impairment whenever events or other changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. Such evaluations utilize forecasted financial information. As of December 31, 2014, we believe our net intangible assets are recoverable. The intangible assets included on our consolidated balance sheet at December 31, 2014 and December 31, 2013 includes the following:

Intangible assets acquired in the Merger

PPCI was acquired on September 28, 2012 through a merger transaction. Refer to Note 2—"Sky Growth Merger" for details of the transaction. As part of the Merger, we revalued intangible assets related to commercial products (developed technology), royalty streams, IPR&D, and our trade name.

The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately five years.

IPR&D is related to R&D projects that were incomplete at the Merger. There are 58 projects associated with IPR&D. Due to the nature of our generic product portfolio pipeline, individual products in the annual IPR&D groups are expected to launch within an annual time period or reasonably close thereto. When the first product of each annual IPR&D group launches, it is our policy to commence amortization of the entire annual group utilizing the related cash flows expected to be generated for the annual group. The remaining net book value of the related intangible asset associated with subsequently developed annual IPR&D groups will be amortized over a weighted average amortization period of approximately seven years.

Trade names constitute intellectual property rights and are marketing-related intangible assets. Our corporate trade name was valued using a relief from royalty method of the income approach and accounted for as an indefinite-lived intangible asset that will be subject to annual impairment testing or whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach.

Intangible assets acquired with the divested products from the Watson/Actavis Merger

On November 6, 2012, we acquired the U.S. marketing rights to five generic products that were currently marketed by Watson or Actavis, as well as eight ANDAs currently awaiting regulatory approval and a generic product in late-stage development, in connection with the merger of Watson and Actavis. Refer to Note 4—"Acquisition of Divested Products from the Watson/Actavis Merger" for details of the transaction.

The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately five years.

IPR&D consists of technology-related intangible assets used in research & development activities, which were incomplete at the time of the acquisition. Upon the successful completion and launch of a product in the group, we will make a separate determination of useful life of the related IPR&D intangible asset and commence amortization.

Intangible assets acquired with the Par Sterile acquisition

On February 20, 2014, we acquired intangible assets as part of the Par Sterile Acquisition. Refer to Note 3—"Par Sterile Acquisition," for further details. The intangible assets related to commercial products (developed technology), IPR&D, and the JHP trade name.

The fair value of the developed technology and in-process research and development intangible assets were estimated using the discounted cash flow method of the income approach. We believe that the level and timing of cash flows appropriately reflect market participant assumptions. Some of the significant assumptions inherent in the development of the identifiable intangible asset valuations, from the perspective of a market participant, include the estimated net cash flows by year by project or product (including net revenues, costs of sales, research and development costs, selling and marketing costs and other charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, competitive trends impacting the asset and each cash flow stream, and other factors.

Developed products are defined as products that are commercialized, all research and development efforts have been completed by the seller, and final regulatory approvals have been received. The developed product intangible assets are composite assets, comprising the market position of the product, the developed technology utilized, and the customer base to which the products are sold. Developed technology and the customer base were considered but have not been identified separately as any related cash flows would be very much intertwined with the product related intangibles. Developed products held by the Company are considered separable from the business as they could be sold to a third party. Developed products were valued using a multi-period excess earnings method under the income approach. The principle behind this method is that the value of the intangible asset is equal to the present value of the after-tax cash flows attributable to the intangible asset only. The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately nine years.

IPR&D is related to research & development projects that were incomplete at the time of the Par Sterile Acquisition. We grouped and valued IPR&D based on the projected year of launch for each group, with the exception of one project that was expected to produce large cash flows in the future and we valued this project by itself. IPR&D is considered separable from the business as it could be sold to a third party. The value of IPR&D was accounted for as an indefinite-lived intangible asset and will be subject to impairment testing until the completion or abandonment of each group. Upon the successful completion and launch of a product in a group, we will make a separate determination of useful life of the IPR&D intangible asset and commence amortization. This methodology resulted in six groups of IPR&D (2014 through 2018 plus a group with a single IPR&D project). When the first product of each IPR&D group launches, it is our policy to commence amortization of the entire group utilizing the related cash flows expected to be generated for the group. Due to the nature of our generic injectable product portfolio pipeline, individual products in the IPR&D groups are expected to launch within an annual time period or reasonably close thereto.

Trade names constitute intellectual property rights and are marketing-related intangible assets. The related trade name was valued using a relief from royalty method of the income approach and accounted for with a five year useful life based on expected utility. This asset will be subject to impairment testing whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach.

Estimated amortization expense for existing intangible assets at December 31, 2014

The following table does not include estimated amortization expense for future milestone payments that may be paid and result in the creation of intangible assets after December 31, 2014 and assumes the intangible asset related to the Par trade name as an indefinite lived asset will not be amortized in the future.

($ in thousands)	Estimated amortization expense
2015	$ 155,188
2016	150,649
2017	170,569
2018	135,113
2019	112,770
2020 and thereafter	290,064
	$1,014,353

Note 13—Goodwill:

($ in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Balance at beginning of period	$ 855,726	$ 856,726
Additions:		
Par Sterile Acquisition (1)	156,382	—
Deductions:		
Finalization of purchase accounting (2)	—	(1,000)
Balance at end of period	$ 1,012,108	$ 855,726

(1) As noted in Note 3 -"Par Sterile Acquisition," we acquired Par Sterile as of February 20, 2014. Based upon our purchase price allocation, we recorded $156.4 million of incremental goodwill. This goodwill was allocated to Par.

(2) As noted in Note 2—"Sky Growth Merger," PPCI was acquired through the Merger. Based upon purchase price allocation in accordance with ASC 350-20-35-30, we recorded goodwill, which was allocated to Par.

Goodwill is not being amortized, but is tested at least annually, on or about October 1st or whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach. The goodwill impairment test consists of a two-step process. The first step is to identify a potential impairment and the second step measures the amount of impairment, if any. We performed a qualitative assessment ("Step Zero analysis") to determine whether it is necessary to perform the two-step goodwill impairment test as of October 1, 2014. The Step Zero analysis entailed an assessment of the totality of events and circumstances that could affect the comparison of our reporting unit's fair value with its carrying amount. Goodwill is deemed to be impaired if the carrying amount of a reporting unit exceeds its estimated fair value. As of October 1, 2014, the Company performed its annual goodwill impairment assessment via the Step Zero analysis and concluded that it was not necessary to perform the two-step goodwill impairment test and that there was no impairment. No impairment of goodwill had been recognized through December 31, 2014.

Note 14—Debt:

($ in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Senior secured term loan	$ 1,435,837	$ 1,055,340
Senior secured revolving credit facility	—	—
7.375% senior notes	490,000	490,000
	1,925,837	1,545,340
Less unamortized debt discount to senior secured term loan	(7,265)	(7,821)
Less current portion	(14,503)	(21,462)
Long-term debt	$ 1,904,069	$ 1,516,057

Senior credit facilities

In connection with the Merger, on September 28, 2012, we entered into a credit agreement (the "Credit Agreement") with a syndicate of banks, led by Bank of America, N.A., as Administrative Agent, Bank of America, N.A., Deutsche Bank Securities Inc., Goldman Sachs Bank USA, Citigroup Global Markets, Inc., RBC Capital Markets LLC and BMO Capital Markets Corp. as Joint Lead Arrangers and Joint Lead Bookrunners, Deutsche Bank Securities Inc. and Goldman Sachs Bank USA as Co-Syndication Agents, and Citigroup Global Markets Inc. and RBC Capital Markets LLC as Co-Documentation Agents, to provide senior credit facilities comprised of a seven-year senior secured term loan in an initial aggregate principal amount of $1,055.0 million (the "Term Loan Facility") and a five-year senior secured revolving credit facility in an initial amount of $150.0 million (the "Revolving Facility" and together with the Term Loan Facility, the "Senior Credit Facilities"). The proceeds of the Revolving Facility are available for general corporate purposes.

The Credit Agreement contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, breach of representations and warranties, insolvency proceedings, certain judgments and any change of control. The Credit Agreement also contains various customary covenants that, in certain instances, restrict our ability to: (i) create liens on assets; (ii) incur additional indebtedness; (iii) engage in mergers or consolidations with or into other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) pay dividends and distributions or repurchase capital stock; (vi) make investments, loans, guarantees or advances in or to other companies; (vii) change the nature of our business; (viii) repay or redeem certain junior indebtedness, (ix) engage in transactions with affiliates; and (x) enter into restrictive agreements. In addition, the Credit Agreement requires us to demonstrate compliance with a maximum senior secured first lien leverage ratio whenever amounts are outstanding under the revolving credit facility as of the last day of any quarterly testing period. All obligations under the Credit Agreement are guaranteed by our material domestic subsidiaries. We were in compliance with all applicable covenants as of December 31, 2014.

The Credit Agreement includes an accordion feature pursuant to which we may increase the amount available to be borrowed by up to an additional $250.0 million (or a greater amount if we meet certain specified financial ratios) under certain circumstances. Repayments of the proceeds of the term loan are due in quarterly installments over the term of the Credit Agreement. Amounts borrowed under the Revolving Facility are payable in full upon expiration of the Credit Agreement. We are also obligated to pay a commitment fee based on the unused portion of the Revolving Facility.

We are obligated to make mandatory principal prepayments for any fiscal year if the ratio of total amount of outstanding senior secured term loan less cash and cash equivalents divided by our consolidated EBITDA is greater than 2.50 to 1.00 as of December 31 of any fiscal year. When the ratio is greater than 2.50 to 1.00 but less than or equal to 3.00 to 1.00, we are required to pay 25% of excess cash flows, as defined in the Credit Agreement. When the ratio is greater than 3.00 to 1.00, we are required to pay 50% of excess cash flows in the form of principal prepayments. For the year ended December 31, 2013, we were obligated to pay $10.8 million of principal prepayments during the first quarter of 2014. However, certain Term Lenders exercised their right under the Credit Agreement to decline their pro rata share of the mandatory principal prepayment. Therefore our actual mandatory principal prepayment in the first quarter of 2014 was $5.0 million. As permitted under the Credit Agreement, we applied this mandatory principal prepayment amount against scheduled principal payments for the second and third quarters of 2014. As of December 31, 2014 we were not obligated to make any mandatory principal prepayments.

Repricing of the term loan facility and additional borrowings—2014

On February 20, 2014, in conjunction with our acquisition of Par Sterile, we entered into an amendment to our Senior Credit Facility that refinanced all of the outstanding tranche B-1 term loans of the Borrower (the "Existing Tranche B Term Loans") with a new tranche of tranche B-2 term loans (the "New Tranche B Term Loans") in an aggregate principal amount of $1,055.0 million. The terms of the New Tranche B Term Loans are substantially the same as the terms of the then Existing Tranche B Term Loans, except that (1) the interest rate margins applicable to the New Tranche B Term Loans are 3.00% for LIBOR and 2.00% for base rate, a 25 basis point reduction compared to the Existing Tranche B Term Loans, and (2) the New Tranche B Loans were subject to a soft call provision applicable to the optional prepayment of the loans which would have required a premium equal to 1.00% of the aggregate principal amount of the loans being prepaid if, on or prior to August 20, 2014, the Company entered into certain repricing transactions. Additionally, the maximum senior secured net leverage ratio in compliance with which the Company can incur new incremental debt was increased by 25 basis points to 3.75:1.00.

Additionally, on February 20, 2014, in conjunction with our acquisition of Par Sterile, we also entered into the Incremental Term B-2 Joinder Agreement (the "Joinder") among us, Holdings, and certain of our subsidiaries, and our lenders. Under the terms of the Joinder, PPCI borrowed an additional $395.0 million of New Tranche B Term Loans from the lenders participating therein for the purpose of consummating our acquisition of Par Sterile.

In connection with the transactions described herein, we incurred related transaction costs for the quarter ended March 31, 2014 that totaled $12.4 million of which $8.2 million representing acquisition and financing transaction costs were included in operating expenses as selling, general and administrative on the consolidated statements of operations and $4.1 million were capitalized as deferred financing costs or debt discount on the consolidated balance sheet. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $4.0 million of the existing unamortized deferred financing costs were written off in connection with this repricing and included in the consolidated statements of operations as a loss on debt extinguishment.

Refinancing of the term loan facility—2013

On February 6, 2013, the Company, Par Pharmaceutical, Inc., as co-borrower, Sky Growth Intermediate Holdings II Corporation ("Intermediate Holdings"), the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Term Loan Facility (as amended, the "New Term Loan Facility") by entering into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement.

Amendment No. 1 replaced the existing term loans with a new class of term loans in an aggregate principal amount of $1,066.0 million (the "New Term Loans"). Borrowings under the New Term Loan Facility bore interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR (which is subject to a 1.00% floor) or the base rate (which is subject to a 2.00% floor). The applicable margin for borrowings under the New Term Loans was 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. Amendment No. 1 provided for a soft call option applicable to the New Term Loans. The soft call option provided for a premium equal to 1.00% of the amount of the outstanding principal if, on or prior to August 6, 2013, PPCI entered into certain repricing transactions. The other terms applicable to the New Term Loans were substantially the same terms as the original term loans.

In connection with the transactions described herein, PPCI paid a 1.00% soft call premium in an aggregate amount of approximately $10.5 million on the existing term loan in February 2013, a portion of which was capitalized as a discount to the New Term Loan Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $5.9 million of the existing unamortized deferred financing costs and $1.4 million of the related $10.5 million soft call premium were written off in connection with this refinancing and included in the consolidated statements of operations as a loss on debt extinguishment.

Repricing of the revolving facility—2013

The Company and Par Pharmaceutical, Inc., as co-borrower, Intermediate Holdings, the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Revolving Credit Facility by entering into Amendment No. 2 ("Amendment No. 2"), dated February 22, 2013, and Amendment No. 3 ("Amendment No. 3" and, together with Amendment No. 2, the "Revolver Amendments"), dated February 28, 2013, to the Credit Agreement.

The Revolver Amendments extend the scheduled maturity of the revolving credit commitments of certain existing lenders (the "Extending Lenders") who have elected to do so, such extension to be effected by converting such amount of the existing revolving credit commitments of the Extending Lenders into a new tranche of revolving credit commitments (the "Extended Revolving Facility") that will mature on December 28, 2017. The Revolver Amendments also set forth the interest rate payable on borrowings outstanding under the Extended Revolving Facility, as described below. The aggregate commitments under the Extended Revolving Facility are $127.5 million and the aggregate commitments under the non-extended portion of the Revolving Facility are $22.5 million. There were no outstanding borrowings from the Revolving Facility or the Extended Revolving Facility as of December 31, 2014.

Borrowings under both the non-extended portion of the Revolving Facility and the Extended Revolving Facility bear interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR or the base rate. The initial applicable margin for borrowings under the Extended Revolving Facility is 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. The initial applicable margin for LIBOR and base rate borrowings under the non-extended portion of the Revolving Facility remain at 3.75% and 2.75%, respectively. Borrowings and repayments of loans under the Extended Revolving Facility and the non-extended portion of the Revolving Facility may be made on a non-pro rata basis with one another, and the commitments under the non-extended portion of the Revolving Facility may be terminated prior to the commitments under the Extended Revolving Credit Facility. The other terms applicable to the Extended Revolving Credit Facility are substantially identical to those of the Revolving Credit Facility.

7.375% senior notes

In connection with the Merger, on September 28, 2012, we issued $490.0 million aggregate principal amount of 7.375% senior notes due 2020 (the "Notes"). The Notes were issued pursuant to an indenture entered into as of the same date between the Company and Wells Fargo Bank, National Association, as trustee. Interest on the Notes is payable semi-annually on April 15 and October 15, commencing on April 15, 2013. The Notes mature on October 15, 2020.

We may redeem the Notes at our option, in whole or in part on one or more occasions, at any time on or after October 15, 2015, at specified redemption prices that vary by year, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to October 15, 2015, we may redeem up to 40% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings at a redemption price equal to the sum of (i) 107.375% of the aggregate principal amount thereof, plus (ii) accrued and unpaid interest, if any, to the redemption date. At any time prior to October 15, 2015, we may also redeem the Notes, in whole or in part on one or more occasions, at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest and a specified "make-whole premium."

The Notes are guaranteed on a senior unsecured basis by our material existing direct and indirect wholly-owned domestic subsidiaries and, subject to certain exceptions, each of our future direct and indirect domestic subsidiaries that guarantees the Senior Credit Facilities or our other indebtedness or indebtedness of the guarantors will guarantee the Notes. Under certain circumstances, the subsidiary guarantors may be released from their guarantees without consent of the holders of Notes.

The Notes and the subsidiary guarantees will be our and the guarantors' senior unsecured obligations and will (i) rank senior in right of payment to all of our and the subsidiary guarantors' existing and future subordinated indebtedness; (ii) rank equally in right of payment with all of our and the subsidiary guarantors' existing and future senior indebtedness; (iii) be effectively subordinated to any of our and the subsidiary guarantors' existing and future secured debt, to the extent of the value of the assets securing such debt; and (iv) be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of our subsidiaries that do not guarantee the Notes.

The indenture governing the Notes contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, a payment default or acceleration equaling $40.0 million or more according to the terms of certain other indebtedness, failure to pay final judgments aggregating in excess of $40.0 million when due, insolvency proceedings, a required guarantee shall cease to remain in full force. The indenture also contains various customary covenants that, in certain instances, restrict our ability to: (i) pay dividends and distributions or repurchase capital stock; (ii) incur additional indebtedness; (iii) make investments, loans, guarantees or advances in or to other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) engage in transactions with affiliates; (vi) create liens on assets; (vii) redeem or repay certain subordinated indebtedness, (viii) engage in mergers or consolidations with or into other companies; and (ix) change the nature of our business. The covenants are subject to a number of exceptions and qualifications. Certain of these covenants will be suspended during any period of time that (1) the Notes have Investment Grade Ratings (as defined in the indenture) from both Moody's Investors Service, Inc. and Standard & Poor's, and (2) no default has occurred and is continuing under the indenture. In the event that the Notes are downgraded to below an Investment Grade Rating, the Company and certain subsidiaries will again be subject to the suspended covenants with respect to future events. We were in compliance with all covenants as of December 31, 2014.

We incurred interest expense of $108.4 million in 2014 (Successor) and $95.5 million in 2013 (Successor). During the period from July 12, 2012 (inception) to December 31, 2012 (Successor), we incurred interest expense of $26.0 million, and during the period from January 1, 2012 to September 28, 2012 (Predecessor), we incurred interest expense of $9.2 million.

Debt Maturities as of December 31, 2014	($ in thousands)
2015	$ 14,503
2016	14,503
2017	14,503
2018	14,503
2019	1,377,825
2020	490,000
Total debt at December 31, 2014	$ 1,925,837

The fair value of the senior secured credit term loan was estimated to be approximately $1,399.9 million at December 31, 2014 (level 2 inputs) as compared to the face value of $1,435.8 million. The fair value of the Notes was estimated to be approximately $507.8 million at December 31, 2014 (level 2 inputs) as compared to their face value of $490.0 million.

Note 15—Derivative instruments and hedging activities

Risk management objective of using derivatives

We are exposed to certain risks arising from global economic conditions. We manage economic risks, including interest rate risk primarily through the use of derivative financial instruments. All derivatives are carried at fair value on our consolidated balance sheets. We do not enter into speculative derivatives. Specifically, we enter into derivative financial instruments to manage exposures that arise from payment of future known and uncertain cash amounts related to our borrowings, the value of which are determined by LIBOR interest rates. We may net settle any of our derivative positions under agreements with our counterparty, when applicable.

Cash flow hedges of interest rate risk via interest rate caps

Our objective in using interest rate derivatives is to add certainty to interest expense amounts and to manage our exposure to interest rate movements, specifically to protect us from variability in cash flows attributable to changes in LIBOR interest rates. To accomplish this objective, we primarily use interest rate caps as part of our interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if LIBOR exceeds the strike rate in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We entered into such derivatives to hedge the variable cash flows associated with existing variable-rate debt under our Credit Agreement. We assess effectiveness and the effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges for financial reporting purposes is recorded in “Accumulated other comprehensive loss” on our consolidated balance sheet and will be subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of the change in fair value of the derivatives would be recognized directly in earnings.

Interest rate caps

As of December 31, 2014, we had eight outstanding interest rate caps with two counterparties with various termination dates and notional amounts, which we deemed to be effective for accounting purposes. The derivatives had a combined notional value of $750.0 million, all with effective dates as of either September 30, 2013 or 2014 and with termination dates each September 30th beginning in 2015 and ending in 2018. Consistent with the terms of the Credit Agreement, the interest rate caps have a strike of 1% which matches the LIBOR floor of 1.0% on the debt. The premium is deferred and paid over the life of the instrument. The effective annual interest rate related to these interest rate caps was a fixed weighted average rate of approximately 4.8% at December 31, 2014. These instruments are designated for accounting purposes as cash flow hedges of interest rate risk related to our Credit Agreement. In addition, amounts reported in "Accumulated other comprehensive loss" on our consolidated balance sheet related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt under the Credit Agreement. Approximately 35% of our total outstanding debt at December 31, 2014 remains subject to variability in cash flows attributable to changes in LIBOR interest rates. During the next twelve months, we estimate that $5.8 million will be reclassified from "Accumulated other comprehensive loss" on our consolidated balance sheet at December 31, 2014 to interest expense.

Fair value

As of the effective date, we designated the interest rate swap agreements as cash flow hedges. As cash flow hedges, unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate swap agreements are highly correlated to the changes in LIBOR interest rates. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive income or loss, while the ineffective portion of such gains or losses will be recorded as a component of interest expense. As of December 31, 2014, we recorded $5.7 million (or $3.6 million, net of tax) as part of "Accumulated other comprehensive loss" on our consolidated balance sheet. Future realized gains and losses in connection with each required interest payment will be reclassified from Accumulated other comprehensive loss to interest expense.

We elected to use the income approach to value the derivatives, using observable Level 2 market expectations at each measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the cap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, volatility and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs for valuation models include the cash rates, futures rates, swap rates, credit rates and interest rate volatilities. Reset rates, discount rates and volatilities are interpolated from these market inputs to calculate cash flows as well as to discount those future cash flows to present value at each measurement date. Refer to Note 8 for additional information regarding fair value measurements.

The fair value of our derivative instruments measured as outlined above as of December 31, 2014 was as follows:

($ in thousands) Description	December 31, 2014	Quoted prices level 1	Significant other observable inputs level 2	Significant other unobservable inputs level 3
ASSETS				
Current Assets				
Derivatives	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —
LIABILITIES				
Current Liabilities				
Derivatives	$ (5,700)	$ —	$ (5,700)	$ —
	$ (5,700)	$ —	$ (5,700)	$ —

The following table summarizes the fair value and presentation in our consolidated balance sheets for derivative instruments as of December 31, 2014 and 2013:

	Asset derivatives			Liability derivatives		
($ in thousands)	Balance sheet location	December 31, 2014 Fair value	December 31, 2013 Fair value	Balance sheet location	December 31, 2014 Fair value	December 31, 2013 Fair value
Derivatives designated as hedging instruments under ASC 815						
Interest rate cap contracts		—	—	Other Current Liabilities	$ (5,763)	(4,002)
Interest rate cap contracts		—	—	Other Non- Current Liabilities	$ (138)	—
Interest rate cap contracts		—	—	Other Assets	201	2,813
Total derivatives designated as hedging instruments under ASC 815		—	—		$ (5,700)	$ (1,189)
Total derivatives		—	—		$ (5,700)	$ (1,189)

The following tables summarize our eight interest cap agreements with a two counterparties. We separately record the short-term and long-term portion of our derivatives. As of December 31, 2014 each agreement represented a net liability for us and none of our interest cap agreements represented a net asset:

($ in thousands)	Offsetting of derivative liabilities as of December 31, 2014					
				Gross amounts not offset in the statement of financial position		
Description	Gross amounts of recognized liabilities	Gross amounts offset in the statement of financial position	Net amounts of liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives by counterparty						
Counterparty 1	$ (3,820)	$ (143)	$ (3,963)	$ 143	$ —	$ (3,820)
Counterparty 2	(1,880)	(58)	(1,938)	58	—	(1,880)
Total	$ (5,700)	$ (201)	$ (5,901)	$ 201	$ —	$ (5,700)

($ in thousands)	Offsetting of derivative assets as of December 31, 2014					
				Gross amounts not offset in the statement of financial position		
Description	Gross amounts of recognized assets	Gross amounts offset in the statement of financial position	Net amounts of assets presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives by counterparty						
Counterparty 1	$ —	$ 143	$ 143	$ (143)	$ —	$ —
Counterparty 2	—	58	58	(58)	—	—
Total	$ —	$ 201	$ 201	$ (201)	$ —	$ —

The following table summarizes information about the fair values of our derivative instruments on the condensed consolidated statements of other comprehensive loss for the years ended December 31, 2014 and December 31, 2013 (Pre-tax):

	For the year ended	
	December 31, 2014	December 31, 2013
Other Comprehensive Loss Rollforward:		
Beginning Balance Loss (Pre-tax)	$ (1,189)	$ —
Amount Recognized in Other Comprehensive Loss on Derivative (Pre-tax)	(9,007)	(2,203)
Amount Reclassified from Other Comprehensive Loss into Interest Expense (Pre-tax)	4,496	1,014
Ending Balance Loss (Pre-tax)	$ (5,700)	$ (1,189)

The following table summarizes the effect and presentation of derivative instruments, including the effective portion or ineffective portion of our cash flow hedges, on the consolidated statements of operations for the periods ending December 31, 2014 and 2013:

($ in thousands)	The effect of derivative instruments on the statement of financial performance For the year ended December 31, 2014 and December 31, 2013							
Derivatives in ASC 815 cash flow hedging relationships	Amount of gain or (loss) recognized in other comprehensive income (loss) on derivative (effective portion)		Location of gain or (loss) reclassified from accumulated other comprehensive income (loss) into income (loss) (effective portion)	Amount of gain or (loss) reclassified from accumulated other comprehensive income into income (loss) (effective portion)		Location of gain or (loss) recognized in income (loss) on derivative (ineffective portion)	Amount of gain or (loss) recognized in income on derivative (ineffective portion)	
	2014	2013		2014	2013		2014	2013
Interest rate cap contracts	$(9,007)	(2,203)	Interest Expense	$(4,496)	(1,014)	Interest Expense	$—	—
Total	$(9,007)	(2,203)		$(4,496)	(1,014)		$—	$—

Note 16—Guarantor and non-guarantor narrative disclosure:

PPCI is the sole issuer of the Notes. The Notes are guaranteed on a senior unsecured basis by PPCI's material direct and indirect wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. PPCI has no independent assets or operations. Each of the subsidiary guarantors is 100% owned by PPCI and all its non-guarantor subsidiaries are minor subsidiaries.

Note 17—Share-based compensation:

We account for share-based compensation as required by FASB ASC 718-10 Compensation—Stock Compensation ("ASC 718"), which requires companies to recognize compensation expense in the amount equal to the fair value of all share-based payments granted to employees. Under ASC 718-10, we recognize share-based compensation ratably over the service period applicable to the award. ASC 718-10 also requires that excess tax benefits be reflected as financing cash flows.

On May 9, 2014 and June 13, 2014, in view of the limited number of shares remaining in the Sky Growth Holdings Corporation 2012 Equity Incentive Plan (the "Plan") and in order to enhance the Company's ability to retain employees and to increase the mutuality of interests between employees and stockholders, the Board of Directors of Holdings amended the Plan to increase the maximum number of shares of Holdings common stock, $0.001 par value per share (the "Stock") that may be delivered in satisfaction of, or may underlie, awards under the Plan, including stock options (the "Pool"), by 8,750,000 shares of Stock. At December 31, 2014, approximately 4,082,000 total shares of Stock were available for future issuances from the Pool.

Successor share-based compensation

Stock options

In conjunction with the Merger, certain senior level employees of PPCI were granted stock options in Holdings, effectively granted as of September 28, 2012, under the terms of the Sky Growth Holdings Corporation 2012 Equity Incentive Plan. The share-based compensation expense relating to awards to those persons has been pushed down from Holdings to PPCI.

Each optionee received 2 equal tranches of stock options. Tranche 1 options vest based upon continued employment over a five year period, ratably 20% each annual period. Our policy is to recognize expense for this type of award on a straight-line basis over the requisite service period for the entire award (5 years). Tranche 2 options vest based upon continued employment and the company achieving specified annual or bi-annual EBITDA targets. Compensation expense will be recognized on a graded vesting schedule. In circumstances where the specified annual or bi-annual EBITDA targets are not met, Tranche 2 options may also vest in amounts of either 50% or 100% of the original award in the event of a initial public offering or other sale of the company to a third party buyer (a market condition) that returns a specified level of proceeds calculated as a multiple of the original equity invested in the Company as of September 28, 2012.

We granted a member of the Board of Directors of Holdings stock options in Holdings during the year ended December 31, 2013 under similar terms as the Tranche 1 options granted as of September 28, 2012 under the Sky Growth Holdings Corporation 2012 Equity Incentive Plan. These stock options vest based upon continued service over an approximate five year period, ratably 20% each period ending September 28th. We will recognize expense on a straight-line basis over the requisite service period for the entire award. The share-based compensation expense relating to the award has been pushed down from Holdings to the Company. We used the Black-Scholes stock option pricing model to estimate the fair value of the stock option awards.

In addition, during the year ended December 31, 2014, the Holdings Board of Directors authorized the additional grants of options to purchase shares of Holdings' Stock pursuant to the Sky Growth Holdings Corporation 2012 Equity Incentive Plan at an exercise price of $1.40 (equal to the estimated fair market value of Holdings' Stock at that time) to certain employees and a member of Holdings Board of Directors. The stock option grants are roughly divided into two tranches of stock options. Tranche 1 of the options will vest in equal increments of 25% on each of the first, second, third, and fourth anniversaries of the "Vesting Commencement Date" as defined in each stock option agreement, provided that each employee remains in continuous employment with the Company through such dates. Tranche 2 of the options (the "Performance Options") will vest in equal increments of 25%, subject to the employee remaining in continuous employment with the Company through the applicable anniversary of the Vesting Commencement Date and to the Company's achievement of specified annual EBITDA targets for 2014 through 2017. If an applicable portion of the Performance Options do not vest based on the achievement of the specified annual EBITDA target for a particular year, such portion will be eligible to vest in the next succeeding fiscal year if a two-year cumulative EBITDA target is met (other than with respect to 2017, for which there is no two-year cumulative EBITDA target). In circumstances where the specified annual or bi-annual EBITDA targets are not met, Tranche 2 options may also vest in amounts of either 50% or 100% of the original award in the event of an initial public offering or other sale of Holdings to a third party buyer (a market condition) that returns a specified level of proceeds calculated as a multiple of its investment in Holdings by the Sponsor.

We used the Black-Scholes stock option pricing model to estimate the fair value of Tranche 1 and Tranche 2 without a market condition (service and performance conditions only) stock option awards with the following weighted average assumptions:

	For the year ended		For the period
	December 31, 2014 (Successor)	December 31, 2013 (Successor)	July 12, 2012 to December 31, 2012 (Successor)
TRANCHE 1			
Risk-free interest rate	2.1%	N/A	0.9%
Expected life (in years)	6.3	N/A	5.0
Expected volatility	63.0%	N/A	75.0%
Dividend	0.0%	N/A	0.0%

	For the year ended		For the period
	December 31, 2014 (Successor)	December 31, 2013 (Successor)	July 12, 2012 to December 31, 2012 (Successor)
TRANCHE 2			
Risk-free interest rate	2.1%	N/A	1.0%
Expected life (in years)	6.5	N/A	5.0
Expected volatility	63.0%	N/A	75.0%
Dividend	0.0%	N/A	0.0%

The Tranche 2 stock option grants with a market condition were valued using a Monte Carlo simulation. In addition to the above assumptions utilized in the Black-Scholes model, the Monte Carlo simulation developed a range of projected outcomes of the market condition by projecting potential share prices over a 4 or 5 year simulation and determining if the share price had reached the specified level of proceeds stipulated in the equity plan. We ran millions simulations and concluded the fair value of the Tranche 2 Option with market condition as the average of present value of the payoffs across all simulations.

A summary of the calculated estimated grant date fair value per option is as follows:

	For the year ended		For the period
Fair value of stock options	December 31, 2014 (Successor)	December 31, 2013 (Successor)	July 12, 2012 to December 31, 2012 (Successor)
TRANCHE 1	$ 0.83	N/A	$ 0.67
TRANCHE 2 without market condition	$ 0.85	N/A	$ 0.68
TRANCHE 2 with market condition	$ 0.72	N/A	$ 0.66

For Tranche 2 options, each quarter we will evaluate the probability of the Company achieving the annual or the bi-annual EBITDA targets (“Vesting Event A”) and the probability of an initial public offering or other sale of the Company to a third party buyer (“Vesting Event B”). If it is probable that the Company will achieve Vesting Event A, then the Company will recognize expense for Tranche 2 options at the per option value noted above with any necessary adjustments to expense to be equal to the ratable expense as of the end of that particular quarter end. If it is probable that the Company will achieve Vesting Event B, but not Vesting Event A, then the Company will recognize expense for Tranche 2 options at the per option value (which is the fair value taking into account the market condition) noted above with any necessary adjustment to expense to be equal to the ratable expense as of the end of that particular quarter end.

Set forth below is the impact on our results of operations of recording share-based compensation from stock options for the years ended December 31, 2014, December 31, 2013 and for the period from July 12, 2012 (inception) to December 31, 2012 ($ in thousands):

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)
Cost of goods sold	$ 858	$ 901	$ 223
Selling, general and administrative	7,721	8,147	2,003
Total, pre-tax	8,579	9,048	2,226
Tax effect of share-based compensation	(3,088)	(3,348)	(824)
Total, net of tax	$ 5,491	$ 5,700	$ 1,402

The following is a summary of our stock option activity (shares in thousands):

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
TRANCHE 1				
Balance at December 31, 2013	21,830	$ 1.00		
Granted	6,604	1.40		
Exercised	(170)	1.00		
Forfeited	(400)	1.02		
Balance at December 31, 2014	27,864	1.09	8.2	40,834
Exercisable at December 31, 2014	8,762	1.01	7.9	13,569
Vested and expected to vest at December 31, 2014	$27,488	$ 1.10	8.2	$ 40,248

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
TRANCHE 2				
Balance at December 31, 2013	21,330	$ 1.00		
Granted	6,104	1.40		
Exercised	(110)	1.00		
Forfeited	(400)	1.02		
Balance at December 31, 2014	26,924	1.09	8.2	39,568
Exercisable at December 31, 2014	8,372	1.00	7.8	13,060
Vested and expected to vest at December 31, 2014	$26,384	$ 1.09	8.2	$ 38,795

Rollover options

As part of the Merger, certain employees of PPCI were given the opportunity to exchange their stock options in PPCI for stock options in Holdings (“Rollover Stock Options”). TPG was not legally or contractually required to replace PPCI stock options with Holdings stock options, therefore the Rollover Stock Options were not part of the purchase price. The ratio of exchange was based on the intrinsic value of the PPCI stock options at September 28, 2012.

The term of the PPCI stock options exchanged for Holdings stock options were not extended. All Rollover Stock Options maintained their 10 year term from original grant date.

All of the Rollover Stock Options were either vested prior to September 27, 2012 or were accelerated vested on September 27, 2012 (date of the PPCI shareholders' meeting that approved Par's acquisition by TPG) in accordance with the terms of the PPCI stock option agreements. No additional vesting conditions were imposed on the holders of the Rollover Stock Options. All remaining unrecognized share-based compensation expense associated with the Rollover Stock Options was recognized as of September 27, 2012 on PPCI's (the predecessor's) books and records.

The following is a summary of our Rollover Stock Options activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
Balance at December 31, 2013	17,351	$ 0.25		
Granted	—	0.25		
Exercised	(268)	0.25		
Forfeited	—	0.25		
Balance at December 31, 2014	17,083	0.25	5.4	$ 39,461
Exercisable at December 31, 2014	$17,083	$ 0.25	5.4	$ 39,461

Restricted stock

In addition, in conjunction with the Merger, certain senior level employees were granted restricted stock units (RSUs) in Holdings.

Each RSU has only a time-based service condition and will vest no later than the fifth anniversary of the grant date (September 28, 2017) upon fulfillment of the service condition.

The fair value of each RSU is based on fair value of each share of Holdings common stock on the grant date. The RSUs are classified as equity awards. The total calculated value, net of estimated forfeitures, will be recognized ratably over the 5 year vesting period.

Set forth below is the impact on our results of operations of recording share-based compensation from RSUs for the years ended December 31, 2014, and 2013, and for the period July 12, 2012 (inception) to December 31, 2012 ($ amounts in thousands):

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)
Cost of goods sold	$ —	$ —	$ 1
Selling, general and administrative	99	106	13
Total, pre-tax	99	106	14
Tax effect of share-based compensation	(36)	(39)	(5)
Total, net of tax	$ 63	$ 67	$ 9

The following is a summary of our RSU activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average grant price	Aggregate intrinsic value
Balance at December 31, 2013	375	$ 1.00	
Granted	—	1.00	
Vested	(50)	1.00	
Forfeited	—	1.00	
Non-vested restricted stock unit balance at December 31, 2014	325	$ 1.00	$ 832

Long-term cash incentive awards

In conjunction with the Merger, certain employees were granted awards under the Long-term Cash Incentive Award Agreement incentive plan from Holdings. Each participant has the potential to receive a cash award based on specific achievements in the event of a transaction (e.g., initial public offering or sale of the company to a third party buyer) that returns a specified level of proceeds calculated as a multiple of the equity invested in the Company by the Sponsor. There is no vesting period under the long-term cash incentive plan. The grantees must be employed by Holdings at the time of a transaction event in order to be eligible for a cash payment.

This plan is accounted for in accordance with ASC 450 and will be evaluated quarterly. If information available before the financial statements are issued indicates that it is probable that a liability had been incurred at the date of the financial statements then an accrual shall be made for the estimated cash payout. No amount was accrued for the Long-term Cash Incentive Awards through December 31, 2014.

Predecessor share-based compensation

As a result of the Merger, as of September 27, 2012, the Predecessor's unvested share-based compensation instruments were accelerated to vest in accordance with the underlying Predecessor equity plans. These instruments, together with previously vested awards, and with the exception of Rollover Options discussed above, were settled in cash at the $50.00 purchase price per share paid by TPG in the Merger. All previous share-based compensation plans were canceled in conjunction with the Merger.

Stock options

We used the Black-Scholes stock option pricing model to estimate the fair value of stock option awards with the following weighted average assumptions:

	For the period ended September 28, 2012
Risk-free interest rate	0.8%
Expected life (in years)	4.7
Expected volatility	43.9%
Dividend	0%

The following is a summary of the weighted average per share fair value of options granted for the period ended September 28, 2012.

	For the period ended September 28, 2012
Weighted average per share fair value of options granted	$ 12.46

Set forth below is the impact on our results of operations of recording share-based compensation from stock options for the period ended September 28, 2012 ($ in thousands):

	For the period ended September 28, 2012
Cost of goods sold	$ 300
Selling, general and administrative	2,700
Total, pre-tax	$ 3,000
Tax effect of share-based compensation	(1,110)
Total, net of tax	$ 1,890

The following is a summary of our stock option activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average grant price	Weighted average remaining life	Aggregate intrinsic value
Balance at December 31, 2011	2,286	$ 30.11	—	—
Granted	310	32.97	—	—
Exercised	(1,659)	25.61	—	—
Forfeited	(937)	39.12	—	—
Balance at September 28, 2012	—	$ —	—	$ —

Total fair value of shares vested ($ in thousands):

	For the period ended September 28, 2012
Total fair value of shares vested	$ 3,125

Restricted stock/restricted stock units

Outstanding restricted stock and restricted stock units generally vested ratably over four years. The related share-based compensation expense was recorded over the requisite service period, which was the vesting period. The fair value of restricted stock was based on the market value of our common stock on the date of grant.

The impact on our results of operations of recording share-based compensation from restricted stock for the period ended September 28, 2012 was as follows ($ in thousands):

	For the period ended September 28, 2012
Cost of goods sold	$ 377
Selling, general and administrative	3,390
Total, pre-tax	$ 3,767
Tax effect of stock-based compensation	(1,394)
Total, net of tax	$ 2,373

The following is a summary of our restricted stock activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average grant price	Aggregate intrinsic value
Non-vested balance at December 31, 2011	281	$ 24.28	—
Granted	99	32.89	—
Exercised	(370)	26.37	—
Forfeited	(10)	32.00	—
Non-vested balance at September 28, 2012	—	$ —	$ —

The following is a summary of our restricted stock unit activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average grant price	Aggregate intrinsic value
Non-vested restricted stock unit balance at December 31, 2011	69	$ 36.47	—
Granted	82	33.09	—
Exercised	(128)	34.97	—
Forfeited	(23)	32.76	—
Non-vested restricted stock unit balance at September 28, 2012	—	$ —	$ —

Restricted stock unit grants with internal performance conditions

In January 2012, we issued restricted stock units with performance conditions (“performance units”) to our Chief Operating Officer and our President. The vesting of these performance units was contingent upon the achievement of certain financial and operational goals related to the Anchen Acquisition and corporate entity performance with cliff vesting after three years if the performance conditions and continued employment condition were met.

Our Chief Operating Officer and our President each received approximately 25 thousand performance units in January 2012. The value of the performance units awarded was approximately $1.7 million thousand at the grant date. These awards were accelerated and vested as of September 28, 2012 and all related compensation was recognized as of that date.

Cash-settled restricted stock unit awards

We granted cash-settled restricted stock unit awards that vested ratably over four years to certain employees. The cash-settled restricted stock unit awards were classified as liability awards and were reported within accrued expenses and other current liabilities and other long-term liabilities on the consolidated balance sheet through September 28, 2012. Cash settled restricted stock units entitled such employees to receive a cash amount determined by the fair value of our common stock on the vesting date. The fair values of these awards were remeasured at each reporting period (marked to market) until the awards vested and were paid as of September 28, 2012. Fair value fluctuations were recognized as cumulative adjustments to share-based compensation expense and the related liabilities. Cash-settled restricted stock unit awards were subject to forfeiture if employment terminated prior to vesting. Share-based compensation expense for cash-settled restricted stock unit awards were recognized ratably over the service period.

The impact on our results of operations of recording share-based compensation from cash-settled restricted stock units for the period ended September 28, 2012 was as follows ($ in thousands):

	For the period ended September 28, 2012
Cost of goods sold	$ 232
Selling, general and administrative	2,089
Total, pre-tax	$ 2,321
Tax effect of stock-based compensation	(859)
Total, net of tax	$ 1,462

Information regarding activity for cash-settled restricted stock units outstanding is as follows (number of awards in thousands):

	Shares	Weighted average grant price	Aggregate intrinsic value
Awards outstanding at December 31, 2011	149	$ 32.97	—
Granted	137	33.38	—
Exercised	(40)	32.55	—
Forfeited	(246)	62.84	—
Awards outstanding at September 28, 2012	—	$ —	$ —

Employee stock purchase program:

We maintained an Employee Stock Purchase Program (the “Program”). The Program was designed to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. It enabled eligible employees to purchase shares of our common stock at a 5% discount to the fair market value. All shares were monetized and the Program was canceled as of September 28, 2012 in conjunction with the Merger.

(amounts in thousands)	For the period ended September 28, 2012
Shares purchased by employees	5

Chief executive officer specific share-based compensation

On November 2, 2010, PPCI entered into an employment agreement with its former President and Chief Executive Officer (the “former CEO”), effective as of January 1, 2011. His employment agreement was for a three-year term, ending December 31, 2013. Pursuant to the employment agreement, the former CEO was

eligible to receive an incentive compensation award based on the compound annual growth rate ("CAGR") of PPCI common stock over the course of the three-year employment term (January 1, 2011 to December 31, 2013). The former CEO was eligible to receive an incentive compensation award ranging from $2.0 million (for a three-year CAGR of 4%) to $9.0 million (for a three-year CAGR of 20% or more). He was not eligible to receive an incentive compensation award if PPCI's three-year CAGR was below 4%, and no incentive compensation award would be payable if the employment agreement was terminated prior to its expiration unless a change of control (as defined in the agreement) had occurred. This CAGR based award was classified as liability awards and are reported within accrued expenses and other current liabilities and other long-term liabilities on the consolidated balance sheet through September 28, 2012. The fair values of this award was remeasured at each reporting period (mark-to-market) using a Monte Carlo valuation model until the award vested and was paid. Fair value fluctuations were recognized as cumulative adjustments to share-based compensation expense and the related liabilities. Share-based compensation expense for this CAGR award was recognized ratably over the three-year service period. Through September 28, 2012, PPCI $4.6 million of expense was recognized associated with this plan.

In January 2011, the former CEO was granted an equity award consisting of restricted stock units with a total grant date economic value of approximately $1.9 million. The units vested on the date that a change of control (as defined in the agreement) occurred. The related share-based compensation expense was recorded through September 28, 2012. The fair value of restricted stock units was based on the market value of our common stock on the date of grant.

Note 18—Income taxes:

The components of our provision (benefit) for income taxes on income from continuing operations for the years ended December 31, 2014 (Successor) and December 31, 2013 (Successor), the successor period from July 12, 2012 (inception) through December 31, 2012 (Successor), the predecessor period from January 1, 2012 through September 28, 2012 (Predecessor) are as follows ($ in thousands):

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Current income tax provision (benefit):				
Federal	$ 53,167	$ 19,505	$ 2,944	$ 21,878
State	917	187	159	(5,284)
Foreign	1,300	973	230	833
	55,384	20,665	3,333	17,427
Deferred income tax (benefit) provision:				
Federal	(126,795)	(79,996)	(25,978)	12,982
State	(1,582)	(1,851)	(1,082)	(829)
Foreign	—	—	—	(50)
	(128,377)	(81,847)	(27,060)	12,103
	$ (72,993)	$ (61,182)	$ (23,727)	$ 29,530

Deferred tax assets and (liabilities) as of December 31, 2014, and 2013 are as follows ($ in thousands):

	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Deferred tax assets:		
Accounts receivable	$ 61,580	$ 35,298
Inventories	15,945	12,670
Litigation settlements and contingencies	—	12,241
Accrued and prepaid expenses	8,506	8,219
Net operating losses and other carryforwards	19,475	15,015
Stock options and restricted shares	7,221	4,097
Other	3,782	4,790
	116,509	92,330
Less valuation allowance	(19,381)	(12,322)
Total deferred tax assets	97,128	80,008
Deferred tax liabilities:		
Fixed assets	(21,358)	(20,621)
Deferred financing cost	(8,809)	(15,463)
Intangible assets	(240,675)	(275,399)
Other	(1,527)	(1,376)
Total deferred tax liabilities	(272,369)	(312,859)
Net deferred tax liability	($ 175,241)	($ 232,851)

Management believes it is more likely than not that $97.1 million of the deferred tax asset balance of $116.5 million as of December 31, 2014 will be realized.

We have gross net operating loss (“NOL”) carryforwards at December 31, 2014 of approximately $242.7 million for state income tax purposes. State NOL carryforwards will begin expiring in 2015. A gross valuation allowance on the deferred tax assets at December 31, 2014, primarily relates to certain state NOL’s and credit and capital loss carryforwards of approximately $252.0 million which represents $19.4 million of net valuation allowance. This valuation allowance increased in 2014 by $7.1 million, primarily due to an increase of certain state NOL’s principally driven by our debt service and acquisition costs.

The table below provides reconciliation between the statutory federal income tax rate and the effective rate of income tax expense for each of the periods shown as follows. For periods with a loss before benefit for income taxes, favorable tax items result in an increase in the effective tax rate, while unfavorable tax items result in a decrease in the effective tax rate. For periods with income before provision for income taxes, favorable tax items result in a decrease in the effective tax rate, while, unfavorable tax items result in an increase in the effective tax rate.

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Federal statutory tax rate	35%	35%	35%	35%
State tax—net of federal benefit	1	1	1	2
Domestic manufacturing deduction	3	—	—	—
Tax contingencies	—	—	(1)	(6)
Non-deductible legal settlements	1	—	—	17
Non-deductible annual pharmaceutical manufacturers' fee	(1)	(2)	—	—
Non-deductible transaction costs	—	—	(5)	8
R&D Credit	2	2	—	—
Other	—	1	—	2
Effective tax rate	41%	37%	30%	58%

Tax contingencies

Significant judgment is required in evaluating our tax positions and determining its provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. Accruals for tax contingencies are provided for in accordance with the requirements of ASC 740-10. We reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax provision or benefit.

At December 31, 2014, the amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $14.5 million. The total amount of accrued interest and penalties resulting from such unrecognized tax benefits was $2.1 million at December 31, 2014 (Successor) and $2.5 million at December 31, 2013 (Successor). During the year ended December 31, 2014 (Successor), the year ended December 31, 2013, the period from July 12, 2012 (inception) to December 31, 2012 (Successor), and the period from January 1, 2012 to September 28, 2012 (Predecessor), we recognized approximately $0.6 million, $0.5 million, $0.04 million, and $0.4 million, respectively, in interest and penalties.

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $13.6 million and $13.3 million at December 31, 2014 and 2013, respectively.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for the years ended December 31, 2014 (Successor) and December 31, 2013 (Successor), the successor period from July 12, 2012 (inception) through December 31, 2012, the predecessor period from January 1, 2012 through September 28, 2012 are as follows ($ in thousands):

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Balance at the beginning of period	$ 17,981	$ 12,538	$ 12,119	$ 14,409
Additions based on tax positions related to the current year	2,786	2,577	419	2,337
Additions for tax positions of prior years	1,070	3,708	—	634
Reductions for tax positions of prior years	(6,484)	(842)	—	(5,261)
Reductions due to lapse of applicable statute of limitations	—	—	—	—
Settlements paid	(858)	—	—	—
Balance at the end of the period	$ 14,495	$ 17,981	$ 12,538	$ 12,119

We believe it is reasonably possible that approximately $2.2 million of our current unrecognized tax positions may be recognized within the next twelve months as a result of settlements or a lapse of the statute of limitations.

For periods prior to 2012, the Company is no longer subject to IRS audit. We are currently under audit in several state jurisdictions for the years 2005 through 2013. In most other state jurisdictions, we are no longer subject to examination by tax authorities for years prior to 2009.

Note 19—Commitments, contingencies and other matters:

Leases

At December 31, 2014, we had minimum rental commitments aggregating $33.9 million under non-cancelable operating leases expiring through 2018. Amounts payable thereunder are $6.3 million in 2015, $4.7 million in 2016, $4.0 million in 2017, $3.3 million in 2018 and $15.6 million thereafter. Rent expense charged to operations was $6.4 million in 2014 (Successor), $6.3 million in 2013 (Successor), $1.6 million in the period from July 12, 2012 (inception) to December 31, 2012 (Successor), and $4.8 million for the period from January 1, 2012 to September 28, 2012 (Predecessor).

Retirement savings plan

We have a Retirement Savings Plan (the “Retirement Savings Plan”) whereby eligible employees are permitted to contribute annually from 1% to 25% of their compensation to the Retirement Savings Plan. We contribute an amount equal to 50% of up to the first 6% of compensation contributed by the employee (“401(k) matching feature”). All participants enrolled in the Retirement Savings Plan as of January 1, 2013 became vested immediately with respect to the 401(k) matching feature contributions each pay period. Participants who enrolled in the Retirement Savings Plan after January 1, 2013 become vested with respect to 20% of our contributions for each full year of employment with the Company and thus become fully vested after five full years. We also may contribute additional funds each year to the Retirement Savings Plan, the amount of which,

if any, is determined by the Board in its sole discretion. We incurred expenses related to the 401(k) matching feature of the Retirement Savings Plan of $2.0 million in 2014 (Successor), $1.7 million in 2013 (Successor), $0.2 million in the period from July 12, 2012 (inception) to December 31, 2012 (Successor), and $0.9 million for the period from January 1, 2012 to September 28, 2012 (Predecessor). We did not make a discretionary contribution to the Retirement Savings Plan for 2014, 2013 and 2012.

Our Anchen subsidiary has a legacy 401(k) plan whereby its eligible employees are permitted to contribute annually from their compensation to this 401(k) plan up to the annual IRS limit. Under this plan, Anchen eligible employees can receive employer matching contributions of 100% of the first 3% of compensation contributed and 50% of the next 2% of compensation contributed ("Anchen 401(k) matching feature"). Participants in the legacy 401(k) plan become vested immediately with respect to the Anchen 401(k) matching feature contributions each pay period. Anchen eligible employees may also receive additional funds each year under the legacy 401(k) plan, the amount of which, if any, is determined by the Board in its sole discretion. As of December 31, 2012, this plan was merged into the Retirement Savings Plan. We incurred expenses related to the Anchen 401(k) matching feature of $0.1 million in the period from July 12, 2012 (inception) to December 31, 2012 (Successor), and $0.4 million for the period from January 1, 2012 to September 28, 2012 (Predecessor). We did not make a discretionary contribution to the legacy 401(k) plan for 2012.

We incurred expenses related to the 401(k) matching feature of the Par Sterile Retirement Savings Plan, assumed as part of the Par Sterile Acquisition, of $1.4 million in 2014.

Legal proceedings

Our legal proceedings are complex and subject to significant uncertainties. As such, we cannot predict the outcome or the effects of the legal proceedings described below. While we believe that we have valid claims and/or defenses in the litigations described below, litigation is inherently unpredictable, and the outcome of these proceedings could include substantial damages, the imposition of substantial fines, penalties, and injunctive or administrative remedies. For proceedings where losses are both probable and reasonably estimable, we have accrued for such potential loss as set forth below. Such accruals have been developed based upon estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may ultimately prove to be inaccurate or incomplete, and unknown circumstances may exist or unforeseen events occur that could lead us to change those estimates and assumptions. Unless otherwise indicated below, at this time we are not able to estimate the possible loss or range of loss, if any, associated with these legal proceedings. In general, we intend to continue to vigorously prosecute and/or defend these proceedings, as appropriate; however, from time to time, we may settle or otherwise resolve these matters on terms and conditions that we believe are in the best interests of the Company. Resolution of any or all claims, investigations, and legal proceedings, individually or in the aggregate, could have a material adverse effect on our results of operations and/or cash flows in any given accounting period or on our overall financial condition.

Patent related matters

On April 28, 2006, CIMA Labs, Inc. ("CIMA") and Schwarz Pharma, Inc. ("Schwarz Pharma") filed separate lawsuits against us in the U.S. District Court for the District of New Jersey. CIMA and Schwarz Pharma each have alleged that we infringed U.S. Patent Nos. 6,024,981 (the "'981 patent") and 6,221,392 (the "'392 patent") by submitting a Paragraph IV certification to the FDA for approval of alprazolam orally disintegrating tablets. The complaints generally seek (i) a finding of infringement, validity and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) unspecified damages. On July 10, 2008, the U.S. Patent and Trademark Office ("USPTO") rejected all claims pending in both the '392 and

‘981 patents. On September 28, 2009, the USPTO’s Patent Trial and Appeal Board (“PTAB”) affirmed the Examiner’s rejection of all claims in the ‘981 patent, and on March 24, 2011, the PTAB affirmed the rejections pending for both patents and added new grounds for rejection of the ‘981 patent. On June 24, 2011, the plaintiffs re-opened prosecution on both patents at the USPTO. On May 13, 2013, the PTAB reversed outstanding rejections to the currently pending claims of the ’392 patent reexamination application and affirmed a conclusion by the Examiner that testimony offered by the patentee had overcome other rejections. On September 20, 2013, a reexamination certificate was issued for the ’392 patent, and on January 9, 2014, a reexamination certificate was issued for the ’981 patent, each incorporating narrower claims than the respective originally-issued patent. We intend to vigorously defend this lawsuit and pursue our counterclaims.

Unimed and Laboratories Besins Iscovesco filed a lawsuit on August 22, 2003 against Paddock Laboratories, Inc. in the U.S. District Court for the Northern District of Georgia alleging patent infringement as a result of Paddock’s submitting an ANDA with a Paragraph IV certification seeking FDA approval of testosterone 1% gel, a generic version of Unimed Pharmaceuticals, Inc.’s Androgel®. On September 13, 2006, we acquired from Paddock all rights to the ANDA, and the litigation was resolved by a settlement and license agreement that permits us to launch the generic version of the product no earlier than August 31, 2015, and no later than February 28, 2016, assuring our ability to market a generic version of Androgel® well before the expiration of the patents at issue. On January 30, 2009, the Bureau of Competition for the FTC filed a lawsuit against us in the U.S. District Court for the Central District of California, subsequently transferred to the Northern District of Georgia, alleging violations of antitrust laws stemming from our court-approved settlement, and several distributors and retailers followed suit with a number of private plaintiffs’ complaints beginning in February 2009. The FTC complaint generally seeks (i) a finding that our agreements with co-defendants violate Section 5(a) of the Federal Trade Commission Act; and (ii) a permanent injunction against our ability to engage in such conduct in the future. The private plaintiffs’ complaints generally seek (i) equitable relief; and (ii) single, treble, and/or multiple unspecified damages and costs. On February 23, 2010, the District Court granted our motion to dismiss the FTC’s claims and granted in part and denied in part our motion to dismiss the claims of the private plaintiffs. On September 28, 2012, the District Court granted our motion for summary judgment against the private plaintiffs’ claims of sham litigation. On June 10, 2010, the FTC appealed the District Court’s dismissal of the FTC’s claims to the U.S. Court of Appeals for the 11th Circuit. On April 25, 2012, the Court of Appeals affirmed the District Court’s decision. On June 17, 2013, the Supreme Court of the United States reversed the Court of Appeals’ decision and remanded the case to the U.S. District Court for the Northern District of Georgia for further proceedings. On October 23, 2013, the District Court issued an order on indicative ruling on a request for relief from judgment, effectively remanding to the District Court the appeal of the grant of our motion for summary judgment against the private plaintiffs’ claims and holding those claims in abeyance while the remaining issues pending before the Court are resolved. We believe we have complied with all applicable laws in connection with the court-approved settlement and intend to continue to vigorously defend these actions.

On September 13, 2007, Santarus, Inc. and The Curators of the University of Missouri (“Missouri”) filed a lawsuit against us in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 6,699,885; 6,489,346; and 6,645,988 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of 20 mg and 40 mg omeprazole/sodium bicarbonate capsules. On December 20, 2007, Santarus and Missouri filed a second lawsuit alleging infringement of the patents because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of 20 mg and 40 mg omeprazole/sodium bicarbonate powders for oral suspension. The complaints generally sought (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On October 20, 2008, plaintiffs amended their complaint to add U.S. Patent Nos. 6,780,882 and 7,399,722. On April 14, 2010, the District Court ruled in our favor, finding that the plaintiffs’ patents were invalid as being obvious and without adequate written description. On July 1, 2010, we launched our 20 mg and

40 mg generic omeprazole/sodium bicarbonate capsules product. Santarus and Missouri appealed the District Court's decision to the U.S. Court of Appeals for the Federal Circuit, and we cross-appealed the District Court's decision of enforceability of plaintiffs' patents. On September 4, 2012, the Court of Appeals reversed the District Court's finding of invalidity and remanded to the District Court for further proceedings, and we ceased further distribution of our 20 mg and 40 mg generic omeprazole/sodium bicarbonate capsules product. Santarus was acquired by Salix Pharmaceuticals, Inc. on January 2, 2014. On September 22, 2014, we entered into a settlement agreement with Salix, Santarus and Missouri to resolve all claims relating to this matter, and the dismissal stipulation was entered on September 26, 2014. As part of the settlement, Salix, Santarus and Missouri released all claims against us in exchange for a payment of $100.0 million. We recorded a charge of $91.0 million in the third quarter of 2014 in addition to the $9.0 million previously accrued.

On April 29, 2009, Pronova BioPharma ASA ("Pronova") filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,502,077 and 5,656,667 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of omega-3-acid ethyl esters oral capsules. On May 29, 2012, the District Court ruled in favor of Pronova in the initial case, and we appealed to the U.S. Court of Appeals for the Federal Circuit on June 25, 2012. On September 12, 2013, the Court of Appeals ruled in our favor, reversing the lower District Court decision. On March 5, 2014, judgment in our favor was formally entered in the District Court. On April 16, 2014, Pronova petitioned for writ of certiorari to the U.S. Supreme Court, which was denied on October 6, 2014.

On August 10, 2011, Avanir Pharmaceuticals, Inc. et al. ("Avanir") filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,659,282 and RE38,115 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of oral capsules of 20 mg dextromethorphan hydrobromide and 10 mg quinidine sulfate. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. Our case was consolidated with those of other defendants, Actavis, Impax, and Wockhardt. On September 12, 2012, Avanir filed an additional complaint against us, adding U.S. Patent No. 8,227,484 to the case and seeking the same relief as the first complaint. A bench trial was held from September 9-13 and October 15, 2013. On April 30, 2014, a decision was entered in favor of Avanir. On August 20, 2014, the Court issued an order requiring that Avanir delist the '115 patent, leaving only the '484 and '282 to be addressed on appeal. We filed our notice of appeal following resolution of the delisting claim on September 12, 2014. We intend to prosecute our appeal of this decision vigorously.

On September 1, 2011, we, along with EDT Pharma Holdings Ltd. (now known as Alkermes Pharma Ireland Limited) (Elan), filed a complaint against TWi Pharmaceuticals, Inc. of Taiwan ("TWi") in the U.S. District Court for the District of Maryland alleging infringement of U.S. Patent No. 7,101,576 because TWi filed an ANDA with a Paragraph IV certification seeking FDA approval of a generic version of Megace® ES. Our complaint seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. A bench trial was held from October 7-15, 2013. On February 21, 2014, the District Court issued a decision in favor of TWi, finding all asserted claims of the '576 patent invalid for obviousness, and we appealed to the U.S. Court of Appeals for the Federal Circuit. On August 12, 2014, the District Court granted our motion for preliminary injunction enjoining TWi's launch of its generic product pending disposition of the case on appeal, requiring us to post a $10.0 million bond. On December 3, 2014, the Federal Circuit reversed the District Court's decision, remanding for further findings of fact. On March 9, 2015, the District Court granted our motion for preliminary injunction enjoining TWi's launch of its generic product pending disposition of the case on remand, requiring us to post a $6.0 million bond. We intend to continue to vigorously pursue our case.

On April 4, 2012, AR Holding Company, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,619,004; 7,601,758; 7,820,681; 7,915,269; 7,964,647; 7,964,648; 7,981,938; 8,093,296; 8,093,297; and 8,097,655 (subsequently adding U.S. Patent Nos. 8,415,395 and 8,415,396) because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of oral tablets of 0.6 mg colchicine. On November 1, 2012, Takeda Pharmaceuticals was substituted as the plaintiff and real party-in-interest in the case. On August 30, 2013, Takeda filed a second complaint in view of the same filing adding to the dispute U.S. Patent Nos. 7,906,519; 7,935,731; 7,964,648; 8,093,297; and 8,093,298. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On August 30, 2013, Takeda filed a new complaint against us in view of our change of the ANDA's labeled indication. We intend to defend these actions vigorously.

On October 25, 2012, Purdue Pharma L.P. ("Purdue") and Transcept Pharmaceuticals ("Transcept") filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleged infringement of U.S. Patent Nos. 8,242,131 and 8,252,809 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of zolpidem tartrate sublingual tablets 1.75 and 3.5 mg. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 24, 2014, we reached an agreement with Purdue and Transcept to stay our case contingent upon our agreement to be bound by the District Court's decision in Transcept's trial against Actavis and Novel Laboratories, which commenced December 1, 2014.

On December 19, 2012, Endo Pharmaceuticals and Grünenthal GmbH filed a lawsuit against us in the U.S. District Court for the Southern District of New York. The complaint alleges infringement of U.S. Patent Nos. 7,851,482; 8,114,383; 8,192,722; 8.309, 060; 8,309,122; and 8,329,216 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of oxymorphone hydrochloride extended release tablets 40 mg. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 7, 2014, Endo and Mallinckrodt sued us on the same filing in the U.S. District Court for the District of Delaware, adding U.S. Patent Nos. 8,808,737 and 8,871,779 to the case. On January 15, 2015, the case in the Southern District of New York was dismissed by stipulation. We intend to defend the action in the District of Delaware vigorously.

On January 8, 2013, we were substituted for Actavis as defendant in litigation then pending in the U.S. District Court for the District of Delaware. The action was brought by Novartis against Actavis for filing an ANDA with a Paragraph IV certification seeking FDA approval of rivastigmine transdermal extended release film 4.6 and 9.5 mg/24 hr. We assumed the rights to this ANDA. The complaint alleges infringement of U.S. Patents 5,602,176; 6,316,023; and 6,335,031 and generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On August 22, 2013, Novartis filed an additional complaint in view of our submission of an ANDA supplement containing a Paragraph IV certification adding the 13.3 mg/24 hr. strength. A trial was held August 26-29, 2013, and a second bench trial directed to our non-infringement positions was held on May 1-2, 2014. On June 27, 2014, we filed a declaratory judgment action against Novartis in the same Court regarding all strengths, seeking judgment of non-infringement and invalidity on all asserted patents in view of all strengths embraced by our ANDA. On August 29, 2014, the Court in the first action entered judgment in our favor, finding that we do not infringe the asserted patents. On October 7, 2014, the Court entered judgment in our favor on the declaratory judgment complaint. On October 20, 2014 and October 30, 2014, Novartis filed notices of appeal to the U.S. Court of Appeals for the Federal Circuit from both the original case as well as the complaint initiated on the ANDA supplement. On November 7, 2014, Novartis filed an appeal from the declaratory judgment decision. We intend to defend these actions vigorously.

On February 7, 2013, Sucampo Pharmaceuticals, Takeda Pharmaceuticals, and R-Tech Ueno filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 6,414,016; 7,795,312; 8,026,393; 8,071,613; 8,097,653; and 8,338,639 because we submitted an

ANDA with a Paragraph IV certification to the FDA for approval of lubiprostone oral capsules 8 mcg and 24 mcg. The complaint seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On July 3, 2013, an amended complaint was filed, adding U.S. Patent No. 8,389,542 to the case. On October 9, 2014, the parties entered into a settlement agreement resolving the dispute and allowing us to launch our generic lubiprostone product on January 1, 2021, or earlier in certain circumstances. The consent judgment terminating the case was entered December 2, 2014.

On May 15, 2013, Endo Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the Southern District of New York. The complaint alleges infringement of U.S. Patent Nos. 7,851,482; 8,309,122; and 8,329,216 as a result of our November 2012 acquisition from Watson of an ANDA with a Paragraph IV certification seeking FDA approval of non-tamper resistant oxymorphone hydrochloride extended release tablets. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On June 21, 2013, we, along with Alkermes Pharma Ireland Limited (Elan), filed a complaint against
Breckenridge Pharmaceutical, Inc. in the U.S. District Court for the District of Delaware. In the complaint, we allege infringement of U.S. Patent Nos. 6,592,903 and 7,101,576 because Breckenridge filed an ANDA with a Paragraph IV certification seeking FDA approval of a generic version of Megace® ES. Our complaint seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. A stipulation to stay the proceedings was entered on July 22, 2014. We intend to prosecute this infringement case vigorously.

On September 23, 2013, Forest Labs and Royalty Pharma filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos., 6,602,911; 7,888,342; and 7,994,220 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 12.5, 25, 50, and 100 mg milnacipran HCl oral tablets. The complaint seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On August 20, 2013 and April 4, 2014, MonoSol RX and Reckitt Benckiser filed lawsuits against us in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 8,017,150, 8,475,832 and 8,603,514, because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of EQ 2/0.5, 8/2, 4/1, 12/3 mg base buprenorphine HCl/naloxone HCl sublingual films. The complaints seek (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On December 31, 2014, the plaintiffs filed a complaint on the same ANDA filing, adding U.S. Patent Nos. 8,900,497 and 8,906,277. We intend to defend these actions vigorously.

On December 27, 2013, Jazz Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 6,472,431; 6,780,889; 7,262,219; 7,851,506; 8,263,650; 8,324,275; 8,461,203; 7,668,730; 7,765,106; 7,765,107; 7,895,059; 8,457,988; and 8,589,182 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 500mg/ ml sodium oxybate oral solution. On August 15, 2014, October 10, 2014, and January 8, 2015, Jazz filed additional complaints against us in view of the same ANDA filing, adding U.S. Patent Nos. 8,731,963; 8,772,306; and 8,859,619, respectively, to the case. The complaints seek (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend these actions vigorously.

On January 21, 2014, Lyne Laboratories, Fresenius USA Manufacturing and Fresenius Medical Care Holdings filed a lawsuit against us in the U.S. District Court for the District of Massachusetts. The complaint alleges infringement of U.S. Patent Nos. 8,591,938 and 8,592,480 because we submitted an ANDA with a Paragraph IV

certification to the FDA for approval of 169mg/5ml calcium acetate oral solution. The complaint seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. The case has been settled on confidential terms with a stipulation of dismissal, which we expect will be entered by the Court presently.

On February 14, 2014 and August 15, 2014, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd., and Adamas Pharmaceuticals, Inc., filed lawsuits against us and our Anchen subsidiary in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 8,039,009; 8,168,209; 8,173,708; 8,283,379; 8,329,752; 8,362,085; and 8,598,233 because we submitted ANDAs with Paragraph IV certifications to the FDA for approval of 7, 14, 21, and 28 mg memantine hydrochloride extended release capsules. The complaints seek (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On January 14, 2015, a joint stipulation of dismissal was entered in the case pursuant to a confidential settlement agreement between the parties.

On April 23, 2014, Hyperion Therapeutics filed a lawsuit against us in the U.S. District Court for the Eastern District of Texas. The complaint alleges infringement of U.S. Patent Nos. 8,404,215 and 8,642,012 because we submitted an ANDA with Paragraph IV certifications to the FDA for approval of 1.1 g/ml glyceryl phenylbutyrate oral liquid. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On June 20, 2014, Otsuka Pharmaceutical Co. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,753,677 and 8,501,730 relating to our Paragraph IV certification accompanying our ANDA for approval of 15 and 30 mg tolvaptan oral tablets. The complaint seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On June 30, 2014, AstraZeneca filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent No. 7,951,400 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of eq 2.5 mg and eq 5 mg saxagliptin hydrochloride oral tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this suit vigorously.

On July 17, 2014, Glycyx Pharmaceuticals and Salix filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 6,197,341 and 8,497,256 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 1.1 g balsalazide disodium oral tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this suit vigorously.

On August 6, 2014, Prometheus Labs filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent No. 6,284,770 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 0.5 and 1.0 mg alosetron hydrochloride tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 17, 2014, the court stayed our case pending the outcome of the appeal of the first Paragraph IV filer's victory in the District Court.

On August 19, 2014, Hospira, Inc. filed a declaratory judgment complaint against the FDA in the U.S. District Court for the District of Maryland in view of the FDA's approval of our ANDA for dexmedetomidine hydrochloride injection, concentrate (100 mcg/ml) vials pursuant to our submission and statement under section viii. On August 20, 2014, we moved to intervene in the case on the side of the FDA. On August 25, 2014, we filed a declaratory judgment complaint against Hospira, Inc. in view of U.S. Patent No. 6,716,867 in the U.S.

District Court for the District of New Jersey. On September 5, 2014, the Maryland Court ruled in favor of the FDA, Par and joint intervenor Mylan, Inc. on summary judgment, and Hospira, Inc. and its intervenor/co-complainant Sandoz appealed that judgment to the U.S. Court of Appeals for the Fourth Circuit. On October 29, 2014, all parties stipulated jointly to a dismissal of all of the cases (Maryland, New Jersey, and the Fourth Circuit) pursuant to a confidential settlement agreement.

On October 10, 2014, Novartis Pharmaceuticals Corporation and Novartis AG filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,665,772; 6,004,973; and 6,455,518 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 0.25, 0.5, and 0.75 mg everolimus tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On November 19, 2014, we filed a declaratory judgment action against GlaxoSmithKline and Aptalis in the U.S. District Court for the Eastern District of Pennsylvania, seeking declaratory judgment of non-infringement and invalidity of U.S. Patent No. 7,919,115 in view of our April 11, 2012 submission of an ANDA with a Paragraph IV certification to the FDA seeking approval for lamotrigine orally disintegrating tablets 25, 50, 100, and 200 mg. On January 30, 2015, the consent judgment was entered.

Under a Development and Supply Agreement between Pharmaceutics International, Inc. ("PII") and Par Sterile, PII agreed to develop and manufacture, and Par Sterile agreed to market and sell, certain pharmaceutical products, including zoledronic acid, the generic version of Zometa® and Reclast®. Under the Agreement, the parties agreed to share equally all mutually agreed expenses and costs of Paragraph IV proceedings related to the product, including any costs and expenses related to any mutually agreed upon settlement. On February 20, 2013, Novartis Pharmaceuticals Corporation filed a lawsuit against PII, along with several other defendants, in the U.S. District Court for the District of New Jersey, for filing ANDAs with Paragraph IV certifications seeking FDA approval of both zoledronic acid eq 4 mg base/5 ml vials and zoledronic acid eq 5 mg base/100 ml bottles. The complaint alleges, among other things, that the sale of generic versions of Reclast® and Zometa® would infringe one or more of U.S. Patent Nos. 8,324,189; 7,932,241; and 8,052,987 and seeks (i) a finding of infringement, validity, and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) damages or other monetary relief in light of commercial manufacture, use, offers to sell, or sale of the ANDA products. On March 1, 2013, the District Court denied Novartis's request for a temporary restraining order against PII and the other defendants. On March 4, 2013, Par Sterile began distribution of PII's generic Zometa® product and began distribution of the generic Reclast® product in December 2013. On December 3, 2014, in view of the foregoing, Novartis sued Par Sterile in the same court, seeking (i) a finding of infringement, validity, and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) damages or other monetary relief in light of commercial manufacture, use, offers to sell, or sale of the ANDA products. We intend to defend this action vigorously.

On December 18, 2014, and January 23, 2015, Novartis Pharmaceuticals Corporation and Novartis AG filed lawsuits against us in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 5,665,772; 7,297,703; and 7,741,338 518 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 2.5, 5, 7.5, and 10 mg everolimus tablets. The complaints seek (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend these actions vigorously.

On January 16, 2015, Supernus Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 8,298,576; 8,298,580; 8,663,683; and 8,877,248 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 25, 50, 100, and 200 mg topiramate extended release capsules. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On January 21, 2015, Tris Pharma, Inc., filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 8,062,667; 8,287,903; 8,465,765; 8,563,033; and 8,778,390 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 5 mg/ml methylphenidate hydrochloride extended release oral suspension. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 2, 2015, Cosmo Technologies, Ltd and Santarus, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,410,651; 7,431,943; 8,293,273; 8,784,888; 8,895,064; and RE43,799 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 9 mg budesonide tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 20, 2015, Ferring Pharmaceuticals, Inc. and Ferring International Center S.A. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 8,450,338 and 8,481,083 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 10/3.5/12 g sodium picosulfate/magnesium oxide/citric acid packets for oral solution. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 26, 2015, Shire, LLC filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. RE41,148 and RE42,096 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 5, 10, 15, 20, and 25 mg mixed amphetamine salts extended release capsules. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On March 6, 2015, BioMarin Pharmaceutical Inc. and Merck & Cie filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 7,566,462; 7,566,714; 7,612,073; 7,727,987; 8,003,126; 8,067,416; RE43,797; and 8,318,745 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 100 mg sapropterin dihydrochloride oral tablets. The complaint seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

Industry related matters

Beginning in September 2003, we, along with numerous other pharmaceutical companies, have been named as a defendant in actions brought by the Attorneys General of Illinois, Kansas, and Utah, as well as a state law *qui tam* action brought on behalf of the state of Wisconsin by Peggy Lautenschlager and Bauer & Bach, LLC, alleging generally that the defendants defrauded the state Medicaid systems by purportedly reporting or causing the reporting of AWP and/or "Wholesale Acquisition Costs" that exceeded the actual selling price of the defendants' prescription drugs. During the year ended December 31, 2013, we recorded $25.7 million as "Settlements and loss contingencies, net" on the consolidated statements of operations as we continued to periodically assess and estimate our remaining potential liability. On January 28, 2014, we settled the claims brought by the State of Kansas for $1.8 million. On February 5, 2014, we settled the claims brought by the State of Utah for $2.1 million. On June 2, 2014, we settled the claims brought by the State of Illinois for $28.5 million, including attorneys' fees and costs. The amounts provided for 2013 represents the amounts settled, less amounts previously accrued. Other than as described below, all of the above AWP cases against the Company have been concluded.

On February 17, 2014, the Dane County Circuit Court for the State of Wisconsin dismissed the state law *qui tam* action brought on behalf of the state of Wisconsin by Peggy Lautenschlager and Bauer & Bach, LLC. On June 12, 2014, the Dane County Circuit Court denied the plaintiffs' renewed motion to amend the complaint and issued a final order of dismissal on the merits, without prejudice. The plaintiffs subsequently appealed the ruling, and on September 22, 2014, the Wisconsin Court of Appeals dismissed the plaintiffs' appeal. On August 11, 2014, plaintiffs filed a similar AWP *qui tam* action under seal in the Dane County Circuit Court, and the State of Wisconsin declined to intervene on December 19, 2014. On January 13, 2015, the Dane County Circuit Court unsealed the complaint. The complaint seeks (i) a judgment for *qui tam* plaintiffs; (ii) a declaration that defendants' actions violated Wis. Stat. § 20.931; (iii) an award of treble damages to the State; (iv) an order that defendants pay civil penalties for statutory violations of not less than $5,000 for each violation; and (v) an award of an appropriate share of the proceeds to *qui tam* plaintiffs. We intend to vigorously defend this lawsuit.

The Attorneys General of Florida, Indiana and Virginia and the U.S. Office of Personnel Management (the "USOPM") have issued subpoenas, and the Attorneys General of Michigan, Tennessee, Texas, and Utah have issued civil investigative demands, to us. The demands generally request documents and information pertaining to allegations that certain of our sales and marketing practices caused pharmacies to substitute ranitidine capsules for ranitidine tablets, fluoxetine tablets for fluoxetine capsules, and two 7.5 mg buspirone tablets for one 15 mg buspirone tablet, under circumstances in which some state Medicaid programs at various times reimbursed the new dosage form at a higher rate than the dosage form being substituted. We have provided documents in response to these subpoenas to the respective Attorneys General and the USOPM. The aforementioned subpoenas and civil investigative demands culminated in the federal and state law qui tam action brought on behalf of the United States and several states by Bernard Lisitza. The complaint was unsealed on August 30, 2011. Lisitza's corrected second amended complaint seeks (i) a finding that defendants violated and be enjoined from future violations of the federal False Claims Act and state false claims acts; (ii) treble damages and maximum civil penalties for each violation of the federal False Claims Act and state false claims acts; (iii) an applicable percentage share of the proceeds; and (iv) expenses, fees, and costs. The United States intervened in this action on July 8, 2011 and filed a separate complaint on September 9, 2011, alleging claims for violations of the Federal False Claims Act and common law fraud. The United States' second corrected Complaint seeks (i) treble damages and civil penalties for violations under the federal False Claims Act and (ii) compensatory and punitive damages for common law fraud. The states of Michigan and Indiana have also intervened as to claims arising under their respective state false claims acts, common law fraud, and unjust enrichment. Michigan's complaint seeks (i) treble damages and civil penalties and (ii) common law compensatory and punitive damages. Indiana's amended complaint seeks treble damages, costs, and attorney's fees. We intend to vigorously defend these lawsuits.

Other

On March 19, 2009, we were served with a subpoena by the DOJ requesting documents related to Par Specialty's marketing of Megace® ES. The subpoena indicated that the DOJ was investigating promotional practices in the sales and marketing of Megace® ES. We cooperated with the DOJ in this inquiry. On March 5, 2013, we entered into a settlement agreement with the DOJ that terminated the DOJ's investigation. The settlement agreement provided for our payment of $45.0 million (plus interest and fees) and included a plea agreement with the New Jersey Criminal Division of the DOJ in which the Company admitted to a single count of misdemeanor misbranding, a civil settlement with the DOJ, a state settlement encompassing fortynine states (one state declined to participate due to the small amount of its potential recovery), and a release from each of these entities in favor of the Company related to the practices at issue in the terminated investigation. We accrued for the settlement in the period from January 1, 2012 through September 28, 2012 (Predecessor). The settlement was paid in 2013.

On August 6, 2014, we received a subpoena from the Office of the Attorney General of the State of Connecticut requesting documents related to our agreement with Covis Pharma S.a.r.l. to distribute an authorized generic version of Covis's Lanoxin® (digoxin) oral tablets. We completed our response on October 28, 2014.

On December 5, 2014, we received a subpoena from the Antitrust Division of the U.S. Department of Justice requesting documents related to communications with competitors regarding our authorized generic version of Covis's Lanoxin® (digoxin) oral tablets and our generic doxycycline products. We intend to cooperate fully with the Department of Justice's inquiry.

On February 3, 2015, we received a Civil Investigative Demand from Office of the Attorney General of the State of Alaska instructing production of, among other documents, all production in the on-going lawsuit filed against us in 2009 by the Bureau of Competition for the FTC and currently on remand to the U.S. District Court for the Northern District of Georgia, described above under "Patent Related Matters." We intend to comply fully with the Civil Investigative Demand.

On February 9, 2015, we received a Civil Investigative Demand from the FTC instructing production of, among other documents, all documents related to our license agreement and manufacturing and supply agreement with Concordia Pharmaceuticals, Inc. relating to our sale of clonidine hydrochloride extended release tablets, the generic version of Concordia's Kapvay®. We intend to comply fully with the Civil Investigative Demand.

We are, from time to time, a party to certain other litigations, including product liability litigations. We believe that these litigations are part of the ordinary course of our business and that their ultimate resolution will not have a material effect on our financial condition, results of operations or liquidity. We intend to defend or, in cases where we are the plaintiff, to prosecute these litigations vigorously.

Note 20—Segment information:

We operate in two reportable business segments: generic pharmaceuticals (referred to as "Par Pharmaceutical" or "Par") and branded pharmaceuticals (referred to as "Par Specialty Pharmaceuticals" or "Par Specialty"). Branded products are marketed under brand names through marketing programs that are designed to generate physician and consumer loyalty. Branded products generally are patent protected, which provides a period of market exclusivity during which they are sold with little or no direct competition. Generic pharmaceutical products are the chemical and therapeutic equivalents of corresponding brand drugs. The Drug Price Competition and Patent Term Restoration Act of 1984 provides that generic drugs may enter the market upon the approval of an ANDA and the expiration, invalidation or circumvention of any patents on corresponding brand drugs, or the expiration of any other market exclusivity periods related to the brand drugs. Our chief operating decision maker is our Chief Executive Officer.

Our business segments were determined based on management's reporting and decision-making requirements in accordance with FASB ASC 280-10 Segment Reporting. We believe that our generic products represent a single operating segment because the demand for these products is mainly driven by consumers seeking a lower cost alternative to brand name drugs. Par's generic drugs are developed using similar methodologies, for the same purpose (e.g., seeking bioequivalence with a brand name drug nearing the end of its market exclusivity period for any reason discussed above). Par's generic products are produced using similar processes and standards mandated by the FDA, and Par's generic products are sold to similar customers. Based on the similar economic characteristics, production processes and customers of Par's generic products, management has determined that Par's generic pharmaceuticals are a single reportable business segment. Our chief operating decision maker does not review the Par (generic) or Par Specialty (brand) segments in any more granularity, such as at the therapeutic or other classes or categories. Certain of our expenses, such as the direct sales force and other sales and marketing expenses and specific research and development expenses, are charged directly to either of the two segments. Other expenses, such as general and administrative expenses and non-specific research and development expenses are allocated between the two segments based on assumptions determined by management.

Our chief operating decision maker does not review our assets, depreciation or amortization by business segment at this time as they are not material to Par Specialty. Therefore, such allocations by segment are not provided.

The financial data for the two business segments are as follows ($ in thousands):

	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Revenues:				
Par Pharmaceutical	$ 1,241,131	$ 1,028,418	$ 227,312	$ 743,360
Par Specialty	67,490	69,049	18,827	60,508
Total revenues	$ 1,308,621	$ 1,097,467	$ 246,139	$ 803,868
Gross margin:				
Par Pharmaceutical	436,078	271,396	33,776	296,338
Par Specialty	43,037	46,647	11,669	46,012
Total gross margin	$ 479,115	$ 318,043	$ 45,445	$ 342,350
Operating (loss) income:				
Par Pharmaceutical	(30,938)	(48,082)	(48,526)	116,591
Par Specialty	(35,674)	(17,361)	(9,472)	(57,151)
Total operating (loss) income	$ (66,612)	$ (65,443)	$ (57,998)	$ 59,440
Gain on marketable securities and other investments, net	—	1,122	—	—
Gain on bargain purchase	—	—	5,500	—
Interest income	18	87	50	424
Interest expense	(108,427)	(95,484)	(25,985)	(9,159)
Loss on debt extinguishment	(3,989)	(7,335)	—	—
Other income	500	—	—	—
(Benefit) provision for income taxes	(72,993)	(61,182)	(23,727)	29,530
Net (loss) income	$ (105,517)	$ (105,871)	$ (54,706)	$ 21,175

Total revenues of our top selling products were as follows ($ in thousands):

Product	For the year ended December 31, 2014 (Successor)	For the year ended December 31, 2013 (Successor)	For the period July 12, 2012 to December 31, 2012 (Successor)	For the period January 1, 2012 to September 28, 2012 (Predecessor)
Par Pharmaceutical				
Budesonide (Entocort® EC)	$ 142,853	$ 198,834	$ 36,710	$ 103,762
Bupropion ER (Wellbutrin®)	84,467	45,403	11,255	34,952
Propafenone (Rythmol SR®)	75,966	70,508	19,623	53,825
Amlodipine/Valsartan (Exforge®)	60,784	—	—	—
Divalproex (Depakote®)	59,052	46,635	2,436	9,099
Metoprolol succinate ER (Toprol-XL®)	46,251	56,670	31,287	154,216
Clonidine ER (Kapvay®)	45,134	13,008	—	—
Lamotrigine (Lamictal XR®)	40,673	54,577	—	—
Aplisol®	35,228	—	—	—
Modafinil (Provigil®)	2,123	27,688	16,956	88,831
Chlorpheniramine/Hydrocodone (Tussionex®)	26,899	33,518	17,403	30,706
Other(1)	594,751	450,148	83,491	249,383
Other product related revenues(2)	26,950	31,429	8,151	18,586
Total Par Pharmaceutical Revenues	$ 1,241,131	$ 1,028,418	$ 227,312	$ 743,360
Par Specialty				
Nascobal® Nasal Spray	$ 32,332	$ 26,864	$ 7,138	$ 17,571
Megace® ES	31,653	39,510	10,910	38,322
Other product related revenues(2)	3,505	2,675	779	4,615
Total Par Specialty Revenues	$ 67,490	$ 69,049	$ 18,827	$ 60,508

(1) The further detailing of revenues of the other approximately 85 generic drugs was not considered significant to the overall disclosure due to the lower volume of revenues associated with each of these generic products. No single product in the other category was significant to total generic revenues for the years ended December 31, 2014 (Successor) and December 31, 2013 (Successor), the period from July 12, 2012 (inception) to December 31, 2012 (Successor) or for the period from January 1, 2012 to September 28, 2012 (Predecessor).

(2) Other product related revenues represents licensing and royalty related revenues from profit sharing agreements.

Note 21—Restructuring costs:

2014

Subsequent to the Par Sterile Acquisition, we eliminated approximately 25 redundant positions within Par Pharmaceutical and accrued severance and other employee-related costs for those employees affected by the workforce reduction in the first quarter of 2014.

($ in thousands)

Restructuring activities (Par Sterile)	Initial charge	Additional charge	Cash payments	Non-cash charge related to inventory and/or intangible assets	Reversals, reclass or transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	$1,146	$ 3,527	$ (2,686)	$ —	$ —	$ 1,987
Total restructuring costs line item	$1,146	$ 3,527	$ (2,686)	$ —	$ —	$ 1,987

Due to the change in our product development strategy, we eliminated approximately 44 redundant positions within our Irvine location and accrued severance and other employee-related costs for these employees affected by the workforce reduction.

($ in thousands) Restructuring activities (Irvine)	Initial charge	Additional charge	Cash payments	Non-cash charge related to inventory and/or intangible assets	Reversals, reclass or transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	$ 740	$ —	$ (127)	$ —	$ —	$ 613
Total restructuring costs line item	$ 740	$ —	$ (127)	$ —	$ —	$ 613

2013

In January 2013, we initiated a restructuring of Par Specialty, our branded pharmaceuticals division, in anticipation of entering into a settlement agreement and corporate integrity agreement that terminated the U.S. Department of Justice's ongoing investigation of Par Specialty's marketing of Megace® ES. We reduced our Par Specialty workforce by approximately 70 people, with the majority of the reductions in the sales force. The remaining Par Specialty sales force has been reorganized into a single sales team of approximately 60 professionals that focus their marketing efforts principally on Nascobal® Nasal Spray. In connection with these actions, we incurred expenses for severance and other employee-related costs as well as the termination of certain contracts. There were no remaining liabilities at December 31, 2014 on the consolidated balance sheet.

($ in thousands) Restructuring activities	Initial charge	Cash payments	Non-cash charge related to inventory and/or intangible assets	Reversals, reclass or transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	$1,413	$ (1,409)	$ —	$ (4)	$ —
Asset impairments and other	403	—	(403)	—	—
Total restructuring costs line item	$1,816	$ (1,409)	$ (403)	$ (4)	$ —

Note 22—Subsequent events:

Refer to Note 6 —"Pending acquisitions as of December 31, 2014" for acquisitions completed in January 2015.

In February 2015, the Company amended its existing Credit Agreement, which included new borrowings in an aggregate principal amount of $425.0 million. These new borrowings, along with cash on hand, were used to pay a $494.3 million cash dividend to the stockholders of Holdings. Pursuant to the terms of the Sky Growth Holdings Corporation 2012 Equity Incentive Plan, stock option holders are entitled to antidilution protection upon equity restructurings as defined ASC 718, including a recapitalization through a large nonrecurring dividend as noted above. The form of such antidilution protection is at the discretion of the Holdings Board of Directors acting as the Plan Administrator. Accordingly, the Plan Administrator provided each stock option holder the required antidilution protection either through a dividend-equivalent payment, a reduction of the exercise price of the applicable stock option awards or a combination thereof. The dividend-equivalent payments were approximately $36.5 million. In connection with dividend-equivalent payments related to unvested stock option awards, the Company expects to record a charge to accelerate a portion of unrecognized compensation expense in the first quarter of 2015. In addition, a special discretionary dividend-equivalent bonus was paid to certain employees granted awards under the Long-term Cash Incentive Award Agreement with Holdings of approximately $4.2 million, which the Company expects to record as compensation expense in the first quarter of 2015. The Company also incurred related financing fees and expenses totaling $7.7 million in connection with the new borrowings.

Exhibit 99.3

Condensed consolidated financial statements as of March 31, 2015 and March 31, 2014

Par Pharmaceutical Holdings, Inc.
Condensed consolidated balance sheets
(In thousands, except share and par value per share data)
(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 185,880	$ 244,440
Accounts receivable, net	73,833	158,732
Inventories	166,761	154,687
Prepaid expenses and other current assets	26,076	28,255
Deferred income tax assets	68,057	66,936
Total current assets	520,607	653,050
Property, plant and equipment, net	223,748	217,314
Intangible assets, net	1,006,177	1,040,753
Goodwill	1,036,958	1,012,108
Other assets	88,445	83,909
Total assets	$2,875,935	$3,007,134
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 18,753	$ 14,503
Accounts payable	81,793	79,987
Payables due to distribution agreement partners	44,818	53,213
Accrued salaries and employee benefits	17,517	32,246
Accrued government pricing liabilities	23,942	42,647
Accrued legal fees	12,839	4,864
Accrued interest payable	16,563	7,529
Accrued expenses and other current liabilities	19,556	42,815
Total current liabilities	235,781	277,804
Long-term liabilities	21,910	17,004
Non-current deferred tax liabilities	228,272	242,177
Long-term debt, less current portion	2,318,510	1,904,069
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, $0.001 par value per share, 900,000,000 shares authorized 2015 and 2014; 784,251,980 and 784,335,270 issued and outstanding in 2015 and 2014, respectively	784	784
Additional paid-in capital	323,828	835,880
Accumulated deficit	(245,809)	(266,094)
Accumulated other comprehensive loss	(5,380)	(3,648)
Treasury stock	(1,961)	(842)
Total stockholders' equity	71,462	566,080
Total liabilities and stockholders' equity	$2,875,935	$3,007,134

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

Par Pharmaceutical Holdings, Inc.
Condensed consolidated statements of operations
(In thousands)
(Unaudited)

	Three months ended	
	March 31, 2015	March 31, 2014
Revenues:		
Net product sales	$353,119	$282,833
Other product related revenues	6,125	6,251
Total revenues	359,244	289,084
Cost of goods sold, excluding amortization expense	165,379	150,668
Amortization expense	48,792	44,102
Total cost of goods sold	214,171	194,770
Gross margin	145,073	94,314
Operating expenses:		
Research and development	26,850	34,624
Selling, general and administrative	56,386	50,941
Intangible asset impairment	—	41,758
Settlements and loss contingencies, net	(25)	—
Restructuring costs	363	1,146
Total operating expenses	83,574	128,469
Operating income (loss)	61,499	(34,155)
Interest income	17	14
Interest expense	(29,511)	(25,467)
Loss on debt extinguishment	—	(3,989)
Income (loss) before provision (benefit) for income taxes	32,005	(63,597)
Provision (benefit) for income taxes	11,720	(24,232)
Net income (loss)	$ 20,285	$ (39,365)

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

Par Pharmaceutical Holdings, Inc.
Condensed consolidated statements of comprehensive income (loss)
(In thousands)
(Unaudited)

	Three months ended	
	March 31, 2015	March 31, 2014
Net income (loss)	$ 20,285	$(39,365)
Other comprehensive loss, net of tax:		
Unrealized loss on marketable securities, net of tax	—	(6)
Unrealized loss on cash flow hedges, net of tax	(2,666)	(1,212)
Less: reclassification adjustment for realized losses included in net income (loss), net of tax	934	635
Other comprehensive loss	(1,732)	(583)
Comprehensive income (loss)	$ 18,553	$(39,948)

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

Par Pharmaceutical Holdings, Inc.
Condensed consolidated statements of cash flows
(In thousands)
(Unaudited)

	Three months ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net income (loss)	$ 20,285	$ (39,365)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	(14,539)	(28,036)
Depreciation and amortization	57,082	50,663
Non-cash interest expense	2,742	2,686
Cost of goods on acquired inventory step up	—	2,986
Intangible asset impairment	—	41,758
Allowances against accounts receivable	(14,175)	13,520
Share-based compensation expense	5,213	942
Loss on debt extinguishment	—	3,989
Other, net	109	(53)
Changes in assets and liabilities:		
Decrease in accounts receivable	99,373	41,997
Increase in inventories	(11,443)	(20,984)
Decrease (increase) in prepaid expenses and other assets	3,455	(1,343)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(36,733)	36,386
Decrease in payables due to distribution agreement partners	(8,395)	(12,102)
Decrease in income taxes receivable/payable	(2,767)	(3,905)
Net cash provided by operating activities	100,207	89,139
Cash flows from investing activities:		
Capital expenditures	(8,492)	(13,212)
Business acquisitions, net of cash acquired	(34,793)	(478,647)
Purchases of intangibles	(8,000)	—
Proceeds from available for sale marketable debt securities	—	1,000
Net cash used in investing activities	(51,285)	(490,859)
Cash flows from financing activities:		
Proceeds from debt	422,875	525,541
Payments of debt	(4,688)	(140,191)
Proceeds from equity contributions	416	110,000
Debt issuance costs	(6,069)	(3,150)
Cash dividend paid	(494,300)	—
Dividend-equivalent payments to Holdings stock option holders, net of tax	(23,367)	—
Costs for issuance of capital	(1,217)	—
Stock-based compensation plan settlements	(13)	—
Purchase of treasury stock	(1,119)	—
Net cash (used in) provided by financing activities	(107,482)	492,200
Net (decrease) increase in cash and cash equivalents	(58,560)	90,480
Cash and cash equivalents at beginning of period	244,440	130,080
Cash and cash equivalents at end of period	$ 185,880	$ 220,560
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net	$ 15,829	$ 7,721
Interest paid	$ 17,735	$ 13,631
Non-cash transactions:		
Capital expenditures incurred but not yet paid	$ 556	$ 731

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

Par Pharmaceutical Holdings, Inc., ("Holdings"), formerly known as Sky Growth Holdings Corporation, formed July 12, 2012, operates primarily through its indirect, wholly owned domestic subsidiaries Par Pharmaceutical Companies, Inc. ("PPCI"), issuer of the outstanding public debt and Par Pharmaceutical Inc. (collectively with Holdings and PPCI, referred to herein as "the Company," "we," "our," or "us"). PPCI was the holding company prior to the Merger. Prior to the Merger, we conducted our operations through the subsidiaries of PPCI and we continue to do so subsequent to the Merger. After the Merger, consolidated PPCI and consolidated Holdings have the same financial statements, excluding merger-related costs that were recorded on the books and records of Holdings. On March 4, 2015, Sky Growth Holdings Corporation changed its name to Par Pharmaceutical Holdings, Inc. The Company operates in two business segments or divisions. The generic products division, Par Pharmaceutical ("Par"), develops (including through third party development arrangements and product acquisitions), manufactures and distributes generic and sterile pharmaceuticals in the United States. The branded products division, Par Specialty Pharmaceuticals ("Par Specialty"), formerly known as Strativa Pharmaceuticals, acquires, manufactures and distributes branded pharmaceuticals in the United States. The products we market are principally in the solid oral dosage form (tablet, caplet and two-piece hard-shell capsule), although we also distribute several oral suspension products, and nasal spray products.

PPCI entered into an Agreement and Plan of Merger on July 14, 2012 (the "Merger Agreement) and was acquired at the close of business on September 28, 2012, through a merger transaction with Sky Growth Acquisition Corporation, a wholly owned subsidiary of the Company. Holdings was formed on July 12, 2012 by investment funds affiliated with TPG Capital, L.P. ("TPG" and, together with certain affiliated entities, collectively, the "Sponsor"). PPCI is owned by affiliates of the Sponsor and members of management. The acquisition was accomplished through a reverse subsidiary merger of Sky Growth Acquisition Corporation with and into PPCI, with PPCI being the surviving entity (the "Merger"). Subsequent to the Merger, PPCI became an indirect, wholly owned subsidiary of Holdings (see Note 2—"Sky Growth Merger"). Prior to September 29, 2012, PPCI operated as a public company with its common stock traded on the New York Stock Exchange.

Note 1—Basis of presentation and recently issued accounting standards:

The accompanying condensed consolidated financial statements at March 31, 2015 and for the three-month periods ended March 31, 2015 and March 31, 2014 are unaudited. In the opinion of management, however, such statements include all normal recurring adjustments necessary to present fairly the information presented therein. The condensed consolidated balance sheet at December 31, 2014 was derived from the Company's audited consolidated financial statements included elsewhere in this prospectus.

The accompanying condensed consolidated financial statements and these notes to condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States of America for audited financial statements. Accordingly, these statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2014 included elsewhere in this prospectus. Results of operations for interim periods are not necessarily indicative of those that may be achieved for full fiscal years.

Recently issued accounting standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU No. 2014-09). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. In April 2015, the FASB issued an exposure draft proposing to defer the effective date of the new revenue standard for interim and annual periods beginning after December 15, 2017 (previously December 15, 2016). The proposal will allow

public entities to adopt the new standard as early as the original public entity effective date (i.e. annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date will not be permitted. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

In March 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03") intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. The pronouncement is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. We currently do not anticipate a material impact of ASU 2015-03 on our condensed consolidated financial statements and related disclosures.

Note 2—Sky Growth merger:

The transactions

PPCI was acquired at the close of business on September 28, 2012 through the Merger. Holdings and its wholly-owned subsidiaries were formed by affiliates of TPG solely for the purposes of completing the Merger and the related transactions. At the time of the Merger, each share of our common stock issued and outstanding immediately prior to the close of the Merger was converted into the right to receive cash. Aggregate consideration tendered at September 28, 2012 was for 100% of the equity of PPCI. Subsequent to the Merger, PPCI became an indirect, wholly owned subsidiary of Holdings.

The Merger was accounted for as a purchase business combination in accordance with ASC 805, "Business Combinations," ("ASC 805") whereby the purchase price paid to effect the Merger was allocated to recognize the acquired assets and liabilities assumed at fair value. The acquisition method of accounting uses the fair value concept defined in ASC 820, Fair Value Measurements and Disclosures ("ASC 820").

Transactions with manager

In connection with the Merger and the related transactions, PPCI entered into a management services agreement with an affiliate of TPG (the "Manager"). Pursuant to the agreement, in exchange for on-going consulting and management advisory services, the Manager receives an annual monitoring fee paid quarterly equal to 1% of EBITDA as defined under the credit agreement for the Senior Credit Facilities (as defined in Note 14—"Debt"). There is an annual cap of $4.0 million for this fee. The Manager also receives reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement. We recorded an expense of $1.0 million and $0.9 million for consulting and management advisory service fees which are included in selling, general and administrative expenses in the condensed consolidated statement of operations for the three months ended March 31, 2015 and 2014.

Note 3—Par Sterile acquisition:

On February 20, 2014, the Company completed its acquisition of JHP Group Holdings, Inc. and its subsidiaries (collectively, "JHP"), a privately-held, specialty sterile products pharmaceutical company. The acquisition was accomplished through a reverse subsidiary merger of an indirect subsidiary of the Company with and into JHP Group Holdings, Inc., in which JHP Group Holdings, Inc. was the surviving entity and became an indirect, wholly owned subsidiary of the Company (the "Par Sterile Acquisition"). The consideration for the Par Sterile Acquisition consisted of $487.0 million in cash, after finalization of certain customary working capital adjustments. The Company financed the Par Sterile Acquisition with proceeds received in connection with the debt financing provided by third party lenders of $395.0 million and an equity contribution of $110.0 million from certain investment funds associated with TPG. Among the primary reasons the Company acquired JHP and the factors that contributed to the preliminary recognition of goodwill was that the Par Sterile Acquisition expanded its capability and presence into the rapidly growing sterile drug market for injectable products including ophthalmics and otics. The result is a broader and more diversified product portfolio, and an expanded development pipeline.

JHP operated principally through its operating subsidiary, JHP Pharmaceuticals, LLC, which was renamed Par Sterile Products, LLC ("Par Sterile") subsequent to the Par Sterile Acquisition. We continue to operate Par Sterile as a specialty pharmaceutical company developing and manufacturing sterile injectable products. Par Sterile's products are primarily sold through wholesalers, often via an arrangement with a group purchasing organization, prior to being dispensed at hospitals or directly administered by physicians. Par Sterile targets products with limited competition due to difficulty in manufacturing and/or the product's market size. Our Par Sterile manufacturing facility in Rochester, Michigan has the capability to manufacture small-scale clinical through large-scale commercial products.

The operating results of Par Sterile for the three months ended March 31, 2015 are included in the accompanying condensed consolidated statement of operations as part of the Par Pharmaceutical segment, reflecting total revenues of $66.6 million. Par Sterile's contribution to the overall Par Pharmaceutical segment's operating income is not tracked separately. The condensed consolidated balance sheet as of March 31, 2015 reflects the acquisition, including goodwill, which represents Par Sterile's workforce expertise in research and development, marketing and manufacturing.

The acquisition has been accounted for as a business purchase combination using the acquisition method of accounting under the provisions of ASC 805. The acquisition method of accounting uses the fair value concept defined in ASC 820. ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date and that the fair value of acquired in-process research and development ("IPR&D") be recorded on the balance sheet regardless of the likelihood of success of the related product or technology as of the completion of the acquisition. The process for estimating the fair values of IPR&D, identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, timing and probability of success to complete in-process projects and projecting regulatory approvals. Under ASC 805, transaction costs are not included as a component of consideration transferred and were expensed as incurred. The acquisition and financing transaction costs totaled $12.4 million of which $8.2 million were included in operating expenses as selling, general and administrative expenses on the condensed consolidated statements of operations and $4.1 million were capitalized as deferred financing costs or debt discount on the consolidated balance sheet. The acquisition-related transaction costs were comprised of bank fees ($10.4 million), legal fees ($1.5 million), and other fees ($0.5 million). The excess of the purchase price (consideration transferred) over the estimated amounts of identifiable assets and liabilities of Par Sterile as of the effective date of the acquisition was allocated to goodwill, as part of the Par Pharmaceutical segment, in accordance with ASC 805. The purchase price allocation was finalized with the completion of our analysis of the fair value of the assets and liabilities of Par Sterile as of the effective date of the acquisition. The establishment of the fair value of the consideration for an acquisition, and the allocation to identifiable tangible and intangible assets and liabilities, requires the extensive use of accounting estimates and management judgment. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable estimates and assumptions.

The sources and uses of funds in connection with the Par Sterile Acquisition are summarized below ($ in thousands):

Sources:		Uses:	
Senior secured term loan	$395,000	Cash purchase of equity	$487,429(a)
Sponsor equity contribution	110,000	Transaction costs	12,350
Company cash on hand	1,133(a)	Accrued interest on Company debt	6,354
Total source of funds	$506,133	Total use of funds	$506,133

(a) Adjusted to reflect the finalization of working capital adjustments noted above.

Fair value estimate of assets acquired and liabilities assumed

The purchase price of Par Sterile has been allocated to the following assets and liabilities ($ in thousands):

	As of February 20, 2014
Cash and cash equivalents	$ 9,204
Accounts receivable, net	5,413
Inventories	35,959
Prepaid expenses and other current assets	10,583
Property, plant and equipment	73,579
Intangible assets	283,500
Total identifiable assets	418,238
Accounts payable	13,796
Accrued expenses and other liabilities	1,902
Deferred tax liabilities	71,493
Total liabilities assumed	87,191
Net identifiable assets acquired	331,047
Goodwill	156,382
Net assets acquired	$ 487,429

Approximately $20.0 million of the goodwill identified above and recorded on the condensed consolidated balance sheet as of March 31, 2015 has been and will be deductible for income tax purposes.

Supplemental pro forma information (unaudited)

The following unaudited pro forma information for the quarter ended March 31, 2014 assumes the Par Sterile Acquisition occurred as of January 1, 2013. The unaudited pro forma results reflect certain adjustments related to past operating performance, the impact of the debt assumed, acquisition costs and acquisition accounting adjustments, such as increased depreciation and amortization expense based on the fair valuation of assets acquired and the related tax effects. The pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized had the Par Sterile Acquisition been consummated during the period for which pro forma information is presented, or is it intended to be a projection of future results or trends.

(In thousands)	Three months ended March 31, 2014
Total revenues	$ 308,146
Loss from continuing operations	$ (29,476)

Note 4—Par Biosciences acquisition:

On January 14, 2015, we completed the acquisition of a privately-held Chennai, India-based clinical research organization ("CRO"), which we renamed Par Biosciences Private Limited ("Par Biosciences"), for $10.0 million. The operating results of Par Biosciences were included in our condensed consolidated financial results from the date of acquisition. The purchase price was paid in cash and funded from our cash on hand.

The operating results of Par Biosciences from January 14, 2015 through March 31, 2015 are included in the accompanying condensed consolidated statement of operations as part of the Par Pharmaceutical segment, reflecting an immaterial impact on income before taxes. The condensed consolidated balance sheet as of March 31, 2015 reflects the acquisition, including goodwill, which represents Par Biosciences' workforce expertise in research and development.

The acquisition has been accounted for as a business purchase combination using the acquisition method of accounting under the provisions of ASC 805. The acquisition method of accounting uses the fair value concept defined in ASC 820. ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of certain identifiable assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, and estimating the costs. Under ASC 805, transaction costs are not included as a component of consideration transferred and were expensed as incurred. The acquisition-related transaction costs incurred for the quarter ended March 31, 2015 totaled $0.5 million which were included in operating expenses as selling, general and administrative on the condensed consolidated statements of operations. The excess of the purchase price (consideration transferred) over the estimated amounts of identifiable assets and liabilities of Par Biosciences as of the effective date of the acquisition was allocated to goodwill, as part of the Par Pharmaceutical segment, in accordance with ASC 805. The purchase price allocation is subject to completion of our analysis of the fair value of the assets and liabilities as of the effective date of the acquisition. Accordingly, the purchase price allocation below is preliminary and will be adjusted upon completion of the final valuation. These adjustments are not expected to be material. The final valuation is expected to be completed as soon as practicable but no later than one year from the consummation of the acquisition. The establishment of the fair value of the consideration for an acquisition, and the allocation to identifiable tangible and intangible assets and liabilities, requires the extensive use of accounting estimates and management judgment. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable estimates and assumptions based on data currently available.

Consideration transferred

The acquisition-date fair value of the consideration transferred consisted of the following items ($ amounts in thousands):

Cash paid for equity	$ 8,761
Deferred purchase price liabilities	1,231(1)
Total consideration	$9,992

(1) Deferred purchase price liabilities represent two subsequent deferred payments due on the first and third anniversary of the closing date.

Fair value estimate of assets acquired and liabilities assumed

The purchase price of Par Biosciences has been allocated on a preliminary basis to the following assets and liabilities ($ in thousands):

	As of January 14, 2015
Cash and cash equivalents	$ 72
Prepaid expenses and other assets	213
Property, plant and equipment	3,370
Total identifiable assets	3,655
Accounts payable / accrued expenses and other liabilities	605
Total liabilities assumed	605
Net identifiable assets acquired	3,050
Goodwill	6,942
Net assets acquired	$ 9,992

Approximately $0.3 million of the goodwill identified above and recorded on the condensed consolidated balance sheet as of March 31, 2015 will be deductible for income tax purposes.

Pro forma results of operations for the acquisition of Par Biosciences have not been presented because the acquisition is not material to our consolidated results of operations.

Note 5—Innoteq acquisition:

On January 9, 2015, we completed our acquisition of Innoteq, Inc. (“Innoteq”), a privately-held domestic corporation that is engaged in the business of researching, developing and manufacturing transdermal patches and thin film, slow dissolve film, coated/non-woven film and other coated pharmaceutical and consumer products, for $26.4 million. The operating results of Innoteq were included in our condensed consolidated financial results from the date of acquisition. The purchase price was paid in cash and funded from our cash on hand.

The operating results of Innoteq from January 9, 2015 through March 31, 2015 are included in the accompanying condensed consolidated statement of operations as part of the Par Pharmaceutical segment, reflecting an immaterial impact on income before taxes. The condensed consolidated balance sheet as of March 31, 2015 reflects the acquisition, including goodwill, which represents Innoteq’s workforce expertise in research and development.

The acquisition has been accounted for as a business purchase combination using the acquisition method of accounting under the provisions of ASC 805. The acquisition method of accounting uses the fair value concept defined in ASC 820. ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, timing and probability of success to complete in-process projects and projecting regulatory approvals. Under ASC 805, transaction costs are not included as a component of consideration transferred and were expensed as incurred. The acquisition-related transaction costs incurred for the quarter ended March 31, 2015 totaled $0.8 million which were included in operating expenses as selling, general and administrative on the condensed consolidated statements of operations. The excess of the purchase price

(consideration transferred) over the estimated amounts of identifiable assets and liabilities of Innoteq as of the effective date of the acquisition was allocated to goodwill, as part of the Par Pharmaceutical segment, in accordance with ASC 805. The purchase price allocation is subject to completion of our analysis of the fair value of the assets and liabilities as of the effective date of the acquisition. Accordingly, the purchase price allocation below is preliminary and will be adjusted upon completion of the final valuation. These adjustments are not expected to be material. The final valuation is expected to be completed as soon as practicable but no later than one year from the consummation of the acquisition. The establishment of the fair value of the consideration for an acquisition, and the allocation to identifiable tangible and intangible assets and liabilities, requires the extensive use of accounting estimates and management judgment. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable estimates and assumptions based on data currently available.

Fair value estimate of assets acquired and liabilities assumed

The purchase price of Innoteq has been allocated on a preliminary basis to the following assets and liabilities ($ in thousands):

	As of January 9, 2015
Cash and cash equivalents	$ 268
Prepaid expenses and other assets	1,189
Property, plant and equipment	3,557
Intangible assets	5,800
Contract assets	1,008
Deferred tax asset non-current	2,014
Total identifiable assets	13,836
Accounts payable / accrued expenses and other liabilities	2,870
Deferred tax liabilities	2,503
Total liabilities assumed	5,373
Net identifiable assets acquired	8,463
Goodwill	17,908
Net assets acquired	$ 26,371

None of the goodwill identified above and recorded on the condensed consolidated balance sheet as of March 31, 2015 will be deductible for income tax purposes.

Pro forma results of operations for the acquisition of Innoteq have not been presented because the acquisition is not material to our consolidated results of operations.

Note 6—Pending acquisition of Nuray assets:

In December 2014, our wholly-owned subsidiary, Par Formulations Private Limited, entered into an agreement to purchase certain assets of privately-held Nuray Chemicals Private Limited ("Nuray"), a Chennai, India based developer and manufacturer of active pharmaceutical ingredients ("API") for approximately $20.0 million in cash, contingent payments and other consideration. A vice president of the Company is a minority shareholder of Nuray. The assets to be acquired via a definitive agreement consist of a FDA approved facility that manufactures API, including real property, improvements and related assets. The closing of the acquisition is subject to the receipt of applicable regulatory approvals and other customary closing terms and conditions. The

acquisition will be accounted for as a business combination under the guidance of ASC 805. The operating results of the acquired business will be included in our consolidated financial results from the date of the closing of the acquisition as part of the Par Pharmaceutical segment. We intend to fund the purchase from cash on hand.

Note 7—Fair value measurements:

ASC 820-10 Fair Value Measurements and Disclosures defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets and liabilities. Active market means a market in which transactions for assets or liabilities occur with "sufficient frequency" and volume to provide pricing information on an ongoing unadjusted basis. Cash equivalents include highly liquid investments with an original maturity of three months or less at acquisition. We have determined that our cash equivalents in their entirety are classified as Level 1 within the fair value hierarchy.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Level 2 assets primarily include debt securities, including corporate bonds with quoted prices that are traded less frequently than exchange-traded instruments. All of our Level 2 asset values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The pricing model information is provided by third party entities (e.g., banks or brokers). In some instances, these third party entities engage external pricing services to estimate the fair value of these securities. We have a general understanding of the methodologies employed by the pricing services in their pricing models. We corroborate the estimates of non-binding quotes from the third party entities' pricing services to an independent source that provides quoted market prices from broker or dealer quotations. We investigate large differences, if any. Based on historical differences, we have not been required to adjust quotes provided by the third party entities' pricing services used in estimating the fair value of these securities.

Level 3: Unobservable inputs that are not corroborated by market data.

Financial assets and liabilities

The fair value of our financial assets and liabilities measured at fair value as of March 31, 2015 were as follows ($ in thousands):

	Estimated fair value at March 31, 2015	Level 1	Level 2	Level 3
Cash equivalents	$ 100,010	$ 100,010	$ —	$ —
Senior secured term loan (Note 14)	$ 1,860,789	$ —	$ 1,860,789	$ —
7.375% senior notes (Note 14)	$ 520,625	$ —	$ 520,625	$ —
Derivative instruments—Interest rate caps (Note 15)	$ 8,407	$ —	$ 8,407	$ —

The fair value of our financial assets and liabilities measured at fair value as of December 31, 2014 were as follows ($ in thousands):

	Estimated fair value at December 31, 2014	Level 1	Level 2	Level 3
Cash equivalents	$ 100,002	$ 100,002	$ —	$ —
Senior secured term loan (Note 14)	$ 1,399,941	$ —	$ 1,399,941	$ —
7.375% senior notes (Note 14)	$ 507,763	$ —	$ 507,763	$ —
Derivative instruments—Interest rate caps (Note 15)	$ 5,700	$ —	$ 5,700	$ —

The carrying amount reported in the condensed consolidated balance sheets for accounts receivables, net, inventories, prepaid expenses and other current assets, accounts payable, payables due to distribution agreement partners, accrued salaries and employee benefits, accrued government pricing liabilities, accrued legal settlements, and accrued expenses and other current liabilities approximate fair value because of their short-term nature.

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy as of March 31, 2015 or December 31, 2014.

Non-financial assets and liabilities

The Company does not have any non-financial assets or liabilities as of March 31, 2015 or December 31, 2014 that are measured in the condensed consolidated financial statements at fair value.

Intangible assets

During the three months ended March 31, 2014, we recorded intangible asset impairments totaling $41.8 million for two products not expected to achieve their originally forecasted operating results.

Derivative instruments—interest rate caps

We use interest rate cap agreements to manage our interest rate risk on our variable rate long-term debt. Refer to Note 15—"Derivatives Instruments and Hedging Activities," for further information.

Note 8—Accounts receivable:

We account for revenue in accordance with ASC 605 "Revenue Recognition". In accordance with that standard, we recognize revenue for product sales when title and risk of loss have transferred to our customers, when reliable estimates of rebates, chargebacks, returns and other adjustments can be made, and when collectability is reasonably assured. This is generally at the time that products are received by our direct customers. We also review available trade inventory levels at certain large wholesalers to evaluate any potential excess supply levels in relation to expected demand. We determine whether we will recognize revenue at the time that our products are received by our direct customers or defer revenue recognition until a later date on a product by product basis at the time of launch. Upon recognizing revenue from a sale, we record estimates for chargebacks, rebates and incentive programs, product returns, cash discounts and other sales reserves that reduce accounts receivable.

The following tables summarize the impact of accounts receivable reserves and allowance for doubtful accounts on the gross trade accounts receivable balances at each balance sheet date ($ in thousands):

	March 31, 2015	December 31, 2014
Gross trade accounts receivable	$ 466,620	$ 565,694
Chargebacks	(93,531)	(96,492)
Rebates and incentive programs	(129,544)	(138,989)
Returns	(98,198)	(84,330)
Cash discounts and other	(71,335)	(86,797)
Allowance for doubtful accounts	(179)	(354)
Accounts receivable, net	$ 73,833	$ 158,732

Allowance for doubtful accounts

	Three months ended	
($ in thousands)	March 31, 2015	March 31, 2014
Par balance at beginning of period	$ (354)	$ (7)
Par Sterile beginning balance	—	(278)
Additions—charge to expense	(3)	(99)
Adjustments and/or deductions	178	93
Balance at end of period	$ (179)	$ (291)

The following tables summarize the activity for the three months ended March 31, 2015 and for the three months ended March 31, 2014, in the accounts affected by the estimated provisions described below ($ in thousands):

	Three months ended March 31, 2015				
Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (96,492)	$ (205,642)	$ — (1)	$208,603	$ (93,531)
Rebates and incentive programs	(138,989)	(143,651)	—	153,096	(129,544)
Returns	(84,330)	(21,949)	—	8,081	(98,198)
Cash discounts and other	(86,797)	(70,389)	3,812(3)	82,039	(71,335)
Total	$(406,608)	$ (441,631)	$ 3,812	$451,819	$(392,608)
Accrued liabilities(2)	$ (42,647)	$ (12,527)	$ —	$ 31,232	$ (23,942)

Accounts receivable reserves	Three months ended March 31, 2014					
	Beginning balance	Par Sterile beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (48,766)	$ (5,886)	$ (189,919)	$ —(1)	$ 186,461	$ (58,110)
Rebates and incentive programs	(75,321)	(5,489)	(92,684)	—	89,541	(83,953)
Returns	(78,181)	(4,398)	(7,112)	—	5,101	(84,590)
Cash discounts and other	(37,793)	(1,792)	(55,741)	(1,399)(4)	52,239	(44,486)
Total	$ (240,061)	$ (17,565)	$ (345,456)	$ (1,399)	$ 333,342	$ (271,139)
Accrued liabilities(2)	$ (35,829)	$ (382)	$ (16,076)	$ 1,755(5)	$ 20,020	$ (30,512)

(1) Unless specific in nature, the amount of provision or reversal of reserves related to prior periods for chargebacks is not determinable on a product or customer specific basis. Based upon historical analysis and analysis of activity in subsequent periods, we believe that our chargeback estimates remain reasonable.

(2) Includes amounts due to indirect customers for which no underlying accounts receivable exists and is principally comprised of Medicaid rebates and rebates due under other U.S. Government pricing programs, such as TriCare and the Department of Veterans Affairs.

(3) The Company received lower than expected claims related to price adjustments accrued during the period September 2014 through December 2014. As a result, during the first quarter of 2015, the Company recorded a benefit of approximately $3.8 million.

(4) During the three months ended March 31, 2014, the Company recorded additional reserves totaling approximately $1.4 million related to prior year claims from customers for various price decreases for the years 2009 through 2012.

(5) During three months ended March 31, 2014, we received further additional information related to Managed Medicaid utilization in California and performed a recalculation of average manufacturer's price. As a result we reduced our Medicaid accruals by approximately $2.4 million related to the periods March 2010 through December 2013. This activity was partially offset by the expense of $0.7 million related to disputed TriCare claims for the period from January 2009 through December 2013.

The Company sells its products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers as well as customers that purchase its products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers. The Company often negotiates product pricing directly with health care providers that purchase products through the Company's wholesale customers. In those instances, chargeback credits are issued to the wholesaler for the difference between the invoice price paid to the Company by our wholesale customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product. The information that the Company considers when establishing its chargeback reserves includes contract and non-contract sales trends, average historical contract pricing, actual price changes, processing time lags and customer inventory information from its three largest wholesale customers. The Company's chargeback provision and related reserve vary with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventory.

Customer rebates and incentive programs are generally provided to customers as an incentive for the customers to continue carrying the Company's products or replace competing products in their distribution channels with our products. Rebate programs may be based on either a wholesale or non-wholesale customer's direct purchases. Rebates may also be based on a non-wholesale customer's indirect purchases of the Company's products from a wholesaler under a contract with us. The incentive programs include stocking or trade show promotions where additional discounts may be given on a new product or certain existing products as an added incentive to stock the Company's products. We may, from time to time, also provide price and/or volume incentives on new products that have multiple competitors and/or on existing products that confront new competition in order to attempt to secure or maintain a certain market share. The information that the Company considers when establishing its rebate and incentive program reserves are rebate agreements with, and purchases by, each customer, tracking and analysis of promotional offers, projected annual sales for customers with annual incentive programs, actual rebates and incentive payments made, processing time lags,

and for indirect rebates, the level of inventory in the distribution channel that will be subject to indirect rebates. We do not provide incentives designed to increase shipments to our customers that we believe would result in out-of-the-ordinary course of business inventory for them. The Company regularly reviews and monitors estimated or actual customer inventory information at its three largest wholesale customers for its key products to ascertain whether customer inventories are in excess of ordinary course of business levels.

Pursuant to a drug rebate agreement with the Centers for Medicare and Medicaid Services, TriCare and similar supplemental agreements with various states, the Company provides a rebate on drugs dispensed under such government programs. The Company determines its estimate of the Medicaid rebate accrual primarily based on historical experience of claims submitted by the various states and any new information regarding changes in the Medicaid program that might impact the Company's provision for Medicaid rebates. In determining the appropriate accrual amount we consider historical payment rates; processing lag for outstanding claims and payments; levels of inventory in the distribution channel; and the impact of the healthcare reform acts. The Company reviews the accrual and assumptions on a quarterly basis against actual claims data to help ensure that the estimates made are reliable. On January 28, 2008, the Fiscal Year 2008 National Defense Authorization Act was enacted, which expands TriCare to include prescription drugs dispensed by TriCare retail network pharmacies. TriCare rebate accruals reflect this program and are based on actual and estimated rebates on Department of Defense eligible sales.

The Company accepts returns of product according to the following criteria: (i) the product returns must be approved by authorized personnel with the lot number and expiration date accompanying any request and (ii) we generally will accept returns of products from any customer and will provide the customer with a credit memo for such returns if such products are returned between six months prior to, and 12 months following, such products' expiration date. The Company records a provision for product returns based on historical experience, including actual rate of expired and damaged in-transit returns, average remaining shelf-lives of products sold, which generally range from 12 to 48 months, and estimated return dates. Additionally, we consider other factors when estimating the current period return provision, including levels of inventory in the distribution channel, significant market changes that may impact future expected returns, and actual product returns, and may record additional provisions for specific returns that we believe are not covered by the historical rates. The Company generally will accept returns of injectable products from any customer and provide the customer with a credit memo for returns if such products are returned between six months prior to and six months following, such products' expiration date. The Company's returns policy also states that refrigerated and temperature controlled injectable products are non-returnable.

The Company offers cash discounts to its customers, generally 2% of the sales price, as an incentive for paying within invoice terms, which generally range from 30 to 90 days. The Company accounts for cash discounts by reducing accounts receivable by the full amount of the discounts that we expect our customers to take.

In addition to the significant gross-to-net sales adjustments described above, we periodically make other sales adjustments. The Company generally accounts for these other gross-to-net adjustments by establishing an accrual in the amount equal to its estimate of the adjustments attributable to the sale.

The Company may at its discretion provide price adjustments due to various competitive factors, through shelf-stock adjustments on customers' existing inventory levels. There are circumstances under which we may not provide price adjustments to certain customers as a matter of business strategy, and consequently may lose future sales volume to competitors and risk a greater level of sales returns on products that remain in the customer's existing inventory.

As detailed above, we have the experience and access to relevant information that we believe are necessary to reasonably estimate the amounts of such deductions from gross revenues, except as described below. Some of

the assumptions we use for certain of our estimates are based on information received from third parties, such as wholesale customer inventories and market data, or other market factors beyond our control. The estimates that are most critical to the establishment of these reserves, and therefore, would have the largest impact if these estimates were not accurate, are estimates related to contract sales volumes, average contract pricing, customer inventories and return volumes. The Company regularly reviews the information related to these estimates and adjusts its reserves accordingly, if and when actual experience differs from previous estimates. With the exception of the product returns allowance, the ending balances of accounts receivable reserves and allowances generally are processed during a two-month to four-month period.

Use of estimates in reserves

We believe that our reserves, allowances and accruals for items that are deducted from gross revenues are reasonable and appropriate based on current facts and circumstances. It is possible however, that other parties applying reasonable judgment to the same facts and circumstances could develop different allowance and accrual amounts for items that are deducted from gross revenues. Additionally, changes in actual experience or changes in other qualitative factors could cause our allowances and accruals to fluctuate, particularly with newly launched or acquired products. We review the rates and amounts in our allowance and accrual estimates on a quarterly basis. If future estimated rates and amounts are significantly greater than those reflected in our recorded reserves, the resulting adjustments to those reserves would decrease our reported net revenues; conversely, if actual product returns, rebates and chargebacks are significantly less than those reflected in our recorded reserves, the resulting adjustments to those reserves would increase our reported net revenues. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

As is customary and in the ordinary course of business, our revenue that has been recognized for product launches included initial trade inventory stocking that we believed was commensurate with new product introductions. At the time of each product launch, we were able to make reasonable estimates of product returns, rebates, chargebacks and other sales reserves by using historical experience of similar product launches and significant existing demand for the products.

Note 9—Inventories:

($ in thousands)	March 31, 2015	December 31, 2014
Raw materials and supplies	$ 66,642	$ 60,020
Work-in-process	24,948	26,343
Finished goods	75,171	68,324
	$166,761	$ 154,687

Inventory write-offs (inclusive of pre-launch inventories detailed below)

	Three months ended	
($ in thousands)	March 31, 2015	March 31, 2014
Inventory write-offs	$ 3,718	$ 2,235

Par capitalizes inventory costs associated with certain products prior to regulatory approval and product launch, based on management's judgment of reasonably certain future commercial use and net realizable value, when it is reasonably certain that the pre-launch inventories will be saleable. The determination to capitalize is made once Par (or its third party development partners) has filed an abbreviated new drug application ("ANDA") that has been acknowledged by the FDA as containing sufficient information to allow the FDA to conduct its review in an efficient and timely manner and management is reasonably certain that all regulatory and legal hurdles will be cleared. This determination is based on the particular facts and circumstances relating to the expected FDA approval of the generic drug product being considered, and accordingly, the time frame within which the determination is made varies from product to product. Par could be required to write down previously capitalized costs related to pre-launch inventories upon a change in such judgment, or due to a denial or delay of approval by regulatory bodies, or a delay in commercialization, or other potential factors. As of March 31, 2015, Par had approximately $5.4 million in inventories related to generic products that were not yet available to be sold.

Par Specialty also capitalizes inventory costs associated with in-licensed branded products subsequent to FDA approval but prior to product launch based on management's judgment of probable future commercial use and net realizable value. We believe that numerous factors must be considered in determining probable future commercial use and net realizable value including, but not limited to, Par Specialty's limited number of historical product launches, as well as the ability of third party partners to successfully manufacture commercial quantities of product. Par Specialty could be required to expense previously capitalized costs related to pre-launch inventory upon a change in such judgment, due to a delay in commercialization, product expiration dates, projected sales volume, estimated selling price or other potential factors. As of March 31, 2015, Par Specialty had approximately $0.1 million in inventories related to products that were not yet available to be sold.

The amounts in the table below represent inventories related to products that were not yet available to be sold and are also included in the total inventory balances presented above.

Pre-launch inventories

($ in thousands)	March 31, 2015	December 31, 2014
Raw materials and supplies	$ 4,209	$ 4,515
Work-in-process	479	386
Finished goods	792	134
	$ 5,480	$ 5,035

Write-offs of pre-launch inventories

	Three months ended	
($ in thousands)	March 31, 2015	March 31, 2014
Pre-launch inventory write-offs, net of partner allocation	$ 493	$ 493

Note 10—Property, plant and equipment, net:

($ in thousands)	March 31, 2015	December 31, 2014
Land	$ 11,063	$ 11,063
Buildings	63,822	63,589
Machinery and equipment	107,034	97,129
Office equipment, furniture and fixtures	17,976	12,849
Computer software and hardware	28,075	26,369
Leasehold improvements	26,942	26,774
Construction in progress	35,470	37,981
	290,382	275,754
Accumulated depreciation and amortization	(66,634)	(58,440)
	$223,748	$ 217,314

Depreciation and amortization expense related to property, plant and equipment

	Three months ended	
($ in thousands)	March 31, 2015	March 31, 2014
Depreciation and amortization expense	$ 8,274	$ 6,543

Note 11—Intangible assets, net:

	March 31, 2015			December 31, 2014		
($ in thousands)	Cost	Accumulated Amortization	Net	Cost	Accumulated amortization	Net
Developed products(1)	$ 965,166	$ (417,933)	$ 547,233	$ 957,166	$ (373,602)	$ 583,564
Other product related royalty streams	115,600	(41,254)	74,346	115,600	(37,334)	78,266
IPR&D(2)	351,614	—	351,614	351,614	—	351,614
Trade names(3)	27,100	(153)	26,947	27,100	(118)	26,982
Other(4)	6,952	(915)	6,037	1,153	(826)	327
	$1,466,432	$ (460,255)	$1,006,177	$1,452,633	$ (411,880)	$1,040,753

(1) Developed products include intangible assets related to commercial products as part of the Merger, subsequently developed IPR&D, products acquired from the Watson/Actavis Merger (as defined below), intangible assets related to commercial products as part of the Par Sterile Acquisition, and other intangible assets related to commercial products. These products are amortized based on their remaining useful lives.

(2) IPR&D indefinite-lived assets include IPR&D as part of the Merger, IPR&D acquired from the Watson/Actavis Merger, and IPR&D acquired as part of the Par Sterile Acquisition.

(3) Trade names include Par and Par Sterile trade names. Par Sterile trade name is amortized over its useful life, while the Par trade name is treated as an indefinite-lived asset and is not amortized.

(4) Included in other are certain product rights associated with our 2015 acquisition of Innoteq.

We recorded amortization expense related to intangible assets of $48.4 million for the three months ended March 31, 2015 and $44.1 million for the three months ended March 31, 2014. Amortization expense was included in cost of goods sold.

Intangible assets acquired in the merger

PPCI was acquired on September 28, 2012 through a merger transaction. Refer to Note 2—"Sky Growth Merger" for details of the transaction. As part of the Merger, we revalued intangible assets related to commercial products (developed technology), royalty streams, IPR&D, and our trade name.

The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately five years.

IPR&D assets are related to R&D projects that were incomplete at the Merger. There are 58 projects associated with IPR&D. Due to the nature of our generic product portfolio pipeline, individual products in the annual IPR&D groups are expected to launch within an annual time period or reasonably close thereto. When the first product of each annual IPR&D group launches, it is our policy to commence amortization of the entire annual group utilizing the related cash flows expected to be generated for the annual group. The remaining net book value of the related intangible asset associated with subsequently developed annual IPR&D groups will be amortized over a weighted average amortization period of approximately seven years.

Trade names constitute intellectual property rights and are marketing-related intangible assets. Our corporate trade name was valued using a relief from royalty method of the income approach and accounted for as an indefinite-lived intangible asset that will be subject to annual impairment testing or whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach.

Intangible assets acquired with the divested products from the Watson/Actavis Merger

On November 6, 2012, we acquired the U.S. marketing rights to five generic products that were currently marketed by Watson or Actavis, as well as eight ANDAs awaiting regulatory approval and a generic product in late-stage development, in connection with the merger of Watson Pharmaceuticals, Inc. and Actavis Group on November 6, 2012 (the "Watson/Actavis Merger").

The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately five years.

IPR&D consists of technology-related intangible assets used in research & development activities, which were incomplete at the time of the acquisition. Upon the successful completion and launch of a product in the group, we will make a separate determination of useful life of the related IPR&D intangible asset and commence amortization.

Intangible assets acquired with the Par Sterile acquisition

On February 20, 2014, we acquired intangible assets as part of the Par Sterile Acquisition. Refer to Note 3—"Par Sterile Acquisition," for further details. The intangible assets related to commercial products (developed technology), IPR&D, and the JHP trade name.

The fair value of the developed technology and in-process research and development intangible assets were estimated using the discounted cash flow method of the income approach. We believe that the level and timing of cash flows appropriately reflect market participant assumptions. Some of the significant assumptions inherent in the development of the identifiable intangible asset valuations, from the perspective of a market participant, include the estimated net cash flows by year by project or product (including net revenues, costs of sales, research and development costs, selling and marketing costs and other charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, competitive trends impacting the asset and each cash flow stream, and other factors.

Developed products are defined as products that are commercialized, all research and development efforts have been completed by the seller, and final regulatory approvals have been received. The developed product intangible assets are composite assets, comprising the market position of the product, the developed technology utilized, and the customer base to which the products are sold. Developed technology and the customer base were considered but have not been identified separately as any related cash flows would be very much intertwined with the product related intangibles. Developed products held by the Company are considered separable from the business as they could be sold to a third party. Developed products were valued using a multi-period excess earnings method under the income approach. The principle behind this method is that the value of the intangible asset is equal to the present value of the after-tax cash flows attributable to the intangible asset only. The remaining net book value of the related intangible asset related to developed products will be amortized over a weighted average amortization period of approximately nine years.

IPR&D is related to research and development projects that were incomplete at the time of the Par Sterile Acquisition. We grouped and valued IPR&D based on the projected year of launch for each group, with the exception of one project that was expected to produce large cash flows in the future and we valued this project by itself. IPR&D is considered separable from the business as it could be sold to a third party. The value of IPR&D was accounted for as an indefinite-lived intangible asset and will be subject to impairment testing until the completion or abandonment of each group. Upon the successful completion and launch of a product in a group, we will make a separate determination of useful life of the IPR&D intangible asset and commence amortization. This methodology resulted in six groups of IPR&D (2014 through 2018 plus a group with a single IPR&D project). When the first product of each IPR&D group launches, it is our policy to commence amortization of the entire group utilizing the related cash flows expected to be generated for the group. Due to the nature of our generic injectable product portfolio pipeline, individual products in the IPR&D groups are expected to launch within an annual time period or reasonably close thereto.

Trade names constitute intellectual property rights and are marketing-related intangible assets. The related trade name was valued using a relief from royalty method of the income approach and accounted for with a five year useful life based on expected utility. This asset will be subject to impairment testing whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach.

During the three months ended March 31, 2015, we acquired a NDA from AstraZeneca for Zafirlukast for $8.0 million along with a short term supply agreement. We recorded an intangible asset in the same amount which will be amortized over the expected life of the product of three years.

Intangible asset impairments

During the three months ended March 31, 2014, we recorded intangible asset impairments totaling $41.8 million for two products not expected to achieve their originally forecasted operating results.

Estimated amortization expense for existing intangible assets at March 31, 2015

The following table does not include estimated amortization expense for future milestone payments that may be paid and result in the creation of intangible assets after March 31, 2015 and assumes the intangible asset related to the Par trade name as an indefinite-lived asset will not be amortized in the future.

($ in thousands)	Estimated amortization expense
Remainder of 2015	$ 107,854
2016	154,664
2017	173,434
2018	135,456
2019	114,679
2020 and thereafter	293,690
	$ 979,777

Note 12—Goodwill:

($ in thousands)	March 31, 2015	December 31, 2014
Balance at beginning of period	$1,012,108	$ 855,726
Additions:		
Par Sterile Acquisition(1)	—	156,382
Par Biosciences Acquisition(2)	6,942	—
Innoteq Acquisition(3)	17,908	—
Balance at end of period	$1,036,958	$1,012,108

(1) As noted in Note 3—"Par Sterile Acquisition," we acquired Par Sterile as of February 20, 2014. Based upon our purchase price allocation, we recorded $156.4 million of incremental goodwill. This goodwill was allocated to Par.

(2) As noted in Note 4—"Par Biosciences Acquisition," we acquired Par Biosciences as of January 14, 2015. Based upon our purchase price allocation, we recorded $6.9 million of incremental goodwill. This goodwill was allocated to Par.

(3) As noted in Note 5—"Innoteq Acquisition," we acquired Innoteq as of January 9, 2015. Based upon our purchase price allocation, we recorded $17.9 million of incremental goodwill. This goodwill was allocated to Par.

Goodwill is not being amortized, but is tested at least annually, on or about October 1st or whenever events or changes in business circumstances necessitate an evaluation for impairment using a fair value approach. The goodwill impairment test consists of a two-step process. The first step is to identify a potential impairment and the second step measures the amount of impairment, if any. We will perform a qualitative assessment ("Step Zero analysis") to determine whether it is necessary to perform the two-step goodwill impairment test. The Step Zero analysis entails an assessment of the totality of events and circumstances that could affect the comparison of a reporting unit's fair value with its carrying amount. Goodwill is deemed to be impaired if the carrying amount of a reporting unit exceeds its estimated fair value. As of October 1, 2014, Par performed its annual goodwill impairment assessment and concluded there was no impairment. No impairments of goodwill had been recognized through March 31, 2015.

Note 13—Income Taxes:

	Three months ended	
($ in thousands)	March 31, 2015	March 31, 2014
Provision (benefit) for income taxes	$ 11,720	$(24,232)
Effective tax rate	37%	38%

The effective tax rate for the three months ended March 31, 2015 and 2014 reflects benefits for deductions specific to U.S. domestic manufacturing companies, offset by our nondeductible portion of the annual pharmaceutical manufacturers' fee under the Patient Protection and Affordable Care Act.

Current deferred income tax assets at March 31, 2015 consist of temporary differences primarily related to accounts receivable reserves and inventory reserves. Non-current deferred income tax liabilities at March 31, 2015 consist of timing differences primarily related to intangible assets, debt, depreciation and stock compensation.

The Company is no longer subject to IRS audit for periods prior to 2012. We are currently under audit in two state jurisdictions for the years 2005 to 2009. In most other state jurisdictions, we are no longer subject to examination by state tax authorities for years prior to 2008.

We reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of income tax provision or benefit.

The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to ASC 740-10 represents an unrecognized tax benefit. An unrecognized tax benefit is a liability that represents a potential future obligation to the taxing authorities. An unrecognized tax benefit is a liability that represents a potential future obligation to the taxing authorities. As of March 31, 2015, we had $18.6 million included in "Long-term liabilities" on the condensed consolidated balance sheet that represented unrecognized tax benefits, interest and penalties based on evaluation of tax positions. During the three months ended March 31, 2015, we recorded an increase in unrecognized tax benefits of $1.8 million as a result of tax positions taken during the period. We expect that a portion of this total liability could potentially settle in the next 12 months. However, the dollar range for a potential settlement cannot be estimated at this time.

Note 14—Debt:

($ in thousands)	March 31, 2015	December 31, 2014
Senior credit facilities:		
Senior secured term loan	$1,856,148	$1,435,837
Senior secured revolving credit facility	—	—
7.375% senior notes	490,000	490,000
	2,346,148	1,925,837
Less unamortized debt discount to senior secured term loan	(8,885)	(7,265)
Less current portion	(18,753)	(14,503)
Long-term debt	$2,318,510	$1,904,069

Senior Credit Facilities

In connection with the Merger, on September 28, 2012, we entered into a credit agreement (the "Credit Agreement") with a syndicate of banks, led by Bank of America, N.A., as Administrative Agent, Bank of America, N.A., Deutsche Bank Securities, Inc., Goldman Sachs Bank USA, Citigroup Global Markets, Inc., RBC Capital Markets LLC and BMO Capital Markets Corp. as Joint Lead Arrangers and Joint Lead Bookrunners, Deutsche Bank Securities, Inc. and Goldman Sachs Bank USA as Co-Syndication Agents, and Citigroup Global Markets Inc. and RBC Capital Markets LLC as Co-Documentation Agents, to provide senior credit facilities comprised of a seven-year senior secured term loan in an initial aggregate principal amount of $1,055.0 million (the "Term Loan Facility") and a five-year senior secured revolving credit facility in an initial amount of $150.0 million (the "Revolving Facility" and together with the Term Loan Facility, the "Senior Credit Facilities"). The proceeds of the Revolving Facility are available for general corporate purposes.

The Credit Agreement contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, breach of representations and warranties, insolvency proceedings, certain judgments and any change of control. The Credit Agreement also contains various customary covenants that, in certain instances, restrict our ability to: (i) create liens on assets; (ii) incur additional indebtedness; (iii) engage in mergers or consolidations with or into other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) pay dividends and distributions or repurchase capital stock; (vi) make investments, loans, guarantees or advances in or to other companies; (vii) change the nature of our business; (viii) repay or redeem certain junior indebtedness, (ix) engage in transactions with affiliates; and (x) enter into restrictive agreements. In addition, the Credit Agreement requires us to demonstrate compliance with a maximum senior secured first lien leverage ratio whenever amounts are outstanding under the revolving credit facility as of the last day of any quarterly testing period. All obligations under the Credit Agreement are guaranteed by our material domestic subsidiaries. We were in compliance with all applicable covenants as of March 31, 2015.

The Credit Agreement includes an accordion feature pursuant to which we may increase the amount available to be borrowed by up to an additional $250.0 million (or a greater amount if we meet certain specified financial ratios) under certain circumstances. Repayments of the proceeds of the term loan were due in quarterly installments over the term of the Credit Agreement. Amounts borrowed under the revolving credit facility would be payable in full upon expiration of the Credit Agreement. We are also obligated to pay a commitment fee based on the unused portion of the Revolving Facility.

We are obligated to make mandatory principal prepayments for any fiscal year if the ratio of total amount of outstanding senior secured debt less cash and cash equivalents divided by our consolidated EBITDA is greater than 2.50 to 1.00 as of December 31 of any fiscal year. When the ratio is greater than 2.50 to 1.00 but less than or equal to 3.00 to 1.00, we are required to pay 25% of excess cash flows, as defined in the Credit Agreement. When the ratio is greater than 3.00 to 1.00, we are required to pay 50% of excess cash flows in the form of principal prepayments. For the year ended December 31, 2014 we were not obligated to make any mandatory principal prepayments during the first quarter of 2015.

Amendments and additional borrowing—2015

On February 20, 2015, we entered into an amendment to our Senior Credit Facility which was effective as of February 25, 2015. The amendment increased the first lien net leverage levels included in the financial maintenance covenant, which covenant only applies to the extent there are revolving loans, swingline loans or letters of credit (excluding undrawn letters of credit to the extent cash collateralized) outstanding.

On February 25, 2015, we entered into another amendment to our Senior Credit Facility which authorized the funding of a new tranche of term loans (the "Term B-3 Loans") in an aggregate principal amount of $425.0 million. The terms of the Term B-3 Loans are substantially the same as the terms of the existing Term B-2 Loans, except that (1) the interest rate margins applicable to Term B-3 Loans are 3.25% for LIBOR and 2.25% for base rate, a 25 basis point increase compared to the Term B-2 Loans, and (2) the Term B-3 Loans are subject to a soft call provision applicable to the optional prepayment of the loans which requires a premium equal to 1.00% of the aggregate principal amount of the loans being prepaid if, on or prior to August 25, 2015, the Company enters into certain repricing transactions. Additionally, all voluntary and mandatory prepayments of outstanding term loans must be made pro rata among the Term B-3 Loans and the Term B-2 Loans. Borrowings under the Term B-3 Loans, along with cash on hand, were used to fund the Dividend Recapitalization, as explained in Note 17—"Share-Based Compensation".

In connection with the transactions described herein, we incurred related transaction costs for the quarter ended March 31, 2015 that totaled $8.2 million which were capitalized as deferred financing costs or debt discount on the condensed consolidated balance sheet.

Repricing of the term loan facility and additional borrowings—2014

On February 20, 2014, in conjunction with our acquisition of Par Sterile, we entered into an amendment to our Senior Credit Facility that refinanced all of the outstanding tranche B-1 term loans of the Borrower (the "Existing Tranche B Term Loans") with new tranche B-2 term loans (the "New Tranche B Term Loans") in an aggregate principal amount of $1,055.0 million. The terms of the New Tranche B Term Loans are substantially the same as the terms of the then Existing Tranche B Term Loans, except that (1) the interest rate margins applicable to the New Tranche B Term Loans are 3.00% for LIBOR and 2.00% for base rate, a 25 basis point reduction compared to the Existing Tranche B Term Loans, and (2) the New Tranche B Loans were subject to a soft call provision applicable to the optional prepayment of the loans which would have required a premium equal to 1.00% of the aggregate principal amount of the loans being prepaid if, on or prior to August 20, 2014, the Company entered into certain repricing transactions. Additionally, the maximum senior secured net leverage ratio in compliance with which the Company can incur new incremental debt was increased by 25 basis points to 3.75:1.00.

Additionally, on February 20, 2014, in conjunction with our acquisition of Par Sterile, we also entered into the Incremental Term B-2 Joinder Agreement (the "Joinder") among us, Holdings, and certain of our subsidiaries, and our lenders. Under the terms of the Joinder, we borrowed an additional $395.0 million of New Tranche B Term Loans from the lenders participating therein for the purpose of consummating our acquisition of Par Sterile.

In connection with the transactions described herein, we incurred related transaction costs for the quarter ended March 31, 2014 that totaled $12.4 million of which $8.2 million were included in operating expenses as selling, general and administrative on the condensed consolidated statements of operations and $4.1 million were capitalized as deferred financing costs or debt discount on the condensed consolidated balance sheet. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $4.0 million of the existing unamortized deferred financing costs were written off in connection with this repricing and included in the condensed consolidated statements of operations as a loss on debt extinguishment.

Refinancing of the term loan facility—2013

On February 6, 2013, the Company, Par Pharmaceutical, Inc., as co-borrower, Sky Growth Intermediate Holdings II Corporation ("Intermediate Holdings"), the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Term Loan Facility (as amended, the "New Term Loan Facility") by entering into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement.

Amendment No. 1 replaced the existing term loans with a new class of term loans in an aggregate principal amount of $1,066.0 million (the "New Term Loans"). Borrowings under the New Term Loan Facility bore interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR (which is subject to a 1.00% floor) or the base rate rate (which is subject to a 2.00% floor). The applicable margin for borrowings under the New Term Loans was 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. Amendment No. 1 provided for a soft call option applicable to the New Term Loans. The soft call option provided for a premium equal to 1.00% of the amount of the outstanding principal if, on or prior to August 6, 2013, the Company entered into certain repricing transactions. The other terms applicable to the New Term Loans were substantially the same terms as the original term loans.

In connection with the transactions described herein, the Company paid a 1.00% soft call premium in an aggregate amount of approximately $10.5 million on the existing term loan in February 2013, a portion of which was capitalized as a discount to the New Term Loan Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $5.9 million of the existing unamortized deferred financing costs and $1.4 million of the related $10.5 million soft call premium were written off in connection with this refinancing and included in the condensed consolidated statements of operations as a loss on debt extinguishment.

Repricing of the revolving facility—2013

The Company and Par Pharmaceutical, Inc., as co-borrower, Intermediate Holdings, the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Revolving Credit Facility by entering into Amendment No. 2 ("Amendment No. 2"), dated February 22, 2013, and Amendment No. 3 ("Amendment No. 3" and, together with Amendment No. 2, the "Revolver Amendments"), dated February 28, 2013, to the Credit Agreement.

The Revolver Amendments extend the scheduled maturity of the revolving credit commitments of certain existing lenders (the "Extending Lenders") who have elected to do so, such extension was effected by converting such amount of the existing revolving credit commitments of the Extending Lenders into a new tranche of revolving credit commitments (the "Extended Revolving Facility"). The Revolver Amendments also set forth the interest rate payable on borrowings outstanding under the Extended Revolving Facility, as described below. The aggregate commitments under the Extended Revolving Facility are $127.5 million and the aggregate commitments under the non-extended portion of the Revolving Facility are $22.5 million. There were no outstanding borrowings from the Revolving Facility or the Extended Revolving Facility as of March 31, 2015.

Borrowings under both the non-extended portion of the Revolving Facility and the Extended Revolving Facility bear interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR or the base rate. The initial applicable margin for borrowings under the Extended Revolving Facility is 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. The initial applicable margin for LIBOR and base rate borrowings under the non-extended portion of the Revolving Facility remain at 3.75% and 2.75%, respectively. Borrowings and repayments of loans under the Extended Revolving Facility and the non-extended portion of the Revolving Facility may be made on a non-pro rata basis with one another, and the commitments under the non-extended portion of the Revolving Facility may be terminated prior to the commitments under the Extended Revolving Credit Facility. The Extended Revolving Facility will mature on December 28, 2017. The other terms applicable to the Extended Revolving Credit Facility are substantially identical to those of the Revolving Credit Facility.

7.375% senior notes

In connection with the Merger, on September 28, 2012, we issued $490.0 million aggregate principal amount of 7.375% senior notes due 2020 (the "Notes"). The Notes were issued pursuant to an indenture entered into as of the same date between the Company and Wells Fargo Bank, National Association, as trustee. Interest on the Notes is payable semi-annually on April 15 and October 15, commencing on April 15, 2013. The Notes mature on October 15, 2020.

We may redeem the Notes at our option, in whole or in part on one or more occasions, at any time on or after October 15, 2015, at specified redemption prices that vary by year, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to October 15, 2015, we may redeem up to 40% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings at a redemption price

equal to the sum of (i) 107.375% of the aggregate principal amount thereof, plus (ii) accrued and unpaid interest, if any, to the redemption date. At any time prior to October 15, 2015, we may also redeem the Notes, in whole or in part on one or more occasions, at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest and a specified "make-whole premium."

The Notes are guaranteed on a senior unsecured basis by our material existing direct and indirect wholly-owned domestic subsidiaries and, subject to certain exceptions, each of our future direct and indirect domestic subsidiaries that guarantees the Senior Credit Facilities or our other indebtedness or indebtedness of the guarantors will guarantee the Notes. Under certain circumstances, the subsidiary guarantors may be released from their guarantees without consent of the holders of Notes.

The Notes and the subsidiary guarantees will be our and the guarantors' senior unsecured obligations and will (i) rank senior in right of payment to all of our and the subsidiary guarantors' existing and future subordinated indebtedness; (ii) rank equally in right of payment with all of our and the subsidiary guarantors' existing and future senior indebtedness; (iii) be effectively subordinated to any of our and the subsidiary guarantors' existing and future secured debt, to the extent of the value of the assets securing such debt; and, (iv) be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of our subsidiaries that do not guarantee the Notes.

The indenture governing the Notes contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, a payment default or acceleration equaling $40.0 million or more according to the terms of certain other indebtedness, failure to pay final judgments aggregating in excess of $40.0 million when due, insolvency proceedings, a required guarantee shall cease to remain in full force. The indenture also contains various customary covenants that, in certain instances, restrict our ability to: (i) pay dividends and distributions or repurchase capital stock; (ii) incur additional indebtedness; (iii) make investments, loans, guarantees or advances in or to other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) engage in transactions with affiliates; (vi) create liens on assets; (vii) redeem or repay certain subordinated indebtedness; (viii) engage in mergers or consolidations with or into other companies; and, (ix) change the nature of our business. The covenants are subject to a number of exceptions and qualifications. Certain of these covenants will be suspended during any period of time that (1) the Notes have Investment Grade Ratings (as defined in the indenture) from both Moody's Investors Service, Inc. and Standard & Poor's, and (2) no default has occurred and is continuing under the indenture. In the event that the Notes are downgraded to below an Investment Grade Rating, the Company and certain subsidiaries will again be subject to the suspended covenants with respect to future events. We were in compliance with all covenants as of March 31, 2015.

PPCI is the sole issuer of the Notes. The Notes are guaranteed on a senior unsecured basis by PPCI's material direct and indirect wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. PPCI has no independent assets or operations. Each of the subsidiary guarantors is 100% owned by PPCI and all non-guarantor subsidiaries of PPCI are minor subsidiaries.

Debt maturities as of March 31, 2015

Debt maturities as of March 31, 2015	($ in thousands)
Remainder of 2015	14,065
2016	18,753
2017	18,753
2018	18,753
2019	1,785,824
2020	490,000
Total debt at March 31, 2015	$ 2,346,148

Note 15—Derivative instruments and hedging activities:

Risk management objective of using derivatives

We are exposed to certain risks arising from global economic conditions. We manage economic risks, including interest rate risk, primarily through the use of derivative financial instruments. All derivatives are carried at fair value on our consolidated balance sheets. We do not enter into speculative derivatives. Specifically, we enter into derivative financial instruments to manage exposures that arise from payment of future known and uncertain cash amounts related to our borrowings, the value of which are determined by LIBOR interest rates. We may net settle any of our derivative positions under agreements with our counterparty, when applicable.

Cash flow hedges of interest rate risk via interest rate caps

Our objective in using interest rate derivatives is to add certainty to interest expense amounts and to manage our exposure to interest rate movements, specifically to protect us from variability in cash flows attributable to changes in LIBOR interest rates. To accomplish this objective, we primarily use interest rate caps as part of our interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if LIBOR exceeds the strike rate in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We entered into such derivatives to hedge the variable cash flows associated with existing variable-rate debt under our Credit Agreement. We assess effectiveness and the effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges for financial reporting purposes is recorded in “Accumulated other comprehensive loss” on our consolidated balance sheet and will be subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of the change in fair value of the derivatives would be recognized directly in earnings.

Interest rate caps

As of March 31, 2015, we had eight outstanding interest rate caps with two counterparties with various termination dates and notional amounts, which we deemed to be effective for accounting purposes. These derivatives had a combined notional value of $750.0 million, with effective dates as of either September 30, 2013 or 2014, and with termination dates each September 30th beginning in 2015 and ending in 2018. Consistent with the terms of the Credit Agreement, the interest rate caps have a strike of 1% which matches the LIBOR floor of 1.0% on the debt. The premium is deferred and paid over the life of the instrument. The effective annual interest rate related to these interest rate caps was a fixed weighted average rate of approximately 4.8% at March 31, 2015. These instruments are designated for accounting purposes as cash flow hedges of interest rate risk related to our Credit Agreement. Future payments under these interest rate caps will be reflected as interest expense on our condensed consolidated statements of operations. In addition, amounts reported in “Accumulated other comprehensive loss” on our condensed consolidated balance sheet related to

derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt under the Credit Agreement. Approximately 47% of our total outstanding debt at March 31, 2015 remains subject to variability in cash flows attributable to changes in LIBOR interest rates.

During the next twelve months, we estimate that $5.6 million will be reclassified from "Accumulated other comprehensive loss" on our condensed consolidated balance sheet at March 31, 2015 to interest expense.

Fair value

As of the effective date, we designated the interest rate swap agreements as cash flow hedges. As cash flow hedges, unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate swap agreements are highly correlated to the changes in LIBOR interest rates. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive income or loss, while the ineffective portion of such gains or losses will be recorded as a component of interest expense. As of March 31, 2015, we recorded $8.4 million (or $5.4 million, net of tax) as part of "Accumulated other comprehensive loss" on our condensed consolidated balance sheet. Future realized gains and losses in connection with each required interest payment will be reclassified from Accumulated other comprehensive loss to interest expense.

We elected to use the income approach to value the derivatives, using observable Level 2 market expectations at each measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the cap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, volatility and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs for valuation models include the cash rates, futures rates, swap rates, credit rates and interest rate volatilities. Reset rates, discount rates and volatilities are interpolated from these market inputs to calculate cash flows as well as to discount those future cash flows to present value at each measurement date. Refer to Note 7 for additional information regarding fair value measurements.

The fair value of our derivative instruments measured as outlined above as of March 31, 2015 was as follows:

($ in thousands) Description	March 31, 2015	Quoted prices level 1	Significant other observable inputs level 2	Significant other unobservable inputs level 3
ASSETS				
Current Assets				
Derivatives	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —
LIABILITIES				
Current Liabilities				
Derivatives	$ (8,407)	$ —	$ (8,407)	$ —
	$ (8,407)	$ —	$ (8,407)	$ —

The following table summarizes the fair value and presentation in our condensed consolidated balance sheets for derivative instruments as of March 31, 2015 and December 31, 2014:

	Asset derivatives			Liability derivatives		
($ in thousands)	Balance sheet location	March 31, 2015 Fair value	December 31, 2014 Fair value	Balance sheet location	March 31, 2015 Fair value	December 31, 2014 Fair value
Derivatives designated as hedging instruments under ASC 815						
Interest rate cap contracts		$ —	$ —	Other Current Liabilities	$ (5,568)	(5,763)
Interest rate cap contracts		—	—	Other Non-Current (Liabilities)	(2,839)	(138)
Interest rate cap contracts				Other Assets	—	201
Total derivatives designated as hedging instruments under ASC 815		$ —	$ —		$ (8,407)	$ (5,700)
Total derivatives		$ —	$ —		$ (8,407)	$ (5,700)

The following tables summarize our eight interest cap agreements with two counterparties. We separately record the short-term and long-term portion of our derivatives. As of March 31, 2015, each agreement represented a net liability and none of our interest cap agreements represented a net asset:

($ in thousands)	Offsetting of derivative liabilities as of March 31, 2015					
				Gross amounts not offset in the statement of financial position		
Description	Gross amounts of recognized liabilities	Gross amounts offset in the statement of financial position	Net amounts of liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives by counterparty						
Counterparty 1	$ (5,635)	$ —	$ (5,635)	$ —	$ —	$(5,635)
Counterparty 2	(2,772)	—	(2,772)	—	—	(2,772)
Total	$ (8,407)	$ —	$ (8,407)	$ —	$ —	$(8,407)

The following table summarizes information about the fair values of our derivative instruments on the condensed consolidated statements of other comprehensive loss for the three months ended March 31, 2015 and March 31, 2014 (Pre-tax):

($ in thousands)	Three months ended March 31, 2015	March 31, 2014
Other Comprehensive Loss Rollforward:		
Beginning Balance Gain/(Loss) (Pre-tax)	$ (5,700)	$ (1,189)
Amount Recognized in Other Comprehensive Loss on Derivative (Pre-tax)	(4,165)	(1,893)
Amount Reclassified from Other Comprehensive Loss into Interest Expense (Pre-tax)	1,458	992
Ending Balance Gain/(Loss) (Pre-tax)	$ (8,407)	$ (2,090)

The following table summarizes the effect and presentation of derivative instruments, including the effective portion or ineffective portion of our cash flow hedges, on the condensed consolidated statements of operations for the periods ending March 31, 2015 and 2014:

($ in thousands)	The effect of derivative instruments on the statement of financial performance For the three months ended March 31, 2015 and March 31, 2014							
Derivatives in ASC 815 cash flow hedging relationships	Amount of gain or (loss) recognized in other comprehensive income (loss) on derivative (effective portion) 2015	2014	Location of gain or (loss) reclassified from accumulated other comprehensive income (loss) into income (loss) (effective portion)	Amount of gain or (loss) reclassified from accumulated other comprehensive income into income (loss) (effective portion) 2015	2014	Location of gain or (loss) recognized in income (loss) on derivative (ineffective portion)	Amount of gain or (loss) recognized in income on derivative (ineffective portion) 2015	2014
Interest rate cap contracts	$(4,165)	$(1,893)	Interest Expense	$(1,458)	$(992)	Interest Expense	$—	$—
Total	$(4,165)	$(1,893)		$(1,458)	$(992)		$—	$—

Note 16—Changes in stockholders' equity:

Changes in our Common Stock, Additional Paid-In Capital and Accumulated Other Comprehensive Loss accounts during the three-month period ended March 31, 2015 were as follows:

(share amounts and $ in thousands)	Common stock Shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss
Balance, December 31, 2014	784,335	$ 784	$ 835,880	$ (3,648)
Unrealized loss on cash flow hedges, net of tax	—	—	—	(2,666)
Less: reclassification adjustment for net losses included in net income, net of tax	—	—	—	934
Compensatory arrangements	—	—	5,213	—
Proceeds from issuance of stock	151	—	415	—
Stock-based compensation plan settlements	(234)	—	(13)	—
Dividends paid and dividend-equivalent payments, net of tax	—	—	(517,667)	—
Balance, March 31, 2015	784,252	$ 784	$ 323,828	$ (5,380)

Note 17—Share-based compensation:

We account for share-based compensation as required by ASC 718-10, Compensation—Stock Compensation, ("ASC 718-10") which requires companies to recognize compensation expense in the amount equal to the fair value of all share-based payments granted to employees. Under ASC 718-10, we recognize share-based compensation ratably over the service period applicable to the award. ASC 718-10 also requires that excess tax benefits be reflected as financing cash flows. The share-based compensation expense relating to all awards noted below has been pushed down from Holdings to PPCI.

Accounting for option modifications, dividend-equivalent payments and other discretionary bonuses

In February 2015, we amended our Credit Agreement, which included borrowings in an aggregate principal amount of $425 million that along with cash on hand, were used to fund a special nonrecurring cash dividend of approximately $494.3 million to the stockholders of Holdings, non-forfeitable dividend-equivalent payments to stock option holders totaling approximately $36.5 million, and special discretionary dividend-equivalent bonuses totaling approximately $4.2 million to employees granted awards under Long-term Cash Incentive Award Agreements, and related financing fees and expenses of approximately $7.7 million (these actions are defined as the "Dividend Recapitalization").

Pursuant to the terms of the Sky Growth Holdings Corporation 2012 Equity Incentive Plan (the "Plan"), stock option holders are entitled to antidilution protection upon equity restructurings as defined ASC 718, including a recapitalization through a large nonrecurring dividend as noted above. The form of such antidilution protection is at the discretion of the Holdings Board of Directors acting as the Plan Administrator. Accordingly, the Plan Administrator provided each stock option holder the required antidilution protection either through a dividend-equivalent payment, a reduction of the exercise price of the applicable stock option awards or a combination thereof. We did not record a charge for the modification of the exercise price for unvested awards and/or the dividend-equivalent payments as these modifications were provided for by the terms of the Plan.

In connection with dividend-equivalent payments related to unvested stock option awards, we recorded a charge to accelerate a portion of unrecognized compensation expense in the first quarter of 2015 totaling approximately $2.7 million.

The special discretionary dividend-equivalent bonuses totaling approximately $4.2 million paid to certain employees granted awards under Long-term Cash Incentive Award Agreements were recorded as compensation expense in the first quarter of 2015 as these payments were not required under any related plan or agreement.

Common stock valuation—February 3, 2015—$3.40

In the absence of a public market for Holdings common shares, the board of directors took reasonable actions to make estimates of the fair value of a share of Holdings common stock at February 3, 2015. The board of directors determined the fair value of Holdings common stock using methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants (the "AICPA"), Audit and Accounting Practice Aid Series: Valuation of Privately Held Company Equity Securities Issued as Compensation, or the AICPA Practice Guide. The board of directors, with the assistance of an independent third party valuation specialist firm, determined and approved a fair value for each share of Holdings common stock of $3.40.

Factors considered by the board of directors in establishing the fair value of our Holdings common stock as of February 3, 2015 included the following: (i) the planned Initial Public Offering for Holdings; (ii) available cash, financial condition and results of operations since December 23, 2014, including the continuing success of a number of products that launched in 2014; (iii) the continued success of integrating the Par Sterile acquisition into our operations; (iv) the estimated valuation range of $3.13 to $3.68 per Holdings common share as derived from a report by the independent third party valuation specialist firm; (v) our expected operating performance; and (vi) market conditions for pharmaceutical company stocks in general.

Stock options

In January 2015, the Holdings Board of Directors authorized the grants of approximately 2.8 million stock options to purchase shares of Holdings' Stock pursuant to the Plan at an exercise price of $2.56 to certain employees. The estimated fair market value of Holdings' Stock used in the valuation of these stock option grants was $3.40. The stock option grants were divided into two tranches of stock options. Tranche 1 of the options will vest in increments of 33.33% on each of the first, second, and third anniversaries of the "Vesting Commencement Date" as defined in each stock option agreement, provided that each employee remains in continuous employment with the Company through such dates. Tranche 2 of the options (the "Performance Options") will vest in increments of 33.33%, subject to the employee remaining in continuous employment with the Company through the applicable anniversary of the Vesting Commencement Date and to the Company's achievement of specified annual EBITDA targets for 2015 through 2017. If an applicable portion of the Performance Options do not vest based on the achievement of the specified annual EBITDA target for a particular year, such portion will be eligible to vest in the next succeeding fiscal year if a two-year cumulative EBITDA target is met (other than with respect to 2017, for which there is no two-year cumulative EBITDA target). In circumstances where the specified annual or bi-annual EBITDA targets are not met, Tranche 2 options may also vest in amounts of either 50% or 100% of the original award in the event of an initial public offering or other sale of Holdings to a third party buyer (a market condition) that returns a specified level of proceeds calculated as a multiple of its investment in Holdings by the Sponsor.

In 2014, in view of the limited number of shares remaining in the Plan and in order to enhance the Company's ability to retain employees and to increase the mutuality of interests between employees and stockholders, the Board of Directors of Holdings amended the Plan to increase the maximum number of shares of Holdings Common Stock, $0.001 par value per share (the "Stock") that may be delivered in satisfaction of, or may underlie, awards under the Plan, including stock options (the "Pool"), by 8,750,000 shares of Stock. At March 31, 2015, approximately 0.2 million total shares of Stock were available for future issuances from the Pool.

In addition, during 2014, the Holdings Board of Directors authorized the additional grants of options to purchase shares of Holdings' Stock pursuant to the Plan at an exercise price of $1.40 (equal to the estimated fair market value of Holdings' Stock) to certain employees and a member of Holdings Board. The stock option grants are roughly divided into two tranches of stock options. Tranche 1 of the options will vest in equal increments of 25% on each of the first, second, third, and fourth anniversaries of the "Vesting Commencement Date" as defined in each stock option agreement, provided that each employee remains in continuous employment with the Company through such dates. Tranche 2 of the options (the "Performance Options") will vest in equal increments of 25%, subject to the employee remaining in continuous employment with the Company through the applicable anniversary of the Vesting Commencement Date and to the Company's achievement of specified annual EBITDA targets for 2014 through 2017. If an applicable portion of the Performance Options do not vest based on the achievement of the specified annual EBITDA target for a particular year, such portion will be eligible to vest in the next succeeding fiscal year if a two-year cumulative EBITDA target is met (other than with respect to 2017, for which there is no two-year cumulative EBITDA target). In circumstances where the specified annual or bi-annual EBITDA targets are not met, Tranche 2 options may also vest in amounts of either 50% or 100% of the original award in the event of an initial public offering or other sale of Holdings to a third party buyer (a market condition) that returns a specified level of proceeds calculated as a multiple of its investment in Holdings by the Sponsor.

In conjunction with the Merger, certain senior level employees of the Company were granted stock options in Holdings, effectively granted as of September 28, 2012, under the terms of the Plan.

Each employee received two equal tranches of stock options. Tranche 1 options vest based upon continued employment over a five year period, ratably 20% each annual period. Our policy is to recognize expense for this type of award on a straight-line basis over the requisite service period for the entire award (5 years). Tranche 2 options vest based upon continued employment and the Company achieving specified annual or bi-annual EBITDA targets. Compensation expense will be recognized on a graded vesting schedule. In circumstances where the specified annual or bi-annual EBITDA targets are not met, Tranche 2 options may also vest in amounts of either 50% or 100% of the original award in the event of an initial public offering or other sale of Holdings to a third party buyer (a market condition) that returns a specified level of proceeds calculated as a multiple of its investment in Holdings by the Sponsor.

We used the Black-Scholes stock option pricing model to estimate the fair value of all Tranche 1 options and Tranche 2 options without a market condition (i.e., Tranche 2 options with service and performance conditions only) on each grant date.

The Tranche 2 options with a market condition were valued using a Monte Carlo simulation. The Monte Carlo simulation developed a range of projected outcomes of the market condition by projecting potential share prices over a 5 year simulation and determining if the share price had reached the specified level of proceeds stipulated in the equity plan. Millions of simulations were run as the basis to conclude on the fair value of the Tranche 2 options with market condition as the average of present value of the payoffs across all simulations.

We used the Black-Scholes stock option pricing model to estimate the fair value of Tranche 1 and Tranche 2 without a market condition (service and performance conditions only) stock option awards issued during the three-month period ended March 31, 2015 with the following weighted average assumptions:

	Three months ended March 31, 2015
TRANCHE 1	
Risk-free interest rate	1.5%
Expected life (in years)	6.0
Expected volatility	46.0%
Dividend per share, as applicable	$ 0.63
Adjusted exercise price, as applicable	$ 1.93
Adjusted estimate of price per Holdings common share	$ 2.77

	Three months ended March 31, 2015
TRANCHE 2	
Risk-free interest rate	1.5%
Expected life (in years)	6.2
Expected volatility	46.0%
Dividend per share, as applicable	$ 0.63
Adjusted exercise price, as applicable	$ 1.93
Adjusted estimate of price per Holdings common share	$ 2.77

A summary of the calculated estimated grant date fair value per option is as follows:

Fair value of stock options	Three months ended March 31, 2015	March 31, 2014
TRANCHE 1	$ 1.66	$ 0.67
TRANCHE 2 without market condition	$ 1.68	$ 0.68
TRANCHE 2 with market condition	$ 1.39	$ 0.76

For Tranche 2 options, each quarter we will evaluate the probability of the Company achieving the annual or the bi-annual EBITDA targets ("Vesting Event A") and the probability of an initial public offering or other sale of the Company to a third party buyer ("Vesting Event B"). If it is probable that the Company will achieve Vesting Event A, then the Company will recognize expense for Tranche 2 options at the per option value noted above with any necessary adjustments to expense to be equal to the ratable expense as of the end of that particular quarter end. If it is probable that the Company will achieve Vesting Event B, but not Vesting Event A, then the Company will recognize expense for Tranche 2 options at the per option value (which is the fair value taking into account the market condition) noted above with any necessary adjustment to expense to be equal to the ratable expense as of the end of that particular quarter end.

We granted a member of the Board of Directors of Holdings stock options in Holdings during 2013 under similar terms as the Tranche 1 options granted as of September 28, 2012 under the Plan. These stock options vest based upon continued service over an approximate five year period, ratably 20% each period ending September 28th. We will recognize expense on a straight-line basis over the requisite service period for the entire award. The share-based compensation expense relating to the award has been pushed down from Holdings to the Company. We used the Black-Scholes stock option pricing model to estimate the fair value of the stock option awards.

Set forth below is the impact on our results of operations of recording share-based compensation from stock options ($ amounts in thousands):

	Three months ended March 31, 2015	March 31, 2014
Cost of goods sold	$ 253	$ 89
Selling, general and administrative	4,928	830
Total, pre-tax	$ 5,181	$ 919
Tax effect of share-based compensation	(1,865)	(340)
Total, net of tax	$ 3,316	$ 579

The following is a summary of our stock option activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate Intrinsic Value
TRANCHE 1				
Balance at December 31, 2014	27,864	$ 1.09		
Granted	1,399	2.14(1)		
Exercised	—	—		
Forfeited	—	—		
Balance at March 31, 2015	29,263	$ 0.99(1)	8.0	$ 52,088
Exercisable at March 31, 2015	9,843	$ 1.05	7.8	$ 16,889
Vested and expected to vest at March 31, 2015	28,940	$ 1.01(1)	8.1	$ 50,934

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
TRANCHE 2				
Balance at December 31, 2014	26,924	$ 1.09		
Granted	1,399	2.14(1)		
Exercised	(60)	1.00		
Forfeited	—	—		
Balance at March 31, 2015	28,263	$0.99(1)	8.0	$50,308
Exercisable at March 31, 2015	9,393	$ 1.05	7.8	$ 16,193
Vested and expected to vest at March 31, 2015	27,755	$ 1.01(1)	8.0	$ 48,849

(1) The Weighted Average Exercise Price associated with Granted, Balance at March 31, 2015 and Vested and expected to vest at March 31, 2015 reflect the reduction of the exercise price of the applicable stock option awards as a form of antidilution protection required as part of the Dividend Recapitalization.

Rollover options

As part of the Merger, certain employees of the Company were given the opportunity to exchange their stock options in PPCI for stock options in Holdings ("Rollover Stock Options"). TPG was not legally or contractually required to replace Predecessor stock options with Holdings stock options, therefore the Rollover Stock Options were not part of the purchase price. The ratio of exchange was based on the intrinsic value of PPCI options at September 28, 2012.

The term of the Predecessor stock options exchanged for Holdings stock options were not extended. All Rollover Stock Options maintained their 10 year term from original grant date.

All of the Rollover Stock Options were either vested prior to September 27, 2012 or were accelerated vested on September 27, 2012 (date of PPCI shareholders' meeting that approved PPCI's acquisition by TPG) in accordance with the terms of PPCI stock option agreements. No additional vesting conditions were imposed on the holders of the Rollover Stock Options. All remaining unrecognized share-based compensation expense associated with the Rollover Stock Options was recognized in the period ended September 28, 2012.

The following is a summary of our Rollover Stock Options activity (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate intrinsic value
Balance at December 31, 2014	17,083	$ 0.25		
Granted	—	—		
Exercised	(205)	0.25		
Forfeited	(34)	0.25		
Balance at March 31, 2015	16,844	$ 0.25	5.2	$ 42,447
Exercisable at March 31, 2015	16,844	$ 0.25	5.2	$ 42,447

Restricted stock

In January 2015, we granted a member of the Board of Directors of Holdings approximately 20 thousand restricted stock units ("RSUs") with a time-based service condition.

In conjunction with the Merger, certain senior level employees were granted RSUs in Holdings.

Each RSU has only a time-based service condition and will vest no later than the fifth anniversary of the grant date (September 28, 2017) upon fulfillment of the service condition.

The fair value of each RSU is based on fair value of each share of Holdings common stock on the grant date. The RSUs are classified as equity awards. The total calculated value, net of estimated forfeitures, will be recognized ratably over each vesting period.

Set forth below is the impact on our results of operations of recording share-based compensation from RSUs for the three-month periods ended March 31, 2015 and 2014 ($ in thousands):

	Three months ended	
	March 31, 2015	March 31, 2014
Cost of goods sold	$ —	$ —
Selling, general and administrative	32	23
Total, pre-tax	$ 32	$ 23
Tax effect of stock-based compensation	(12)	(9)
Total, net of tax	$ 20	$ 14

The following is a summary of our RSU activity for the three-month period ended March 31, 2015 (shares and aggregate intrinsic value in thousands):

	Shares	Weighted average grant price	Aggregate intrinsic value
Balance at December 31, 2014	325	$ 1.00	
Granted	20		2.56
Vested	—	—	
Forfeited	—	—	
Non-vested restricted stock unit balance at March 31, 2015	345	$ 1.09	$ 956

Long-term cash incentive awards

In conjunction with the Merger, certain employees were granted awards under Long-term Cash Incentive Award Agreements from Holdings. Each participant has the potential to receive a cash award based on specific achievements in the event of a transaction (e.g., initial public offering or sale of the company to a third party buyer) that returns a specified level of proceeds calculated as a multiple of the equity invested in the Company by the Sponsor. There is no vesting period under the related Long-term Cash Incentive Award Agreements. The grantees must be employed by Holdings and its subsidiaries at the time of a transaction event in order to be eligible for a cash payment.

These awards are accounted for in accordance with ASC 450 and will be evaluated quarterly. If information available before the financial statements are issued indicates that it is probable that a liability had been incurred at the date of the financial statements then an accrual shall be made for the estimated cash payout. No amount was accrued for the Long-term Cash Incentive Award Agreements at March 31, 2015. As noted above, in February 2015, special discretionary dividend-equivalent bonuses totaling approximately $4.2 million were paid to employees granted awards under the related Long-term Cash Incentive Award Agreements and such amount was recorded as compensation expense in the first quarter of 2015.

Note 18—Commitments, contingencies and other matters:

Legal proceedings

Our legal proceedings are complex and subject to significant uncertainties. As such, we cannot predict the outcome or the effects of the legal proceedings described below. While we believe that we have valid claims and/or defenses in the litigations described below, litigation is inherently unpredictable, and the outcome of these proceedings could include substantial damages, the imposition of substantial fines, penalties, and injunctive or administrative remedies. For proceedings where losses are both probable and reasonably estimable, we have accrued for such potential loss as set forth below. Such accruals have been developed based

upon estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may ultimately prove to be inaccurate or incomplete, and unknown circumstances may exist or unforeseen events occur that could lead us to change those estimates and assumptions. Unless otherwise indicated below, at this time we are not able to estimate the possible loss or range of loss, if any, associated with these legal proceedings. In general, we intend to continue to vigorously prosecute and/or defend these proceedings, as appropriate; however, from time to time, we may settle or otherwise resolve these matters on terms and conditions that we believe are in the best interests of the Company. Resolution of any or all claims, investigations, and legal proceedings, individually or in the aggregate, could have a material adverse effect on our results of operations and/or cash flows in any given accounting period or on our overall financial condition.

Patent related matters

On April 28, 2006, CIMA Labs, Inc. ("CIMA") and Schwarz Pharma, Inc. ("Schwarz Pharma") filed separate lawsuits against us in the U.S. District Court for the District of New Jersey. CIMA and Schwarz Pharma each have alleged that we infringed U.S. Patent Nos. 6,024,981 (the "'981 patent") and 6,221,392 (the "'392 patent") by submitting a Paragraph IV certification to the FDA for approval of alprazolam orally disintegrating tablets. The complaints generally seek (i) a finding of infringement, validity and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) unspecified damages. On July 10, 2008, the U.S. Patent and Trademark Office ("USPTO") rejected all claims pending in both the '392 and '981 patents. On September 28, 2009, the USPTO's Patent Trial and Appeal Board ("PTAB") affirmed the Examiner's rejection of all claims in the '981 patent, and on March 24, 2011, the PTAB affirmed the rejections pending for both patents and added new grounds for rejection of the '981 patent. On June 24, 2011, the plaintiffs re-opened prosecution on both patents at the USPTO. On May 13, 2013, the PTAB reversed outstanding rejections to the currently pending claims of the '392 patent reexamination application and affirmed a conclusion by the Examiner that testimony offered by the patentee had overcome other rejections. On September 20, 2013, a reexamination certificate was issued for the '392 patent, and on January 9, 2014, a reexamination certificate was issued for the '981 patent, each incorporating narrower claims than the respective originally-issued patent. We intend to vigorously defend this lawsuit and pursue our counterclaims.

Unimed and Laboratories Besins Iscovesco filed a lawsuit on August 22, 2003 against Paddock Laboratories, Inc. in the U.S. District Court for the Northern District of Georgia alleging patent infringement as a result of Paddock's submitting an ANDA with a Paragraph IV certification seeking FDA approval of testosterone 1% gel, a generic version of Unimed Pharmaceuticals, Inc.'s Androgel®. On September 13, 2006, we acquired from Paddock all rights to the ANDA, and the litigation was resolved by a settlement and license agreement that permits us to launch the generic version of the product no earlier than August 31, 2015, and no later than February 28, 2016, assuring our ability to market a generic version of Androgel® well before the expiration of the patents at issue. On January 30, 2009, the Bureau of Competition for the FTC filed a lawsuit against us in the U.S. District Court for the Central District of California, subsequently transferred to the Northern District of Georgia, alleging violations of antitrust laws stemming from our court-approved settlement, and several distributors and retailers followed suit with a number of private plaintiffs' complaints beginning in February 2009. The FTC complaint generally seeks (i) a finding that our agreements with co-defendants violate Section 5(a) of the Federal Trade Commission Act; and (ii) a permanent injunction against our ability to engage in such conduct in the future. The private plaintiffs' complaints generally seek (i) equitable relief; and (ii) single, treble, and/or multiple unspecified damages and costs. On February 23, 2010, the District Court granted our motion to dismiss the FTC's claims and granted in part and denied in part our motion to dismiss the claims of the private plaintiffs. On September 28, 2012, the District Court granted our motion for summary judgment against certain of the private plaintiffs' claims. On June 10, 2010, the FTC appealed the District Court's dismissal of the FTC's claims to the U.S. Court of Appeals for the 11th Circuit. On April 25, 2012, the Court of Appeals

affirmed the District Court's decision. On June 17, 2013, the Supreme Court of the United States reversed the Court of Appeals' decision and remanded the case to the U.S. District Court for the Northern District of Georgia for further proceedings. On October 23, 2013, the District Court issued an order on indicative ruling on a request for relief from judgment, effectively remanding to the District Court the appeal of the grant of our motion for summary judgment against certain of the private plaintiffs' claims and holding those claims in abeyance while the remaining issues pending before the Court are resolved. We believe we have complied with all applicable laws in connection with the court-approved settlement and intend to continue to vigorously defend these actions.

On September 13, 2007, Santarus, Inc. and The Curators of the University of Missouri ("Missouri") filed a lawsuit against us in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 6,699,885; 6,489,346; and 6,645,988 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of 20 mg and 40 mg omeprazole/sodium bicarbonate capsules. On December 20, 2007, Santarus and Missouri filed a second lawsuit alleging infringement of the patents because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of 20 mg and 40 mg omeprazole/sodium bicarbonate powders for oral suspension. The complaints generally sought (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in- suit. On October 20, 2008, plaintiffs amended their complaint to add U.S. Patent Nos. 6,780,882 and 7,399,722. On April 14, 2010, the District Court ruled in our favor, finding that the plaintiffs' patents were invalid as being obvious and without adequate written description. On July 1, 2010, we launched our 20 mg and 40 mg generic omeprazole/sodium bicarbonate capsules product. Santarus and Missouri appealed the District Court's decision to the U.S. Court of Appeals for the Federal Circuit, and we cross-appealed the District Court's decision of enforceability of plaintiffs' patents. On September 4, 2012, the Court of Appeals reversed the District Court's finding of invalidity and remanded to the District Court for further proceedings, and we ceased further distribution of our 20 mg and 40 mg generic omeprazole/sodium bicarbonate capsules product. Santarus was acquired by Salix Pharmaceuticals, Inc. on January 2, 2014. On September 22, 2014, we entered into a settlement agreement with Salix, Santarus and Missouri to resolve all claims relating to this matter, and the dismissal stipulation was entered on September 26, 2014. As part of the settlement, Salix, Santarus and Missouri released all claims against us in exchange for a payment of $100.0 million. We recorded a charge of $91.0 million in the third quarter of 2014 in addition to the $9.0 million previously accrued.

On April 29, 2009, Pronova BioPharma ASA ("Pronova") filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,502,077 and 5,656,667 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of omega-3-acid ethyl esters oral capsules. On May 29, 2012, the District Court ruled in favor of Pronova in the initial case, and we appealed to the U.S. Court of Appeals for the Federal Circuit on June 25, 2012. On September 12, 2013, the Court of Appeals ruled in our favor, reversing the lower District Court decision. On March 5, 2014, judgment in our favor was formally entered in the District Court. On April 16, 2014, Pronova petitioned for writ of certiorari to the U.S. Supreme Court, which was denied on October 6, 2014.

On August 10, 2011, Avanir Pharmaceuticals, Inc. et al. ("Avanir") filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,659,282 and RE38,115 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of oral capsules of 20 mg dextromethorphan hydrobromide and 10 mg quinidine sulfate. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. Our case was consolidated with those of other defendants, Actavis, Impax, and Wockhardt. On September 12, 2012, Avanir filed an additional complaint against us, adding U.S. Patent No. 8,227,484 to the case and seeking the same relief as the first complaint. A bench trial was held from September 9-13 and October 15, 2013. On April 30, 2014, a decision was entered in favor of Avanir. On

August 20, 2014, the Court issued an order requiring that Avanir delist the ‘115 patent, leaving only the ‘484 and ‘282 to be addressed on appeal. We filed our notice of appeal following resolution of the delisting claim on September 12, 2014. We intend to prosecute our appeal of this decision vigorously.

On September 1, 2011, we, along with EDT Pharma Holdings Ltd. (now known as Alkermes Pharma Ireland Limited) (Elan), filed a complaint against TWi Pharmaceuticals, Inc. (“TWi”) of Taiwan in the U.S. District Court for the District of Maryland alleging infringement of U.S. Patent No. 7,101,576 because TWi filed an ANDA with a Paragraph IV certification seeking FDA approval of a generic version of Megace® ES. Our complaint seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. A bench trial was held from October 7-15, 2013. On February 21, 2014, the District Court issued a decision in favor of TWi, finding all asserted claims of the ‘576 patent invalid for obviousness, and we appealed to the U.S. Court of Appeals for the Federal Circuit. On August 12, 2014, the District Court granted our motion for preliminary injunction enjoining TWi’s launch of its generic product pending disposition of the case on appeal, requiring us to post a $10.0 million bond. On December 3, 2014, the Federal Circuit reversed the District Court’s decision, remanding for further findings of fact. On March 9, 2015, the District Court granted our motion for preliminary injunction enjoining TWi’s launch of its generic product pending disposition of the case on remand, requiring us to post a $6.0 million bond. We intend to continue to vigorously pursue our case.

On April 4, 2012, AR Holding Company, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,619,004; 7,601,758; 7,820,681; 7,915,269; 7,964,647; 7,964,648; 7,981,938; 8,093,296; 8,093,297; and 8,097,655 (subsequently adding U.S. Patent Nos. 8,415,395 and 8,415,396) because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of oral tablets of 0.6 mg colchicine. On November 1, 2012, Takeda Pharmaceuticals was substituted as the plaintiff and real party-in-interest in the case. On August 30, 2013, Takeda filed a second complaint in view of the same filing adding to the dispute U.S. Patent Nos. 7,906,519; 7,935,731; 7,964,648; 8,093,297; and 8,093,298. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On August 30, 2013, Takeda filed a new complaint against us in view of our change of the ANDA’s labeled indication. We intend to defend these actions vigorously.

On October 25, 2012, Purdue Pharma L.P. (“Purdue”) and Transcept Pharmaceuticals (“Transcept”) filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleged infringement of U.S. Patent Nos. 8,242,131 and 8,252,809 because we submitted an ANDA with a Paragraph IV certification seeking FDA approval of zolpidem tartrate sublingual tablets 1.75 and 3.5 mg. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 24, 2014, we reached an agreement with Purdue and Transcept to stay our case contingent upon our agreement to be bound by the District Court’s decision in Transcept’s trial against Actavis and Novel Laboratories, which commenced December 1, 2014. On March 27, 2015, the District Court issued an opinion in favor of Actavis and Novel Laboratories, and on April 9, 2015, the District Court accordingly entered judgment in favor of Par, finding the patents-in-suit invalid. We will continue to monitor the progress of any appeal of the District Court’s decision, to which judgment we would be subject.

On December 19, 2012, Endo Pharmaceuticals and Grünenthal GmbH filed a lawsuit against us in the U.S. District Court for the Southern District of New York. The complaint alleges infringement of U.S. Patent Nos. 7,851,482; 8,114,383; 8,192,722; 8.309, 060; 8,309,122; and 8,329,216 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of oxymorphone hydrochloride extended release tablets 40 mg. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 7, 2014,

Endo and Mallinckrodt sued us on the same filing in the U.S. District Court for the District of Delaware, adding U.S. Patent Nos. 8,808,737 and 8,871,779 to the case. On January 15, 2015, the case in the Southern District of New York was dismissed by stipulation. On March 31, 2015, the case in the District of Delaware was dismissed by stipulation.

On January 8, 2013, we were substituted for Actavis as defendant in litigation then pending in the U.S. District Court for the District of Delaware. The action was brought by Novartis against Actavis for filing an ANDA with a Paragraph IV certification seeking FDA approval of rivastigmine transdermal extended release film 4.6 and 9.5 mg/24 hr. We assumed the rights to this ANDA. The complaint alleges infringement of U.S. Patents 5,602,176; 6,316,023; and 6,335,031 and generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On August 22, 2013, Novartis filed an additional complaint in view of our submission of an ANDA supplement containing a Paragraph IV certification adding the 13.3 mg/24 hr. strength. A trial was held August 26-29, 2013, and a second bench trial directed to our non-infringement positions was held on May 1-2, 2014. On June 27, 2014, we filed a declaratory judgment action against Novartis in the same Court regarding all strengths, seeking judgment of non-infringement and invalidity on all asserted patents in view of all strengths embraced by our ANDA. On August 29, 2014, the Court in the first action entered judgment in our favor, finding that we do not infringe the asserted patents. On October 7, 2014, the Court entered judgment in our favor on the declaratory judgment complaint. On October 20, 2014 and October 30, 2014, Novartis filed notices of appeal to the U.S. Court of Appeals for the Federal Circuit from both the original case as well as the complaint initiated on the ANDA supplement. On November 7, 2014, Novartis filed an appeal from the declaratory judgment decision. We intend to defend these actions vigorously.

On February 7, 2013, Sucampo Pharmaceuticals, Takeda Pharmaceuticals, and R-Tech Ueno filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 6,414,016; 7,795,312; 8,026,393; 8,071,613; 8,097,653; and 8,338,639 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of lubiprostone oral capsules 8 mcg and 24 mcg. The complaint generally seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On July 3, 2013, an amended complaint was filed, adding U.S. Patent No. 8,389,542 to the case. On October 9, 2014, the parties entered into a settlement agreement resolving the dispute and allowing us to launch our generic lubiprostone product on January 1, 2021, or earlier in certain circumstances. The consent judgment terminating the case was entered December 2, 2014.

On May 15, 2013, Endo Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the Southern District of New York. The complaint alleges infringement of U.S. Patent Nos. 7,851,482; 8,309,122; and 8,329,216 as a result of our November 2012 acquisition from Watson of an ANDA with a Paragraph IV certification seeking FDA approval of non-tamper resistant oxymorphone hydrochloride extended release tablets. The complaint generally seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On March 20, 2015, the lawsuit was dismissed by stipulation.

On June 21, 2013, we, along with Alkermes Pharma Ireland Limited (Elan), filed a complaint against Breckenridge Pharmaceutical, Inc. in the U.S. District Court for the District of Delaware. In the complaint, we allege infringement of U.S. Patent Nos. 6,592,903 and 7,101,576 because Breckenridge filed an ANDA with a Paragraph IV certification seeking FDA approval of a generic version of Megace® ES. Our complaint seeks (i) a finding of infringement, validity, and/or enforceability; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. A stipulation to stay the proceedings was entered on July 22, 2014. We intend to prosecute this infringement case vigorously.

On September 23, 2013, Forest Labs and Royalty Pharma filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos., 6,602,911; 7,888,342; and 7,994,220 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 12.5, 25, 50, and 100 mg milnacipran HCl oral tablets. The complaint generally seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On May 4, 2015, the case was dismissed by stipulation pursuant to a confidentiality settlement agreement.

On August 20, 2013 and April 4, 2014, MonoSol RX and Reckitt Benckiser filed lawsuits against us in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 8,017,150, 8,475,832 and 8,603,514, because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of EQ 2/0.5, 8/2, 4/1, 12/3 mg base buprenorphine HCl/naloxone HCl sublingual films. The complaints generally seek (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On December 31, 2014, the plaintiffs filed a complaint on the same ANDA filing, adding U.S. Patent Nos. 8,900,497 and 8,906,277. We intend to defend these actions vigorously.

On December 27, 2013, Jazz Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 6,472,431; 6,780,889; 7,262,219; 7,851,506; 8,263,650; 8,324,275; 8,461,203; 7,668,730; 7,765,106; 7,765,107; 7,895,059; 8,457,988; and 8,589,182 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 500mg/ ml sodium oxybate oral solution. On August 15, 2014, October 10, 2014, and January 8, 2015, Jazz filed additional complaints against us in view of the same ANDA filing, adding U.S. Patent Nos. 8,731,963; 8,772,306; and 8,859,619, respectively, to the case. The complaints generally seek (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend these actions vigorously.

On January 21, 2014, Lyne Laboratories, Fresenius USA Manufacturing and Fresenius Medical Care Holdings filed a lawsuit against us in the U.S. District Court for the District of Massachusetts. The complaint alleges infringement of U.S. Patent Nos. 8,591,938 and 8,592,480 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 169mg/5ml calcium acetate oral solution. The complaint generally seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. The case has been settled on confidential terms with a stipulation of dismissal, which was entered by the Court on April 29, 2015.

On February 14, 2014 and August 15, 2014, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd., and Adamas Pharmaceuticals, Inc., filed lawsuits against us and our Anchen subsidiary in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 8,039,009; 8,168,209; 8,173,708; 8,283,379; 8,329,752; 8,362,085; and 8,598,233 because we submitted ANDAs with Paragraph IV certifications to the FDA for approval of 7, 14, 21, and 28 mg memantine hydrochloride extended release capsules. The complaints generally seek (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On January 14, 2015, a joint stipulation of dismissal was entered in the case pursuant to a confidential settlement agreement between the parties.

On April 23, 2014, Hyperion Therapeutics filed a lawsuit against us in the U.S. District Court for the Eastern District of Texas. The complaint alleges infringement of U.S. Patent Nos. 8,404,215 and 8,642,012 because we submitted an ANDA with Paragraph IV certifications to the FDA for approval of 1.1 g/ml glyceryl phenylbutyrate oral liquid. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously. On April 29, 2015, we filed Inter Partes Review petitions seeking institution of a trial on invalidity at the U.S. Patent and Trademark Office for both of the patents asserted in the Texas litigation. We intend to defend and prosecute, as applicable, these actions vigorously.

On June 20, 2014, Otsuka Pharmaceutical Co. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,753,677 and 8,501,730 relating to our Paragraph IV certification accompanying our ANDA for approval of 15 and 30 mg tolvaptan oral tablets. The complaint generally seeks (i) a finding of infringement; and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On June 30, 2014, AstraZeneca filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent No. 7,951,400 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of eq 2.5 mg and eq 5 mg saxagliptin hydrochloride oral tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. The case has been settled on confidential terms with a stipulation of dismissal, which was entered by the Court on April 14, 2015.

On July 17, 2014, Glycyx Pharmaceuticals and Salix filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 6,197,341 and 8,497,256 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 1.1 g balsalazide disodium oral tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. The case has been settled on confidential terms with a stipulation of dismissal, which was entered by the Court on March 30, 2015.

On August 6, 2014, Prometheus Labs filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent No. 6,284,770 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 0.5 and 1.0 mg alosetron hydrochloride tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. On November 17, 2014, the court stayed our case pending the outcome of the appeal of the first Paragraph IV filer's victory in the District Court.

On August 19, 2014, Hospira, Inc. filed a declaratory judgment complaint against the FDA in the U.S. District Court for the District of Maryland in view of the FDA's approval of our ANDA for dexmedetomidine hydrochloride injection, concentrate (100 mcg/ml) vials pursuant to our submission and statement under section viii. On August 20, 2014, we moved to intervene in the case on the side of the FDA. On August 25, 2014, we filed a declaratory judgment complaint against Hospira, Inc. in view of U.S. Patent No. 6,716,867 in the U.S. District Court for the District of New Jersey. On September 5, 2014, the Maryland Court ruled in favor of the FDA, Par and joint intervenor Mylan, Inc. on summary judgment, and Hospira, Inc. and its intervenor/co-complainant Sandoz appealed that judgment to the U.S. Court of Appeals for the Fourth Circuit. On October 29, 2014, all parties stipulated jointly to a dismissal of all of the cases (Maryland, New Jersey, and the Fourth Circuit) pursuant to a confidential settlement agreement.

On October 10, 2014, Novartis Pharmaceuticals Corporation and Novartis AG filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 5,665,772; 6,004,973; and 6,455,518 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 0.25, 0.5, and 0.75 mg everolimus tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On November 19, 2014, we filed a declaratory judgment action against GlaxoSmithKline and Aptalis in the U.S. District Court for the Eastern District of Pennsylvania, seeking declaratory judgment of non-infringement and invalidity of U.S. Patent No. 7,919,115 in view of our April 11, 2012 submission of an ANDA with a Paragraph IV certification to the FDA seeking approval for lamotrigine orally disintegrating tablets 25, 50, 100, and 200 mg. On January 30, 2015, the consent judgment was entered.

Under a Development and Supply Agreement between Pharmaceutics International, Inc. ("PII") and Par Sterile, PII agreed to develop and manufacture, and Par Sterile agreed to market and sell, certain pharmaceutical products, including zoledronic acid, the generic version of Zometa® and Reclast®. Under the Agreement, the parties agreed to share equally all mutually agreed expenses and costs of Paragraph IV proceedings related to the product, including any costs and expenses related to any mutually agreed upon settlement. On February 20, 2013, Novartis Pharmaceuticals Corporation filed a lawsuit against PII, along with several other defendants, in the U.S. District Court for the District of New Jersey, for filing ANDAs with Paragraph IV certifications seeking FDA approval of both zoledronic acid eq 4 mg base/5 ml vials and zoledronic acid eq 5 mg base/100 ml bottles. The complaint alleges, among other things, that the sale of generic versions of Reclast® and Zometa® would infringe one or more of U.S. Patent Nos. 8,324,189; 7,932,241; and 8,052,987 and seeks (i) a finding of infringement, validity, and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) damages or other monetary relief in light of commercial manufacture, use, offers to sell, or sale of the ANDA products. On March 1, 2013, the District Court denied Novartis's request for a temporary restraining order against PII and the other defendants. On March 4, 2013, Par Sterile began distribution of PII's generic Zometa® product and began distribution of the generic Reclast® product in December 2013. On December 3, 2014, in view of the foregoing, Novartis sued Par Sterile in the same court, seeking (i) a finding of infringement, validity, and/or enforceability; (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit; and (iii) damages or other monetary relief in light of commercial manufacture, use, offers to sell, or sale of the ANDA products. We intend to defend this action vigorously.

On December 18, 2014, and January 23, 2015, Novartis Pharmaceuticals Corporation and Novartis AG filed lawsuits against us in the U.S. District Court for the District of Delaware. The complaints allege infringement of U.S. Patent Nos. 5,665,772; 7,297,703; and 7,741,338 518 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 2.5, 5, 7.5, and 10 mg everolimus tablets. The complaints generally seek (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents- in-suit. We intend to defend these actions vigorously.

On January 16, 2015, Supernus Pharmaceuticals filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 8,298,576; 8,298,580; 8,663,683; and 8,877,248 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 25, 50, 100, and 200 mg topiramate extended release capsules. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On January 21, 2015, Tris Pharma, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 8,062,667; 8,287,903; 8,465,765; 8,563,033; and 8,778,390 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 5 mg/ml methylphenidate hydrochloride extended release oral suspension. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 2, 2015, Cosmo Technologies, Ltd and Santarus, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 7,410,651; 7,431,943; 8,293,273; 8,784,888; 8,895,064; and RE43,799 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 9 mg budesonide tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 20, 2015, Ferring Pharmaceuticals, Inc. and Ferring International Center S.A. filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges infringement of U.S. Patent Nos. 8,450,338 and 8,481,083 because we submitted an ANDA with a Paragraph IV certification to the FDA for

approval of 10/3.5/12 g sodium picosulfate/magnesium oxide/citric acid packets for oral solution. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On February 26, 2015, Shire, LLC filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. RE41,148 and RE42,096 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 5, 10, 15, 20, and 25 mg mixed amphetamine salts extended release capsules. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On March 6, 2015, BioMarin Pharmaceutical Inc. and Merck & Cie filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 7,566,462; 7,566,714; 7,612,073; 7,727,987; 8,003,126; 8,067,416; RE43,797; and 8,318,745 because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 100 mg sapropterin dihydrochloride oral tablets. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

On March 23, 2015, Helsinn Healthcare, Eisai, and Roche Palo Alto LLC filed a lawsuit against us in the U.S. District Court for the District of New Jersey. The complaint alleges infringement of U.S. Patent Nos. 7,947,724; 7,947,725; 7,960,424; 8,598,219; and 8,729,094, because we submitted an ANDA with a Paragraph IV certification to the FDA for approval of 0.25 mg/5 ml (0.05 mg/ml) palonosetron hydrochloride solution (sterile) for injection. The complaint generally seeks (i) a finding of infringement and (ii) a permanent injunction be entered, terminating at the expiration of the patents-in-suit. We intend to defend this action vigorously.

Industry related matters

Beginning in September 2003, we, along with numerous other pharmaceutical companies, have been named as a defendant in actions brought by the Attorneys General of Illinois, Kansas, and Utah, as well as a state law qui tam action brought on behalf of the state of Wisconsin by Peggy Lautenschlager and Bauer & Bach, LLC, alleging generally that the defendants defrauded the state Medicaid systems by purportedly reporting or causing the reporting of AWP and/or "Wholesale Acquisition Costs" that exceeded the actual selling price of the defendants' prescription drugs. During the year ended December 31, 2013, we recorded $25.7 million as "Settlements and loss contingencies, net" on the consolidated statements of operations as we continued to periodically assess and estimate our remaining potential liability. On January 28, 2014, we settled the claims brought by the State of Kansas for $1.8 million. On February 5, 2014, we settled the claims brought by the State of Utah for $2.1 million. On June 2, 2014, we settled the claims brought by the State of Illinois for $28.5 million, including attorneys' fees and costs. The amounts provided for 2013 represents the amounts settled, less amounts previously accrued. Other than as described below, all of the above AWP cases against the Company have been concluded.

On February 17, 2014, the Dane County Circuit Court for the State of Wisconsin dismissed the state law qui tam action brought on behalf of the state of Wisconsin by Peggy Lautenschlager and Bauer & Bach, LLC. On June 12, 2014, the Dane County Circuit Court denied the plaintiffs' renewed motion to amend the complaint and issued a final order of dismissal on the merits, without prejudice. The plaintiffs subsequently appealed the ruling, and on September 22, 2014, the Wisconsin Court of Appeals dismissed the plaintiffs' appeal. On August 11, 2014, plaintiffs filed a similar AWP qui tam action under seal in the Dane County Circuit Court, and the State of Wisconsin declined to intervene on December 19, 2014. On January 13, 2015, the Dane County Circuit Court unsealed the complaint. The complaint generally seeks (i) a judgment for qui tam plaintiffs; (ii) a declaration that defendants' actions violated Wis. Stat. § 20.931; (iii) an award of treble damages to the State; (iv) an order that defendants pay civil penalties for statutory violations of not less than $5,000 for each violation; and (v) an award of an appropriate share of the proceeds to qui tam plaintiffs. We intend to vigorously defend this lawsuit.

The Attorneys General of Florida, Indiana and Virginia and the U.S. Office of Personnel Management (the "USOPM") have issued subpoenas, and the Attorneys General of Michigan, Tennessee, Texas, and Utah have issued civil investigative demands, to us. The demands generally request documents and information pertaining to allegations that certain of our sales and marketing practices caused pharmacies to substitute ranitidine capsules for ranitidine tablets, fluoxetine tablets for fluoxetine capsules, and two 7.5 mg buspirone tablets for one 15 mg buspirone tablet, under circumstances in which some state Medicaid programs at various times reimbursed the new dosage form at a higher rate than the dosage form being substituted. We have provided documents in response to these subpoenas to the respective Attorneys General and the USOPM. The aforementioned subpoenas and civil investigative demands culminated in the federal and state law qui tam action brought on behalf of the United States and several states by Bernard Lisitza. The complaint was unsealed on August 30, 2011. Lisitza's corrected second amended complaint generally seeks (i) a finding that defendants violated and be enjoined from future violations of the federal False Claims Act and state false claims acts; (ii) treble damages and maximum civil penalties for each violation of the federal False Claims Act and state false claims acts; (iii) an applicable percentage share of the proceeds; and (iv) expenses, fees, and costs. The United States intervened in this action on July 8, 2011 and filed a separate complaint on September 9, 2011, alleging claims for violations of the Federal False Claims Act and common law fraud. The United States' second corrected complaint generally seeks (i) treble damages and civil penalties for violations under the federal False Claims Act and (ii) compensatory and punitive damages for common law fraud. The states of Michigan and Indiana have also intervened as to claims arising under their respective state false claims acts, common law fraud, and unjust enrichment. Michigan's complaint generally seeks (i) treble damages and civil penalties and (ii) common law compensatory and punitive damages. Indiana's amended complaint generally seeks treble damages, costs, and attorney's fees. We intend to vigorously defend these lawsuits.

Other

On March 19, 2009, we were served with a subpoena by the DOJ requesting documents related to Par Specialty's marketing of Megace® ES. The subpoena indicated that the DOJ was investigating promotional practices in the sales and marketing of Megace® ES. We cooperated with the DOJ in this inquiry. On March 5, 2013, we entered into a settlement agreement with the DOJ that terminated the DOJ's investigation. The settlement agreement provided for our payment of $45.0 million (plus interest and fees) and included a plea agreement with the New Jersey Criminal Division of the DOJ in which the Company admitted to a single count of misdemeanor misbranding, a civil settlement with the DOJ, a state settlement encompassing forty-nine states (one state declined to participate due to the small amount of its potential recovery), and a release from each of these entities in favor of the Company related to the practices at issue in the terminated investigation. We accrued for the settlement in the period from January 1, 2012 through September 28, 2012 (Predecessor). The settlement was paid in 2013.

On August 6, 2014, we received a subpoena from the Office of the Attorney General of the State of Connecticut requesting documents related to our agreement with Covis Pharma S.a.r.l. to distribute an authorized generic version of Covis's Lanoxin® (digoxin) oral tablets. We completed our response on October 28, 2014.

On December 5, 2014, we received a subpoena from the Antitrust Division of the DOJ requesting documents related to communications with competitors regarding our authorized generic version of Covis's Lanoxin® (digoxin) oral tablets and our generic doxycycline products. We intend to cooperate fully with the Department of Justice's inquiry.

On February 3, 2015, we received a Civil Investigative Demand from Office of the Attorney General of the State of Alaska instructing production of, among other documents, all production in the on-going lawsuit filed against us in 2009 by the Bureau of Competition for the FTC and currently on remand to the U.S. District Court for the Northern District of Georgia, described above under "Patent related matters." We intend to comply fully with the Civil Investigative Demand.

On February 9, 2015, we received a Civil Investigative Demand from the FTC instructing production of, among other documents, all documents related to our license agreement and manufacturing and supply agreement with Concordia Pharmaceuticals, Inc. (the "Concordia Agreements") relating to our sale of clonidine hydrochloride extended release tablets, the generic version of Concordia's Kapvay® (the "FTC Investigation"). The Company has negotiated a settlement of the FTC Investigation under which it will agree to entry of an FTC order prohibiting the Company from enforcing any provision of the Concordia Agreements that would prevent Concordia from marketing an authorized generic version of Kapvay® and prohibiting any future agreement between a brand-name company and us that would prevent the brand-name company from marketing an authorized generic version of a branded drug during any period of time when there is no patent in effect and listed in FDA's publication Approved Drug Products with Therapeutic Equivalence Evaluations, also known as the "Orange Book," covering the branded drug. Under the order, we will be subject to certain antitrust compliance and reporting requirements typical of FTC orders. The settlement and entry of the agreed-upon order are subject to initial acceptance by the FTC, publication of the settlement's terms and a period of public comment, and the FTC's final acceptance of the settlement.

We are, from time to time, a party to certain other litigations, including product liability litigations. We believe that these litigations are part of the ordinary course of our business and that their ultimate resolution will not have a material effect on our financial condition, results of operations or liquidity. We intend to defend or, in cases where we are the plaintiff, to prosecute these litigations vigorously.

Note 19—Segment Information:

We operate in two reportable business segments: generic pharmaceuticals (referred to as "Par Pharmaceutical" or "Par") and branded pharmaceuticals (referred to as "Par Specialty Pharmaceuticals" or "Par Specialty"). Branded products are marketed under brand names through marketing programs that are designed to generate physician and consumer loyalty. Branded products generally are patent protected, which provides a period of market exclusivity during which they are sold with little or no direct competition. Generic pharmaceutical products are the chemical and therapeutic equivalents of corresponding brand drugs. The Drug Price Competition and Patent Term Restoration Act of 1984 provides that generic drugs may enter the market upon the approval of an ANDA and the expiration, invalidation or circumvention of any patents on corresponding brand drugs, or the expiration of any other market exclusivity periods related to the brand drugs. Our chief operating decision maker is our Chief Executive Officer.

Our business segments were determined based on management's reporting and decision-making requirements in accordance with FASB ASC 280-10 Segment Reporting. We believe that our generic products represent a single operating segment because the demand for these products is mainly driven by consumers seeking a lower cost alternative to branded drugs. Par's generic drugs are developed using similar methodologies, for the same purpose (e.g., seeking bioequivalence with a branded drug nearing the end of its market exclusivity period for any reason discussed above). Par's generic products are produced using similar processes and standards mandated by the FDA, and Par's generic products are sold to similar customers. Based on the similar economic characteristics, production processes and customers of Par's generic products, management has determined that Par's generic pharmaceuticals are a single reportable business segment. Our chief operating decision maker does not review the Par (generic) or Par Specialty (brand) segments in any more granularity, such as at the therapeutic or other classes or categories. Certain of our expenses, such as the direct sales force

and other sales and marketing expenses and specific research and development expenses, are charged directly to either of the two segments. Other expenses, such as general and administrative expenses and non-specific research and development expenses are allocated between the two segments based on assumptions determined by management.

Our chief operating decision maker does not review our assets, depreciation or amortization by business segment at this time as they are not material to Par Specialty. Therefore, such allocations by segment are not provided.

The financial data for the two business segments are as follows ($ in thousands):

	Three months ended	
	March 31, 2015	March 31, 2014
Revenues:		
Par Pharmaceutical	$346,629	$273,806
Par Specialty	12,615	15,278
Total revenues	$359,244	$289,084
Gross margin:		
Par Pharmaceutical	$136,719	$ 83,644
Par Specialty	8,354	10,670
Total gross margin	$145,073	$ 94,314
Operating income (loss):		
Par Pharmaceutical	$ 66,990	$ (23,260)
Par Specialty	(5,491)	(10,895)
Total operating income (loss)	$ 61,499	$ (34,155)
Interest income	17	14
Interest expense	(29,511)	(25,467)
Loss on debt extinguishment	—	(3,989)
Provision (benefit) for income taxes	11,720	(24,232)
Net income (loss)	$ 20,285	$ (39,365)

Total revenues of our top selling products were as follows ($ in thousands):

	Three months ended	
	March 31, 2015	March 31, 2014
Product		
Par Pharmaceutical		
Budesonide (Entocort®)	$ 28,878	$ 37,349
Vasostrict®	26,823	—
Omega-3 acid ethyl esters (Lovaza®)	23,434	—
Bupropion ER (Wellbutrin®)	21,562	16,342
Amlodipine/Valsartan (Exforge®)	18,762	—
Propafenone (Rythmol SR®)	12,171	21,112
Aplisol®	11,500	4,070
Metoprolol succinate ER (Toprol-XL®)	11,022	14,117
Divalproex (Depakote®)	8,462	20,405
Other	179,038	154,972
Other product related revenues	4,977	5,439
Total Par Pharmaceutical Revenues	$346,629	$273,806
Par Specialty		
Megace® ES	$ 4,986	$ 8,153
Nascobal® Nasal Spray	6,504	6,325
Other and other product related revenues	1,125	800
Total Par Specialty Revenues	$ 12,615	$ 15,278

(1) The further detailing of revenues of the other approximately 80 generic drugs was not considered significant to the overall disclosure due to the lower volume of revenues associated with each of these generic products. No single product in the other category was significant to total generic revenues for the three-month periods ended March 31, 2015 and 2014.

(2) Other product related revenues represents licensing and royalty related revenues from profit sharing agreements.

Note 20—Restructuring:

Restructuring initiated in the first quarter of 2014

Subsequent to the Par Sterile Acquisition, we eliminated approximately 25 redundant positions within Par Pharmaceutical and accrued severance and other employee-related costs for those employees affected by the workforce reduction.

($ in thousands) Restructuring activities (Par Sterile)	Initial charge	Additional charge	Cash payments	Reversals, reclass or transfers	Liabilities at March 31, 2015
Severance and employee benefits to be paid in cash	$1,146	$ 3,527	$ (3,610)	$ —	$ 1,063
Total restructuring costs line item	$1,146	$ 3,527	$ (3,610)	$ —	$ 1,063

Restructuring initiated in the fourth quarter of 2014

Due to the change in our product development strategy, we eliminated approximately 36 redundant positions within our Irvine location and accrued severance and other employee-related costs for these employees affected by the workforce reduction. During the three months ended March 31, 2015, we incurred approximately $0.4 million of additional net charges representing employees earning severance through their termination dates net of employees that were subsequently retained with their severance accruals reversed.

($ in thousands) Restructuring activities (Irvine)	Initial charge	Additional charge	Cash payments	Reversals, reclass or transfers	Liabilities at March 31, 2015
Severance and employee benefits to be paid in cash	$ 740	$ 523	$ (266)	$ (160)	$ 837
Total restructuring costs line item	$ 740	$ 523	$ (266)	$ (160)	$ 837

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information of Endo International plc ("Endo") is presented to illustrate the estimated effects of (i) the pending acquisition of Par Pharmaceutical Holdings, Inc. ("Par"), (ii) the issuance of $1,750.0 million of Endo shares to other investors, (iii) the pending sale of the American Medical Systems Holdings, Inc. ("AMS") Men's and Prostate Health businesses, (iv) the consummated acquisition of Auxilium Pharmaceuticals, Inc. ("Auxilium") by Endo and (v) the related debt offerings to finance the foregoing transactions (See Note 1). Such information is based in part on certain assumptions regarding the Pro Forma Transactions (as defined below) that we currently believe are factually supportable and expected to have a continuing impact on the consolidated results. The following unaudited pro forma condensed combined balance sheet as of March 31, 2015 is based upon, derived from and should be read in conjunction with the unaudited consolidated financial statements of Endo (which are available in Endo's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015) and the historical unaudited financial statements of Par (which are available in Endo's Current Report on Form 8-K filed with the SEC on June 2, 2015). The following unaudited pro forma condensed combined statement of operations for the quarter ended March 31, 2015 is based upon, derived from and should be read in conjunction with the unaudited consolidated financial statements of Endo (which are available in Endo's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015) and the historical unaudited financial statements of Par (which are available in Endo's Current Report on Form 8-K filed with the SEC on June 2, 2015). The following unaudited pro forma condensed combined statement of operations for the year ended December 31, 2014 is based upon, derived from and should be read in conjunction with the historical audited financial statements of Endo (which are available in Endo's Current Report on Form 8-K filed with the SEC on June 2, 2015), the historical audited financial statements of Par (which are available in Endo's Current Report on Form 8-K filed with the SEC on June 2, 2015) and the historical audited financial statements of Auxilium (which are available in Endo's Current Report on Form 8-K filed with the SEC on June 2, 2015). The acquisition of Par will be treated as, and the acquisition of Auxilium has been treated as, a business combination using the acquisition method of accounting under the provisions of Accounting Standards Codification 805, "Business Combinations," which we refer to as ASC 805 for purposes of these pro forma financial statements. The unaudited pro forma condensed combined financial information set forth below give effect to the following, which we refer to, collectively, as the "Pro Forma Transactions":

- the completion of the acquisition of Par (see information presented in the "Par Pro Forma Adjustments" column in the unaudited pro forma condensed combined balance sheet and statements of operations);
- the anticipated incurrence of $2,235.0 million of Senior Notes due 2025, which we refer to in this section as the New Senior Notes, by Endo; the anticipated re-payment of the existing Term Loan B and incurrence of $2,250.0 million in term loan debt, which we refer to in this section as the Incremental Term Loan B Facility and the anticipated issuance of $1,504.1 million of Endo shares to Par shareholders (see information presented in the "Par Pro Forma Adjustments" column in the unaudited pro forma condensed combined balance sheet and statements of operations);
- the anticipated issuance of $1,750.0 million of Endo shares to other investors (see information presented in the "Equity Offering Pro Forma Adjustments" column in the unaudited pro forma condensed combined balance sheet);
- the completion of the pending sale of the AMS Men's and Prostate Health businesses (see information presented in the "AMS Pro Forma Adjustments" column in the unaudited pro forma condensed combined balance sheet and statements of operations);
- the completion of the acquisition of Auxilium on January 29, 2015 and the incurrence of $1,200.0 million of Senior Notes due 2025 on January 27, 2015, which we refer to in this section as the 2015 Senior Notes, by Endo (see information presented in the "Auxilium Pro Forma Adjustments" column in the unaudited pro forma condensed combined statements of operations);

The pro forma adjustments are preliminary and are based upon available information and certain assumptions, described in the accompanying notes to the unaudited pro forma condensed combined financial information that management believes are reasonable under the circumstances. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information. Under ASC 805, assets acquired and liabilities assumed are recorded at fair value. The fair value of Par's identifiable tangible and intangible assets acquired and liabilities assumed are based on a preliminary estimate by management of fair value as of March 31, 2015. Any excess of the purchase price over the fair value of identified assets acquired and liabilities assumed will be recognized as goodwill. The establishment of the fair value of assets acquired and liabilities assumed for acquisitions requires the extensive use of significant estimates and

management's judgment. Significant judgment is required in determining the estimated fair values of in-process research and development which we refer to as IPR&D, identifiable intangible assets, certain tangible assets and certain liabilities assumed. Such a valuation requires estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete each in-process project, projecting the timing of regulatory approvals, estimating future cash flows and direct costs in addition to developing the appropriate discount rates and current market profit margins. Preliminary fair value estimates may change as additional information becomes available and such changes could be material.

The unaudited pro forma condensed combined statements of operations for the quarter ended March 31, 2015 and the fiscal year ended December 31, 2014 assume the completion of the Pro Forma Transactions on January 1, 2014. The unaudited pro forma condensed combined balance sheet as of March 31, 2015 assumes the acquisition of Par and the related financings, the equity offering and the disposition of AMS as if the events occurred on March 31, 2015. The completion of the Auxilium acquisition occurred on January 29, 2015 and the incurrence of the $1,200.0 million in aggregate principal amount of the 2015 Senior Notes by Endo occurred on January 27, 2015 and, as such; both are reflected in the historical unaudited condensed combined balance sheet of Endo as of March 31, 2015. See Note 5 for a description of the increase in interest expense if Endo's sale of the Men's and Prostate Health businesses to Boston Scientific does not close before the consummation of the Acquisition, resulting in Endo borrowing under the Asset Sale Bridge Facility.

The unaudited pro forma condensed combined financial information has been prepared by management in accordance with the regulations of the SEC and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the Pro Forma Transactions occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that Endo will experience after the Pro Forma Transactions. In addition, the accompanying unaudited pro forma condensed combined statements of operations do not include any expected cost savings or restructuring actions which may be achievable subsequent to the Pro Forma Transactions or the impact of any non-recurring activity and one-time transaction related costs or certain other adjustments which are considered significant. Certain financial information of Par and Auxilium as presented in their respective consolidated financial statements has been reclassified to conform to the historical presentation in Endo's consolidated financial statements for purposes of preparation of the unaudited pro forma condensed combined financial information.

The pro forma information is based upon certain assumptions with respect to our financing of the Acquisition. Whether the assumed financing sources are available, and, if available, the terms of our future financings, will be subject to market conditions. The actual sources of financing and the terms on which it is obtained may not be as favorable as those reflected in the pro forma condensed combined financial information. Differences between preliminary estimates in the pro forma condensed combined financial information and the final acquisition accounting, as well as between the assumed and actual financing sources and terms, will occur and could have a material impact on the pro forma condensed combined financial information and the combined company's financial position and future results of operations.

Endo International plc
Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2015
(In thousands)

	Endo Historical	AMS Pro Forma Adjustments	Equity Offering Pro Forma Adjustments	Total Pro Forma Before Par Acquisition	Par Adjusted Historical (Note 2)	Par Pro Forma Adjustments	Total Pro Forma
Assets							
Current assets:							
Cash and cash equivalents	$ 377,461	$ 1,638,000(5a)	$1,703,250 5(e)	$ 3,718,711	$ 185,880	$(2,849,630)(5f)	$ 1,054,961
Restricted cash and cash equivalents	534,162	—	—	534,162	—	—	534,162
Marketable securities	1,103	—	—	1,103	—	—	1,103
Accounts receivable, net	1,235,383	—	—	1,235,383	73,833	392,608(5g)	1,701,824
Inventories, net	611,401	—	—	611,401	166,761	73,239(5h)	851,401
Prepaid expenses and other current assets	54,601	—	—	54,601	26,076	—	80,677
Income taxes receivable	169,753	—	—	169,753	—	39,893(5i)	209,646
Deferred income taxes	650,411	(66,714)(5d)	—	583,697	68,057	(26,183)(5o)	625,571
Assets held for sale	1,693,594	(1,640,754)(5b)	—	52,840	—		52,840
Total current assets	$ 5,327,869	$ (69,468)	$1,703,250	$ 6,961,651	$ 520,607	$(2,370,073)	$ 5,112,185
Marketable securities	3,349	—	—	3,349	—	—	3,349
Property and equipment, net	406,757	—	—	406,757	223,748	—	630,505
Goodwill	3,025,070	—	—	3,025,070	1,036,958	3,377,742(5j)	7,439,770
Other intangibles, net	5,070,074	—	—	5,070,074	1,006,177	3,653,823(5k)	9,730,074
Deferred income taxes	3,019	—	—	3,019	—	—	3,019
Other assets	309,539	—	—	309,539	88,445	129,536(5l)	527,520
Total assets	$14,145,677	$ (69,468)	$1,703,250	$15,779,459	$2,875,935	$ 4,791,028	$23,446,422
Liabilities and stockholders' equity							
Current liabilities:							
Accounts payable	$ 312,016	$ —	$ —	$ 312,016	$ 81,793	$ —	$ 393,809
Accrued expenses	1,234,255	—	—	1,234,255	135,235	376,045(5g)(5m)	1,745,535
Current portion of legal settlement accrual	1,593,121	—	—	1,593,121	—	—	1,593,121
Current portion of long-term debt	160,613	—	—	160,613	18,753	(503)(5n)	178,863
Income taxes payable	42,819	—	—	42,819	—	—	42,819
Deferred income taxes	84	—	—	84	—	—	84
Liabilities held for sale	99,112	(90,409)(5b)	—	8,703	—	—	8,703
Total current liabilities	$ 3,442,020	$ (90,409)	$ —	$ 3,351,611	$ 235,781	$ 375,542	$ 3,962,934
Deferred income taxes	754,258	(141,148)(5d)	—	613,110	228,272	1,297,433(5o)	2,138,815
Long-term debt, less current portion, net	5,386,547	60,000(5c)	—	5,446,547	2,318,510	1,727,490(5p)	9,492,547
Other liabilities	423,136	—	—	423,136	21,910	—	445,046
Commitments and contingencies							
Stockholders' equity:							
Euro deferred shares	42	—	—	42	—	—	42
Common Stock	18	—	2(5e)	20	784	(782)(5q)	22
Additional paid-in capital	5,067,562	—	1,703,248(5e)	6,770,810	323,828	1,180,254(5q)	8,274,892
(Accumulated deficit) retained earnings	(670,803)	74,434(5d)	—	(596,369)	(245,809)	203,750(5q)	(638,428)
Accumulated other comprehensive (loss) income	(257,221)	27,655(5b)	—	(229,566)	(5,380)	5,380(5q)	(229,566)
Treasury stock	—	—	—	—	(1,961)	1,961(5q)	—
Total Endo International plc stockholders' equity	$ 4,139,598	$ 102,089	$1,703,250	$ 5,944,937	$ 71,462	$ 1,390,563(5q)	$ 7,406,962
Noncontrolling interests	118	—	—	118	—	—	118
Total stockholders' equity	$ 4,139,716	$ 102,089	$1,703,250	$ 5,945,055	$ 71,462	$ 1,390,563	$ 7,407,080
Total liabilities and stockholders' equity	$14,145,677	$ (69,468)	$1,703,250	$15,779,459	$2,875,935	$ 4,791,028	$23,446,422

Note: Certain Par amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Endo International plc
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Three Months Ended March 31, 2015
(In thousands, except per share data)

	Endo Historical	Auxilium Adjusted Historical (Note 2)	Auxilium Pro Forma Adjustments	AMS Pro Forma Adjustments	Total Pro Forma Before Par Acquisition	Par Adjusted Historical (Note 2)	Par Pro Forma Adjustments	Total Pro Forma
Total revenues	$ 714,128	$ 23,576	$ —	$ —	$ 737,704	$359,244	$ —	$1,096,948
Costs and expenses:								
Cost of revenues	384,266	12,606	10,247(5r)	—	407,119	214,171	5,298(5r)	626,588
Selling, general and administrative	211,578	16,970	—	—	228,548	56,749	(1,365)(5g)	283,932
Research and development	17,897	1,796	—	—	19,693	26,850	—	46,543
Litigation-related and other contingencies	13,000	—	—	—	13,000	(25)	—	12,975
Asset impairment charges	7,000	—	—	—	7,000	—	—	7,000
Acquisition-related and integration items, net	34,640	—	(19,400)(5s)	—	15,240	—	1,365(5g)	16,605
Operating income (loss)	$ 45,747	$ (7,796)	$ 9,153	$ —	$ 47,104	$ 61,499	$ (5,298)	$ 103,305
Interest expense, net	73,139	3,518	1,482(5t)	1,088(5v)	79,227	29,494	31,771(5t)	140,492
Net loss on extinguishment of debt	980	—	—	—	980	—	—	980
Other (income) expense, net	(11,995)	12	—	—	(11,983)	—	—	(11,983)
(Loss) income from continuing operations before income tax	$ (16,377)	$(11,326)	$ 7,671	$ (1,088)	$ (21,120)	$ 32,005	$ (37,069)	$ (26,184)
Income tax (benefit) expense	(166,869)	—	30,551(5u)	—	(136,318)	11,720	(23,796)(5u)	(148,394)
Income (loss) from continuing operations attributable to Endo International plc	$ 150,492	$(11,326)	$ (22,880)	$ (1,088)	$ 115,198	$ 20,285	$ (13,273)	$ 122,210
Income from continuing operations per share attributable to Endo International plc								
Basic	$ 0.89							$ 0.57
Diluted	$ 0.85							$ 0.55
Weighted average shares attributable to Endo International plc								
Basic	169,653						(5w)	214,981
Diluted	176,825						(5w)	222,153

Note: Certain Par and Auxilium amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Endo International plc
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2014
(In thousands, except per share data)

	Endo Historical	Auxilium Adjusted Historical (Note 2)	Auxilium Pro Forma Adjustments	AMS Pro Forma Adjustments	Total Pro Forma Before Par Acquisition	Par Adjusted Historical (Note 2)	Par Pro Forma Adjustments	Total Pro Forma
Total revenues	$2,380,683	$ 360,146	$ —	$ —	$2,740,829	$1,308,621	$ —	$4,049,450
Costs and expenses:								
Cost of revenues	1,231,497	183,732	116,602(5r)	—	1,531,831	829,506	30,706(5r)	2,392,043
Selling, general and administrative	567,986	285,064	(15,271)(5g)	—	837,779	189,591	(10,503)(5g)	1,016,867
Research and development	112,708	40,868	—	—	153,576	119,095	—	272,671
Litigation-related and other contingencies	42,084	—	—	—	42,084	90,107	—	132,191
Asset impairment charges	22,542	19,920	—	—	42,462	146,934	—	189,396
Acquisition-related and integration items, net	77,384	(95,465)	1,446(5g)(5s)	—	(16,635)	—	7,461(5g)	(9,174)
Operating income (loss)	$ 326,482	$ (73,973)	$ (102,777)	$ —	$ 149,732	$ (66,612)	$ (27,664)	$ 55,456
Interest expense, net	227,114	39,108	34,297(5t)	4,350(5v)	304,869	108,409	154,020(5t)	567,298
Net loss on extinguishment of debt	31,817	—	—	—	31,817	3,989	—	35,806
Other (income) expense, net	(32,324)	28,446	(28,400)(5g)	—	(32,278)	(500)	3,042(5g)	(29,736)
Income (loss) from continuing operations before income tax	$ 99,875	$(141,527)	$ (108,674)	$ (4,350)	$ (154,676)	$ (178,510)	$ (184,726)	$ (517,912)
Income tax expense (benefit)	38,267	34	(66,595)(5u)	—	(28,294)	(72,993)	(104,796)(5u)	(206,083)
Income (loss) from continuing operations	$ 61,608	$(141,561)	$ (42,079)	$ (4,350)	$ (126,382)	$ (105,517)	$ (79,930)	$ (311,829)
Less: Loss from continuing operations attributable to noncontrolling interests	(399)	—	—	—	(399)	—	—	(399)
Income (loss) from continuing operations attributable to Endo International plc	$ 62,007	$(141,561)	$ (42,079)	$ (4,350)	$ (125,983)	$ (105,517)	$ (79,930)	$ (311,430)
Income (loss) from continuing operations per share attributable to Endo International plc								
Basic	$ 0.42							$ (1.52)
Diluted	$ 0.40							$ (1.52)
Weighted average shares attributable to Endo International plc								
Basic	146,896						(5w)	204,631
Diluted	156,730						(5w)	204,631

Note: Certain Par and Auxilium amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Note 1. Description of transaction

Par and Equity Offering

On May 18, 2015, Endo announced that it had entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which it will acquire all of the outstanding shares of common stock of Par and assume and pay Par's debt in a cash and stock transaction valued at approximately $8,139.7 million (the "Acquisition"). The aggregate consideration will consist of $6,500.0 million in cash (subject to an increase adjustment for existing Par cash of $185.9 million, an estimated decrease adjustment for Par transaction costs of $50.3 million, and a post-close working capital adjustment) and 18,084,448 ordinary shares of Endo valued at $1,504.1 million (using the Endo stock price of $83.17 as of May 26, 2015), as further described in the Merger Agreement.

Completion of the Acquisition is subject to certain conditions, including customary closing conditions relating to the (i) expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("the HSR Condition"), (ii) absence of any order or laws prohibiting completion of the Acquisition ("the Orders Condition"), (iii) absence of a material adverse effect, as defined in the Merger Agreement, on Endo or Par, as applicable, (iv) the accuracy of each party's representations and warranties (subject to certain qualifications) and (v) Endo's and Par's material compliance with their respective covenants and agreements contained in the Merger Agreement.

Under the Merger Agreement, Endo and Par each have certain termination rights, including if: (i) the Acquisition is not completed by November 18, 2015 (as may be extended, the "Final Date"), which may be extended under certain circumstances to February 12, 2016, (ii) any law has been passed or any governmental authority of competent jurisdiction has issued a final, nonappealable order making the completion of the Acquisition illegal or otherwise prohibiting completion of the Acquisition or (iii) the other party has breached any of its representations, warranties or covenants in the Merger Agreement, subject to materiality qualifications and abilities to cure, such that the closing condition relating thereto cannot be satisfied.

In addition, Par may terminate the Merger Agreement if (i) (a) all mutual conditions to consummation of the Acquisition and all conditions of Endo to consummation of the Acquisition are satisfied, (b) Endo fails to consummate the Acquisition by the time required under the Merger Agreement and (c) at the time of such termination, Par is ready and willing to consummate the Acquisition; or (ii) (w) all mutual conditions to consummation of the Acquisition and all conditions of Endo to consummation of the Acquisition are satisfied, (x) Endo fails to consummate the Acquisition by the second Business Day (as defined in the Merger Agreement) prior to the Final Date and (y) at the time of such termination, Par is ready and willing to consummate the Acquisition regardless of whether the Marketing Period (as defined in the Merger Agreement) has initiated or concluded. If the Merger Agreement is terminated under the circumstances described in clauses (i) or (ii) directly above, Endo will be obligated to pay Par a termination fee of $750.0 million (the "Termination Fee"). In addition, Endo is also obligated to pay Par the Termination Fee if the Merger Agreement is terminated because (i) a law is passed or a governmental authority of competent jurisdiction issues a final, nonappealable order making the completion of the Acquisition illegal or otherwise prohibiting completion of the Acquisition or (ii) the Final Date has occurred and at such time, the HSR Condition or the Orders Condition is not satisfied but the other mutual conditions to consummation of the Acquisition and all conditions of Endo to consummation of the Acquisition are satisfied. In circumstances where Endo has committed an Intentional Breach (as defined in the Merger Agreement), the Termination Fee will not act as a limitation upon Endo's liability in respect of such Intentional Breach.

In connection with the Par acquisition, for purposes of these unaudited pro forma condensed combined financial statements Endo has assumed it will issue $2,235.0 million of New Senior Notes, $2,250.0 million of Incremental Term Loan B Facility and $1,750.0 million of Endo shares to other investors. The aggregate principal amount of New Senior Notes and Incremental Term Loan B Facility actually incurred may differ from that assumed herein. As such, Endo's interest expense may vary from that described herein and such differences may be material.

AMS

On February 24, 2015, the Board of Directors approved a plan to sell Endo's AMS business, which comprises the entirety of our Devices segment. Subsequently, Endo entered into a definitive agreement to sell the Men's Health and Prostate Health components of the AMS business to Boston Scientific Corporation (Boston Scientific) for up to $1.65 billion, with $1.60 billion in upfront cash. Endo is also eligible to receive a potential milestone payment of $50.0 million in cash conditioned on Boston

Scientific achieving certain product revenue milestones in the Men's Health and Prostate Health components in 2016. In addition, Boston Scientific will pay $60.0 million in exchange for 60,000 shares of Series B Non-Voting Preferred Stock issued by American Medical Systems Holdings, Inc. The preferred stock entitles the holder to dividends payable quarterly at an initial annual rate of 7.25%, which will increase by 0.25% each year on January 1, from 2018 until the rate equals 11.50%. While the preferred stock remains outstanding, American Medical Systems Holdings, Inc. will be subject to certain affirmative and negative covenants, including an obligation to maintain assets in excess of the liquidation preference of the preferred stock, and restrictions on the sale of assets and the incurrence of certain indebtedness. The preferred stock matures and becomes mandatorily redeemable in 2035.

The transaction with Boston Scientific is expected to close in the third quarter of 2015, subject to customary conditions, including the expiration or termination of any applicable waiting periods under applicable competition laws.

Auxilium

On January 29, 2015, Endo acquired all of the outstanding shares of common stock of Auxilium in a transaction valued at approximately $2.6 billion.

Pursuant to the terms of the agreement and plan of merger ("the Auxilium Merger Agreement"), subject to cash and equity consideration limits, Auxilium shareholders were able to elect one of three options with respect to transaction consideration. Of the 55.0 million outstanding Auxilium shares eligible to make an election, 94.9% elected to receive transaction consideration equal to 0.4880 Endo shares per Auxilium share ("the Stock Election Consideration"), 0.4% elected to receive 100% cash, which equated to $33.25 of cash per Auxilium share ("the Cash Election Consideration") and 4.7% elected or defaulted to receive a mix of $16.625 in cash and 0.2440 Endo shares per Auxilium share ("the Standard Election Consideration"). The result of the elections led to an oversubscription of the Stock Election Consideration and, in accordance with the proration method described in the Auxilium Merger Agreement and proxy statement/prospectus provided to Auxilium shareholders, each Auxilium share for which an election was made to receive the Stock Election Consideration was instead entitled to receive approximately 0.3448 Endo shares and $9.75 in cash.

In connection with the Auxilium acquisition, Endo issued $1,200.0 million of 2015 Senior Notes.

Interest rates

The interest rates under the existing credit facility are at LIBOR plus the applicable margin. For the purposes of these unaudited pro forma condensed combined financial statements, the Incremental Term Loan B Facility is assumed to be at LIBOR plus an applicable margin. For the purposes of these unaudited pro forma condensed combined financial statements, LIBOR was assumed to be 0.25%, resulting in an assumed combined weighted average interest rate of 3.54% and 3.56% for the pro forma amount of floating-rate debt for the quarter ended March 31, 2015 and the year ended December 31, 2014, respectively. For the purposes of these unaudited pro forma condensed combined financial statements, Endo used the stated interest rate on the 2015 Senior Notes of 6.00% and an assumed interest rate on the New Senior Notes.

Based on the assumed pro forma amount of floating-rate debt outstanding at March 31, 2015, each 1/8% rise in interest rates would result in approximately $4.1 million of incremental annual interest expense and each $250,000,000 increase in principal would result in approximately $8.8 million of incremental annual interest expense. Based on the assumed pro forma amount of the New Senior Notes issued, each 1/8% rise in interest rates would result in approximately $2.8 million of incremental annual interest expense and each and each $250,000,000 increase in principal would result in approximately $16.2 million of incremental annual interest expense. The aggregate principal amount of New Senior Notes and Incremental Term Loan B Facility actually incurred may differ from that assumed herein. If Endo's sale of the Men's and Prostate Health businesses to Boston Scientific does not close before the consummation of the Acquisition, Endo will incur borrowings under the an asset sale bridge facility (the "Asset Sale Bridge Facility") which will result in $35.0 million of incremental annual interest expense.

Note 2. Basis of presentation

The acquisition of Par will be accounted for, and the Auxilium acquisition was accounted for, as a business combination using the acquisition method of accounting under the provisions of Accounting Standards Codification 805, "Business Combinations" ("ASC 805"). This unaudited pro forma condensed combined financial information does not give effect to immaterial transactions, such as the acquisitions of Boca Pharmacal LLC, Sumavel® DosePro®, Dava Pharmaceuticals, Inc., Grupo Farmacéutico Somar, Natesto™ or the authorized generic of potassium chloride oral solution by Endo, Actient Holdings LLC and STENDRA® by Auxilium or JHP Group Holdings, Inc. by Par. In addition, the impact of the Paladin transaction for the two months ended February 28, 2014 was not material to Endo and has not been included in the pro forma condensed combined statement of operations for the year ended December 31, 2014.

The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial information to give effect to pro forma events that are (i) directly attributable to the acquisition, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the consolidated results.

The acquisition method of accounting, based on ASC 805, uses the fair value concepts defined in ASC 820, "Fair Value Measurement," which we refer to as ASC 820. ASC 820 defines fair value, establishes the framework for measuring fair value for any asset acquired or liability assumed under U.S. GAAP, expands disclosures about fair value measurements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined in ASC 820 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". This is an exit price concept for the valuation of an asset or liability. Market participants are assumed to be buyers or sellers in the most advantageous market for the asset or liability. Fair value measurement for an asset assumes the highest and best use by these market participants, and as a result, assets may be required to be recorded which are not intended to be used or sold and/or to value assets at a fair value measurement that do not reflect management's intended use for those assets. Fair value measurements can be highly subjective and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances.

ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business combination be recognized at fair value as of the acquisition date and that the fair value of acquired IPR&D be recorded on the balance sheet. As of the date of this filing, the accompanying unaudited pro forma purchase price allocation is preliminary and is subject to further adjustments as additional information becomes available and as additional analyses are performed.

The historical audited financial statements of Par were prepared in accordance with U.S. GAAP.

Endo is conducting a review of Par's accounting policies in an effort to determine if differences in accounting policies require adjustment or reclassification of Par's results of operations or reclassification of assets or liabilities to conform to Endo's accounting policies and classifications. As a result of that review, Endo may identify differences between the accounting policies of the two companies that, when conformed, are not expected to have a material impact on these unaudited pro forma condensed combined financial statements. During the preparation of these unaudited pro forma condensed combined financial statements, Endo was not aware of any material differences between accounting policies of the two companies, except for certain reclassifications necessary to conform to Endo's financial presentation, and accordingly, this unaudited pro forma condensed combined financial information does not assume any material differences in accounting policies between the two companies.

Financial information presented in the "Par Adjusted Historical" columns in the unaudited pro forma condensed combined balance sheet and statement of operations, and information presented in the "Auxilium Adjusted Historical" columns in in the unaudited pro forma statement of operations have been reclassified to conform to the historical presentation in Endo's consolidated financial statements as follows:

Reclassification included in the unaudited pro forma condensed combined balance sheet for Par (in thousands):

	As of March 31, 2015		
	Before Reclassification	Reclassification	After Reclassification
Payables due to distribution agreement partners	$ 44,818	$ (44,818)	$ —
Accrued salaries and employee benefits	$ 17,517	$ (17,517)	$ —
Accrued government pricing liabilities	$ 23,942	$ (23,942)	$ —
Accrued legal fees	$ 12,839	$ (12,839)	$ —
Accrued interest payable	$ 16,563	$ (16,563)	$ —
Accrued expenses and other current liabilities	$ 19,556	$ 115,679	$ 135,235

Reclassification included in the unaudited pro forma condensed combined statement of operations for Par (in thousands):

	For the Three Months Ended March 31, 2015		
	Before Reclassification	Reclassification	After Reclassification
Restructuring costs	$ 363	$ (363)	$ —
Selling, general and administrative	$ 56,386	$ 363	$ 56,749
Interest income	$ (17)	$ 17	$ —
Interest expense	$ 29,511	$ (17)	$ 29,494

Reclassification included in the unaudited pro forma condensed combined statement of operations for Par (in thousands):

	For the Year Ended December 31, 2014		
	Before Reclassification	Reclassification	After Reclassification
Restructuring costs	$ 5,413	$ (5,413)	$ —
Loss on sale of product rights	$ 3,042	$ (3,042)	$ —
Selling, general and administrative	$ 181,136	$ 8,455	$ 189,591
Interest income	$ (18)	$ 18	$ —
Interest expense	$ 108,427	$ (18)	$ 108,409

Reclassification included in the unaudited pro forma condensed combined statement of operations for Auxilium (in thousands):

	For the Period Ended January 29, 2015		
	Before Reclassification	Reclassification	After Reclassification
Amortization of purchased intangibles	$ 6,030	$ (6,030)	$ —
Cost of goods sold	$ 6,576	$ 6,030	$ 12,606

Reclassification included in the unaudited pro forma condensed combined statement of operations for Auxilium (in thousands):

	For the Year Ended December 31, 2014		
	Before Reclassification	Reclassification	After Reclassification
Amortization of purchased intangibles	$ 78,726	$ (78,726)	$ —
Cost of goods sold	$ 105,006	$ 78,726	$ 183,732

Note 3. Preliminary estimated acquisition consideration for Par

For the purposes of calculating the preliminary estimated acquisition consideration in the unaudited pro forma condensed combined financial statements, the effective date of the Acquisition is assumed to be May 26, 2015, on which date the Endo share price was $83.17 per share. The $83.17 Endo share price is used for pro forma purposes only. The consideration transferred will ultimately be based on the share price of Endo shares on the effective date of the Acquisition, and could be materially different than the share prices utilized in the unaudited pro forma condensed combined financial statements. The preliminary estimated acquisition consideration is as follows (in thousands, except for per share amounts):

Acquisition Consideration

Number of Endo shares issued	18,084	
Price of Endo shares on May 26, 2015	$ 83.17	
Estimated fair value of 18.1 million Endo shares issued to Par stockholders		$1,504,084
Cash distribution to Par stockholders		4,228,482
Cash distribution to pay assumed debt, including $44.4 million to settle senior notes make whole provision, and $16.6 million of accrued interest		2,407,098
Total preliminary estimated acquisition consideration		$8,139,664

The sensitivity table below shows a range of acquisition consideration amounts based on hypothetical Endo share prices on the Merger Effective Date (as defined in the Merger Agreement). The total acquisition consideration figures below are calculated according to the terms of the Merger Agreement. As shown in the table below, an approximate $3.00 change in the Endo closing share price changes the acquisition consideration and the underlying goodwill by approximately $50 million.

Closing stock price per Endo share on effective date of the merger	$ 77.00	$ 80.00	$ 83.17	$ 86.00	$ 89.00
Total acquisition consideration (in thousands)	$8,028,082	$8,082,336	$8,139,664	$8,190,843	$8,245,096

Note 4. Preliminary estimated acquisition consideration allocation

The pro forma adjustments to allocate the acquisition consideration will remain preliminary until Endo's management determines the final acquisition consideration and the fair values of assets acquired, net of liabilities assumed. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after the closing. The final fair value adjustments necessary to value the assets acquired and liabilities assumed could differ materially from the amounts presented in the unaudited pro forma condensed combined financial statements.

The preliminary allocation of the acquisition consideration to the fair value of Par's acquired assets and liabilities assumed as if the acquisition date was March 31, 2015 is presented as follows (in millions):

Estimated acquisition consideration (see Note 3)		$ 8,139.7
Recognized amounts of identifiable assets acquired and liabilities assumed		
Book value of Par's net assets	4a	71.5
Less settlement of pre-existing Par liabilities	4b	(21.0)
Less book value of Par goodwill and other intangible assets	4c	(2,043.1)
Less book value of Par debt and accrued interest, net of deferred financing costs	4d	2,308.0
Net assets to be acquired		315.4
Fair value adjustments of net assets acquired:		
Inventory	4e	73.2
Identifiable intangible assets:		
Product rights and other intangibles	4f	2,780.0
IPR&D	4f	1,880.0
Deferred tax liabilities	4g	(1,323.6)
Goodwill	4h	$ 4,414.7

Adjustments included in the table above are for the following:

a. Reflects the acquisition of the historical book value of net assets of Par as of March 31, 2015.

b. Represents $50.3 million of estimated transaction costs, less $29.3 million of estimated tax benefits, expected to be received by Par, which will reduce net assets to be acquired.

c. Par's historical balance sheet includes $2,043.1 million of goodwill and other intangible assets, which will be adjusted to fair value in purchase accounting.

d. Reflects the book value of the Par debt of $2,337.2 million and accrued interest of $16.6 million, which was assumed and included as part of the acquisition consideration (Note 3). These items are offset by $45.8 million of deferred financing costs related to Par outstanding debt which is assumed to be written off when the debt is paid.

e. Represents the estimated adjustment to step-up inventory to fair value. This estimated step-up in inventory is preliminary and is subject to change based upon management's final determination of the fair values of finished goods and work-in-process inventories. Endo will expense the fair value adjustment of Par's inventory as the acquired inventory is sold. As there is no continuing impact of the inventory step-up on Endo's results, the cost of goods sold associated with the increased inventory value is not included in the unaudited pro forma condensed combined statements of operations.

f. Of the total estimated consideration, approximately $2,780.0 million relates to definite-lived intangible assets which are estimated to be amortized over a weighted average useful life of 13 years. The final determination of the estimated useful lives may vary from the preliminary useful life determined for pro forma purposes. A one year decrease in the useful lives of the definite-lived intangible assets would result in additional annual amortization expense of $18.3 million. Amortization related to the value of the definite-lived intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed combined statements of operations. IPR&D of $1,880.0 million will be capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of the projects and launch of the products, Endo will make a separate determination of useful life of the IPR&D intangibles and amortization will be recorded as an expense. As IPR&D intangibles are not currently marketed, no amortization of these items is reflected in the unaudited pro forma condensed combined statements of operations.

The fair value estimate for definite-lived intangible assets and IPR&D assets is preliminary and is determined based on the assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). This preliminary fair value estimate could include assets that are not intended to be used, may be sold or are intended to be used in a manner other than their best use. For purposes of the accompanying unaudited pro forma condensed combined financial information, it is assumed that all assets will be used in a manner that represents their highest and best use. The final fair value determination for definite-lived intangible assets and IPR&D assets may differ from this preliminary determination.

The fair value of definite-lived intangible assets is determined primarily using the "income approach", which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of the definite-lived intangible assets valuations, from the perspective of a market participant, include the estimated net cash flows for each year for each project or product (including net revenues, cost of sales, research and development costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, competitive trends impacting the asset and each cash flow stream as well as other factors. The major risks and uncertainties associated with the timely and successful completion of the IPR&D projects include legal risk and regulatory risk. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change or the timely completion of each project to commercial success will occur. For these and other reasons, actual results may vary significantly from estimated results.

g. Reflects deferred income tax liabilities primarily resulting from fair value adjustments for the identifiable intangible assets and inventory. This estimate of deferred tax liabilities was determined based on the excess book basis over the tax basis of the fair value step-ups attributable to identifiable intangible assets and inventory acquired at an estimated 36% blended statutory tax rate. This estimate of deferred income tax liabilities is preliminary and is subject to change based upon the final determination of Par's blended statutory tax rate post-acquisition and management's final determination of the fair values of tangible and identifiable intangible assets acquired and liabilities assumed by jurisdiction.

h. Goodwill, currently estimated at $4,414.7 million, represents the excess of the preliminary estimated acquisition consideration expected to be transferred over the preliminary values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed. In accordance with ASC 350, "Intangibles—Goodwill and Other", goodwill is not amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment.

Note 5. Pro forma adjustments

a. The adjustment to cash and cash equivalents reflects the following (in thousands):

Estimated net proceeds from the sale of the AMS Men's and Prostate Health businesses (1)	$1,578,000
Estimated proceeds from the sale of preferred stock (2)	60,000
AMS pro forma adjustments	$1,638,000

Notes:

(1) The estimated proceeds from the sale of the Men's and Prostate Health businesses to Boston Scientific of $1,600.0 million, net of estimated transaction costs of $22.0 million.

(2) The estimated proceeds from the sale of 60,000 shares of Series B Non-Voting Preferred Stock issued by American Medical Systems Holdings, Inc. to Boston Scientific as part of the sale of the Men's and Prostate Health businesses.

b. Represents the elimination of the assets and liabilities of the AMS Men's and Prostate Health businesses. In addition, represents the elimination of currency translation adjustments related to subsidiaries expected to be sold to Boston Scientific.

c. Reflects the liability related to the $60.0 million sale of AMS Series B Non-Voting Preferred Stock as it represents an unconditional obligation requiring AMS to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur.

d. Represents the expected tax benefit recognized upon the sale of the Men's and Prostate Health businesses to Boston Scientific as well as the elimination of deferred taxes related to the assets and liabilities sold.

e. The issuance of $1,750.0 million in additional equity, net of $46.8 million in transaction costs, representing approximately 21.0 million Endo shares, to finance the Acquisition. Each $1.00 increase (decrease) in the assumed public offering price of $84.14 per share, the last reported sale price of Endo's ordinary shares on NASDAQ on June 1, 2015, would (decrease) increase the number of ordinary shares to be issued by Endo by approximately (0.24 million) and approximately 0.25 million, respectively, assuming the aggregate dollar amount of ordinary shares offered by Endo remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by Endo. Endo may also increase or decrease the aggregate dollar amount of ordinary shares it is offering. Each increase (decrease) of $1.0 million of shares offered by Endo would increase (decrease) the net proceeds to Endo by approximately $0.98 million, assuming that the assumed public offering price remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by Endo.

f. The adjustment to cash and cash equivalents reflects the following (in thousands):

Debt proceeds (1)	$ 4,485,000
Repayment of Par's existing debt and accrued interest (1)	(2,407,098)
Debt issuance costs (2)	(183,000)
Repayment of Endo's existing Term Loan B (3)	(420,750)
Cash transaction costs (4)	(95,300)
Total estimated purchase price to be paid in cash (5)	(4,228,482)
Par pro forma adjustments	$(2,849,630)

Notes:

(1) The assumed issuance of $4,485.0 million in additional debt, which will be used for the acquisition of Par and the subsequent repayment of $2,407.1 million of the Par assumed debt, including a $44.4 million make-whole provision on outstanding senior notes and $16.6 million of accrued interest at March 31, 2015.

(2) The estimated debt issuance costs of $183.0 million related to the issuance of such additional debt.

(3) The repayment of $420.8 million of Endo's existing Term Loan B.

(4) The incurrence of $45.0 million and $50.3 million of estimated direct transaction costs of Endo and Par, respectively, associated with the Acquisition.
(5) The estimated payment of $4,228.5 million in cash consideration to sellers for shares of Par common stock (see Note 3).

g. Reflects reclassification adjustments to the historical consolidated financial statements of Par and Auxilium to conform to the financial statement classification and presentation used by Endo to prepare its consolidated financial statements. The Par balance sheet adjustment is a reclassification of $392,608 sales deductions reserve from Accounts receivable, net to Accrued expenses. Further reclassification adjustments may be necessary. The Par statement of operations adjustments are a reclassification of acquisition-related costs of $1,365 and $7,461 for the three months ended March 31, 2015 and the year ended December 31, 2014, respectively, from Selling, general and administrative to Acquisition-related and integration items, net and a reclassification of loss on sale of product rights of $3,042 from Selling, general and administrative to Other income (expense), net. The Auxilium statement of operations adjustments are a reclassification of acquisition-related costs for the year ended December 31, 2014 of $15,271 and $28,400 from Selling, general and administrative and Other income (expense), net, respectively, to Acquisition-related and integration items, net.

h. Represents the estimated fair value adjustment to step-up inventory to fair value. This estimated step-up in inventory is preliminary and is subject to change based upon management's final determination of the fair values of finished goods and work-in-process inventories. Endo will expense the fair value adjustment of Par's inventory as the acquired inventory is sold. As there is no continuing impact of the inventory step-up on Endo's results, expense on the increased inventory value is not included in the unaudited pro forma condensed combined statement of operations.

i. Reflects an adjustment to income tax receivable primarily related to a tax benefit resulting from the estimated tax deductible portion of the Acquisition transaction costs.

j. Represents the incremental adjustment to reflect $4,414.7 million of goodwill, which is the excess of the preliminary estimated acquisition consideration expected to be transferred over the preliminary values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed.

k. The adjustments reflect the incremental amount necessary to record the fair value of the Par intangible assets acquired of $4,660.0 million. Approximately $2,780.0 million relates to definite-lived intangible assets which are estimated to be amortized over a weighted average useful life of 13 years. The final determination of the estimated useful lives may vary from the preliminary useful life determined for pro forma purposes. A one year decrease in the useful lives of the definite-lived intangible assets would result in additional annual amortization expense of $18.3 million. Amortization related to the value of the definite-lived intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed combined statements of operations. IPR&D of $1,880.0 million will be capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of the projects and launch of the products, Endo will make a separate determination of useful life of the IPR&D intangibles and amortization will be recorded as an expense. As IPR&D intangibles are not currently marketed, no amortization of these items is reflected in the unaudited pro forma condensed combined statements of operations.

l. Represents an adjustment to reflect the estimated debt issuance costs of $183.0 million related to the issuance of additional debt to finance the Acquisition, partially offset by the write off of $45.8 million of deferred financing costs as the result of the repayment of Par's outstanding debt and the write off of $7.7 million of deferred financing costs as the result of the repayment of Endo's existing Term Loan B. The aggregate principal amount of New Senior Notes and Incremental Term Loan B Facility actually incurred may differ from that assumed herein. As such, Endo's fees may vary from that described herein and such differences may be material.

m. Represents the payment of $16.6 million of accrued interest on Par's debt at March 31, 2015.

n. Represents the payoff of Par's current portion of long-term debt of $18.8 million and Endo's current portion of existing Term Loan B of $4.2 million, partially offset by the current portion of new debt of $22.5 million. The new debt issuance costs related to the issuance of additional debt to finance the Par acquisition will be amortized using an effective-interest method over the life of the related debt instruments, which is at most 10 years.

o. Reflects deferred income tax liabilities primarily resulting from fair value adjustments for the identifiable intangible assets and inventory. This estimate of deferred tax liabilities was determined based on the excess book basis over the tax basis of the fair value step-ups attributable to identifiable intangible assets and inventory acquired at an estimated 36% blended statutory tax rate. This estimate of deferred income tax liabilities is preliminary and is subject to change based upon the final determination of Par's blended statutory tax rate post-acquisition and management's final determination of the fair values of tangible and identifiable intangible assets acquired and liabilities assumed by jurisdiction.

p. The adjustment to long-term debt, less current portion, net consists of the following assumed components (in thousands):

New Senior Notes	$ 2,235,000
Incremental Term Loan B Facility, net of $22.5 million current portion	2,227,500
Endo repayment of book value of Par debt, net of $18.8 million current portion	(2,318,510)
Endo repayment of existing Term Loan B, net of $4.2 million current portion	(416,500)
Net change	$ 1,727,490

q. The adjustments to equity consist of the following components (in thousands):

Additional paid-in capital and common stock related to the issuance of common shares of Endo to Par shareholders as acquisition consideration (see Note 3)	$1,504,084
The elimination of Par's historical shareholder's equity	(71,462)
Estimated direct transaction costs of Endo, net of estimated tax effect	(34,382)
Write off of deferred financing costs as the result of the repayment of Endo's existing Term Loan B	(7,677)
Par pro forma adjustments	$1,390,563

r. Reflects a net increase in amortization expense on the definite-lived intangible assets of Par and Auxilium, which were revalued upon acquisition. These assets have an estimated weighted average useful life of 13 years and 13 years, respectively.

s. Represents an elimination of the transactions costs associated with the Auxilium transaction.

t. The net adjustments for the three months ended March 31, 2015 and the year ended December 31, 2014 consist of the following components, assuming new financing including $2,235.0 million of New Senior Notes and $2,250.0 million of Incremental Term Loan B Facility (in thousands):

	Par		Auxilium	
	Three Months Ended March 31, 2015	Year Ended December 31, 2014	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Estimated interest expense (including the amortization of debt issuance costs) on new indebtedness	$ 64,993	$ 275,529	$ 5,000	$ 73,405
Historical interest expense associated with the Endo existing Term Loan B	(3,728)	(13,100)	—	—
Historical interest expense associated with the Auxilium debt			(3,518)	(39,108)
Historical interest expense associated with the Par debt	(29,494)	(108,409)	—	—
Total interest expense adjustment	$ 31,771	$ 154,020	$ 1,482	$ 34,297

After giving effect to the application of the proceeds from the New Senior Notes, the Incremental Term Loan B Facility and the consummation of the Transactions, as of March 31, 2015, Endo's aggregate principal debt outstanding would have consisted of $3,309.5 million of floating rate debt and $6,364.4 million of fixed-rate debt. Based on the assumed pro forma amount of floating-rate debt outstanding at March 31, 2015, each 1/8% rise in interest rates would result in approximately $4.1 million of incremental annual interest expense and each $250,000,000 increase in principal would result in approximately $8.8 million of incremental annual interest expense. Based on the assumed pro forma amount of the New Senior Notes issued, each 1/8% rise in interest rates would result in approximately $2.8 million of incremental annual interest expense and each and each $250,000,000 increase in principal would result in approximately $16.2 million of incremental annual interest expense. If Endo's sale of the Men's and Prostate Health businesses to Boston Scientific does not close before the consummation of the Acquisition, Endo will incur borrowings under the Asset Sale Bridge Facility which will result in $35.0 million of incremental annual interest expense.

u. Income tax rates of approximately 36%, 36% and 36% for Endo, Par and Auxilium, respectively, have been used for the pro forma adjustments for the three months ended March 31, 2015 and for the year ended December 31, 2014. The income tax rates are the applicable blended statutory tax rates of Endo, Par and Auxilium on a standalone basis for the periods referenced and are estimates.

v. Represents interest expense on the $60.0 million sale of 60,000 shares of Series B Non-Voting Preferred Stock issued by AMS to Boston Scientific as part of the sale of the Men's and Prostate Health businesses.

w. Represents the pro forma weighted average shares outstanding after giving effect to the conversion of each Par and Auxilium outstanding share to Endo shares (shares in thousands).

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Basic		
Endo weighted average number of shares outstanding	169,653	146,896
Endo shares issued to finance the Par acquisition	21,041	21,041
Endo shares issued in replacement of Par's common shares	18,084	18,084
Endo shares issued in replacement of Auxilium's common shares	6,203	18,610
Pro forma weighted average number of basic common shares outstanding	214,981	204,631
Diluted		
Endo weighted average number of shares outstanding	176,825	156,730
Adjustment to remove dilution of equity awards due to the pro forma loss from continuing operations	—	(9,834)
Endo shares issued to finance the Par acquisition	21,041	21,041
Endo shares issued in replacement of Par's common shares	18,084	18,084
Endo shares issued in replacement of Auxilium's common shares	6,203	18,610
Pro forma weighted average number of diluted common shares outstanding	222,153	204,631