

Actavis, Inc.  
Form 10-K  
February 28, 2013  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2012**

**OR**

· **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from**                      **to**

**Commission file number 001-13305**

**ACTAVIS, INC.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of*

*incorporation or organization)*

**Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054**

*(Address of principal executive offices, including ZIP code)*

**(862) 261-7000** *(Registrant's telephone number, including area code)*

None

*(Former name, former address, and former fiscal year if changed since last report)*

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

# Edgar Filing: Actavis, Inc. - Form 10-K

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.0033 par value	New York Stock Exchange

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

**None**

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

Aggregate market value of Common Stock held by non-affiliates of the Registrant, as of June 30, 2012:

**\$9,442,846,857 based on the last reported sales price on the New York Stock Exchange**

Number of shares of Registrant's Common Stock outstanding on February 15, 2013: 127,832,241

## DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's proxy statement for the 2013 Annual Meeting of Stockholders, to be held on May 10, 2013. Such proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2012.

**Table of Contents**

**ACTAVIS, INC.**

**TABLE OF CONTENTS**

**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>PAGE</b>
<b><u>PART I</u></b>	
ITEM 1. <u>Business</u>	3
ITEM 1A. <u>Risk Factors</u>	22
ITEM 1B. <u>Unresolved Staff Comments</u>	42
ITEM 2. <u>Properties</u>	43
ITEM 3. <u>Legal Proceedings</u>	44
ITEM 4. <u>Not Applicable</u>	44
<b><u>PART II</u></b>	
ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	45
ITEM 6. <u>Selected Financial Data</u>	47
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	48
ITEM 7A. <u>Quantative and Qualitative Disclosures About Market Risk</u>	73
ITEM 8. <u>Financial Statements and Supplementary Data</u>	75
ITEM 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	75
ITEM 9A. <u>Controls and Procedures</u>	75
ITEM 9B. <u>Other Information</u>	76
<b><u>PART III</u></b>	
ITEM 10. <u>Directors and Executive Officers of the Registrant</u>	77
ITEM 11. <u>Executive Compensation</u>	79
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management</u>	79
ITEM 13. <u>Certain Relationships and Related Transactions</u>	79
ITEM 14. <u>Principal Accounting Fees and Services</u>	80
<b><u>PART IV</u></b>	
ITEM 15. <u>Exhibits, Financial Statement Schedules</u>	81
<u>SIGNATURES</u>	82

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Business Overview**

On October 31, 2012, Watson Pharmaceuticals, Inc. completed the acquisition of Actavis Group. Watson Pharmaceuticals, Inc. common stock was traded on the New York Stock Exchange under the symbol WPI until close of trading on January 23, 2013, at which time Watson Pharmaceuticals, Inc. changed its corporate name to Actavis, Inc. and changed its ticker symbol to ACT. Actavis, Inc. (Actavis, the Company, we, us, or our) is a leading integrated global specialty pharmaceutical company engaged in the development, manufacturing, marketing, sale and distribution of generic, branded generic, brand, biosimilar and over-the-counter (OTC) pharmaceutical products. We also develop and out-license generic pharmaceutical products primarily in Europe through our Medis third-party business. Following the renaming, the Company also changed the name of its three reporting segments. The Global Generics segment has become Actavis Pharma, Global Brands has become Actavis Specialty Brands, and Distribution has become Anda Distribution.

Following the acquisition of Actavis Group, the Company now has operations in more than 60 countries throughout the Americas (U.S., Canada, and Latin America), Europe (Europe, Russia, Commonwealth of Independent States (CIS), and Turkey), and MEAAP (Middle East, Africa, Australia, and Asia Pacific). The United States of America (U.S.) remains our largest commercial market and represented approximately 81% of total net revenues for 2012. As of December 31, 2012, we marketed approximately 250 generic pharmaceutical product families and over 40 brand pharmaceutical products in the U.S. and distributed approximately 11,450 stock-keeping units (SKUs) through our Anda Distribution Division.

Our principal executive offices are located at our global and U.S. headquarters at Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054. Our international headquarters are located at Turmstrasse 24, 6300 Zug, Switzerland. Our Internet website address is www.actavis.com. We do not intend this website address to be an active link or to otherwise incorporate by reference the contents of the website into this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto are available free of charge on our Internet website. These reports are posted on our website as soon as reasonably practicable after such reports are electronically filed with the U.S. Securities and Exchange Commission (SEC). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room or electronically through the SEC website (www.sec.gov). Within the Investors section of our website, we provide information concerning corporate governance, including our Corporate Governance Guidelines, Board Committee Charters and Composition, Code of Conduct and other information. See ITEM 1A. RISK FACTORS-CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS in this Annual Report on Form 10-K (Annual Report).

**Acquisitions**

***Acquisition of Uteron Pharma SA***

On January 23, 2013, the Company completed the acquisition of Belgium-based Uteron Pharma SA for \$150.0 million in cash up front, and up to \$155.0 million in potential future milestone payments. The acquisition of Uteron expands our Actavis Specialty Brands pipeline of Women's Health products including two potential near term commercial opportunities in contraception and infertility, and one novel oral contraceptive. Several additional products in earlier stages of development are also included in the acquisition. This transaction is consistent with Actavis Specialty Brands' growth strategy, which is focused on expanding our branded product portfolio globally.

***Acquisition of Actavis Group***

On October 31, 2012, Watson Pharmaceuticals, Inc. completed the acquisition of the Actavis Group. On January 24, 2013, the Company was renamed Actavis, Inc. The acquisition was consummated for a cash payment of 4.2 billion, or approximately \$5.5 billion, and potential contingent consideration payable in the form of up to

---

**Table of Contents**

5.5 million newly issued shares of Actavis, Inc. common stock or, under certain conditions, in cash. Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. Actavis' financial statements included in this report do not include the financial results of the Actavis Group for any of the periods or at any of the dates presented prior to November 1, 2012.

With the acquisition of Actavis Group, the Company became the third largest global generics pharmaceutical company with operations in more than 60 countries. The acquisition expanded the Company's core leadership position in modified release, solid oral dosage and transdermal products into semi-solids, liquids and injectables. The result is a broader and more diversified global product portfolio, and an expanded development pipeline. As of December 31, 2012, the combined company had more than 185 Abbreviated New Drug Applications (ANDAs) pending at the U.S. Food and Drug Administration (FDA).

***Acquisition of Ascent Pharmahealth Ltd.***

On January 24, 2012, we completed the acquisition of Ascent Pharmahealth Ltd., the Australia and Southeast Asia generic pharmaceutical business of Strides Arcolab Ltd, for AU\$376.6 million in cash, or approximately \$392.6 million including working capital adjustments. As a result of the acquisition, the Company enhanced its commercial presence in Australia and we gained a selling and marketing capability in Southeast Asia through Ascent's line of branded-generic and over-the-counter products.

***Acquisition of Specifar Pharmaceuticals***

On May 25, 2011, we completed the acquisition of Specifar Pharmaceuticals, a privately-held multinational generic pharmaceutical company for \$398.5 million, or approximately \$559.5 million in cash, including working capital adjustments. As a result of the acquisition, we enhanced our commercial presence in key European markets through Specifar's portfolio of approved products. The transaction also gave the Company a strong branded-generic commercial presence in the Greek pharmaceutical market.

**Other Business Development Activities**

Actavis completed additional business development activities to expand its Actavis Pharma and Actavis Specialty Brands development and commercial capabilities.

***Actavis Pharma Business Development***

***Generic Concerta® and Lipitor®***

The Company's two most significant products in 2012 were the authorized generic version of Concerta® (methylphenidate ER) and Lipitor® (atorvastatin), which on a combined basis comprised 20.8% of the Company's revenues. These products were sold pursuant to exclusive marketing arrangements.

Methylphenidate ER is sold pursuant to an exclusive agreements with Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI). Under the terms of the agreement, OMJPI supplies the Company with product. Actavis, Inc. launched its authorized generic of Concerta® on May 1, 2011. Under the terms of its agreement with OMJPI, the Company pays a royalty to OMJPI based on the gross profit of product revenues as defined in the agreements. During 2012, the royalty payable to OMJPI ranged from 50% to 55% of sales. This royalty includes the cost of the product supplied by OMJPI. Our royalty payable on sales of methylphenidate ER declines when a third party competitor launches a competing bioequivalent product. The change in royalty is a one-time event and is applied on a strength-by-strength basis following the launch of the first third party generic competitor. In January of 2013, a competitor launched a generic version of the 27mg strength, triggering the one time decline in royalty on this strength. Accordingly, for the 27mg strength, commencing in January 2013, the royalty payable to OMJPI will be approximately 30% of sales, which includes the cost of the product supplied by OMJPI. The royalty on the 18mg, 35mg and 54mg strengths will remain at approximately 50% until a competitive launch occurs, at which point the royalty rate will be reduced to approximately 30%. The agreement with OMJPI expires on December 31, 2014 and is subject to normal and customary early termination provisions.

---

## **Table of Contents**

During 2011 and 2012, Atorvastatin was sold pursuant to an exclusive agreement with Pfizer, Inc. ( Pfizer ). Actavis, Inc. launched its authorized generic of Lipitor® on November 30, 2011. Due to the significant decline in the market for this product, the Company agreed to terminate this agreement effective January 1, 2013. In exchange, the Company is entitled to receive a royalty on future sales of the product by Pfizer through 2015.

### *Generic Lidoderm®*

The Company has entered into an agreement with Endo Health Solutions Inc. ( Endo ) and Teikoku Seiyaku Co., Ltd to settle all outstanding patent litigation related to the Company's generic version of Lidoderm®. The agreement allows the Company to launch its lidocaine topical patch 5% product on September 15, 2013. The license will be exclusive as to an authorized generic version of Lidoderm® until the earliest of a third party generic launch or seven and one half months after the Company's launch of its generic product. Endo will receive approximately 25% of the gross profit generated on the Company's sales of its generic version of Lidoderm® during the Company's period of exclusivity. On August 23, 2012, the FDA granted final approval of the Company's generic version of Lidoderm®.

Additionally, under the terms of the agreement, the Company's Anda Distribution business will receive and distribute branded Lidoderm® product from Endo each month during the first eight months of 2013 valued up to approximately \$96 million. The Company's availability of brand product would cease upon the launch of any generic version of Lidoderm®. The receipt of the branded product will be recorded at the time all contingencies related to the Company's ability to receive and distribute such inventory are resolved.

### *Actavis Specialty Brands Business Development*

#### *License and supply agreement with Merck for Oxytrol® OTC*

In November 2007, the Company entered into a license and supply agreement for Oxytrol® with Merck, Inc. Under terms of the agreement, Actavis will supply the Oxytrol® product to Merck and Merck will package, distribute, sell and market the product over-the-counter in the U.S. for the treatment of over active bladder in women ( OAB ). The agreement entitles Actavis to retain marketing rights for the prescription Oxytrol product. After conducting numerous clinical trials, Merck submitted the application in March of 2012 and received FDA approval on January 25, 2013 as the first OTC product for the treatment of OAB.

#### *Amgen Collaboration*

In December 2011, we entered into a collaboration agreement with Amgen to develop and commercialize, on a worldwide basis biosimilar versions of Herceptin®, Avastin®, Rituxan/Mab Thera®, and Erbitux®. Amgen will assume primary responsibility for developing, manufacturing and initially commercializing the oncology antibody products. The Company will contribute up to \$400.0 million in co-development costs over the course of development, including the provision of development support, and will share product development risks. In addition, we will contribute our significant expertise in the commercialization and marketing of products in highly competitive specialty and generic markets, including helping effectively manage the lifecycle of the biosimilar products. The collaboration products are expected to be sold under a joint Amgen/Actavis label. We will initially receive royalties and sales milestones from product revenues. The collaboration will not pursue biosimilars of Amgen's proprietary products.

#### *Global Licensing Agreement for Biosimilar Herceptin®*

On July 13, 2012, the Company entered into a global license agreement with Synthron, obtaining an exclusive license to its trastuzumab molecule, which is being developed as a biosimilar to Herceptin®. Actavis subsequently contributed the product to the Company's biosimilar collaboration with Amgen. Amgen and Actavis will assume all responsibility for worldwide development and commercialization of biosimilar trastuzumab, including Phase III clinical trials and global manufacturing. The agreement entitles Synthron to an initial payment and the opportunity to receive a milestone payment and royalties on net sales. Synthron will also receive compensation for transitional support activities provided under the agreement. See ITEM 1A. RISK

---

## **Table of Contents**

**FACTORS Risks Related to our Business** Our investments in biosimilar products may not result in products that are approved by the FDA or other ex-U.S. regulatory authorities and, even if approved by such authorities, may not result in commercially successful products in this Annual Report.

### **Disposals**

#### ***Rugby OTC Business***

On October 29, 2012, the Company sold its Rugby OTC pharmaceutical products and trademarks to The Harvard Drug Group, L.L.C. ( Harvard ) for \$116.6 million. Under the terms of the agreement, Harvard acquired the Rugby trademark and all rights to market, sell and distribute OTC products and nicotine gum products sold under the Rugby trademark. The Company retains all rights to manufacture, sell and distribute all store-branded OTC and nicotine gum products, as well as other non-Rugby OTC products in its portfolio. Actavis also retains ownership of its nicotine gum ANDAs and nicotine gum manufacturing facilities. As part of the transaction, Actavis and Harvard entered into a supply and license agreement under which Actavis will manufacture and supply nicotine gum products sold in the Rugby and Major labels. Major is Harvard s existing private label brand.

#### ***Sale of Moksha8 Ownership***

On October 22, 2012, the Company sold its investment in Moksha8 for \$46.6 million. Simultaneously, the Company expanded its ongoing sales and marketing collaboration with Moksha8 by granting a license to Moksha8 for five new branded generic products to be developed for the Brazil and Mexico markets in exchange for defined milestones and sales royalties. The Company will continue to retain generic marketing rights in each market for all products licensed to Moksha8. The Company had acquired a minority ownership share in Moksha8 for cash totaling \$30.0 million in October of 2010.

### **Business Description**

Prescription pharmaceutical products in the U.S. generally are marketed as either generic or brand pharmaceuticals. Generic pharmaceutical products are bioequivalents of their respective brand products, or in cases of protein-based biologic therapies, biosimilar, and provide a cost-efficient alternative to brand products. Brand pharmaceutical products are marketed under brand names through programs that are designed to generate physician and consumer loyalty. Through our And a Distribution Segment, we distribute pharmaceutical products, primarily generics, which have been commercialized by us and others, to pharmacies and physicians offices. As a result of the differences between the types of products we market and/or distribute and the methods we distribute these products, we operate and manage our business as three distinct operating segments: Actavis Pharma, Actavis Specialty Brands and And a Distribution. The Company also develops and out-licenses generic pharmaceutical products through its Medis third-party business.

### **Business Strategy**

We apply three key strategies to achieve growth for our Actavis Pharma and Actavis Specialty Brands pharmaceutical businesses: (i) internal development of differentiated and high-demand products, including, in certain circumstances, challenging patents associated with these products, (ii) establishment of strategic alliances and collaborations and (iii) acquisition of products and companies that complement our current business. We believe our three-pronged strategy will allow us to expand both our brand and generic product offerings globally. Our Medis third-party business has a broad portfolio of over 200 developed products for out licensing to approximately 300 customers, primarily in Europe. Our And a Distribution business distributes products for over 260 suppliers and is focused on providing next-day delivery and responsive service to its customers. Our And a Distribution business also distributes a number of generic and brand products in the U.S. Growth in our And a Distribution business will be largely dependent upon FDA approval of new generic products in the U.S. and expansion of our base of suppliers.

Based upon business conditions, our financial strength and other factors, we regularly reexamine our business strategies and may change them at any time. See ITEM 1A. RISK FACTORS Risks Related to Our Business in this Annual Report.

## **Table of Contents**

### **Actavis Pharma Segment**

Actavis is a leader in the development, manufacturing and sale of generic, branded generic and OTC pharmaceutical products. In certain cases where patents or other regulatory exclusivity no longer protect a brand product, or other opportunities might exist, Actavis seeks to introduce generic counterparts to the brand product. These generic products are bioequivalent to their brand name counterparts and are generally sold at significantly lower prices than the brand product. Our portfolio of generic products includes products we have developed internally and products licensed from and distributed for third parties. Net revenues in our Actavis Pharma segment accounted for \$4.4 billion or approximately 75.2% of our total net revenues in 2012. Our Actavis Pharma business in the U.S. remains the dominant source of revenue for the Company with approximately 75% of 2012 segment net revenue coming from our U.S. businesses. While our U.S. generics business will continue to be the dominant source of revenue for the company, we expect international generic revenue to represent an increasing percentage of total revenues in future periods due to the acquisition of Actavis Group.

### **Actavis Pharma Strategy**

Our Actavis Pharma business is focused on maintaining a leading position within both the U.S. generics market and our key international markets and strengthening our global position by offering a consistent and reliable supply of quality products.

Our strategy in the U.S. is to develop generic pharmaceuticals that are difficult to formulate or manufacture or will complement or broaden our existing product lines. Internationally, we seek to grow our market share in key markets while expanding our presence in new markets. We plan to accomplish this through new product launches, filing existing products overseas and in-licensing products through acquisitions and strategic alliances. Additionally, we distribute generic versions of third parties' brand products (sometimes known as Authorized Generics) to the extent such arrangements are complementary to our core business.

We have maintained an ongoing effort to enhance efficiencies and reduce costs in our manufacturing operations.



**Table of Contents****Actavis Pharma Product Portfolio**

Our U.S. portfolio of approximately 250 generic pharmaceutical product families includes the following key products which represented approximately 57% of total Actavis Pharma segment product revenues in 2012:

<b>Actavis Generic Product</b>	<b>Comparable Brand Name</b>	<b>Therapeutic Classification</b>
Amethia	Seasonique®	Oral contraceptive
Atorvastatin	Lipitor®	Adjunct to reduce elevated levels of cholesterol
Bupropion hydrochloride ER	Wellbutrin XL®	Anti-depressant
Clopidogrel	Plavix®	Antiplatelet
Dronabinol	Marinol®	Antiemetic
Enoxaparin sodium	Lovenox®	Anticoagulant
Fentanyl transdermal system	Duragesic®	Analgesic/narcotic combination
Glipizide ER	Glucotrol XL®	Anti-diabetic
Hydrocodone bitartrate/ acetaminophen	Lorcet®, Lorcet® Plus, Lortab®, Norco®/Anexsia®, Maxidone®, Vicodin®, Vicodin ES®, Vicodin HP®, Xopenex® Inhalation Solution	Analgesic
Levalbuteral inhalation solution	Xopenex® Inhalation Solution	Bronchodilator
Lutera®	Alesse®	Oral contraceptive
Methylphenidate ER	Concerta®	Hypertension, attention-deficit/ hyperactivity disorder
Metformin hydrochloride	Glucophage®	Hypoglycemic
Metoprolol succinate	Toprol XL®	Anti-hypertensive
Microgestin®/Microgestin® Fe	Loestrin®/Loestrin® Fe	Oral contraceptive
Morphine sulfate	Kadian®	Analgesic
Next Choice One Dose™	Plan B One-Step®	Emergency oral contraceptive
Nicotine gum	Nicorette®	Aid to smoking cessation
Oxycodone hydrochloride / acetaminophen	Percocet®	Analgesic
Potassium	Micro-K®, K-Dur®	Hypokalemia
Progesterone	Prometrium®	Hormone
Testosterone Cypionate	Depo® Testosterone	Androgenic and anabolic steroid, antineoplastic
Testosterone Enanthate	Delatestryl®	Androgenic and anabolic steroid, antineoplastic
Trinessa®	Ortho Tri-Cyclen	Oral contraceptive
Vancomycin hydrochloride	Vancocin® HCl	Antibiotic
Zarah®	Yasmin®	Oral contraceptive

In the U.S., we predominantly market our generic products to various drug wholesalers, mail order, government and national retail drug and food store chains utilizing a small team of sales and marketing professionals. We sell our generic prescription products primarily under the Watson Laboratories, Watson Pharma and Actavis Pharma labels, and our over-the-counter generic products under private label. Following the renaming of Watson Pharmaceuticals, Inc. to Actavis, Inc. efforts are underway to change the underlying Watson subsidiary and legal entity names to an Actavis name. This process is expected to continue to roll out throughout the year.

---

## **Table of Contents**

During 2012, on a combined business, we expanded our generic product line with the launch of over 1,000 generic products globally. Key U.S. generic launches in 2012 included enoxaparin sodium injection, progesterone, USP (an authorized generic version of Prometrium®), vancomycin hydrochloride, metformin hydrochloride extended release, ibandronate sodium, Next Choice™ (a generic version of Plan B One-Step®), trospium chloride extended release, levalbuterol hydrochloride inhalation solution, diclofenac sodium and misoprostol delayed-release, irbesartan USP, and pioglitazone hydrochloride. In addition, prior to being acquired by the Company, Actavis Group launched several key generic products in 2012, including a generic version of Adderall XR® in the U.S.

### **Operations in Key International Markets**

Approximately 25% of our Actavis Pharma revenue was derived outside the U.S. in 2012 primarily in Western Europe, Canada and Australia. As a result of the acquisition of Actavis Group on October 31, 2012, the percentage of Actavis Pharma revenue derived outside the U.S. is expected to increase. The Company now has operations in more than 60 countries, with leading generic market share positions in more than 33 markets including the U.S., U.K., Canada, Australia, Nordics and Russia.

### **Actavis Pharma Research and Development**

We devote significant resources to the research and development of generic products and proprietary drug delivery technologies. The Actavis Pharma segment incurred R&D expenses of approximately \$255.6 million in 2012, \$227.7 million in 2011, and \$194.6 million in 2010. We are presently developing a number of generic products through a combination of internal and collaborative programs.

Our Actavis Pharma R&D strategy focuses on the following product development areas:

off-patent drugs that are difficult to develop or manufacture, or that complement or broaden our existing product lines; and

the development of sustained-release, semi-solid, liquid, oral transmucosal, transdermal, gel, injectable, and other drug delivery technologies and the application of these technologies to proprietary drug forms.

We conduct research and development through a network of 18 global R&D centers. Our R&D activities focus on products using solid dosage form, oral controlled and sustained release, transdermal, gel and oral transmucosal technologies and following the acquisition of Actavis Group, also focus on liquids, semi-solids and injectibles. As of December 31, 2012, we conducted the majority of our R&D activities in Davie and Weston, Florida; Salt Lake City, Utah; Elizabeth New Jersey; Owings Mills, Maryland; Ag. Varvara, Greece; Mumbai, India; Liverpool, UK and Mississauga, Canada.

As of December 31, 2012, we had more than 185 ANDAs on file in the U.S. See the Government Regulation and Regulatory Matters section below for a description of our process for obtaining U.S. Food and Drug Administration approval for our products. See also ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities. in this Annual Report.

### **Actavis Specialty Brands Segment**

Newly developed pharmaceutical products normally are patented or have market exclusivity and, as a result, are generally offered by a single provider when first introduced to the market. We currently market a number of branded products to physicians, hospitals, and other markets that we serve. We classify these patented and off-patent trademarked products as our brand pharmaceutical products. In April 2012, we launched Gelnique 3%™ (oxybutynin), a clear, odorless topical gel that has been shown to be an effective and safe treatment for OAB. Gelnique 3%™ was obtained through an exclusive licensing agreement with Antares. Net revenues in our Actavis Specialty Brands segment were \$482.4 million or approximately 8% of our total net revenues in 2012. Typically, our brand products realize higher profit margins than our generic products.

## **Table of Contents**

Our portfolio of over 40 brand pharmaceutical products includes the following key products, which represented approximately 71% of total Actavis Specialty Brands segment product revenues in 2012:

<b>Actavis Brand Product</b>	<b>Active Ingredient</b>	<b>Therapeutic Classification</b>
Androderm <sup>®</sup>	Testosterone (transdermal patch)	Male testosterone replacement
Crinone <sup>®</sup>	Progesterone gel	Progesterone supplementation
Gelnique <sup>®</sup>	Oxybutnin Chloride (gel 3% and 10%)	Overactive bladder
Generess <sup>®</sup> Fe	Ethinyl estradiol and norethindrone	Oral contraceptive
INFeD <sup>®</sup>	Iron dextran	Hematinic
Oxytrol <sup>®</sup>	Oxybutnin (transdermal patch)	Overactive bladder
Rapaflo <sup>®</sup>	Silodosin	Benign prostatic hyperplasia
Trelstar <sup>®</sup>	Triptorelin pamoate injection	Prostate cancer

We market our brand products through approximately 430 sales professionals in the U.S. Our sales and marketing efforts focus on physicians, specifically urologists, obstetricians and gynecologists, who specialize in the diagnosis and treatment of particular medical conditions. Each group offers products to satisfy the unique needs of these physicians. Approximately 54 of these sales professionals are strategic account specialists who focus on institutions and clinics. We believe this focused sales and marketing approach enables us to foster close professional relationships with specialty physicians, as well as cover the primary care physicians who also prescribe in selected therapeutic areas. We generally sell our brand products under the Watson Pharma label. Following the renaming of Watson Pharmaceuticals, Inc. to Actavis, Inc. efforts are underway to change the underlying subsidiary and legal entities names to an Actavis name. We believe that the current structure of sales professionals is very adaptable to the additional products we plan to add to our brand portfolio, particularly in the therapeutic category of women's health.

Our key promoted products are Rapaflo<sup>®</sup>, Gelnique<sup>®</sup>, Trelstar<sup>®</sup>, Androderm<sup>®</sup>, Generess<sup>®</sup> Fe and Crinone<sup>®</sup>. Our Actavis Specialty Brands segment also receives other revenues consisting of co-promotion revenue and royalties. We promote AndroGel<sup>®</sup> on behalf of Abbvie Inc. We expect to continue this strategy of supplementing our existing brand revenues with co-promoted products within our targeted therapeutic areas. Other revenue totaled \$70.8 million for 2012 or approximately 14.7% of our total Actavis Specialty Brands segment net revenue.

### ***Operations in Key International Markets***

In conjunction with our strategy to grow and expand our Actavis Specialty Brands business in the Americas, in 2011 we established a commercial presence in Canada and in 2012 we began marketing and selling Rapaflo<sup>®</sup>, Gelnique<sup>®</sup> Oxytrol<sup>®</sup>, and Androderm<sup>®</sup> in Canada. Our Canadian sales efforts are supported by a sales force of approximately 24 representatives, targeting urologists and primary care physicians. Actavis plans to seek approval for several of its core Urology and Women's healthcare branded products in both Brazil and Mexico and intends to commercialize the products in this region once approval is obtained.

Outside of the Americas, we intend to maximize the value of our brand product portfolio and pipeline by utilizing the assets and expertise brought to our organization by the Actavis Group acquisition. Outside of the U.S., Actavis has a sales force of over 2,000 representatives that actively promote branded, generic, branded-generic, and OTC medicines. This sales force will play an important role in expanding the global commercial value of our branded portfolio.

### **Actavis Specialty Brands Research and Development**

We devote significant resources to the R&D of brand products, biosimilars and proprietary drug delivery technologies. A number of our brand products are protected by patents and have enjoyed market exclusivity. Actavis Specialty Brands segment R&D expenses were \$146.2 million in 2012, \$67.7 million in 2011, and \$101.5 million in 2010.

---

**Table of Contents**

Our Actavis Specialty Brands R&D strategy focuses on the following product development areas:

the application of proprietary drug-delivery technology for new product development in specialty areas; and

the acquisition of mid-to-late development-stage brand drugs and biosimilars.

We are presently developing a number of brand products, some of which utilize novel drug-delivery systems, through a combination of internal and collaborative programs.

Products in the brand pipeline include a second generation progesterone vaginal gel for infertility, Esmya in Canada for pre-surgical reduction of menstrual bleeding associated with uterine fibroids and in the U.S. for long-term uterine sparing, as well as two novel long-acting contraceptives in late stage development, a progestin-only patch and a vaginal ring. We also have a number of products in development as part of our life-cycle management strategy on our existing product portfolio.

With the acquisition of Uteron Pharma SA in January of 2013, we added three near-term products to our brand pipeline including Levosert® and Estelle® in contraception, Diafert® in infertility, and several additional products in earlier stages of development. Levosert® is an Intrauterine Device (IUD) for the indications of long term contraception and treatment of heavy bleeding. The product is currently pending approval in several European Union ( EU ) countries for first indication and is in late Phase III development for the U.S. market. Actavis has marketing rights for Levosert® in Western Europe and other regions and is partnered with third parties in the U.S., certain eastern European countries and certain other countries. Diafert® is a non-invasive immunoassay kit for the assessment of oocyte (egg) quality during in-vitro fertilization ( IVF ). We are currently preparing Diafert® for CE mark registration in the EU and expect to enter in Phase III development in the U.S. Estelle® is a novel oral contraceptive product being developed for global markets and is currently in late Phase II development in the U.S.

***Biosimilars***

Biosimilars development efforts are managed by our Actavis Specialty Brands segment.

In July 2010, the Company entered into an exclusive, worldwide licensing agreement with Itero Biopharmaceuticals, Inc. ( Itero ), a venture-backed specialty biopharmaceutical company, to develop and commercialize Itero s recombinant follicle stimulating hormone ( rFSH ) product. In 2012, the product began clinical development as a biosimilar molecule for the treatment of female infertility. Under the terms of the agreement, Actavis paid Itero an undisclosed licensing fee and will make additional payments based on the achievement of certain development and regulatory performance milestones. Upon successful commercialization, Actavis will also pay Itero a percentage of net sales or net profits in various regions of the world. Actavis assumed responsibility for all future development, manufacturing, and commercial expenses related to Itero s rFSH product.

In December 2011, we entered into a collaboration agreement with Amgen, Inc. ( Amgen ) to develop and commercialize, on a worldwide basis biosimilar versions of Herceptin®, Avastin®, Rituxan/Mab Thera®, and Erbitux®. Amgen will assume primary responsibility for developing, manufacturing and initially commercializing the oncology antibody products. The Company will contribute up to \$400.0 million in co-development costs over the course of development, including the provision of development support, and will share product development risks. In addition, we will contribute our significant expertise in the commercialization and marketing of products in highly competitive specialty and generic markets, including helping effectively manage the lifecycle of the biosimilar products. The collaboration products are expected to be sold under a joint Amgen/Actavis label. We will initially receive royalties and sales milestones from product revenues. The collaboration will not pursue biosimilars of Amgen s proprietary products.

On July 13, 2012, the Company entered into a global license agreement with Synthon, obtaining an exclusive license to its trastuzumab molecule, which is being developed as a biosimilar to Herceptin®. Actavis subsequently contributed the product to the Company s biosimilar collaboration with Amgen. Amgen and Actavis will assume all responsibility for worldwide development and commercialization of biosimilar

## **Table of Contents**

trastuzumab, including Phase III clinical trials and global manufacturing. The agreement entitles Synthon to an initial payment and the opportunity to receive a milestone payment and royalties on net sales. Synthon will also receive compensation for transitional support activities provided under the agreement.

### **Anda Distribution Segment**

Our Anda Distribution business primarily distributes generic and selected brand pharmaceutical products, vaccines, injectables and over-the-counter medicines to independent pharmacies, alternate care providers (hospitals, nursing homes and mail order pharmacies), pharmacy chains and physicians' offices. Additionally, we sell to members of buying groups, which are independent pharmacies that join together to enhance their buying power. We believe that we are able to effectively compete in the distribution market, and therefore optimize our market share, based on three critical elements: (i) competitive pricing, (ii) high levels of inventory for approximately 11,450 SKUs for responsive customer service that includes, among other things, next day delivery to the entire U.S., and (iii) well established telemarketing relationships with our customers, supplemented by our electronic ordering capabilities. While we purchase most of the approximate 11,450 SKUs in our Anda Distribution operations from third party manufacturers, we also distribute our own products and our collaborative partners' products. We are the only U.S. pharmaceutical company that has meaningful distribution operations with direct access to independent pharmacies.

Revenue growth in our distribution operations will primarily be dependent on the launch of new products, offset by the overall level of net price and unit declines on existing distributed products and will be subject to changes in market share.

We presently distribute products from our facilities in Weston, Florida, Groveport, Ohio, and Olive Branch, Mississippi as well as a small volume of product from Puerto Rico. In 2012, we completed construction of the 234,000 square foot distribution facility in Olive Branch, MS and over time, we expect to relocate our Groveport, Ohio distribution operations to this new facility.

### **Financial Information About Segments and Geographic Areas**

Actavis evaluates the performance of its Actavis Pharma, Actavis Specialty Brands and Anda Distribution business segments based on net revenues and net contribution. Summarized net revenues and contribution information for each of the last three fiscal years in the U.S. and internationally, where applicable, is presented in NOTE 14 Segments in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

### **Customers**

In our Actavis Pharma and Actavis Specialty Brands operations, we sell our generic and brand pharmaceutical products primarily to drug wholesalers, retailers and distributors, including national retail drug and food store chains, hospitals, clinics, mail order, government agencies and managed healthcare providers such as health maintenance organizations and other institutions. In our Anda Distribution business, we distribute generic and certain select brand pharmaceutical products to independent pharmacies, alternate care providers (hospitals, nursing homes and mail order pharmacies), pharmacy chains, physicians' offices and buying groups.

Sales to certain of our customers accounted for 10% or more of our annual net revenues during the past three years. The following table illustrates any customer, on a global basis, which accounted for 10% or more of our annual net revenues and the respective percentage of our net revenues for which they account for each of the last three years:

<b>Customer</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Walgreen Co.	16%	16%	14%
McKesson Corporation	14%	14%	11%

McKesson and certain of our other customers comprise a significant part of the distribution network for pharmaceutical products in North America. As a result, a small number of large, wholesale distributors and large

---

## **Table of Contents**

chain drug stores control a significant share of the market. This concentration may adversely impact pricing and create other competitive pressures on drug manufacturers. Our Anda Distribution business competes directly with our large wholesaler customers with respect to the distribution of generic products.

The loss of any of these customers could have a material adverse effect on our business, results of operations, financial condition and cash flows. See ITEM 1A. RISK FACTORS Risk Relating to Investing in the Pharmaceutical Industry in this Annual Report.

### **Competition**

The pharmaceutical industry is highly competitive. In our Actavis Pharma and Actavis Specialty Brands businesses, we compete with different companies depending upon product categories, and within each product category, upon dosage strengths and drug delivery systems. Such competitors include the major brand name and generic manufacturers of pharmaceutical products. In addition to product development, other competitive factors in the pharmaceutical industry include product quality and price, reputation and service and access to proprietary and technical information. It is possible that developments by others will make our products or technologies noncompetitive or obsolete.

Competing in the brand product business requires us to identify and bring to market new products embodying technological innovations. Successful marketing of brand products depends primarily on the ability to communicate their effectiveness, safety and value to healthcare professionals in private practice, group practices and receive formulary status from managed care organizations. We anticipate that our brand product offerings will support our existing areas of therapeutic focus. Based upon business conditions and other factors, we regularly reevaluate our business strategies and may from time to time reallocate our resources from one therapeutic area to another, withdraw from a therapeutic area or add an additional therapeutic area in order to maximize our overall growth opportunities. Our competitors in brand products include major brand name manufacturers of pharmaceuticals. Based on total assets, annual revenues and market capitalization, our Actavis Specialty Brands segment is considerably smaller than many of these competitors and other global competitors in the brand product area. Many of our competitors have been in business for a longer period of time, have a greater number of products on the market and have greater financial and other resources than we do. If we directly compete with them for certain contracted business, such as the Pharmacy Benefit Manager business, and for the same markets and/or products, their financial strength could prevent us from capturing a meaningful share of those markets.

We actively compete in the generic pharmaceutical industry. Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors. As patents and regulatory exclusivity for brand name products expire or are successfully challenged, the first off-patent manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products, market share, revenues and gross profit typically decline, in some cases dramatically. Accordingly, the level of market share, revenues and gross profit attributable to a particular generic product normally is related to the number of competitors in that product's market and the timing of that product's regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross profit. In addition to competition from other generic drug manufacturers, we face competition from brand name companies in the generic market. Many of these companies seek to participate in sales of generic products by, among other things, collaborating with other generic pharmaceutical companies or by marketing their own generic equivalent to their brand products as Authorized Generics. Our major competitors include Teva Pharmaceutical Industries, Ltd., Mylan Inc. and Sandoz, Inc. (a division of Novartis AG). See ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry The pharmaceutical industry is highly competitive and our future revenue growth and profitability are dependent on our timely development and launches of new products ahead of our competitors. in this Annual Report.

In our Anda Distribution business, we compete with a number of large wholesalers and other distributors of pharmaceuticals, including McKesson Corporation, AmerisourceBergen Corporation and Cardinal Health, Inc.,

---

## **Table of Contents**

which distribute both brand and generic pharmaceutical products to their customers. These same companies are significant customers of our Actavis Pharma and Actavis Specialty Brands pharmaceutical businesses. As generic products generally have higher gross margins than brand products for a pharmaceutical distribution business, each of the large wholesalers, on an increasing basis, are offering pricing incentives on brand products if the customers purchase a majority of their generic pharmaceutical products from the primary wholesaler. As we do not offer a broad portfolio of brand products to our customers, we are at times competitively disadvantaged and must compete with these wholesalers based upon our very competitive pricing for generic products, greater service levels and our well-established telemarketing relationships with our customers, supplemented by our electronic ordering capabilities. Additionally, generic manufacturers are increasingly marketing their products directly to drug store chains with warehousing facilities and thus increasingly bypassing wholesalers and distributors. Increased competition in the generic industry as a whole may result in increased price erosion in the pursuit of market share. See ITEM 1A. RISK FACTORS Risks Related to Our Business Our distribution operations compete directly with significant customers of our generic and brand businesses in this Annual Report.

### **Manufacturing, Suppliers and Materials**

During 2012, we manufactured many of our own finished products at our plants including major manufacturing sites in Athens, Greece; Barnstaple, UK; Birzebugia, Malta; Corona, California; Davie, Florida; Dupnitsa, Bulgaria; Elizabeth, NJ; Goa, India; Hafnarfjordur, Iceland; Lincolnton, NC; Mississauga, Canada; and Salt Lake City, Utah. We have implemented several cost reduction initiatives, which included the transfer of several solid dosage products from our Mississauga, Canada facility to our Goa, India and Birzebugia, Malta facilities, and the ongoing implementation of our Operational Excellence Initiative at certain of our manufacturing facilities. Our manufacturing facilities also include additional plants supporting local markets and alternative dosage forms. For a full list of manufacturing facilities please refer to ITEM 2. PROPERTIES in this Annual Report.

We have development and manufacturing capabilities for raw material and active pharmaceutical ingredients ( API ) and intermediate ingredients to support our internal product development efforts in our Coleraine, Northern Ireland and Ambernath, India facilities. Our Ambernath, India facility also manufactures API for third parties.

Our manufacturing operations are subject to extensive regulatory oversight and could be interrupted at any time. Our Corona, California facility is currently subject to a consent decree of permanent injunction. See ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities. Also refer to *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

We are dependent on third parties for the supply of the raw materials necessary to develop and manufacture our products, including the API and inactive pharmaceutical ingredients used in our products. We are required to identify the supplier(s) of all the raw materials for our products in the drug applications that we file with the FDA. If raw materials for a particular product become unavailable from an approved supplier specified in a drug application, we would be required to qualify a substitute supplier with the FDA, which would likely interrupt manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some raw materials are available only from a single source and, in many of our drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist.

We obtain a significant portion of our raw materials from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, FDA regulation, customs clearance, various import duties, foreign currency risk and other government clearances. Acts of governments outside the U.S. may affect the price or availability of raw materials needed for the development or manufacture of our products. In addition, any changes in patent laws in jurisdictions outside the U.S. may make it increasingly difficult to obtain raw materials for R&D prior to the expiration of the applicable U.S. or foreign patents. See ITEM 1A. RISK FACTORS Risks Related to Our Business If we are unable to obtain sufficient supplies from key suppliers

---

## **Table of Contents**

that in some cases may be the only source of finished products or raw materials, our ability to deliver our products to the market may be impeded in this Annual Report. See also ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry The supply of APIs into Europe may be negatively affected by recent regulations promulgated by the European Union in this Annual Report.

### **Patents and Proprietary Rights**

We believe patent protection of our proprietary products is important to our Actavis Specialty Brands business. Our success with our brand products will depend, in part, on our ability to obtain, and successfully defend if challenged, patent or other proprietary protection for such products. We currently have a number of U.S. and foreign patents issued or pending. However, the issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. Accordingly, our patents may not prevent other companies from developing similar or functionally equivalent products or from successfully challenging the validity of our patents. If our patent applications are not approved or, even if approved, if such patents are circumvented or not upheld in a court of law, our ability to competitively market our patented products and technologies may be significantly reduced. Also, such patents may or may not provide competitive advantages for their respective products or they may be challenged or circumvented by competitors, in which case our ability to commercially market these products may be diminished. From time to time, we may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market our products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially market such products may be inhibited or prevented. Patents covering our Androderm® and INFed® products have expired and we have no further patent protection on these products.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with our partners, customers, employees and consultants. It is possible that these agreements will be breached or will not be enforceable in every instance, and we will not have adequate remedies for any such breach. It is also possible that our trade secrets will otherwise become known or independently developed by competitors.

We may find it necessary to initiate litigation to enforce our patent rights, to protect our trade secrets or know-how or to determine the scope and validity of the proprietary rights of others. Litigation concerning patents, trademarks, copyrights and proprietary technologies can often be protracted and expensive and, as with litigation generally, the outcome is inherently uncertain.

Pharmaceutical companies with brand products are suing companies that produce off-patent forms of their brand name products for alleged patent infringement or other violations of intellectual property rights which may delay or prevent the entry of such a generic product into the market. For instance, when we file an ANDA in the U.S. seeking approval of a generic equivalent to a brand drug, we may certify under the Drug Price Competition and Patent Restoration Act of 1984 (the Hatch-Waxman Act ) to the FDA that we do not intend to market our generic drug until any patent listed by the FDA as covering the brand drug has expired, in which case, the ANDA will be approved by the FDA no earlier than the expiration or final finding of invalidity of such patent(s). On the other hand, we could certify that we believe the patent or patents listed as covering the brand drug are invalid and/or will not be infringed by the manufacture, sale or use of our generic form of the brand drug. In that case, we are required to notify the brand product holder or the patent holder that such patent is invalid or is not infringed. If the patent holder sues us for patent infringement within 45 days from receipt of the notice, the FDA is then prevented from approving our ANDA for 30 months after receipt of the notice unless the lawsuit is resolved in our favor in less time or a shorter period is deemed appropriate by a court. In addition, increasingly aggressive tactics employed by brand companies to delay generic competition, including the use of Citizen Petitions and seeking changes to U.S. Pharmacopeia, have increased the risks and uncertainties regarding the timing of approval of generic products.

Litigation alleging infringement of patents, copyrights or other intellectual property rights may be costly and time consuming. See ITEM 1A. RISK FACTORS Risks Related to Our Business Third parties may claim that we infringe their proprietary rights and may prevent us from manufacturing and selling some of our products and *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.



---

## **Table of Contents**

### **Government Regulation and Regulatory Matters**

#### *United States*

Because a balanced and fair legislative and regulatory arena is critical to the pharmaceutical industry, we will continue to devote management time and financial resources on government activities. We currently maintain an office and staff a full-time government affairs function in Washington, D.C. that maintains responsibility for keeping abreast of state and federal legislative activities.

All pharmaceutical manufacturers, including Actavis, are subject to extensive, complex and evolving regulation by the federal government, principally the FDA, and to a lesser extent, by the U.S. Drug Enforcement Administration ( DEA ), Occupational Safety and Health Administration and state government agencies, as well as by various regulatory agencies in foreign countries where our products or product candidates are being manufactured and/or marketed. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other federal statutes and regulations govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products. In our international markets, the approval, manufacture and sale of pharmaceutical products is similar to the United States with some variations dependent upon local market dynamics.

FDA approval is required before any dosage form of any new drug, including an off-patent equivalent of a previously approved drug, can be marketed. The process for obtaining governmental approval to manufacture and market pharmaceutical products is rigorous, time-consuming and costly, and the extent to which it may be affected by legislative and regulatory developments cannot be predicted. We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping new products. See ITEM 1A. RISK FACTORS Risks Related to Our Business If we are unable to successfully develop or commercialize new products, our operating results will suffer. and Risks Relating To Investing In the Pharmaceutical Industry Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities in this Annual Report.

All applications for FDA approval must contain information relating to product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling and quality control. There are generally two types of applications for FDA approval that would be applicable to our new products:

*NDA.* We file a New Drug Application ( NDA ) when we seek approval for drugs with active ingredients and/or with dosage strengths, dosage forms, delivery systems or pharmacokinetic profiles that have not been previously approved by the FDA. Generally, NDAs are filed for newly developed brand products or for a new dosage form of previously approved drugs.

*ANDA.* We file an ANDA when we seek approval for off-patent, or generic equivalents of a previously approved drug. FDA approval of an ANDA is required before we may begin marketing an off-patent or generic equivalent of a drug that has been approved under an NDA, or a previously unapproved dosage form of a drug that has been approved under an NDA. The ANDA approval process generally differs from the NDA approval process in that it does not typically require new preclinical and clinical studies; instead, it relies on the clinical studies establishing safety and efficacy conducted for the previously approved NDA drug. The ANDA process, however, typically requires data to show that the ANDA drug is bioequivalent to the previously approved drug. Bioequivalence compares the bioavailability of one drug product with another and, when established, indicates whether the rate and extent of absorption of a generic drug in the body are substantially equivalent to the previously approved drug. Bioavailability establishes the rate and extent of absorption, as determined by the time dependent concentrations of a drug product in the bloodstream or body needed to produce a therapeutic effect. The ANDA drug development and approval process generally takes three to four years which is less time than the NDA drug development and approval process since the ANDA process does not require new clinical trials establishing the safety and efficacy of the drug product.

Supplemental NDAs or ANDAs are required for, among other things, approval to transfer certain products from one manufacturing site to another or to change an API supplier, and may be under review for a year or

---

## **Table of Contents**

more. In addition, certain products may only be approved for transfer once new bioequivalency studies are conducted or other requirements are satisfied.

To obtain FDA approval of both NDAs and ANDAs, our manufacturing procedures and operations must conform to FDA quality system and control requirements generally referred to as current Good Manufacturing Practices ( cGMP ), as defined in Title 21 of the U.S. Code of Federal Regulations. These regulations encompass all aspects of the production process from receipt and qualification of components to distribution procedures for finished products. They are evolving standards; thus, we must continue to expend substantial time, money and effort in all production and quality control areas to maintain compliance. The evolving and complex nature of regulatory requirements, the broad authority and discretion of the FDA, and the generally high level of regulatory oversight results in the continuing possibility that we may be adversely affected by regulatory actions despite our efforts to maintain compliance with regulatory requirements.

We are subject to the periodic inspection of our facilities, procedures and operations and/or the testing of our products by the FDA, the DEA and other authorities, which conduct periodic inspections to assess compliance with applicable regulations. In addition, in connection with its review of our applications for new products, the FDA conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems and processes comply with cGMP and other FDA regulations. Among other things, the FDA may withhold approval of NDAs, ANDAs or other product applications of a facility if deficiencies are found at that facility. Vendors that supply finished products or components to us that we use to manufacture, package and label products are subject to similar regulation and periodic inspections.

Following such inspections, the FDA may issue notices on Form 483 and Warning Letters that could cause us to modify certain activities identified during the inspection. A Form 483 notice is generally issued at the conclusion of an FDA inspection and lists conditions the FDA investigators believe may violate cGMP or other FDA regulations. FDA guidelines specify that a Warning Letter be issued only for violations of regulatory significance for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action.

Failure to comply with FDA and other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, ANDAs or other product application enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. Although we have internal compliance programs, if these programs do not meet regulatory agency standards or if our compliance is deemed deficient in any significant way, it could have a material adverse effect on us. See ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities. in this Annual Report. The Generic Drug Enforcement Act of 1992 established penalties for wrongdoing in connection with the development or submission of an ANDA. Under this Act, the FDA has the authority to permanently or temporarily bar companies or individuals from submitting or assisting in the submission of an ANDA, and to temporarily deny approval and suspend applications to market generic drugs. The FDA may also suspend the distribution of all drugs approved or developed in connection with certain wrongful conduct and/or withdraw approval of an ANDA and seek civil penalties. The FDA can also significantly delay the approval of any pending NDA, ANDA or other regulatory submissions under the Fraud, Untrue Statements of Material Facts, Bribery and Illegal Gratuities Policy Act.

U.S. Government reimbursement programs include Medicare, Medicaid, TriCare, and State Pharmacy Assistance Programs established according to statute, government regulations and policy. Federal law requires that all pharmaceutical manufacturers, as a condition of having their products receive federal reimbursement under Medicaid, must pay rebates to state Medicaid programs on units of their pharmaceuticals that are dispensed to Medicaid beneficiaries. With enactment of the Affordable Care Act ( ACA ) as it is now known, the required per-unit rebate for products marketed under ANDAs increased from 11% of the average manufacturer price to 13%. Additionally, for products marketed under NDAs, the manufacturers rebate increased from 15.1% to 23.1% of the average manufacturer price, or the difference between the average manufacturer price and the lowest net sales price to a non-government customer during a specified period. In some states, supplemental rebates are required as a condition of including the manufacturer's drug on the state's Preferred Drug List.

---

**Table of Contents**

ACA also made substantial changes to reimbursement when seniors reach the Medicare Part D coverage gap donut hole. By 2020, Medicare beneficiaries will pay 25% of drug costs when they reach the coverage threshold the same percentage they were responsible for before they reached that threshold.

The cost of closing the donut hole is being borne by generic and brand drug companies. Beginning in 2011, brand drug manufacturers were required to provide a 50% discount on their drugs. Additionally, beginning in 2013, the government will provide subsidies for brand-name drugs bought by seniors who enter the coverage gap. The government's share will start at 2.5%, but will increase to 25% by 2020. At that point, the combined industry discounts and government subsidies will add up to 75% of brand-name drug costs. Government subsidies currently cover 7% of generic drug costs. The government will subsidize additional portions each year until 2020, when federal government subsidies will cover 75% of generic drug costs. By 2020, the donut hole will be completely closed through these manufacturers' subsidies.

The Deficit Reduction Act of 2005 (DRA) mandated a number of changes in the Medicaid program, including the use of Average Manufacturers Price (AMP) as the basis for reimbursement to pharmaceutical companies that dispense generic drugs under the Medicaid program. Three health care reform bills passed in 2010 significantly changed the definition of AMP, effective October 1, 2010. These legislative changes were part of ACA, the Health Care and Education Reconciliation Act, and the FAA Air Transportation Modernization & Safety Improvement Act (Transportation Bill). In ACA, Congress substantially revised the definition of AMP to, among other things, narrow the scope of prices included in the calculation of AMP to those paid to a manufacturer by wholesalers for drugs distributed to retail community pharmacies or by retail community pharmacies that purchase directly from manufacturers. In August 2010, Congress further amended the definition of AMP to specify that the exclusion of certain classes of trade from AMP does not apply to inhalation, infusion, instilled, implanted, or injected drugs that typically are not dispensed to retail community pharmacies. ACA also requires disclosure of weighted average AMP instead of manufacturer AMP, which was previously required. The impact of this new legislation is that there will likely be increases in Medicaid reimbursement to pharmacies for generics. These changes became effective on October 1, 2010.

On November 9, 2010, the Center for Medicare and Medicaid Services (CMS) issued a final rule withdrawing and amending regulations that have governed the calculation of AMP and the establishment of federal upper limits since October 2007. The regulations were withdrawn to mandate AMP calculation under the recently revised drug rebate statute. The withdrawal required manufacturers to base October 2010 and subsequent months' AMPs on the statutory language until official guidance is issued.

In the absence of regulatory guidance governing the AMP calculation, CMS had instructed pharmaceutical manufacturers to base their AMP calculations on the definitions set forth in the statute, as amended by the ACA, the Health Care and Education Reconciliation Act, and the Transportation Bill. Without the benefit of interpretive guidance from CMS, Watson adopted mechanisms to ensure that we were calculating and reporting AMP in a manner that was consistent with the statute's text and intent.

In subsequent months, CMS posted draft weighted average monthly AMPs and draft Federal Upper Limits in advance of publishing the new AMP rule. On January 27, 2012, CMS issued proposed rules on Medicaid pharmacy reimbursement using the AMP model. On June 28, 2012, the United States Supreme Court upheld the individual mandate provisions of ACA as a tax, and therefore, allowable under Congress' powers to levy taxes. There remain efforts in numerous states' legislatures to limit, alter or oppose the law.

To assist us in commercializing products, we have obtained from government authorities and private health insurers and other organizations, such as Health Maintenance Organizations (HMOs) and Managed Care Organizations (MCOs), authorization to receive reimbursement at varying levels for the cost of certain products and related treatments. Third party payers increasingly challenge pricing of pharmaceutical products. The trend toward managed healthcare in the U.S., the growth of organizations such as HMOs and MCOs and legislation to reform healthcare and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. Such cost containment measures and healthcare legislation could affect our ability to sell our products and may have a material adverse effect on our business, results of operations, financial condition and cash flows. Due to the uncertainty surrounding reimbursement of newly approved pharmaceutical products, reimbursement may not be available for

**Table of Contents**

some of our products. Additionally, any reimbursement granted may not be maintained or limits on reimbursement available from third-party payers may reduce the demand for, or negatively affect the price of, those products.

Federal, state, local and foreign laws of general applicability, such as laws regulating working conditions, also govern us. In addition, we are subject, as are all manufacturers generally, to numerous and increasingly stringent federal, state and local environmental laws and regulations concerning, among other things, the generation, handling, storage, transportation, treatment and disposal of toxic and hazardous substances and the discharge of pollutants into the air and water. Environmental permits and controls are required for some of our operations, and these permits are subject to modification, renewal and revocation by the issuing authorities. Our environmental capital expenditures and costs for environmental compliance may increase in the future as a result of changes in environmental laws and regulations or increased manufacturing activities at any of our facilities. We could be adversely affected by any failure to comply with environmental laws, including the costs of undertaking a clean-up at a site to which our wastes were transported.

As part of the Medicare Prescription Drug and Modernization Act of 2003 ( MMA ), companies are required to file with the U.S. Federal Trade Commission ( FTC ) and the Department of Justice certain types of agreements entered into between brand and generic pharmaceutical companies related to the manufacture, marketing and sale of generic versions of brand drugs. This requirement could affect the manner in which generic drug manufacturers resolve intellectual property litigation and other disputes with brand pharmaceutical companies, and could result generally in an increase in private-party litigation against pharmaceutical companies. The impact of this requirement, and the potential private-party lawsuits associated with arrangements between brand name and generic drug manufacturers, is uncertain and could adversely affect our business. For example, in January 2009, the FTC and the State of California filed a lawsuit against us alleging that our settlement with Solvay related to our ANDA for a generic version of AndroGel® is unlawful. Beginning in February 2009, several private parties purporting to represent various classes of plaintiffs filed similar lawsuits. We were successful in obtaining a dismissal of the FTC 's lawsuit, and such dismissal was affirmed by the U.S. Court of Appeals for the Eleventh Circuit. However, in December 2012 the FTC 's petition to the U.S. Supreme Court for a writ of certiorari in Federal Trade Commission v. Watson Pharmaceuticals Inc., 677 F.3d 1298 (11<sup>th</sup> Cir. 2012) was granted. Oral arguments on the petition are scheduled for March 25, 2013.

Additionally, we have received requests for information, sometimes in the form of civil investigative demands or subpoenas, from the FTC and the European Competition Commission, and are subject to ongoing FTC and European Competition Commission investigations. Two of our Arrow Group subsidiaries currently are the subject of a European Competition Commission Statement of Objection related to their 2002 and 2003 settlements of patent litigation related to citalopram. Any adverse outcome of these or other investigations or actions could have a material adverse effect on our business, results of operations, financial condition and cash flows. See ITEM 1A. RISK FACTORS Risks Relating To Investing In the Pharmaceutical Industry Federal regulation of arrangements between manufacturers of brand and generic products could adversely affect our business. Also refer to *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

Our Anda Distribution operations and our customers are subject to various regulatory requirements, including requirements from the DEA, FDA, and state boards of pharmacy and city and county health regulators, among others. These include licensing, registration, recordkeeping, security and reporting requirements. For example, the DEA requires our Anda Distribution business to monitor customer orders of DEA Scheduled Drugs and to report suspicious orders to the DEA. Any determination by the DEA that we have failed to comply with applicable laws and regulations could result in DEA suspending, terminating or refusing to renew Anda Distribution 's license to distribute Scheduled Drugs. Additionally, numerous states and the federal government have begun to enforce anti-counterfeit drug pedigree laws which require the tracking of all transactions involving prescription drugs beginning with the manufacturer, through the supply chain, and down to the pharmacy or other health care provider dispensing or administering prescription drug products. For example, effective July 1, 2006, the Florida Department of Health began enforcement of the drug pedigree requirements for distribution of prescription drugs in the State of Florida. Pursuant to Florida law and regulations, wholesalers and distributors, including our subsidiary, Anda, are required to maintain records documenting the chain of custody of

---

**Table of Contents**

prescription drug products they distribute beginning with the purchase of such products from the manufacturer. These entities are required to provide documentation of the prior transaction(s) to their customers in Florida, including pharmacies and other health care entities. Several other states have proposed or enacted legislation to implement similar or more stringent drug pedigree requirements. In addition, federal law requires that a non-authorized distributor of record must provide a drug pedigree documenting the prior purchase of a prescription drug from the manufacturer or from an authorized distributor of record. In cases where the wholesaler or distributor selling the drug product is not deemed an authorized distributor of record, it would need to maintain such records. The FDA had announced its intent to impose additional drug pedigree requirements (e.g., tracking of lot numbers and documentation of all transactions) through implementation of drug pedigree regulations which were to have taken effect on December 1, 2006. However, a federal appeals court has issued a preliminary injunction to several wholesale distributors granting an indefinite stay of these regulations pending a challenge to the regulations by these wholesale distributors. See ITEM 1A. RISK FACTORS Risks Relating to Investing In the Pharmaceutical Industry Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities in this Annual Report.

***European Union***

Pharmaceutical regulation and marketing in Europe similar to that of U.S. requirements. Pharmaceutical manufacturers are regulated in the EU by the European Medicines Agency (EMA). All manufacturers are required to submit medicinal products, including generic versions of previously approved products and new strengths, dosages and formulations of previously approved products, to the EMA and its member states for review and marketing authorization before they are placed on the market in the EU.

Marketing authorizations are granted to sponsors after a positive assessment of quality, safety and efficacy of the product by the respective health authority. Application must contain the results pre-clinical tests, pharmaceutical tests, and clinical trials. All of these tests must have been conducted in accordance within European regulations and must allow the reviewing body to evaluate the quality, safety and efficacy of the medicinal product.

In addition to obtaining marketing authorization for each product, most member states require that a manufacturer's facilities obtain approval from the national authority. The EU has a code of good manufacturing practices that each manufacturer must follow and comply. Regulatory authorities in the EU may conduct inspections of the manufacturing facilities to review procedures, operating systems and personnel qualifications. See ITEM 1A. RISK FACTORS Risks Relating to Investing In the Pharmaceutical Industry The supply of APIs into Europe may be negatively affected by recent regulations promulgated by the European Union in this Annual Report.

In the EU, member states regulate the pricing of pharmaceutical products, and in some cases, the formulation and dosing of these products. This regulation is handled by individual member state national health services. These individual regulatory bodies can result in considerable price differences and product availability among member states. Recent efforts to implement a tendering system for the pricing of pharmaceuticals in several countries will impact drug pricing for generics; generally tendering refers to a system that requires bids to be submitted to the government by competing manufacturers to be the exclusive, or one of a few supplier(s) of a product in a particular country.

Further, faced with major budget constraints, many European countries have resorted to price cuts that affect both innovative and generic pharmaceuticals although in some countries it has disproportionately affected generic products. See ITEM 1A. RISK FACTORS Risks Related to Our Business Global economic conditions could harm us. in this Annual Report. In addition, some EU countries such as France, Serbia and Spain, recently had to address statements and rumors claiming that generics are not as safe and effective as reference drugs, which undermines efforts to increase generic utilization rates.

Substitution of biological drugs is not feasible in many European countries and the innovative industry continues its efforts to prevent automatic substitution of biosimilars and to assign different names to original and follow-on biologics.

---

**Table of Contents**

***Canada***

In Canada, pharmaceutical manufacturers are regulated by the Therapeutic Products Directorate ( TPD ) which derives its authority from the Canadian federal government under the Food and Drugs Act and the Controlled Drug and Substances Act. The TPD evaluates and monitors the safety, effectiveness and quality of pharmaceutical products. Products are officially approved for marketing in Canada following receipt of a market authorization, or Notice of Compliance (NOC), which is subject to the Food and Drug Regulations. Issuance of a Notice of Compliance for generic drug products is also subject to the Patented Medicines (Notice of Compliance) Regulations under the Patent Act.

Each Canadian province provides a comprehensive public drug program, which controls drug pricing and reimbursement and is responsible for ensuring eligible patients receive drugs through public funding. Pharmaceutical products available to patients are listed on provincial Drug Benefit Formularies. Currently, Canada's provinces are looking at national competitive bidding processes/tendering of drugs, which may affect the sustainability of the industry and the supply of pharmaceuticals.

Finally, Canada is involved in two major trade negotiations, one with the European Union (CETA), and the second one with ten Pacific countries including the United States (Trans Pacific Partnership), both of which could delay generic competition, for example, by changing Canada's IP framework to require the adoption of patent term extensions.

***Australia***

Pharmaceutical manufacturers and products are regulated in Australia by the Therapeutic Goods Administration ( TGA ) which oversees the quality, safety and efficacy of pharmaceutical products and other therapeutic goods. The TGA is a Division of the Australian Department of Health and Aging and established under the Therapeutic Goods Act of 1989.

Australian pharmaceutical manufacturers must be licensed under Part 3-3 of the Act, and their manufacturing facilities and processes must comply with good manufacturing practices in Australia. All pharmaceutical products manufactured for supply in Australia must be listed in the Australian Register of Therapeutic Goods ( ARTG ), before they can be marketed or supplied for sale in Australia.

The government regulates the pharmaceuticals market through the Pharmaceutical Benefits Scheme (PBS), which is a governmental healthcare program established to subsidize the cost of pharmaceuticals to Australian citizens. The PBS is operated under the National Health Act 1953. This statute legislates who may sell pharmaceutical products, pharmaceutical product pricing and governmental subsidies. More than 80% of all prescription medicines sold in Australia are reimbursed by the PBS. For pharmaceutical products listed on the PBS, the price is determined through negotiations between the Pharmaceutical Benefits Pricing Authority and pharmaceutical suppliers.

The government is conducting a Pharmaceutical Patents Review to evaluate whether the system for pharmaceutical patents is effectively balancing the objectives of securing timely access to competitively priced pharmaceuticals, fostering innovation and supporting employment in research and industry. The report is expected to be published at the end of April 2013. Further, the Productivity Commission is also conducting a review on the Compulsory Licensing that may affect the licensing of pharmaceutical products in Australia. This would pose a greater risk to brand products still under patent protection.

Australia is engaged in various trade negotiations, including the Trans Pacific Partnership that could have pricing implications for its patent and regulatory frameworks and affect the Pharmaceutical Benefits Scheme.

***Russia***

Federal legislation sets out the fundamentals of regulation in the sphere of health care. Federal Law on Pharmaceuticals No. 86-FZ of June 22, 1998 (as amended on December 18, 2006) (the Pharmaceutical Law ) establishes the general framework of legal requirements applicable to circulation of pharmaceuticals, including development, production, trials, quality control, efficacy, safety, importation and sale.

---

## **Table of Contents**

Given the importance to the public of the health care sector, and providing the population with safe and high quality pharmaceuticals, the Pharmaceutical Law makes it a priority for the state to control the production, quality, efficacy, and safety of pharmaceuticals.

Russia's pharmaceutical market consists largely of an out-of-pocket retail market (70% of total market value), and the retail market is driven by promotion of branded products (whether originator or branded generics). A trend of increases in the cost of health care has drawn public scrutiny. Budget constraints and lower government revenue may impact timing of market entry and/or adversely affect pricing, and compel the government to resort to a tendering model. This could create new challenges particularly for foreign companies, as along with downward pricing pressures, Russia tends to favor domestically based producers.

Some foreign manufacturers, particularly in the pharmaceutical sector, have registered their wholly-owned subsidiaries in Russia. They then sell directly to their own companies registered in Russia who import for their own account. This approach affords full control of the supplier over distribution and helps to further reduce possible risks from relying on independent importers and distributors. For example, Actavis owns and operates a solid dosage manufacturing site in Podolsk, and employs more than 400 people, including regional representatives in 34 major regional centers. On the Russian market Actavis supplies both OTC medicines and prescription drugs, focusing on the delivery of drugs for the treatment of the most relevant diseases and conditions, such as medicines for treating the nervous and cardiovascular systems.

### **Environmental Matters**

We are subject to federal, state, and local environmental laws and regulations in the United States and abroad. We believe that our operations comply in all material respects with applicable environmental laws and regulations in each jurisdiction where we have a business presence. Although we continue to make capital expenditures for environmental protection, we do not anticipate any significant expenditure in order to comply with such laws and regulations that would have a material impact on our earnings or competitive position. We are not aware of any pending litigation or significant financial obligations arising from current or past environmental practices that are likely to have a material adverse effect on our financial position. We cannot assure you, however, that environmental problems relating to facilities owned or operated by us will not develop in the future, and we cannot predict whether any such problems, if they were to develop, could require significant expenditures on our part. In addition, we are unable to predict what legislation or regulations may be adopted or enacted in the future with respect to environmental protection and waste disposal. See ITEM 1A. RISK FACTORS - Risks Related to Our Business - Our business will continue to expose us to risks of environmental liabilities in this Annual Report.

### **Seasonality**

There are no significant seasonal aspects that are expected to materially impact our business.

### **Backlog**

As a result of the extent of our supply chain, backlog of orders is not material to our business.

### **Employees**

As of December 31, 2012, we had approximately 17,700 employees. Of our employees, approximately 2,000 were engaged in R&D, 6,900 in manufacturing, 1,500 in quality assurance and quality control, 6,150 in sales, marketing and distribution, and 1,150 in administration.

## **ITEM 1A. RISK FACTORS**

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Any statements made in this report that are not statements of historical fact or that refer to estimated or anticipated future events are forward-looking statements. We have based our forward-looking statements on management's beliefs and assumptions based on information available to our management at the time these statements are made. Such forward-looking statements reflect our current perspective of our business, future

---

## **Table of Contents**

performance, existing trends and information as of the date of this filing. These include, but are not limited to, our beliefs about future revenue and expense levels and growth rates, prospects related to our strategic initiatives and business strategies, including the integration of, and synergies associated with, strategic acquisitions, express or implied assumptions about government regulatory action or inaction, anticipated product approvals and launches, business initiatives and product development activities, assessments related to clinical trial results, product performance and competitive environment, and anticipated financial performance. Without limiting the generality of the foregoing, words such as *may*, *will*, *expect*, *believe*, *anticipate*, *plan*, *intend*, *could*, *would*, *should*, *estimate*, *continue*, *or pursue*, or the negative thereof or comparable terminology, are intended to identify forward-looking statements. The statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. We caution the reader that these statements are based on certain assumptions, risks and uncertainties, many of which are beyond our control. In addition, certain important factors may affect our actual operating results and could cause such results to differ materially from those expressed or implied by forward-looking statements. We believe the risks and uncertainties discussed under the section entitled **Risks Related to Our Business**, and other risks and uncertainties detailed herein and from time to time in our SEC filings, may cause our actual results to vary materially from those anticipated in any forward-looking statement.

We disclaim any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

### **Risks Related to Our Business**

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. The following discussion highlights some of these risks and others are discussed elsewhere in this Annual Report. These and other risks could have a material adverse effect on our business, results of operations, financial condition and cash flows.

### **Risks Associated With Investing In the Business of Actavis**

#### ***Our operating results and financial condition may fluctuate.***

Our operating results and financial condition may fluctuate from quarter to quarter and year to year for a number of reasons. The following events or occurrences, among others, could cause fluctuations in our financial performance from period to period:

development of new competitive products or generics by others;

the timing and receipt of approvals by the FDA and other regulatory authorities, including foreign regulatory authorities;

the failure to obtain, delay in obtaining or restrictions or limitations on approvals from the FDA or foreign regulatory authorities;

difficulties or delays in resolving FDA-observed deficiencies at our manufacturing facilities, which could delay our ability to obtain approvals of pending FDA product applications or curtail availability to continue production of existing products;

delays or failures in clinical trials that affect our ability to achieve FDA approvals or approvals from other foreign regulatory authorities;

serious or unexpected health or safety concerns with our products or product candidates;

changes in the amount we spend to develop, acquire or license new products, technologies or businesses;



## Edgar Filing: Actavis, Inc. - Form 10-K

changes in the amount we spend to promote our products;

delays between our expenditures to acquire new products, technologies or businesses and the generation of revenues from those acquired products, technologies or businesses;

**Table of Contents**

changes in treatment practices of physicians that currently prescribe our products;

changes in coverage and reimbursement policies of health plans and other health insurers, including changes that affect newly developed or newly acquired products;

changes in laws and regulations concerning coverage and reimbursement of pharmaceutical products, including changes to Medicare, Medicaid, and similar programs;

increases in the cost of raw materials used to manufacture our products;

realization of assets and settlement of liabilities at amounts equal to estimated fair value as of the acquisition date;

manufacturing and supply interruptions, including failure to comply with manufacturing specifications;

the effect of economic changes in hurricane, monsoon, earthquake and other natural disaster-affected areas;

the impact of third party patents and other intellectual property rights which we may be found to infringe, or may be required to license, and the potential damages or other costs we may be required to pay as a result of a finding that we infringe such intellectual property rights or a decision that we are required to obtain a license to such intellectual property rights;

changes in antitrust laws and regulations concerning settlement of patent and other intellectual property disputes, and potential damages or other costs we may be required to pay as a result of such changes;

the mix of products that we sell during any time period;

lower than expected demand for our products;

our responses to price competition;

our ability to successfully integrate and commercialize the products, technologies and businesses we acquire or license, as applicable;

expenditures as a result of legal actions;

market acceptance of our products;

the impairment and write-down of goodwill or other intangible assets;

## Edgar Filing: Actavis, Inc. - Form 10-K

disposition of our primary products, technologies and other rights;

termination or expiration of, or the outcome of disputes relating to, trademarks, patents, license agreements and other rights;

changes in insurance rates for existing products and the cost and availability of insurance for new and existing products;

general economic and industry conditions, including changes in interest rates affecting returns on cash balances and investments that affect customer demand;

our level of R&D activities;

impairment or write-down of investments or long-lived assets;

costs and outcomes of any tax audits;

fluctuations in foreign currency exchange rates;

costs and outcomes of any litigation involving intellectual property, drug pricing or reimbursement, product liability, customers or other issues;

timing of revenue recognition related to licensing agreements and/or strategic collaborations; and

risks related to the growth of our business across numerous countries world-wide and the inherent international economic, regulatory, political and business risks.

## **Table of Contents**

As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful, and these comparisons should not be relied upon as an indication of future performance. The above factors may cause our operating results to fluctuate and adversely affect our financial condition and results of operations.

***Our substantial debt and other financial obligations could impair our financial condition and our ability to fulfill our debt obligations. Any refinancing of this substantial debt could be at significantly higher interest rates.***

As of December 31, 2012, we had total debt of approximately \$6.4 billion. Our substantial indebtedness and other financial obligations could:

impair our ability to obtain financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes;

have a material adverse effect on us if we fail to comply with financial and affirmative and restrictive covenants in our debt agreements and an event of default occurs as a result of a failure that is not cured or waived;

require us to dedicate a substantial portion of our cash flow for interest payments on our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital and capital expenditures;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

place us at a competitive disadvantage compared to our competitors that have proportionally less debt.

Additionally, certain of our financing agreements may contain cross-default or other similar provisions whereby a default under one financing agreement could result in a default under our other financing agreements.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We might then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all. Any refinancing of our indebtedness could be at significantly higher interest rates, and/or incur significant transaction fees.

***If we do not successfully integrate Actavis into our business operations, our business could be adversely affected.***

We will need to successfully integrate the operations of the former Actavis Group with our business operations. Integrating the operations of the former Actavis Group with that of our own will be a complex and time-consuming process. Prior to the Actavis Group acquisition, it operated independently, with its own business, corporate culture, locations, employees and systems. There may be substantial difficulties, costs and delays involved in any integration of the business of the former Actavis Group with that of our own. These may include:

distracting management from day-to-day operations;

potential incompatibility of corporate cultures;

an inability to achieve synergies as planned;

costs and delays in implementing common systems and procedures; and

increased difficulties in managing our business due to the addition of international locations. Many of these risks may be accentuated because the majority of the former Actavis group's operations, employees and customers are located outside of the United States. Any one or all of these factors may increase operating costs or lower anticipated financial performance. Many of these factors are also outside of our control.

---

**Table of Contents**

Achieving anticipated synergies and the potential benefits underlying our reasons for the Actavis Group acquisition will depend on successful integration of the businesses. The failure to integrate the business operations of the former Actavis Group successfully would have a material adverse effect on our business, financial condition and results of operations.

*If we are unable to successfully develop or commercialize new products, our operating results will suffer.*

Our future results of operations will depend to a significant extent upon our ability to successfully develop and commercialize new brand and generic products in a timely manner. There are numerous difficulties in developing and commercializing new products, including:

developing, testing and manufacturing products in compliance with regulatory standards in a timely manner;

receiving requisite regulatory approvals for such products in a timely manner or at all;

the availability, on commercially reasonable terms, of raw materials, including API and other key ingredients;

developing and commercializing a new product is time consuming, costly and subject to numerous factors, including legal actions brought by our competitors, that may delay or prevent the development and commercialization of new products;

experiencing delays as a result of limited resources at FDA or other regulatory agencies;

changing review and approval policies and standards at FDA and other regulatory agencies; and

commercializing generic products may be substantially delayed by the listing with the FDA of patents that have the effect of potentially delaying approval of a generic product by up to 30 months.

As a result of these and other difficulties, products currently in development by us may or may not receive timely regulatory approvals, or approvals at all, necessary for marketing by us or other third-party partners. This risk particularly exists with respect to the development of proprietary products because of the uncertainties, higher costs and lengthy time frames associated with research and development of such products and the inherent unproven market acceptance of such products. Additionally, we face heightened risks in connection with our development of extended release or controlled release generic products because of the technical difficulties and regulatory requirements related to such products. Additionally, with respect to generic products for which we are the first applicant to request approval on the basis that an innovator patent is invalid or not infringed (a paragraph IV filing), our ability to obtain 180 days of generic market exclusivity may be contingent on our ability to obtain FDA approval or tentative approval within 30 months of FDA's acceptance of our application for filing. We therefore risk forfeiting such market exclusivity if we are unable to obtain such approval or tentative approval on a timely basis. If any of our products are not timely approved or, when acquired or developed and approved, cannot be successfully manufactured or timely commercialized, our operating results could be adversely affected. We cannot guarantee that any investment we make in developing products will be recouped, even if we are successful in commercializing those products.

*Our brand pharmaceutical expenditures may not result in commercially successful products.*

Developing and commercializing brand pharmaceutical products is generally more costly than generic products. In the future, we anticipate continuing our product development expenditures for our Actavis Specialty Brands business segment. For example in 2012, we initiated a Phase 3 clinical trial for our Esmya™ product for treatment of uterine fibroids. Such clinical trials are costly and may not result in successful outcomes. We cannot be sure that our business expenditures, including but not limited to our expenditures related to our Esmya™ product, will result in the successful discovery, development or launch of brand products that will prove to be commercially successful or will improve the long-term profitability of our business. If such business expenditures do not result in successful discovery, development or launch of commercially successful brand products our results of operations and financial condition could be materially adversely affected.



---

**Table of Contents**

***Our investments in biosimilar products may not result in products that are approved by the FDA or other ex-U.S. regulatory authorities and, even if approved by such authorities, may not result in commercially successful products.***

In 2011, we entered into an agreement with Amgen to collaborate on the development and commercialization of biosimilar products. Under the agreement, we will be required to invest up to \$400.0 million in furtherance of the development and regulatory approval of such products. Although Amgen, our development partner, has substantial expertise and experience in the development of biological products, significant uncertainty remains concerning the regulatory pathway in the United States and in other countries to obtain regulatory approval of biosimilar products, and the commercial pathway to successfully market and sell such products. In particular, although recently enacted legislation authorizes the FDA to establish a regulatory pathway for the review and approval of such products, to date no such pathway has been established. Even if FDA enacts rules and regulations concerning the development and approval of follow on biosimilars, such regulations could include provisions that provide up to twelve or more years of exclusive marketing rights for the original developer of the product on which a follow on biosimilar product is based. Additionally, biosimilar products will likely be subject to extensive patent clearances and/or patent infringement litigation, which could delay or prevent the commercial launch of a product for many years. Further, our collaboration with Amgen may not result in products that meet the requirements established by the FDA or other ex-U.S. regulatory authorities. If our collaboration does result in biosimilar products that obtain FDA or other ex-U.S. regulatory authority approval, such product(s) may not be commercially successful and/or may not generate profits in amounts that are sufficient to offset the amount invested to obtain such approvals. Market success of biosimilar products will depend on demonstrating to patients, physicians and payors that such products are safe and efficacious compared to other existing products yet offer a more competitive price or other benefit over existing therapies. If our collaboration with Amgen does not result in the development and timely approval of biosimilar products or if such products, once developed and approved, are not commercially successful, our results of operations, financial condition and cash flows could be materially adversely affected.

***Any acquisitions of technologies, products and businesses, may be difficult to integrate, could adversely affect our relationships with key customers, and/or could result in significant charges to earnings.***

We regularly review potential acquisitions of technologies, products and businesses complementary to our business. Acquisitions typically entail many risks and could result in difficulties in integrating operations, personnel, technologies and products. If we are not able to successfully integrate our acquisitions, we may not obtain the advantages and synergies that the acquisitions were intended to create, which may have a material adverse effect on our business, results of operations, financial condition and cash flows, our ability to develop and introduce new products and the market price of our stock. In addition, in connection with acquisitions, we could experience disruption in our business, technology and information systems, customer or employee base, including diversion of management's attention from our continuing operations. There is also a risk that key employees of companies that we acquire or key employees necessary to successfully commercialize technologies and products that we acquire may seek employment elsewhere, including with our competitors. Furthermore, there may be overlap between our products or customers and the companies that we acquire that may create conflicts in relationships or other commitments detrimental to the integrated businesses. If we are unable to successfully integrate products, technologies, businesses or personnel that we acquire, we could incur significant impairment charges or other adverse financial consequences.

In addition, as a result of acquiring businesses or products, or entering into other significant transactions, we have experienced, and will likely continue to experience, significant charges to earnings for merger and related expenses. These costs may include substantial fees for investment bankers, attorneys, accountants, and severance and other closure costs associated with the elimination of duplicate or discontinued products, operations and facilities. Charges that we may incur in connection with acquisitions could adversely affect our results of operations for particular quarterly or annual periods.



---

## **Table of Contents**

### ***If we are unsuccessful in our joint ventures and other collaborations, our operating results could suffer.***

We have made substantial investments in joint ventures and other collaborations and may use these and other methods to develop or commercialize products in the future. These arrangements typically involve other pharmaceutical companies as partners that may be competitors of ours in certain markets. In many instances, we will not control these joint ventures or collaborations or the commercial exploitation of the licensed products, and cannot assure you that these ventures will be profitable. Although restrictions contained in certain of these programs have not had a material adverse impact on the marketing of our own products to date, any such marketing restrictions could affect future revenues and have a material adverse effect on our operations. Our results of operations may suffer if existing joint venture or collaboration partners withdraw, or if these products are not timely developed, approved or successfully commercialized.

### ***If we are unable to adequately protect our technology or enforce our patents, our business could suffer.***

Our success with the brand products that we develop will depend, in part, on our ability to obtain patent protection for these products. We currently have a number of U.S. and foreign patents issued and pending. However, issuance of a patent is not conclusive evidence of its validity or enforceability. We cannot be sure that we will receive patents for any of our pending patent applications or any patent applications we may file in the future, or that our issued patents will be upheld if challenged. If our current and future patent applications are not approved or, if approved, our patents are not upheld in a court of law if challenged, it may reduce our ability to competitively exploit our patented products. Also, such patents may or may not provide competitive advantages for their respective products or they may be challenged or circumvented by our competitors, in which case our ability to commercially market these products may be diminished. For example, in October 2011, we received notice that competitors had filed ANDAs seeking approval to market a generic version of our Generess<sup>®</sup> Fe product prior to expiration of the patents that protect the product. Our licensor, Warner-Chilcott Company filed suit against both ANDA filers in November and December of 2011. Additionally, patents covering our Androderm<sup>®</sup> and INFed<sup>®</sup> products have expired and we have no further patent protection on these products. Therefore, it is possible that a competitor may launch a generic version of Androderm<sup>®</sup> and/or INFed<sup>®</sup> at any time, which would result in a significant decline in that product's revenue and profit. Both of these products were significant contributors to our Actavis Specialty Brands business in 2012.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with our partners, customers, employees and consultants. It is possible that these agreements will be breached or that they will not be enforceable in every instance, and that we will not have adequate remedies for any such breach. It is also possible that our trade secrets will become known or independently developed by our competitors.

If we are unable to adequately protect our technology, trade secrets or propriety know-how, or enforce our intellectual property rights, our results of operations, financial condition and cash flows could suffer.

### ***If pharmaceutical companies are successful in limiting the use of generics through their legislative, regulatory and other efforts, our sales of generic products may suffer.***

Many pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

making changes to the formulation of the brand product and arguing that potential generic competitors must demonstrate bioequivalency or comparable abuse-resistance to the reformulated brand product;

pursuing new patents for existing products which may be granted just before the expiration of earlier patents, which could extend patent protection for additional years or otherwise delay the launch of generics;

selling the brand product as an Authorized Generic, either by the brand company directly, through an affiliate or by a marketing partner;

using the Citizen Petition process to request amendments to FDA standards or otherwise delay generic drug approvals;



---

**Table of Contents**

seeking changes to U.S. Pharmacopeia, an organization which publishes industry recognized compendia of drug standards;

attempting to use the legislative and regulatory process to have drugs reclassified or rescheduled;

using the legislative and regulatory process to set definitions of abuse deterrent formulations to protect brand company patents and profits;

attaching patent extension amendments to non-related federal legislation;

engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing;

entering into agreements with pharmacy benefit management companies which have the effect of blocking the dispensing of generic products; and

seeking patents on methods of manufacturing certain API.

If pharmaceutical companies or other third parties are successful in limiting the use of generic products through these or other means, our sales of generic products may decline. If we experience a material decline in generic product sales, our results of operations, financial condition and cash flows will suffer.

***If competitors are successful in limiting competition for certain generic products through their legislative, regulatory and litigation efforts, our sales of certain generic products may suffer.***

Certain of our competitors have recently challenged our ability to distribute Authorized Generics during the competitors' 180-day period of ANDA exclusivity under the Hatch-Waxman Act. Under the challenged arrangements, we have obtained rights to market and distribute under a brand manufacturer's NDA a generic alternative of the brand product. Some of our competitors have challenged the propriety of these arrangements by filing Citizen Petitions with the FDA, initiating lawsuits alleging violation of the antitrust and consumer protection laws, and seeking legislative intervention. For example, legislation has been introduced in the U.S. Senate that would prohibit the marketing of Authorized Generics during the 180-day period of ANDA exclusivity under the Hatch-Waxman Act. If distribution of Authorized Generic versions of brand products is otherwise restricted or found unlawful, our results of operations, financial condition and cash flows could be materially adversely affected.

***From time to time we may need to rely on licenses to proprietary technologies, which may be difficult or expensive to obtain.***

We may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially market our products may be inhibited or prevented, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Third parties may claim that we infringe their proprietary rights and may prevent us from manufacturing and selling some of our products.***

The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may have to defend against charges that we violated patents or proprietary rights of third parties. This is especially true in the case of generic products on which the patent covering the brand product is expiring, an area where infringement litigation is prevalent, and in the case of new brand products where a competitor has obtained patents for similar products. Litigation may be costly and time-consuming, and could divert the attention of our management and technical personnel. In addition, if we infringe the rights of others, we could lose our right to develop, manufacture or market products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. For example, we are engaged in litigation with Momenta Pharmaceuticals concerning whether our distribution and sale of enoxaparin infringes Momenta's U.S. Patent

No. 7,575,886, and we continue to market enoxaparin.

---

**Table of Contents**

Similarly, we are engaged in litigation with Duramed Pharmaceuticals concerning whether our Amethia<sup>™</sup> product infringes Duramed's U.S. Patent 7,320,969 and we continue to manufacture and market our Amethia<sup>™</sup> product. Although the parties to patent and intellectual property disputes in the pharmaceutical industry have often settled their disputes through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. Furthermore, we cannot be certain that the necessary licenses would be available to us on commercially reasonable terms, or at all. As a result, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could result in substantial monetary damage awards and could prevent us from manufacturing and selling a number of our products, which could have a material adverse effect on our business, results of operations, financial condition and cash flows. See *Legal Matters* in NOTE 18 *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* in this Annual Report.

***Our distribution operations are highly dependent upon a primary courier service.***

Product deliveries within our Anda Distribution business are highly dependent on overnight delivery services to deliver our products in a timely and reliable manner, typically by overnight service. Our Anda Distribution business ships a substantial portion of products via one courier's air and ground delivery service. If the courier terminates our contract or if we cannot renew the contract on favorable terms or enter into a contract with an equally reliable overnight courier to perform and offer the same service level at similar or more favorable rates, our business, results of operations, financial condition and cash flows could be materially adversely affected.

***Our distribution operations concentrate on generic products and therefore are subject to the risks of the generic industry.***

The ability of our Anda Distribution business to provide consistent, sequential quarterly growth is affected, in large part, by our participation in the launch of new products by generic manufacturers and the subsequent advent and extent of competition encountered by these products. This competition can result in significant and rapid declines in pricing with a corresponding decrease in net sales of our Anda Distribution business. Our margins can also be affected by the risks inherent to the generic industry, which is discussed below under *Risks Relating to Investing in the Pharmaceutical Industry*.

***Our distribution operations compete directly with significant customers of our generic and brand businesses.***

In our Anda Distribution business, our main competitors are McKesson Corporation, AmerisourceBergen Corporation and Cardinal Health, Inc. These companies are significant customers of our Actavis Pharma and Actavis Specialty Brands operations and collectively accounted for approximately 30% of our annual net revenues in 2012. Our activities related to our Anda Distribution business, as well as the acquisition of other businesses that compete with our customers, may result in the disruption of our business, which could harm relationships with our current customers, employees or suppliers, and could adversely affect our expenses, pricing, third-party relationships and revenues. Further, a loss of a significant customer of our Actavis Pharma or Actavis Specialty Brands operations could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***If we are unable to obtain sufficient supplies from key manufacturing sites or suppliers that in some cases may be the only source of finished products or raw materials, our ability to deliver our products to the market may be impeded.***

We are required to identify the supplier(s) of all the raw materials for our products in our applications with the FDA and other regulatory agencies. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some products and raw materials are available only from a single source and, in many of our drug applications, only one supplier of products and raw materials or site of manufacture has been identified, even in instances where multiple sources exist. Some of these products have historically accounted for a significant portion of our revenues, such as INFed<sup>®</sup>, metoprolol succinate extended release tablets,

---

**Table of Contents**

methylphenidate hydrochloride extended release tablets, and a significant number of our oral contraceptive and controlled substance products. From time to time, certain of our manufacturing sites or outside suppliers have experienced regulatory or supply-related difficulties that have inhibited their ability to deliver products and raw materials to us, causing supply delays or interruptions. To the extent any difficulties experienced by our manufacturing sites or suppliers cannot be resolved or extensions of our key supply agreements cannot be negotiated within a reasonable time and on commercially reasonable terms, or if raw materials for a particular product become unavailable from an approved supplier and we are required to qualify a new supplier with the FDA, or if we are unable to do so, our profit margins and market share for the affected product could decrease or be eliminated, as well as delay our development and sales and marketing efforts. Such outcomes could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our manufacturing sites outside of the United States and our arrangements with foreign suppliers are subject to certain additional risks, including the availability of government clearances, export duties, political instability, war, acts of terrorism, currency fluctuations and restrictions on the transfer of funds. For example, we obtain a significant portion of our raw materials from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, FDA and foreign regulatory body regulation, customs clearances, various import duties and other government clearances, as well as potential shipping delays due to inclement weather, political instability, strikes or other matters outside of our control. Acts of governments outside the U.S. may affect the price or availability of raw materials needed for the development or manufacture of our products. In addition, recent changes in patent laws in jurisdictions outside the U.S. may make it increasingly difficult to obtain raw materials for R&D prior to the expiration of the applicable U.S. or foreign patents.

***Our policies regarding returns, allowances and chargebacks, and marketing programs adopted by wholesalers, may reduce our revenues in future fiscal periods.***

Consistent with industry practice we, like many generic product manufacturers, have liberal return policies and have been willing to give customers post-sale inventory allowances. Under these arrangements, from time to time, we may give our customers credits on our generic products that our customers hold in inventory after we have decreased the market prices of the same generic products. Therefore, if new competitors enter the marketplace and significantly lower the prices of any of their competing products, we may reduce the price of our product. As a result, we may be obligated to provide significant credits to our customers who are then holding inventories of such products, which could reduce sales revenue and gross margin for the period the credit is provided. Like our competitors, we also give credits for chargebacks to wholesale customers that have contracts with us for their sales to hospitals, group purchasing organizations, pharmacies or other retail customers. A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to us by our wholesale customer for a particular product and the negotiated price that the wholesaler's customer pays for that product. Although we establish reserves based on our prior experience and our best estimates of the impact that these policies may have in subsequent periods, we cannot ensure that our reserves are adequate or that actual product returns, allowances and chargebacks will not exceed our estimates, which could have a material adverse effect on our results of operations, financial condition, cash flows and the market price of our stock.

***Investigations of the calculation of average wholesale prices may adversely affect our business.***

Many government and third-party payers, including Medicare, Medicaid, HMOs and MCOs, have historically reimbursed doctors, pharmacies and others for the purchase of certain prescription drugs based on a drug's AWP or wholesale acquisition cost (WAC). In the past several years, state and federal government agencies have conducted ongoing investigations of manufacturers' reporting practices with respect to AWP and WAC, in which they have suggested that reporting of inflated AWP's or WAC's have led to excessive payments for prescription drugs. For example, beginning in July 2002, we and certain of our subsidiaries, as well as numerous other pharmaceutical companies, were named as defendants in various state and federal court actions alleging improper or fraudulent practices related to the reporting of AWP and/or WAC of certain products, and other improper acts, in order to increase prices and market shares. Additional actions are anticipated. These actions, if successful, could adversely affect us and may have a material adverse effect on our business, results of

---

**Table of Contents**

operations, financial condition and cash flows. See *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

***The design, development, manufacture and sale of our products involves the risk of product liability claims by consumers and other third parties, and insurance against such potential claims is expensive and may be difficult to obtain.***

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims and the associated adverse publicity. Insurance coverage is expensive and may be difficult to obtain, and may not be available in the future on acceptable terms, or at all. We regularly monitor the use of our products for trends or increases in reports of adverse events or product complaints, and regularly report such matters to the FDA. In some, but not all, cases an increase in adverse event reports may be an indication that there has been a change in a product's specifications or efficacy. Such changes could lead to a recall of the product in question or, in some cases, increases in product liability claims related to the product in question. If the coverage limits for product liability insurance policies are not adequate or if certain of our products are excluded from coverage, a claim brought against us, whether covered by insurance or not, could have a material adverse effect on our business, results of operations, financial condition and cash flows. See *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

***The loss of our key personnel could cause our business to suffer.***

The success of our present and future operations will depend, to a significant extent, upon the experience, abilities and continued services of key personnel. For example, although we have other senior management personnel, a significant loss of the services of Paul Bisaro, our Chief Executive Officer, or other senior executive officers without having or hiring a suitable successor, could cause our business to suffer. We cannot assure you that we will be able to attract and retain key personnel. We have entered into employment agreements with many of our senior executive officers but such agreements do not guarantee that our senior executive officers will remain employed by us for a significant period of time, or at all. We do not carry key-employee life insurance on any of our officers.

***Significant balances of intangible assets, including product rights and goodwill acquired, are subject to impairment testing and may result in impairment charges, which will adversely affect our results of operations and financial condition.***

A significant amount of our total assets is related to acquired intangibles and goodwill. As of December 31, 2012, the carrying value of our product rights and other intangible assets was approximately \$3.83 billion and the carrying value of our goodwill was approximately \$4.76 billion.

Our product rights are stated at cost, less accumulated amortization. We determine original fair value and amortization periods for product rights based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired products. Such factors include the product's position in its life cycle, the existence or absence of like products in the market, various other competitive and regulatory issues and contractual terms. Significant adverse changes to any of these factors would require us to perform an impairment test on the affected asset and, if evidence of impairment exists, we would be required to take an impairment charge with respect to the asset. Such a charge could have a material adverse effect on our results of operations and financial condition.

Our other significant intangible assets include acquired core technology and customer relationships, which are intangible assets with definite lives, our Andax trade name and acquired in-process research and development (IPR&D) intangibles, acquired in recent business acquisitions, which are intangible assets with indefinite lives.

Our acquired core technology and customer relationship intangible assets are stated at cost, less accumulated amortization. We determined the original fair value of our other intangible assets by performing a discounted cash flow analysis, which is based on our assessment of various factors. Such factors include existing operating margins, the number of existing and potential competitors, product pricing patterns, product market

---

**Table of Contents**

share analysis, product approval and launch dates, the effects of competition, customer attrition rates, consolidation within the industry and generic product lifecycle estimates. Our other intangible assets with definite lives are tested for impairment when there are significant changes to any of these factors. If evidence of impairment exists, we would be required to take an impairment charge with respect to the impaired asset. Such a charge could have a material adverse effect on our results of operations and financial condition.

Goodwill, our Anda trade name intangible asset and our IPR&D intangible assets are tested for impairment annually when events occur or circumstances change that could potentially reduce the fair value of the reporting unit or intangible asset. Impairment testing compares the fair value of the reporting unit or intangible asset to its carrying amount. A goodwill, trade name or IPR&D impairment, if any, would be recorded in operating income and could have a material adverse effect on our results of operations and financial condition.

***We may need to raise additional funds in the future which may not be available on acceptable terms or at all.***

We may consider issuing additional debt or equity securities in the future to fund potential acquisitions or investments, to refinance existing debt, or for general corporate purposes. If we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization, requiring us to pay additional interest expenses and potentially lower our credit ratings. We may not be able to market such issuances on favorable terms, or at all, in which case, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements.

***Our business could suffer as a result of manufacturing difficulties or delays.***

The manufacture of certain of our products and product candidates, particularly our controlled-release products, transdermal products, injectable products, and our oral contraceptive products, is more difficult than the manufacture of immediate-release products. Successful manufacturing of these types of products requires precise manufacturing process controls, API that conforms to very tight tolerances for specific characteristics and equipment that operates consistently within narrow performance ranges. Manufacturing complexity, testing requirements, and safety and security processes combine to increase the overall difficulty of manufacturing these products and resolving manufacturing problems that we may encounter.

Our manufacturing and other processes utilize sophisticated equipment, which sometimes require a significant amount of time to obtain and install. Our business could suffer if certain manufacturing or other equipment, or a portion or all of our facilities were to become inoperable for a period of time. This could occur for various reasons, including catastrophic events such as earthquake, monsoon, hurricane or explosion, unexpected equipment failures or delays in obtaining components or replacements thereof, as well as construction delays or defects and other events, both within and outside of our control. Our inability to timely manufacture any of our significant products could have a material adverse effect on our results of operations, financial condition and cash flows.

***Our business will continue to expose us to risks of environmental liabilities.***

Our product and API development programs, manufacturing processes and distribution logistics involve the controlled use of hazardous materials, chemicals and toxic compounds in our owned and leased facilities. As a result, we are subject to numerous and increasingly stringent federal, state and local environmental laws and regulations concerning, among other things, the generation, handling, storage, transportation, treatment and disposal of toxic and hazardous materials and the discharge of pollutants into the air and water. Our programs and processes expose us to risks that an accidental contamination could result in (i) our noncompliance with such environmental laws and regulations and (ii) regulatory enforcement actions or claims for personal injury and property damage against us. If an accident or environmental discharge occurs, or if we discover contamination caused by prior operations, including by prior owners and operators of properties we acquire, we could be liable



## **Table of Contents**

for cleanup obligations, damages and fines. The substantial unexpected costs we may incur could have a material and adverse effect on our business, results of operations, financial condition, and cash flows. In addition, environmental permits and controls are required for some of our operations, and these permits are subject to modification, renewal and revocation by the issuing authorities. Any modification, revocation or non-renewal of our environmental permits could have a material adverse effect on our ongoing operations, business and financial condition. Our environmental capital expenditures and costs for environmental compliance may increase in the future as a result of changes in environmental laws and regulations or increased development or manufacturing activities at any of our facilities.

### ***Global economic conditions could harm us.***

Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies during 2010, 2011 and continuing in 2012. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global real estate markets have contributed to increased market volatility and diminished expectations for western and emerging economies. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have contributed to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have resulted in a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs.

### ***Our foreign operations may become less attractive if political and diplomatic relations between the United States and any country where we conduct business operations deteriorates.***

The relationship between the United States and the foreign countries where we conduct business operations may weaken over time. Changes in the state of the relations between any such country and the United States are difficult to predict and could adversely affect our future operations. This could lead to a decline in our profitability. Any meaningful deterioration of the political and diplomatic relations between the United States and the relevant country could have a material adverse effect on our operations.

### ***Our global operations expose us to risks and challenges associated with conducting business internationally.***

We operate on a global basis with offices or activities in Europe, Iceland, Africa, Asia, South America, Australasia and North America. We face several risks inherent in conducting business internationally, including compliance with international and U.S. laws and regulations that apply to our international operations. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and other U.S. federal laws and regulations established by the office of Foreign Asset Control, local laws such as the UK Bribery Act 2010 or other local laws which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached by us, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, requirements to obtain export licenses, cessation of business activities in sanctioned countries, implementation of compliance programs, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products in one or more countries and could materially damage our reputation, our brand, our international expansion efforts, our ability

## **Table of Contents**

to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these challenges. These factors or any combination of these factors may adversely affect our revenue or our overall financial performance. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products in one or more countries and could materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties.

In addition to the foregoing, engaging in international business inherently involves a number of other difficulties and risks, including:

longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;

political and economic instability;

potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements and other trade barriers;

difficulties and costs of staffing and managing foreign operations;

difficulties protecting or procuring intellectual property rights; and

fluctuations in foreign currency exchange rates.

These factors or any combination of these factors may adversely affect our revenue or our overall financial performance.

### ***We have exposure to tax liabilities.***

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. Recent proposals by the current U.S. administration for fundamental U.S. international tax reform, including without limitation provisions that would limit the ability of U.S. multinationals to defer U.S. taxes on foreign income, if enacted, could have a significant adverse impact on our effective tax rate following the Actavis Group acquisition.

### ***Foreign currency fluctuations could adversely affect our business and financial results.***

We do business and generate sales in numerous countries outside the United States. As such, foreign currency fluctuations may affect the costs that we incur in such international operations. Some of our operating expenses are incurred in non-U.S. dollar currencies. The appreciation of non-U.S. dollar currencies in those countries where we have operations against the U.S. dollar could increase our costs and could harm our results of operations and financial condition.

### ***Prior to the Actavis Group acquisition, the Actavis Group was a privately-held company and its new obligations of being a part of a public company may require significant resources and management attention.***

As a result of the Actavis Group acquisition, the Actavis companies became subsidiaries of our consolidated company, and will need to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the SEC and the Public Company Accounting Oversight Board. We will need to ensure that we establish and maintain effective disclosure controls as well as internal controls and procedures for financial reporting, and such compliance efforts may be costly and may divert the attention of management.



---

**Table of Contents**

***We have incurred and will continue to incur significant transaction, integration and restructuring costs in connection with the Actavis Group acquisition.***

We have incurred and will continue to incur significant transaction costs related to the Actavis Group acquisition. In addition, we will incur integration and restructuring costs as we integrate the legacy Actavis businesses. Although we expect that the realization of benefits and efficiencies related to the integration of the businesses may offset these transaction costs, integration and restructuring costs over time, no assurances can be made that this net benefit will be achieved in the near term, or at all, which could adversely affect our financial condition and results of operations.

***A write-off of a significant portion of the goodwill and other intangibles recorded in connection with the Actavis Group acquisition would negatively affect the combined company's financial results.***

Upon consummation of the Actavis Group acquisition, we recorded goodwill of approximately \$2,813.9 million. On at least an annual basis, we assess whether there has been an impairment in the value of goodwill. If the carrying value of goodwill exceeds its estimated fair value, impairment is deemed to have occurred, and the carrying value of goodwill is written down to fair value. Under current accounting rules, this would result in a charge to the combined company's operating earnings. Accordingly, any determination requiring the write-off of a significant portion of goodwill recorded in connection with the Actavis Group acquisition would negatively affect our results of operations. We also allocated approximately \$2,378.1 million of the total consideration paid in connection with the Actavis Group acquisition to identified intangibles representing currently marketed products ( CMP ) and approximately \$194.4 million to identified in-process research and development ( IPR&D ) intangible products. The CMP and IPR&D amounts will be subject to future impairment testing if market conditions for the underlying products experience a significant adverse change. If evidence of impairment exists, we would be required to take an impairment charge to our operating earnings, which could have a material adverse effect on our results of operations.

***Substantial amounts of our information concerning our products, customers, employees and ongoing business are stored digitally and is subject to threats of theft, tampering, or other intrusion.***

We collect and maintain information in digital form that is necessary to conduct our business. This digital information includes, but is not limited to, confidential and proprietary information as well as personal information regarding our customers and employees. Data maintained in digital form is subject to the risk of intrusion, tampering, and theft. We have established physical, electronic, and organizational measures to safeguard and secure our systems to prevent a data compromise, and rely on commercially available systems, software, tools, and monitoring to provide security for the processing, transmission and storage of digital information. However, the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly more sophisticated. Despite our efforts, the possibility of a future data compromise cannot be eliminated entirely, and risks associated with intrusion, tampering, and theft remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue our business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our data systems are compromised, our business operations may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished, and we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be injured resulting in loss of business and/or morale, and we may incur costs to remediate possible injury to our customers and employees or be required to pay fines or take other action with respect to judicial or regulatory actions arising out of such incidents.

---

**Table of Contents**

**Risks Relating To Investing In the Pharmaceutical Industry**

*Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development, manufacturing and distribution capabilities.*

All pharmaceutical companies, including Actavis, Inc., are subject to extensive, complex, costly and evolving government regulation. For the U.S., this is principally administered by the FDA and to a lesser extent by the DEA and state government agencies, as well as by varying regulatory agencies in foreign countries where products or product candidates are being manufactured and/or marketed. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other federal statutes and regulations, and similar foreign statutes and regulations, govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products.

Under these regulations, we are subject to periodic inspection of our facilities, procedures and operations and/or the testing of our products by the FDA and similar ex-U.S. authorities, the DEA and other authorities, which conduct periodic inspections to confirm that we are in compliance with all applicable regulations. In addition, the FDA and foreign regulatory agencies conduct pre-approval and post-approval reviews and plant inspections to determine whether our systems and processes are in compliance with cGMP and other regulations. Following such inspections, the FDA or other agency may issue observations, notices, citations and/or Warning Letters that could cause us to modify certain activities identified during the inspection. FDA guidelines specify that a Warning Letter is issued only for violations of regulatory significance for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action. We are also required to report adverse events associated with our products to FDA and other regulatory authorities. Unexpected or serious health or safety concerns would result in product liability claims, labeling changes, recalls, market withdrawals or other regulatory actions.

Our manufacturing facility in Corona, California is currently subject to a consent decree of permanent injunction. We cannot assure that the FDA will determine we have adequately corrected deficiencies at our Corona manufacturing site, that subsequent FDA inspections at any of our manufacturing sites will not result in additional inspectional observations at such sites, that approval of any of the pending or subsequently submitted NDAs, ANDAs or supplements to such applications by Actavis or our subsidiaries will be granted or that the FDA will not seek to impose additional sanctions against Actavis or any of its subsidiaries. The range of possible sanctions includes, among others, FDA issuance of adverse publicity, product recalls or seizures, fines, total or partial suspension of production and/or distribution, suspension of the FDA's review of product applications, enforcement actions, injunctions, and civil or criminal prosecution. Any such sanctions, if imposed, could have a material adverse effect on our business, operating results, financial condition and cash flows. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. Similar sanctions as detailed above may be available to the FDA under a consent decree, depending upon the actual terms of such decree. Although we have instituted internal compliance programs, if these programs do not meet regulatory agency standards or if compliance is deemed deficient in any significant way, it could materially harm our business. Certain of our vendors are subject to similar regulation and periodic inspections.

The process for obtaining governmental approval to manufacture and market pharmaceutical products is rigorous, time-consuming and costly, and we cannot predict the extent to which we may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other governmental or third-party approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always the chance that we will not obtain FDA or other necessary approvals, or that the rate, timing and cost of obtaining such approvals, will adversely affect our product introduction plans or results of operations. We carry inventories of certain product(s) in anticipation of launch, and if such product(s) are not subsequently launched, we may be required to write-off the related inventory.

Our And a Distribution operations and our customers are subject to various regulatory requirements, including requirements from the DEA, FDA, state boards of pharmacy and city and county health regulators, among others. These include licensing, registration, recordkeeping, security and reporting requirements. The DEA requires our And a Distribution business to monitor customer orders of DEA Scheduled Drugs and to report suspicious orders to the DEA. Any determination by the DEA that we have failed to comply with applicable laws

---

**Table of Contents**

and regulations could result in DEA suspending, terminating or refusing to renew Anda Distribution's license to distribute Scheduled Drugs. Additionally, although physicians may prescribe FDA approved products for an off label indication, we are permitted to market our products only for the indications for which they have been approved. Some of our products are prescribed off label and FDA or other regulatory authorities could take enforcement actions if they conclude that we or our distributors have engaged in off label marketing. In addition, several states and the federal government have begun to enforce anti-counterfeit drug pedigree laws which require the tracking of all transactions involving prescription drugs beginning with the manufacturer, through the supply chain, and down to the pharmacy or other health care provider dispensing or administering prescription drug products. For example, effective July 1, 2006, the Florida Department of Health began enforcement of the drug pedigree requirements for distribution of prescription drugs in the State of Florida. Pursuant to Florida law and regulations, wholesalers and distributors, including our subsidiary, Anda Pharmaceuticals, are required to maintain records documenting the chain of custody of prescription drug products they distribute beginning with the purchase of products from the manufacturer. These entities are required to provide documentation of the prior transaction(s) to their customers in Florida, including pharmacies and other health care entities. Several other states have proposed or enacted legislation to implement similar or more stringent drug pedigree requirements. In addition, federal law requires that a non-authorized distributor of record must provide a drug pedigree documenting the prior purchase of a prescription drug from the manufacturer or from an authorized distributor of record. In cases where the wholesaler or distributor selling the drug product is not deemed an authorized distributor of record it would need to maintain such records. FDA had announced its intent to impose additional drug pedigree requirements (e.g., tracking of lot numbers and documentation of all transactions) through implementation of drug pedigree regulations which were to have taken effect on December 1, 2006. However, a federal appeals court has issued a preliminary injunction to several wholesale distributors granting an indefinite stay of these regulations pending a challenge to the regulations by these wholesale distributors.

***The supply of APIs into Europe may be negatively affected by recent regulations promulgated by the European Union.***

On July 2, 2013, all active pharmaceutical ingredients (APIs) imported into the European Union (EU) must be certified as complying with the good manufacturing practice (GMP) standards established by the EU, as stipulated by the International Conference for Harmonization (ICH Q7). These new regulations place the certification requirement on the regulatory bodies of the exporting countries. Accordingly, as of July 2, 2013, the national regulatory authorities of each exporting country must: (i) insure that all manufacturing plants within their borders that export API into the EU comply with EU manufacturing standards and; (ii) for each API exported, present a written document confirming that the exporting plant conforms to EU manufacturing standards. If not postponed or modified, the imposition of this responsibility on the governments of the nations exporting API may cause a shortage of API necessary to manufacture our products, as certain governments may not be willing or able to comply with the regulation in a timely fashion, or at all. A shortage in API may cause us to have to cease manufacture of certain products, or to incur costs and delays to qualify other suppliers to substitute for those API manufacturers unable to export. This could adversely affect the Company and could have a material adverse effect on our business, results of operations, financial condition and cash flow.

***Federal regulation of arrangements between manufacturers of brand and generic products could adversely affect our business.***

As part of the MMA, companies are required to file with the FTC and the Department of Justice certain types of agreements entered into between brand and generic pharmaceutical companies related to the manufacture, marketing and sale of generic versions of brand drugs. This requirement, as well as new legislation pending in U.S. Congress related to settlements between brand and generic drug manufacturers, could affect the manner in which generic drug manufacturers resolve intellectual property litigation and other disputes with brand pharmaceutical companies and could result generally in an increase in private-party litigation against pharmaceutical companies or additional investigations or proceedings by the FTC or other governmental authorities. The impact of this requirement, the pending legislation and the potential private-party lawsuits associated with arrangements between brand name and generic drug manufacturers, is uncertain and could

adversely affect our business. For example, in January 2009, the FTC and the State of California filed a lawsuit

**Table of Contents**

against us alleging that our settlement with Solvay related to our ANDA for a generic version of Androgel® is unlawful. Numerous private parties purporting to represent various classes of plaintiffs filed similar lawsuits. We have also received requests for information and Statements of Objection in connection with investigations into settlements and other arrangements between competing pharmaceutical companies by the European Competition Commission. For example, two of our Arrow Group subsidiaries currently are the subject of a European Competition Commission Statement of Objection related to their 2002 and 2003 settlements of patent litigation related to citalopram. Any adverse outcome of these actions or investigations, or actions or investigations related to other settlements we have entered into, could have a material adverse effect on our business, results of operations, financial condition and cash flows. See *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

***We are subject to federal and state healthcare fraud and abuse laws which may adversely affect our business.***

In the United States, most of our products are reimbursed under federal and state health care programs such as Medicaid, Medicare, TriCare, and or state pharmaceutical assistance programs. Many foreign countries have similar laws. Federal and state laws designed to prevent fraud and abuse under these programs prohibit pharmaceutical companies from offering valuable items or services to customers or potential customers to induce them to buy, prescribe, or recommend Actavis product (the so-called antikickback laws). Exceptions are provided for discounts and certain other arrangements if specified requirements are met. Other federal and state laws, and similar foreign laws, not only prohibit us from submitting any false information to government reimbursement programs but also prohibit us and our employees from doing anything to cause, assist, or encourage our customers to submit false claims for payment to these programs. Violations of the fraud and abuse laws may result in severe penalties against the responsible employees and Actavis, including jail sentences, large fines, and the exclusion of Actavis products from reimbursement under federal and state programs. Actavis is committed to conducting the sales and marketing of its products in compliance with the healthcare fraud and abuse laws, but certain applicable laws may impose liability even in the absence of specific intent to defraud. Furthermore, should there be ambiguity, a governmental authority may take a position contrary to a position we have taken, or should an employee violate these laws without our knowledge, a governmental authority may impose civil and/or criminal sanctions. For example, in December 2009, we learned that numerous pharmaceutical companies, including certain subsidiaries of the Company, have been named as defendants in a qui tam action pending in the United States District Court for the District of Massachusetts alleging that the defendants falsely reported to the United States that certain pharmaceutical products were eligible for Medicaid reimbursement and thereby allegedly caused false claims for payment to be made through the Medicaid program. Any adverse outcome of this action, or the imposition of penalties or sanctions for failing to comply with the fraud and abuse laws, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows. See *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

***Healthcare reform and a reduction in the coverage and reimbursement levels by governmental authorities, HMOs, MCOs or other third-party payers may adversely affect our business.***

Demand for our products depends in part on the extent to which coverage and reimbursement is available from third-party payers, such as the Medicare and Medicaid programs and private payors. In order to commercialize our products, we have obtained from government authorities and private health insurers and other organizations, such as HMOs and MCOs, recognition for coverage and reimbursement at varying levels for the cost of certain of our products and related treatments. Third-party payers increasingly challenge pricing of pharmaceutical products. Further, the trend toward managed healthcare in the U.S., the growth of organizations such as HMOs and MCOs and legislative proposals to reform healthcare and government insurance programs create uncertainties regarding the future levels of coverage and reimbursement for pharmaceutical products. Such cost containment measures and healthcare reform could reduce reimbursement of our pharmaceutical products, resulting in lower prices and a reduction in the product demand. This could affect our ability to sell our products and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

---

## **Table of Contents**

There is uncertainty surrounding implementation of legislation involving payments for pharmaceuticals under government programs such as Medicare, Medicaid and Tricare. Depending on how existing provisions are implemented, the methodology for certain payment rates and other computations under the Medicaid Drug Rebate program reimbursements may be reduced or not be available for some of Actavis' products. Additionally, any reimbursement granted may not be maintained or limits on reimbursement available from third-party payers may reduce demand for, or negatively affect the price of those products. Ongoing uncertainty and challenges to the Affordable Care Act (ACA), including but not limited to, modification in calculation of rebates, mandated financial or other contributions to close the Medicare Part D coverage gap (donut hole), calculation of AMP, and other provisions could have a material adverse effect on our business. In addition, various legislative and regulatory initiatives in states, including proposed modifications to reimbursements and rebates, product pedigree and tracking, pharmaceutical waste (take-back) initiatives, and therapeutic category generic substitution carve-out legislation may also have a negative impact on the Company. Actavis maintains a full-time government affairs department in Washington, DC, which is responsible for coordinating state and federal legislative activities, and places a major emphasis in terms of management time and resources to ensure a fair and balanced legislative and regulatory arena.

***The pharmaceutical industry is highly competitive and our future revenue growth and profitability are dependent on our timely development and launches of new products ahead of our competitors.***

We face strong competition in our Actavis Pharma, Actavis Specialty Brands and Anda Distribution businesses. The intensely competitive environment requires an ongoing, extensive search for technological innovations and the ability to market products effectively, including the ability to communicate the effectiveness, safety and value of brand products to healthcare professionals in private practice, group practices and MCOs. Our competitors vary depending upon product categories, and within each product category, upon dosage strengths and drug-delivery systems. Based on total assets, annual revenues, and market capitalization, we are smaller than certain of our national and international competitors in the brand and distribution product arenas. Most of our competitors have been in business for a longer period of time than us, have a greater number of products on the market and have greater financial and other resources than we do. Furthermore, recent trends in this industry are toward further market consolidation of large drug companies into a smaller number of very large entities, further concentrating financial, technical and market strength and increasing competitive pressure in the industry. If we directly compete with them for the same markets and/or products, their financial strength could prevent us from capturing a profitable share of those markets. It is possible that developments by our competitors will make our products or technologies noncompetitive or obsolete.

Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors. As patents for brand name products and related exclusivity periods expire, the first generic manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. Therefore, our ability to increase or maintain revenues and profitability in our generics business is largely dependent on our success in challenging patents and developing non-infringing formulations of proprietary products. As competing manufacturers receive regulatory approvals on similar products or as brand manufacturers launch generic versions of such products (for which no separate regulatory approval is required), market share, revenues and gross profit typically decline, in some cases dramatically. Accordingly, the level of market share, revenue and gross profit attributable to a particular generic product normally is related to the number of competitors in that product's market and the timing of that product's regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins. We may have fewer opportunities to launch significant generic products in the future, as the number and size of proprietary products that are subject to patent challenges is expected to decrease in the next several years compared to historical levels. Additionally, as new competitors enter the market, there may be increased pricing pressure on certain products, which would result in lower gross margins. This is particularly true in the case of certain Asian and other overseas generic competitors, who may be able to produce products at costs lower than the costs of domestic manufacturers. If we experience substantial competition from Asian or other overseas generic competitors with lower production costs, our profit margins will suffer.



---

## **Table of Contents**

We also face strong competition in our Anda Distribution business, where we compete with a number of large wholesalers and other distributors of pharmaceuticals, including McKesson Corporation, AmerisourceBergen Corporation and Cardinal Health, Inc., which market both brand and generic pharmaceutical products to their customers. These companies are significant customers of our Actavis Specialty Brands and Actavis Pharma businesses. As generic products generally have higher gross margins for distributors, each of the large wholesalers, on an increasing basis, are offering pricing incentives on brand products if the customers purchase a large portion of their generic pharmaceutical products from the primary wholesaler. As we do not offer a full line of brand products to our customers, we are at times competitively disadvantaged and must compete with these wholesalers based upon our very competitive pricing for generic products, greater service levels and our well-established telemarketing relationships with our customers, supplemented by our electronic ordering capabilities. The large wholesalers have historically not used telemarketers to sell to their customers, but recently have begun to do so. Additionally, generic manufacturers are increasingly marketing their products directly to smaller chains and thus increasingly bypassing wholesalers and distributors. Increased competition in the generic industry as a whole may result in increased price erosion in the pursuit of market share.

***Sales of our products may continue to be adversely affected by the continuing consolidation of our distribution network and the concentration of our customer base.***

Our principal customers in our brand and generic pharmaceutical operations are wholesale drug distributors and major retail drug store chains. These customers comprise a significant part of the distribution network for pharmaceutical products in the U.S. This distribution network is continuing to undergo significant consolidation marked by mergers and acquisitions among wholesale distributors and the growth of large retail drug store chains. As a result, a small number of large wholesale distributors and large chain drug stores control a significant share of the market. We expect that consolidation of drug wholesalers and retailers will increase pricing and other competitive pressures on drug manufacturers, including Actavis.

For the year ended December 31, 2012, our two largest customers accounted for 16% and 14%, respectively, of our net revenues. The loss of any of these customers could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, none of our customers are party to any long-term supply agreements with us, and thus are able to change suppliers freely should they wish to do so.

***As a result of the Actavis Group acquisition, we may have exposure to additional tax liabilities.***

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. Recent proposals by the current U.S. administration for fundamental U.S. international tax reform, including without limitation provisions that would limit the ability of U.S. multinationals to defer U.S. taxes on foreign income, if enacted, could have a significant adverse impact on our effective tax rate following the Actavis Group acquisition.

***As a result of the Actavis Group acquisition, we will be subject to a variety of additional risks that may negatively impact our operations.***

As a result of the Actavis Group acquisition, we will be subject to new and additional risks associated with the business and operations of Actavis. The additional risks we may be exposed to include but are not limited to the following:

tariffs and trade barriers;

regulations related to customs and import/export matters (including sanctions);

longer payment cycles;

tax issues, such as tax law changes and variations in tax laws as compared to the jurisdictions in which we already operate;

Edgar Filing: Actavis, Inc. - Form 10-K

challenges in collecting accounts receivable from customers in the new jurisdictions in which we will operate;

**Table of Contents**

complying with laws, rules and regulations relating to the manufacturing, marketing, distribution and sale of pharmaceutical products in the new jurisdictions in which we will operate;

operating under regulations in new jurisdictions related to obtaining eligibility for government or private payor reimbursement for our products at the wholesale/retail level;

competition from new local, regional and international competitors;

competing in additional markets where generic products are sold under branded trade names;

cultural and language differences in the new jurisdictions in which we will operate;

complying with additional employment regulations in the new jurisdictions in which we will operate; union workforce negotiations and potential disputes; and

risks related to crimes, strikes, riots, civil disturbances, terrorist attacks and wars in a variety of new geographical locations. We may not be able to adequately address these additional risks. If we are unable to do so, our operations might suffer.

*Our ex-U.S. operations may become less attractive if political and diplomatic relations between the United States and any country where we conduct business operations deteriorates.*

The relationship between the United States and the countries where we conduct business operations may weaken over time. Changes in the state of the relations between any such country and the United States are difficult to predict and could adversely affect our future operations or cause potential target businesses to become less attractive. This could lead to a decline in our profitability. Any meaningful deterioration of the political and diplomatic relations between the United States and the relevant country could have a material adverse effect on our operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**Table of Contents****ITEM 2. PROPERTIES**

We conduct our operations using a combination of owned and leased properties.

Our owned properties consist of facilities used for R&D, manufacturing, distribution (including warehousing and storage), sales and marketing and administrative functions. The following table provides a summary of locations for our significant owned properties:

<b>Location</b>	<b>Primary Use</b>	<b>Segment</b>
Ag. Varvara, Greece	Manufacturing, R&D, Administration	Actavis Pharma
Auckland, New Zealand	Distribution, Administrative	Actavis Pharma
Barnstaple, UK	Manufacturing, Administration	Actavis Pharma
Bucharest, Romania	Manufacturing, Distribution, Administration	Actavis Pharma
Corona, CA, USA	Manufacturing, Warehouse, Distribution, Administration	Actavis Pharma / Actavis
Davie, FL, USA	Manufacturing, Distribution, R&D, Administration	Specialty Brands Actavis Pharma / Actavis
Dupnitsa, Bulgaria	Manufacturing	Specialty Brands Actavis Pharma
Elizabeth, NJ, USA	Manufacturing, R&D, Administration	Actavis Pharma
Goa, India	Manufacturing	Actavis Pharma
Gurnee, IL, USA	Warehousing, Distribution	Actavis Pharma / Actavis
Hafnarfjordur, Iceland	Manufacturing, Warehousing, Distribution, Administration	Specialty Brands Actavis Pharma
Jakarta-Timur, Indonesia	Manufacturing, Warehousing, Distribution, Administration	Actavis Pharma
Leskovac, Serbia	Manufacturing	Actavis Pharma
Lincolnton, NC, USA	Manufacturing, Administration, Warehouse	Actavis Pharma
Liverpool, UK	Administration, R&D	Actavis Specialty Brands
Mississauga, Canada	Manufacturing, R&D, Administration	Actavis Pharma
Nerviano, Italy	Manufacturing	Actavis Pharma
Podelsk, Russia	Manufacturing	Actavis Pharma
Rio de Janeiro, Brazil	Manufacturing, Distribution, Administration	Actavis Pharma
Troyan, Bulgaria	Manufacturing	Actavis Pharma

**Table of Contents**

Properties that we lease include R&D, manufacturing, distribution (including warehousing and storage), and administrative facilities. The following table provides a summary of locations for our significant leased properties:

<b>Location</b>	<b>Primary Use</b>	<b>Segment</b>
Belgrade, Serbia	Administration	Actavis Pharma
Birzebbuga, Malta	Manufacturing, Distribution, Administration	Actavis Pharma/Actavis Specialty Brands
Gentofte, Denmark	Administration	Actavis Pharma
Haan, Germany	Distribution	Actavis Pharma
Hafnarfjordur, Iceland	Administration	Actavis Pharma
Istanbul, Turkey	Administration	Actavis Pharma
Kiev, Ukraine	Administration	Actavis Pharma
London, UK	Administration	Actavis Pharma
Lyon, France	Administration	Actavis Pharma
Moscow, Russia	Administration	Actavis Pharma
Mumbai, India	R&D, Administration	Actavis Pharma
Munich, Germany	Administration	Actavis Pharma
Olive Branch, MI, USA	Distribution, Administration	Anda Distribution
Owings Mills, MD, USA	Manufacturing, R&D, Administration	Actavis Pharma
Parsippany, NJ, USA	Administration	Actavis Pharma/Actavis Specialty Brands
Salt Lake City, UT, USA	Manufacturing, Distribution, R&D	Actavis Pharma / Actavis Specialty Brand
Sofia, Bulgaria	Administration	Actavis Pharma
Stockholm, Sweden	Administration	Actavis Pharma
Warsaw, Poland	Administration	Actavis Pharma
Weston, FL, USA	Distribution, Administration, R&D	Actavis Pharma/Anda Distribution
Zejtun, Malta	Manufacturing, Distribution, Administration, R&D	Actavis Pharma

Our leased properties are subject to various lease terms and expirations.

We believe that we have sufficient facilities to conduct our operations during 2013. However, we continue to evaluate the purchase or lease of additional properties, or the consolidation of existing properties as our business requires.

**ITEM 3. LEGAL PROCEEDINGS**

For information regarding legal proceedings, refer to *Legal Matters* in NOTE 18 Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

**ITEM 4. Not Applicable**

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Registrant's Common Equity**

Our common stock was traded on the New York Stock Exchange under the symbol WPI until close of business on January 23, 2013, at which time the symbol was changed to ACT. The following table sets forth the quarterly high and low share trading price information for the periods indicated:

	High	Low
<b>Year ended December 31, 2012:</b>		
First	\$ 67.50	\$ 55.00
Second	\$ 77.73	\$ 65.70
Third	\$ 86.07	\$ 73.39
Fourth	\$ 91.47	\$ 81.73
<b>Year ended December 31, 2011:</b>		
First	\$ 57.52	\$ 50.47
Second	\$ 69.04	\$ 56.13
Third	\$ 73.35	\$ 56.84
Fourth	\$ 72.06	\$ 59.50

As of February 7, 2013, there were approximately 2,295 registered holders of our common stock.

We have not paid any cash dividends since our initial public offering in February 1993, and do not anticipate paying any cash dividends in the foreseeable future.

**Issuer Purchases of Equity Securities**

During the quarter ended December 31, 2012, we repurchased 9,333 shares of our common stock surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publically Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 1 - 31, 2012	2,464	\$ 85.42		
November 1 - 30, 2012	6,869	\$ 87.83		
December 1 - 31, 2012				

**Recent Sale of Unregistered Securities; Uses of Proceeds from Registered Securities**

None.

**Securities Authorized for Issuance Under Equity Compensation Plans**

For information regarding securities authorized for issuance under equity compensation plans, refer to ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS and NOTE 13 Stockholders Equity in the accompanying Notes to Consolidated Financial Statements in this Annual Report.



**Table of Contents****Performance Graph**

*The information in this section of the Annual Report pertaining to our performance relative to our peers is being furnished but not filed with the SEC, and as such, the information is neither subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.*

The following graph compares the cumulative 5-year total return of holders of Watson's common stock with the cumulative total returns of the S&P 500 index and the Dow Jones US Pharmaceuticals index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with reinvestment of all dividends, if any) on December 31, 2007 with relative performance tracked through December 31, 2012.

Notwithstanding anything to the contrary set forth in our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, which might incorporate future filings made by us under those statutes, the following graph will not be deemed incorporated by reference into any future filings made by us under those statutes.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Actavis, Inc., the S&P 500 Index,  
and the Dow Jones US Pharmaceuticals Index

\* \$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

Copyright© 2013 S&P, a division of The McGraw-Hill Companies Inc. All rights reserved.

Copyright© 2013 Dow Jones & Co. All rights reserved.

	12/07	12/08	12/09	12/10	12/11	12/12
<b>Actavis, Inc.</b>	<b>100.00</b>	<b>97.90</b>	<b>145.95</b>	<b>190.31</b>	<b>222.33</b>	<b>316.88</b>
<b>S&amp;P 500</b>	<b>100.00</b>	<b>63.00</b>	<b>79.67</b>	<b>91.67</b>	<b>93.61</b>	<b>108.59</b>
<b>Dow Jones US Pharmaceuticals</b>	<b>100.00</b>	<b>81.85</b>	<b>97.47</b>	<b>99.55</b>	<b>118.11</b>	<b>134.52</b>

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA****ACTAVIS, INC.****FINANCIAL HIGHLIGHTS(1)****(In millions, except per share amounts)**

	Years Ended December 31,				
	2012 <sup>(2)</sup>	2011	2010	2009 <sup>(3)</sup>	2008
<b>Operating Highlights:</b>					
Net revenues	\$ 5,914.9	\$ 4,584.4	\$ 3,566.9	\$ 2,793.0	\$ 2,535.5
Operating income(1)	\$ 320.8	\$ 536.2	\$ 305.4	\$ 383.9	\$ 358.2
Net income(1)					
attributable to common shareholders	\$ 97.3	\$ 260.9	\$ 184.4	\$ 222.0	\$ 238.4
Basic earnings per share	\$ 0.77	\$ 2.10	\$ 1.51	\$ 2.11	\$ 2.32
Diluted earnings per share	\$ 0.76	\$ 2.06	\$ 1.48	\$ 1.96	\$ 2.09
<b>Weighted average shares outstanding:</b>					
Basic	125.8	124.5	122.4	105.0	102.8
Diluted	128.4	126.5	124.2	116.4	117.7

	At December 31,				
	2012 <sup>(2)</sup>	2011	2010	2009 <sup>(3)</sup>	2008
<b>Balance Sheet Highlights:</b>					
Current assets	\$ 3,879.7	\$ 2,569.7	\$ 1,786.7	\$ 1,749.2	\$ 1,442.6
Working capital	\$ 1,169.1	\$ 730.2	\$ 978.7	\$ 721.6	\$ 976.4
Total assets	\$ 14,103.5	\$ 6,698.3	\$ 5,686.6	\$ 5,772.4	\$ 3,609.8
Total debt	\$ 6,433.3	\$ 1,033.0	\$ 1,016.1	\$ 1,457.8	\$ 877.9
Total equity	\$ 3,856.4	\$ 3,562.5	\$ 3,282.6	\$ 3,023.1	\$ 2,108.6

- (1) For discussion on comparability of operating income and net income, please refer to financial line item discussion in our Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report.
- (2) On October 31, 2012, the Company completed the acquisition of Actavis Group. The acquisition was consummated for a cash payment of 4.2 billion, or approximately \$5.5 billion, and contingent consideration of up to 5.5 million newly issued shares of Actavis, Inc. common stock or under certain potential conditions, in cash. Actavis Group was privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. Actavis' financial statements included in this report do not include the financial results of the Actavis Group for any of the periods or at any of the dates presented prior to October 31, 2012.
- (3) On December 2, 2009, the Company acquired all the outstanding equity of the Arrow Group in exchange for cash consideration of \$1.05 billion, approximately 16.9 million shares of Restricted Common Stock of Actavis and 200,000 shares of Mandatorily Redeemable Preferred Stock of Actavis and certain contingent consideration. The fair value of the total consideration was approximately \$1.95 billion.

---

## **Table of Contents**

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the caption*

*Cautionary Note Regarding Forward-Looking Statements under ITEM 1A. RISK FACTORS in this annual report on Form 10-K ( Annual Report ). In addition, the following discussion of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.*

## **EXECUTIVE SUMMARY**

### **Overview of Actavis**

On January 23, 2013, Watson Pharmaceuticals, Inc. was renamed Actavis, Inc. ( Actavis , the Company , we , us or our ). The Company operates three business segments: Actavis Pharma; Actavis Specialty Brands; and Anda Distribution (also known as Anda ).

Actavis is leading integrated global specialty pharmaceutical company engaged in the development, manufacturing, marketing, sale and distribution of generic, branded generic, brand, biosimilar and over-the-counter pharmaceutical products. Through its third-party business within the Actavis Pharma segment, Actavis out-licenses generic pharmaceutical products rights developed or acquired by the Company, primarily in Europe. Actavis is also developing biosimilar products within the Actavis Specialty Brands segment. Additionally, we distribute generic and certain select brand pharmaceutical products manufactured by third parties through our Anda Distribution segment. Our largest market is the United States of America ( U.S. ), followed by our key international markets including Europe, Canada, Australia, Southeast Asia, South America and South Africa.

Actavis supports its Actavis Pharma and Actavis Specialty Brands businesses with a significant commitment of approximately 7% of net revenues on product research and development. Our global growth strategy is focused on: (i) internal development of differentiated high-demand products; (ii) establishment of strategic alliances and collaborations that bring new products, technologies and markets to the Company; and (iii) acquisition of products and/or companies that complement our existing portfolio in generics, brands and biosimilars.

As of December 31, 2012, we marketed over 250 generic pharmaceutical product families and over 40 brand pharmaceutical products in the U.S. and a significant number of product families internationally. Generic pharmaceutical products are bioequivalents of their respective brand products and provide a cost-efficient alternative to brand products. Brand pharmaceutical products are marketed under brand names through programs that are designed to generate physician and consumer loyalty. Through our Anda Distribution segment, we distribute approximately 11,450 stock-keeping units ( SKUs ) in the U.S. primarily to independent pharmacies, alternate care providers (hospitals, nursing homes and mail order pharmacies) and pharmacy chains, and generic products and certain selective brand products to physicians' offices.

### **Acquisitions and Dispositions**

#### *Acquisition of Actavis Group*

On October 31, 2012, Watson Pharmaceuticals, Inc. completed the acquisition of the Actavis Group. On January 24, 2013, the Company was renamed Actavis, Inc. The acquisition was consummated for a cash payment of 4.2 billion, or approximately \$5.5 billion, and potential contingent consideration payable in the form of up to 5.5 million newly issued shares of Actavis, Inc. common stock or, under certain conditions, in cash. Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals.

---

**Table of Contents**

To finance the purchase of the Actavis Group, we incurred substantial borrowings. For further details, refer to NOTE 10 Long Term Debt in the accompanying Notes to Consolidated Financial Statements in this Annual Report. Actavis will incur greater interest expense than it incurred in prior periods and will be required to dedicate cash flow to servicing its debt. Refer to Liquidity and Capital Resources for further detail.

The Actavis Group acquisition is subject to various risks and uncertainties, including risks relating to the integration of the Actavis Group and risks related to our indebtedness in connection with the acquisition. Refer to Item 1A. Risk Factors.

*Acquisition of Ascent Pharmahealth Limited*

On January 24, 2012, we completed the acquisition of Ascent Pharmahealth Ltd., the Australia and Southeast Asia generic pharmaceutical business of Strides Arcolab Ltd, for AU\$376.6 million in cash, or approximately \$392.6 million, including working capital adjustments. The transaction was funded using cash-on-hand and borrowings from the Company's revolving credit facility. As a result of the acquisition, Actavis enhances its commercial presence in Australia and we gain a selling and marketing capability in Southeast Asia through Ascent's line of branded-generic and over-the-counter products. For additional information on the Ascent acquisition, refer to NOTE 5 Acquisitions and Divestitures.

*Acquisition of Specifar Commercial Industrial Pharmaceutical, Chemical and Construction Exploitations Societe Anonyme (ABEE) ( Specifar )*

On May 25, 2011, Actavis acquired all of the outstanding equity of Paomar PLC ( Paomar ) for cash totaling 398.5 million, or approximately \$559.5 million, including working capital adjustments, and certain contingent consideration (the Specifar Acquisition ). Paomar is a company incorporated under the laws of Cyprus and owner of 100 percent of the shares of Specifar, a company organized under the laws of Greece. Specifar develops, manufactures and markets generic pharmaceuticals. Specifar also out-licenses generic pharmaceutical products, primarily in Europe. Specifar has a commercial presence in the Greek branded generics pharmaceuticals market and owns 100 percent of the shares of Alet Pharmaceuticals Industrial and Commercial Societe Anonyme ( Alet ), a company that markets branded-generic pharmaceutical products in the Greek market. For additional information on the Specifar acquisition, refer to NOTE 5 Acquisitions and Divestitures.

*Product Divestitures*

On October 29, 2012, the Company sold its Rugby over-the-counter ( OTC ) pharmaceutical products and trademarks to The Harvard Drug Group, L.L.C. ( Harvard ) for \$116.6 million. Under the terms of the agreement, Harvard acquired the Rugby trademark and all rights to market, sell and distribute OTC products and nicotine gum products sold under the trademark. The Company retains all rights to manufacture, sell and distribute all store-branded OTC and nicotine gum products, as well as other non-Rugby OTC products in its portfolio. Actavis retains ownership of its nicotine gum Abbreviated New Drug Applications (ANDAs) as well as nicotine gum manufacturing facilities. Also, as part of the transaction, Actavis and Harvard entered into a supply and license agreement under which Actavis manufactures and supplies nicotine gum products sold under the Rugby and Major labels. Major is Harvard's existing private label brand. In connection with the sale of the Rugby assets, the Company recorded a gain of \$88.7 million in other income (expense) in the year ended December 31, 2012.

In order to obtain regulatory approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with the Actavis Group acquisition, we were required to divest certain assets. In conjunction with the closing of the acquisition, these products were sold to Par Pharmaceuticals Companies, Inc. and Sandoz, Inc.

*Sale of Equity Interest in Moksha8 Pharmaceuticals, Inc. ( Moksha8 )*

On October 22, 2012, the Company sold its investment in Moksha8 for \$46.6 million. Simultaneously, the Company expanded its ongoing sales and marketing collaboration with Moksha8 by granting a license to Moksha8 for five new branded generic products to be developed for the Brazil and Mexico markets in exchange

**Table of Contents**

for defined milestones and sales royalties. The Company retained generic marketing rights in each market for all products licensed to Moksha8. The Company recorded a gain of \$28.8 million in other income (expense) in the year ended December 31, 2012.

**Biosimilars Collaboration with Amgen**

On December 19, 2011, the Company entered into a collaboration agreement with Amgen, Inc. to develop and commercialize, on a worldwide basis, biosimilar versions of Herceptin<sup>®</sup>, Avastin<sup>®</sup>, Rituxan/Mab Thera<sup>®</sup>, and Erbitux. Under the terms of the agreement, Amgen will assume primary responsibility for developing, manufacturing and initially commercializing the oncology antibody products. The Company will contribute up to \$400.0 million in co-development costs over the course of development, including the provision of development support, and will share product development risks. In addition, we will contribute our significant expertise in the commercialization and marketing of products in highly competitive specialty and generic markets, including helping effectively manage the lifecycle of the biosimilar products. The collaboration products are expected to be sold under a joint Amgen/Actavis label. We will initially receive royalties and sales milestones from product revenues. The collaboration will not pursue biosimilars of Amgen's proprietary products.

On July 13, 2012, the Company entered into a global license agreement with Synthon, obtaining an exclusive license to its trastuzumab molecule, which is being developed as a biosimilar to Herceptin<sup>®</sup>. Actavis subsequently contributed the product to the Company's biosimilar collaboration with Amgen. Under the terms of the Synthon agreement, Amgen and Actavis will assume all responsibility for worldwide development and commercialization of biosimilar trastuzumab, including Phase III clinical trials and global manufacturing. The agreement entitles Synthon to an initial payment and the opportunity to receive a milestone payment and royalties on net sales. Synthon will also receive compensation for transitional support activities provided under the agreement.

*Actavis Pharma Business Development*

The Company's two most significant products in 2012 were the authorized generic version of Concerta<sup>®</sup> (methylphenidate ER) and Lipitor<sup>®</sup> (atorvastatin), which on a combined basis comprised 20.8% of the Company's revenues. These products were sold pursuant to exclusive marketing arrangements.

Methylphenidate ER is sold pursuant to an exclusive agreements with Ortho-McNeil-Janssen Pharmaceuticals, Inc. ( OMJPI ). Under the terms of the agreement, OMJPI supplies the Company with product. Actavis, Inc. launched its authorized generic of Concerta<sup>®</sup> on May 1, 2011. Under the terms of its agreement with OMJPI, the Company pays a royalty to OMJPI based on the gross profit of product revenues as defined in the agreements. During 2012, the royalty payable to OMJPI ranged from 50% to 55% of sales. This royalty includes the cost of the product supplied by OMJPI. Our royalty payable on sales of methylphenidate ER declines when a third party competitor launches a competing bioequivalent product. The change in royalty is a one-time event and is applied on a strength-by-strength basis following the launch of the first third party generic competitor. In January of 2013, a competitor launched a generic version of the 27mg strength, triggering the one time decline in royalty on this strength. Accordingly, for the 27mg strength, commencing in January 2013, the royalty payable to OMJPI will be approximately 30% of sales, which includes the cost of the product supplied by OMJPI. The royalty on the 18mg, 35mg and 54mg strengths will remain at approximately 50% until a competitive launch occurs, at which point the royalty rate will be reduced to approximately 30%. The agreement with OMJPI expires on December 31, 2014 and is subject to normal and customary early termination provisions.

During 2011 and 2012, Atorvastatin was sold pursuant to an exclusive agreement with Pfizer, Inc. ( Pfizer ). Actavis, Inc. launched its authorized generic of Lipitor<sup>®</sup> on November 30, 2011. Due to the significant decline in the market for this product, the Company agreed to terminate this agreement effective January 1, 2013. In exchange, the Company is entitled to receive a royalty on future sales of the product by Pfizer through 2015.

In accordance with the acquisition agreement of the Arrow Group on December 2, 2009, the Arrow Group selling shareholders have the right to receive certain contingent payments based on the after-tax gross profits, as defined by the agreement, on sales of atorvastatin within the U.S. (the Territory ) from product launch date up to and including May 31, 2013 (the Contingent Payment Period ).

---

## **Table of Contents**

The Company has entered into an agreement with Endo Pharmaceuticals Inc. and Teikoku Seiyaku Co., Ltd to settle all outstanding patent litigation related to the Company's generic version of Lidoderm®. The agreement allows the Company to launch its lidocaine topical patch 5% product on September 15, 2013. The license will be exclusive as to an authorized generic version of Lidoderm® until the earliest of a third party generic launch or seven and one half months after the Company's launch of its generic product. Endo will receive approximately 25% of the gross profit generated on the Company's sales of its generic version of Lidoderm® during the Company's period of exclusivity. On August 23, 2012, the U.S. Food and Drug Administration (FDA) granted final approval of the Company's generic version of Lidoderm®.

Additionally, under the terms of the agreement, the Company's Anda Distribution business will receive and distribute branded Lidoderm® product from Endo each month during the first eight months of 2013 valued up to approximately \$96 million. Actavis' availability of brand product would cease upon the launch of any generic version of Lidoderm®. The receipt of the branded product will be recorded at the time all contingencies related to Actavis' ability to receive and distribute such inventory are resolved.

## **2012 Financial Highlights**

Among the significant consolidated financial highlights for 2012 were the following:

Net revenues grew to \$5,914.9 million from \$4,584.4 million in 2011, an increase of \$1,330.5 million or 29.0%;

Operating income decreased by \$215.4 million or 40.2% to \$320.8 million from \$536.2 million in 2011; and

Net income attributable to common shareholders for 2012 was \$97.3 million (\$0.76 per diluted share) compared to \$260.9 million (\$2.06 per diluted share) in 2011.

## **Segments**

Actavis operates in three segments: Actavis Pharma (previously Global Generics), Actavis Specialty Brands (previously Global Brands) and Anda Distribution (previously Distribution). The Actavis Pharma segment includes off-patent pharmaceutical products that are therapeutically equivalent to proprietary products. The Actavis Specialty Brands segment includes patent-protected products and certain trademarked off-patent products that Actavis sells and markets as brand pharmaceutical products. The Anda Distribution segment mainly distributes generic pharmaceutical products manufactured by third parties, as well as by Actavis, primarily to independent pharmacies, pharmacy chains, pharmacy buying groups and physicians' offices. The Anda Distribution segment operating results exclude sales by Anda of products developed, acquired, or licensed by Actavis' Actavis Pharma and Actavis Specialty Brands segments.

The Company evaluates segment performance based on segment net revenues and segment contribution. Segment contribution represents segment net revenues less cost of sales (excludes amortization), R&D expenses and selling and marketing expenses. The Company does not report total assets, capital expenditures, corporate general and administrative expenses, amortization, gains or losses on asset sales or disposals and impairments by segment as not such information is accounted for at the segment level, nor is such information used by all segments.

**Table of Contents****YEAR ENDED DECEMBER 31, 2012 COMPARED TO 2011**

Results of operations, including segment net revenues, segment operating expenses and segment contribution information for the Company's Actavis Pharma, Actavis Specialty Brands and Anda Distribution segments, consisted of the following (in millions):

	Years Ended December 31,							
	2012			Total		2011		
	Actavis Pharma	Actavis Specialty Brands	Anda Distribution		Actavis Pharma	Actavis Specialty Brands	Anda Distribution	
Product sales	\$ 4,385.2	\$ 411.6	\$ 986.4	\$ 5,783.2	\$ 3,320.2	\$ 364.9	\$ 776.2	\$ 4,461.3
Other revenue	60.9	70.8		131.7	47.0	76.1		123.1
Net revenues	4,446.1	482.4	986.4	5,914.9	3,367.2	441.0	776.2	4,584.4
Operating expenses:								
Cost of sales <sup>(1)</sup>	2,428.4	115.4	846.6	3,390.4	1,817.8	94.4	652.7	2,564.9
Research and development	255.6	146.2		401.8	227.7	67.7		295.4
Selling and marketing	281.2	175.5	89.8	546.5	156.0	168.6	77.2	401.8
Contribution	\$ 1,480.9	\$ 45.3	\$ 50.0	\$ 1,576.2	\$ 1,165.7	\$ 110.3	\$ 46.3	\$ 1,322.3
Contribution margin	33.3%	9.4%	5.1%	26.6%	34.6%	25.0%	6.0%	28.8%
General and administrative				624.8				353.1
Amortization				481.1				354.3
Loss on asset sales and impairments, net				149.5				78.7
Operating income				\$ 320.8				\$ 536.2
Operating margin				5.4%				11.7%

(1) Excludes amortization of acquired intangibles including product rights.

**Actavis Pharma Segment***Net Revenues*

Our Actavis Pharma segment develops, manufactures, markets, sells and distributes generic, branded generic and OTC products. Generic products are the therapeutic equivalent to their brand name counterparts and are generally sold at prices significantly less than the brand product. As such, generic products provide an effective and cost-efficient alternative to brand products. When patents or other regulatory exclusivity no longer protect a brand product, or if we are successful in developing a bioequivalent, non-infringing version of a brand product, opportunities exist to introduce off-patent or generic counterparts to the brand product. Additionally, we distribute generic versions of third parties' brand products (sometimes known as Authorized Generics) to the extent such arrangements are complementary to our core business. Our portfolio of generic products includes products we have internally developed, products we have licensed from third parties, and products we distribute for third parties.

Net revenues in our Actavis Pharma segment include product sales and other revenue. Our Actavis Pharma segment product line includes a variety of products and dosage forms. Indications for this line include pregnancy prevention, pain management, depression, hypertension, attention-deficit/hyperactivity disorder and smoking cessation. Dosage forms include oral solids, semi-solids, liquids, gels, transdermals, injectables, inhalation and oral transmucosals.

Other revenues consist primarily of royalties, milestone receipts, commission income and revenue from licensing arrangements.

Net revenues within our Actavis Pharma segment increased 32.0% or \$1,078.9 million to \$4,446.1 million for the year ended December 31, 2012 compared to net revenues of \$3,367.2 million in the prior year. The increase in net revenues was primarily due to higher net revenues as a result of the Actavis Group, Ascent and Specifar acquisitions in October 2012, January 2012 and May 2011, respectively (\$637.9 million),

## Edgar Filing: Actavis, Inc. - Form 10-K

increased unit sales of authorized generic versions of Concerta® (methylphenidate ER) and Lipitor® (atorvastatin) (\$280.2 million), which we launched in May 2011 and November 2011, respectively and increased U.S. unit sales related

---

## **Table of Contents**

to new products including enoxaparin, progesterone capsules, levalbuteral, vancomycin hydrochloride, metformin hydrochloride extended-release, morphine sulfate extended-release and trospium choride (\$247.2 million). Partially offsetting these increases were price and unit sales declines due to competition including metoprolol, potassium XR and fentanyl transdermal system (\$116.2 million).

### *Cost of Sales*

Cost of sales includes production and packaging costs for the products we manufacture, third party acquisition costs for products manufactured by others, profit-sharing or royalty payments for products sold pursuant to licensing agreements, inventory reserve charges and excess capacity utilization charges, where applicable. Cost of sales does not include amortization costs for acquired product rights or other acquired intangibles.

Cost of sales within our Actavis Pharma segment increased 33.6% or \$610.6 million to \$2,428.4 million for the year ended December 31, 2012 compared to \$1,817.8 million in the prior year due to higher product sales. The increase in cost of sales was primarily due to product costs on atorvastatin, enoxaparin, metformin hydrochlorodine extended-release, progesterone capsules (\$182.5 million) and increased unit sales as a result of the Actavis Group, Ascent and Specifar acquisitions in October 2012, January 2012 and May 2011, respectively (\$406.6 million). Cost of sales as a percentage of net revenues increased to 54.6% from 54.0% in the prior year period primarily related to product mix.

### *Research and Development Expenses*

R&D expenses consist predominantly of personnel-related costs, active pharmaceutical ingredient ( API ) costs, contract research, biostudy and facilities costs associated with product development.

R&D expenses within our Actavis Pharma segment increased 12.3% or \$27.9 million to \$255.6 million for the year ended December 31, 2012 compared to \$227.7 million in the prior year. The increase in R&D expenses was primarily due to higher costs associated with the Actavis Group acquisition.

### *Selling and Marketing Expenses*

Selling and marketing expenses consist mainly of personnel-related costs, distribution costs, professional services costs, insurance, depreciation and travel costs.

Selling and marketing expenses within our Actavis Pharma segment increased 80.3% or \$125.2 million to \$281.2 million for the year ended December 31, 2012 compared to \$156.0 million in the prior year primarily due to higher selling and marketing expenses incurred resulting from the Actavis Group, Ascent and Specifar acquisitions (\$ 112.6 million).

## ***Actavis Specialty Brands Segment***

### *Net Revenues*

Our Actavis Specialty Brands segment includes our key promoted products such as Rapaflo<sup>®</sup>, Gelnique<sup>®</sup>, Crinone<sup>®</sup>, Trelstar<sup>®</sup>, Generess<sup>™</sup> Fe, Androderm<sup>®</sup>, and Kadian<sup>®</sup> and a number of non-promoted products.

Other revenues in the Actavis Specialty Brands segment consist primarily of co-promotion revenue, royalties and the recognition of deferred revenue relating to our obligation to manufacture and supply brand products to third parties. Other revenues also include revenue recognized from R&D and licensing agreements.

Net revenues within our Actavis Specialty Brands segment increased 9.4% or \$41.4 million to \$482.4 million for the year ended December 31, 2012 compared to net revenues of \$441.0 million in the prior year. The increase was due to higher product sales (\$46.7 million) mainly resulting from new products including Generess<sup>®</sup> Fe, sodium ferric gluconate and Kadian<sup>®</sup>, which was acquired as part of the Actavis Group acquisition and key promoted products including Rapaflo<sup>®</sup>, Crinone<sup>®</sup> and INFED<sup>®</sup>. This increase was partially offset by lower sales of certain non-promoted products.



---

## **Table of Contents**

### *Cost of Sales*

Cost of sales includes production and packaging costs for the products we manufacture, third party acquisition costs for products manufactured by others, profit-sharing or royalty payments for products sold pursuant to licensing agreements, inventory reserve charges and excess capacity utilization charges, where applicable. Cost of sales does not include amortization costs for acquired product rights or other acquired intangibles.

Cost of sales within our Actavis Specialty Brands segment increased 22.2% or \$21.0 million to \$115.4 million for the year ended December 31, 2012 compared to \$94.4 million in the prior year. The increase in cost of sales was due to higher product sales. Cost of sales as a percentage of net revenues increased to 23.9% from 21.4% in the prior year period due to product mix.

### *Research and Development Expenses*

R&D expenses consist mainly of personnel-related costs, contract research costs, clinical and facilities costs associated with the development of our products.

R&D expenses within our Actavis Specialty Brands segment increased 116.0% or \$78.5 million to \$146.2 million for the year ended December 31, 2012 compared to \$67.7 million in the prior year primarily due to an increase in biosimilar product development costs including recombinant follicle stimulating hormone ( rFSH ) and products being developed under our collaboration agreement with Amgen, Inc. (\$59.6 million), higher contractual in-licensing costs (\$13.5 million) and prior year fair value adjustment of certain contingent obligations relating to the acquisition of our progesterone business from Columbia Labs (\$7.7 million), which lowered R&D expenses in the prior year.

### *Selling and Marketing Expenses*

Selling and marketing expenses consist mainly of personnel-related costs, product promotion costs, distribution costs, professional services costs, insurance and depreciation.

Selling and marketing expenses within our Actavis Specialty Brands segment increased 4.1% or \$6.9 million to \$175.5 million for the year ended December 31, 2012 compared to \$168.6 million in the prior year due to higher U.S. field force and support costs (\$7.3 million), primarily related to increased headcount and higher commercial spending in Canada (\$11.2 million) partially offset by lower U.S. product promotional spending (\$11.9 million).

### *Anda Distribution Segment*

#### *Net Revenues*

Our Anda Distribution segment distributes generic and certain select brand pharmaceutical products manufactured by third parties, as well as by Actavis, primarily to independent pharmacies, pharmacy chains, pharmacy buying groups and physicians' offices. Sales are principally generated through an in-house telemarketing staff and through internally developed ordering systems. The Anda Distribution segment operating results exclude sales by Anda of products developed, acquired, or licensed by Actavis' Actavis Pharma and Actavis Specialty Brands segments.

Net revenues within our Anda Distribution segment increased 27.1% or \$210.2 million to \$986.4 million for the year ended December 31, 2012 compared to net revenues of \$776.2 million in the prior year. The increase was primarily due to an increase in third-party new product launches (\$180.4 million) and an increase in U.S. base product sales, which includes volume increases in both generic and branded pharmaceutical product sales offset by price declines (\$29.7 million).

#### *Cost of Sales*

Cost of sales includes third party acquisition costs, profit-sharing or royalty payments for products sold pursuant to licensing agreements and inventory reserve charges, where applicable. Cost of sales does not include amortization costs for acquired product rights or other acquired intangibles.

**Table of Contents**

Cost of sales within our Anda Distribution segment increased 29.7% or \$193.9 million to \$846.6 million for the year ended December 31, 2012 compared to \$652.7 million in the prior year due to higher product sales. Cost of sales as a percentage of revenue increased to 85.8% compared to 84.1% in the prior year period primarily due to an increase of sales to chain customers at lower than average margins.

*Selling and Marketing Expenses*

Selling and marketing expenses consist mainly of personnel costs, facilities costs, insurance and freight costs which support the Anda Distribution segment sales and marketing functions.

Selling and marketing expenses within our Anda Distribution segment increased 16.3% or \$12.6 million to \$89.8 million for the year ended December 31, 2012 compared to \$77.2 million in the prior year primarily due to higher freight costs (\$6.6 million), higher expenses associated with relocating our Groveport, Ohio distribution operations to the Olive Branch, Mississippi facility (\$3.1 million), and higher sales related expenses (\$2.4 million).

*Corporate General and Administrative Expenses*

(\$ in millions)	Years Ended December 31,		Change	
	2012	2011	Dollars	%
General and administrative expenses	\$ 624.8	\$ 353.1	\$ 271.7	76.9%
as % of net revenues	10.6%	7.7%		

Corporate general and administrative expenses consist mainly of personnel-related costs, facilities costs, insurance, depreciation, litigation and settlement costs and professional services costs which are general in nature and not directly related to specific segment operations.

Corporate general and administrative expenses increased 76.9% or \$271.7 million to \$624.8 million for the year ended December 31, 2012 compared to \$353.1 million in the prior year. The increase was primarily due to higher acquisition, integration and restructuring costs (\$103.1 million), higher litigation charges (\$82.7 million), higher costs resulting from the Actavis Group, Ascent and Specifar acquisitions in October 2012, January 2012 and May 2011, respectively (\$61.1 million), higher legal costs (\$16.3 million), and higher stock-based compensation expenses (\$7.7 million).

*Amortization*

(\$ in millions)	Years Ended December 31,		Change	
	2012	2011	Dollars	%
Amortization	\$ 481.1	\$ 354.3	\$ 126.8	35.8%
as % of net revenues	8.1%	7.7%		

The Company's amortizable assets consist primarily of acquired product rights. Amortization expense for the year ended December 31, 2012 increased as a result of the amortization of atorvastatin and levalbutarol product rights associated with the launch of these products in late 2011 and 2012 (\$40.8 million) and amortization of product rights and other intangible assets acquired in the Actavis Group, Specifar and Ascent acquisitions (\$85.1 million) offset in part by product rights and other intangible assets which were fully amortized subsequent to the prior year period.

*Loss on Asset Sales and Impairments, net*

(\$ in millions)	Years Ended December 31,		Change	
	2012	2011	Dollars	%
Loss on asset sales and impairments, net	\$ 149.5	\$ 78.7	\$ 70.8	90.0%



**Table of Contents**

Loss on asset sales and impairments for the year ended December 31, 2012 includes a non-cash impairment charge related to product rights and in-process research and development intangible assets acquired in connection with the Specifar acquisition (\$117.8 million), an impairment charge related to a manufacturing facility located in Greece (\$40.3 million), an impairment related to the sale of a German subsidiary (\$17.6 million) and an impairment related to API manufacturing assets in India (\$1.6 million). Partially offsetting these charges was a fair value adjustment of the contingent obligation due to the Specifar selling shareholders based on esomeprazole gross profits (\$27.5 million) and net gains on miscellaneous asset sales (\$0.3 million). The impairment relating to the intangible assets acquired in connection with the Specifar acquisition was recorded during the fourth quarter of 2012 and related to esomeprazole product rights following the Company decision to discontinue selling the product as a result of products acquired in connection with the Actavis Group acquisition (\$16.8 million). In addition, we recorded during the second quarter of 2012 a charge related to three products in development as a result of various factors occurring during the same period mainly related to delays in expected launch dates, competitive factors resulting in realization of lower pricing and incremental costs related to manufacturing efforts. These events led to revised estimates of the fair value of each IPR&D asset compared to the carrying values (\$101.0 million). The impairment for the Greece facility was due to a change in the intended use of the facility as a result of the Company's decision during the third quarter of 2012 to discontinue further construction as a result of the planned acquisition of the Actavis Group.

Loss on assets sales and impairments for the year ended December 31, 2011 included an impairment charge of in-process research and development intangibles assets relating to progesterone gel business acquired from Columbia (\$75.8 million), impairment charges of in-process research and development intangible assets acquired as part of the December 2, 2009 acquisition of the Arrow Group (\$27.0 million), impairment charges related to the sale of our Australia R&D facility and two buildings at our Copiague, New York manufacturing facility (\$14.4 million), an other-than-temporary impairment charges related to equity-method investments (\$9.4 million) and a loss on the sale of an equity method investment (\$2.4 million). These amounts were offset by fair value adjustments of certain contingent obligations relating to the acquisition of our progesterone gel business from Columbia Labs (\$49.0 million) and net gains on the sale of certain assets (\$1.3 million).

**Interest Income**

(\$ in millions)	Years Ended December 31,		Change	
	2012	2011	Dollars	%
Interest income	\$ 2.5	\$ 2.1	\$ 0.4	19.0%

**Interest Expense**

(\$ in millions)	Year Ended December 31,		Change	
	2012	2011	Dollars	%
Interest expense 2009 Senior Notes	\$ 49.3	\$ 49.2	\$ 0.1	
Interest expense 2012 Senior Notes	32.8		32.8	
Interest expense Term Loan	5.9		5.9	
Interest expense Revolving Credit Facility	4.5	0.8	3.7	
Interest expense 2006 Credit Facility		1.1	(1.1)	
Interest expense Mandatorily Redeemable Preferred Stock accretion	16.8	16.7	0.1	
Interest expense Contingent liability accretion	5.2	13.0	(7.8)	
Interest expense Foreign exchange currency option premium payable accretion	0.5		0.5	
Interest expense Other	1.7	1.0	0.7	
Interest expense	\$ 116.7	\$ 81.8	\$ 34.9	42.7%

**Table of Contents**

Interest expense increased for the year ended December 31, 2012 over the prior year primarily due to interest expense on the Senior Notes issued in connection with the Actavis Group acquisition. For additional information refer to NOTE 10 Long-Term Debt in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

**Other Income (expense)**

(\$ in millions)	Years Ended		Change	
	2012	2011	Dollars	%
Gain on sale of products	\$ 88.7	\$	\$ 88.7	
Gain on sale of investments	28.8	0.8	28.0	
Gain on sale of divested products	24.0		24.0	
Loss on foreign exchange derivative	(70.4)		(70.4)	
Bridge loan expenses	(37.1)		(37.1)	
Earnings (losses) on equity method investments	1.3	(4.5)	5.8	
Other income	3.2	3.2		
Other income (expense)	\$ 38.5	\$ (0.5)	\$ 39.0	NM

**Gain on Sale of Products**

On October 29, 2012, the Company sold its Rugby over-the-counter ( OTC ) pharmaceutical products and trademarks to The Harvard Drug Group, L.L.C. ( Harvard ) for \$116.6 million. Under the terms of the agreement, Harvard acquired the Rugby trademark and all rights to market, sell and distribute OTC products and nicotine gum products sold under the trademark. The Company retains all rights to manufacture, sell and distribute all store-branded OTC and nicotine gum products, as well as other non-Rugby OTC products in its portfolio. Actavis retains ownership of its nicotine gum Abbreviated New Drug Applications (ANDAs) as well as nicotine gum manufacturing facilities. Also as part of the transaction, Actavis and Harvard entered into a supply and license agreement under which Actavis will manufacture and supply nicotine gum products sold in the Rugby and Major labels. Major is Harvard s existing private label brand. The Company recorded a gain of \$88.7 million in other income (expense), in the fourth quarter of 2012.

**Gain on Sale of Investments**

On October 22, 2012, the Company sold its investment in Moksha8 for \$46.6 million. Simultaneously, Actavis expanded its ongoing sales and marketing collaboration with Moksha8 by granting a license to Moksha8 for five new branded generic products to be developed for the Brazil and Mexico markets in exchange for defined milestones and sales royalties. Actavis will continue to retain generic marketing rights in each market for all products licensed to Moksha8. The Company recorded a gain of \$28.8 million in other income (expense) in the fourth quarter of 2012.

**Gain on Sale of Divested Products**

In order to obtain regulatory approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with the Actavis Group acquisition, Actavis was required to divest certain assets. On October 31, 2012, these products were sold to Par Pharmaceuticals Companies, Inc. and Sandoz, Inc., which resulted in a gain of \$24.0 million in the fourth quarter of 2012.

**Other Income (loss)**

Included in other income (loss) for the year ended December 31, 2012 is approximately \$70.4 million of realized losses for the derivative instruments entered into to mitigate the exposure resulting from movements of the U.S. dollar against the Euro in connection with the purchase of the Actavis Group and approximately \$37.1 million for the expenses of the bridge loan entered into to fund the purchase of the Actavis Group. These losses

**Table of Contents**

were partially offset by \$3.0 million contract termination settlement received by an equity method investee and a \$0.8 million gain related to the revaluation of securities issued by an equity method investee.

**Provision for Income Taxes**

(\$ in millions)	Years Ended December 31,		Change	
	2012	2011	Dollars	%
Provision for income taxes	\$ 146.8	\$ 196.9	\$ (50.1)	(25.4)%
Effective tax rate	59.9%	43.2%		

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate primarily due to the inability to tax benefit losses incurred in certain foreign jurisdictions and the amortization and impairment of foreign intangibles being tax benefited at rates that are lower than the U.S. federal income tax rate.

The higher effective tax rate for the year ended December 31, 2012, as compared to the prior year period, is primarily a result of additional amortization relating to the Actavis foreign intangibles which is tax benefited at rates lower than the U.S. federal rate. In addition, the effective tax rate for the year ended December 31, 2012 included certain non-recurring items such as an impairment charge being tax benefited at a lower tax rate than the U.S. federal rate and a non deductible loss from a foreign exchange derivative for which no tax benefit was provided. These increases to the effective tax rate were partially offset by the reversal of a deferred tax liability related to the Ascent acquisition.

**YEAR ENDED DECEMBER 31, 2011 COMPARED TO 2010**

Results of operations, including segment net revenues, segment operating expenses and segment contribution information for the Company's Actavis Pharma, Actavis Specialty Brands and Anda Distribution segments, consisted of the following (in millions):

	2011				2010			
	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total
Product sales	\$ 3,320.2	\$ 364.9	\$ 776.2	\$ 4,461.3	\$ 2,268.9	\$ 316.3	\$ 830.7	\$ 3,415.9
Other revenue	47.0	76.1		123.1	69.5	81.5		151.0
Net revenues	3,367.2	441.0	776.2	4,584.4	2,338.4	397.8	830.7	3,566.9
Operating expenses:								
Cost of sales <sup>(1)</sup>	1,817.8	94.4	652.7	2,564.9	1,198.9	88.4	711.2	1,998.5
Research and development	227.7	67.7		295.4	194.6	101.5		296.1
Selling and marketing	156.0	168.6	77.2	401.8	111.9	137.8	70.3	320.0
Contribution	\$ 1,165.7	\$ 110.3	\$ 46.3	\$ 1,322.3	\$ 833.0	\$ 70.1	\$ 49.2	\$ 952.3
Contribution margin	34.6%	25.0%	6.0%	28.8%	35.6%	17.6%	5.9%	26.7%
General and administrative				353.1				436.1
Amortization				354.3				180.0
Loss on asset sales and impairments, net				78.7				30.8
Operating income				\$ 536.2				\$ 305.4
Operating margin				11.7%				8.6%

(1) Excludes amortization of acquired intangibles including product rights.



---

**Table of Contents*****Actavis Pharma Segment******Net Revenues***

Net revenues from our Actavis Pharma segment increased 44.0% or \$1,028.8 million to \$3,367.2 million for the year ended December 31, 2011 compared to net revenues of \$2,338.4 million in the prior year. The increase in net revenues was primarily due to higher sales of extended release products (\$620.3 million), primarily attributable to the May 2011 launch of an authorized generic version of Concerta® (methylphenidate ER), the November 2011 launch of an authorized generic version of Lipitor® (atorvastatin) and higher international revenues (\$75.8 million) as a result of the Specifar acquisition in May 2011 and a number of product launches in certain key markets.

***Cost of Sales***

Cost of sales within our Actavis Pharma segment increased 51.6% or \$618.9 million to \$1,817.8 million for the year ended December 31, 2011 compared to \$1,198.9 million in the prior year due to higher product sales. Cost of sales as a percentage of net revenue increased to 54.0% from 51.3% in the prior year due to the launch of authorized generic versions of methylphenidate ER and atorvastatin in May 2011 and November 2011, respectively. Under our agreements with Pfizer, Inc. and Ortho-McNeil-Janssen Pharmaceuticals, Inc., our share of the gross profit on sales of atorvastatin and methylphenidate ER, respectively, are lower than our average gross profit margins. Our share of the gross profit on sales methylphenidate ER increased each quarter during 2011 and since launch and will continue to increase through the middle of 2012. In 2011, our gross margins were favorably impacted by a fair value adjustment of certain contingent obligations due to the Arrow Group selling shareholders based on the after-tax gross profits (as defined under the agreement) on expected future sales of atorvastatin (\$7.8 million) and lower cost of sales across other areas of the segment.

***Research and Development Expenses***

R&D expenses within our Actavis Pharma segment increased 17.0% or \$33.1 million to \$227.7 million for the year ended December 31, 2011 compared to \$194.6 million in the prior year. The increase in R&D expenses was primarily due to higher product development costs, bio-study costs and test chemical costs (\$14.4 million), higher international R&D expenditures as a result of the Specifar acquisition in May 2011 and higher R&D expenses in certain other international locations (\$12.2 million) and higher third-party product technology consulting fees (\$9.9 million). Partially offsetting these increases in 2011 were lower global supply chain initiative costs (\$4.6 million) associated with the closure of our Corona, CA and Australian R&D centers.

***Selling and Marketing Expenses***

Selling and marketing expenses within our Actavis Pharma segment increased 39.4% or \$44.1 million to \$156.0 million for the year ended December 31, 2011 compared to \$111.9 million in the prior year primarily due to higher selling and marketing expenses incurred within international operations resulting from our acquisition of Specifar and higher selling and marketing expenses in certain other international markets (\$37.0 million).

***Actavis Specialty Brands Segment******Net Revenues***

Net revenues from our Actavis Specialty Brands segment increased 10.9% or \$43.2 million to \$441.0 million for the year ended December 31, 2011 compared to net revenues of \$397.8 million in the prior year. The increase was attributed to higher product sales (\$48.6 million), primarily due to increased sales of key promoted products including Rapaflo® and new products including, Generess™ Fe, sodium ferric gluconate and Crinone® (acquired during 2010), offset by lower sales of certain other products. Other revenue decreased \$5.4 million primarily due to the out-licensing of a number of legacy brand products in the prior year.



**Table of Contents***Cost of Sales*

Cost of sales within our Actavis Specialty Brands segment increased 6.8% or \$6.0 million to \$94.4 million for the year ended December 31, 2011 compared to \$88.4 million in the prior year. The increase in cost of sales was primarily due to higher product sales. Cost of sales as a percentage of net revenue decreased to 21.4% from 22.2% in the prior year due to product mix.

*Research and Development Expenses*

R&D expenses within our Actavis Specialty Brands segment decreased 33.3% or \$33.8 million to \$67.7 million for the year ended December 31, 2011 compared to \$101.5 million in the prior year primarily due to lower contractual milestone payments (\$24.6 million) and lower expenses resulting from the revaluation of certain contingent obligations relating to our progesterone business (\$15.4 million) partially offset by higher expenditures associated with our biosimilar product development program (\$10.2 million).

*Selling and Marketing Expenses*

Selling and marketing expenses within our Actavis Specialty Brands segment increased 22.4% or \$30.8 million to \$168.6 million for the year ended December 31, 2011 compared to \$137.8 million in the prior year primarily due to higher field force, marketing and support costs in the U.S. (\$20.6 million), higher product promotional spending (\$5.4 million) and expansion costs in Canada (\$4.8 million).

***Anda Distribution Segment****Net Revenues*

Net revenues from our Anda Distribution segment decreased 6.6% or \$54.5 million to \$776.2 million for the year ended December 31, 2011 compared to net revenues of \$830.7 million in the prior year due to lower sales from third-party product launches (\$56.2 million), partially offset by an increase in the base business.

*Cost of Sales*

Cost of sales within our Anda Distribution segment decreased 8.2% or \$58.5 million to \$652.7 million for the year ended December 31, 2011 compared to \$711.2 million in the prior year due to lower product sales. Cost of sales as a percentage of revenue improved to 84.1% compared to 85.6% in the prior year as the prior year was negatively impacted by a number of product launches at lower margins.

*Selling and Marketing Expenses*

Anda Distribution segment selling and marketing expenses increased 9.8% or \$6.9 million to \$77.2 million for the year ended December 31, 2011 compared to \$70.3 million in the prior year primarily due to higher operating expenses (\$3.7 million) and freight and logistics costs (\$3.2 million).

***Corporate General and Administrative Expenses***

(\$ in millions)	Years Ended December 31,		Change	
	2011	2010	Dollars	%
General and administrative expenses	\$ 353.1	\$ 436.1	\$ (83.0)	(19.0)%
<i>as % of net revenues</i>	<i>7.7%</i>	<i>12.2%</i>		

Corporate general and administrative expenses decreased 19.0% or \$83.0 million to \$353.1 million for the year ended December 31, 2011 compared to \$436.1 million in the prior year. The decrease was due to legal settlement charges associated with drug pricing litigation included in the prior year (\$129.9 million), partially offset by higher expenses in the current year period for personnel and related costs, consulting and legal fees and stock-based compensation (\$49.9 million).



**Table of Contents****Amortization**

(\$ in millions)	Years Ended December 31,		Change	
	2011	2010	Dollars	%
Amortization	\$ 354.3	\$ 180.0	\$ 174.3	96.8%
as % of net revenues	7.7%	5.0%		

The Company's amortizable assets consist primarily of acquired product rights. Amortization expense for the year ended December 31, 2011 increased as a result of amortization of the atorvastatin product rights (\$82.2 million), amortization of product rights acquired in the Specifar acquisition (\$22.5 million) and higher amortization in our international business as a result of product launches and higher amortization rates. Assuming no additions, disposals or adjustments are made to the carrying values and/or useful lives of the assets, annual amortization expense on product rights and other intangible assets is estimated to be \$358.7 million in 2012, \$257.0 million in 2013, \$235.7 million in 2014, \$158.5 million in 2015 and \$72.5 million in 2016.

**Loss on Asset Sales and Impairments, net**

(\$ in millions)	Years Ended December 31,		Change	
	2011	2010	Dollars	%
Loss on asset sales and impairments, net	\$ 78.7	\$ 30.8	\$ 47.9	NM

Loss on asset sales and impairments for the year ended December 31, 2011 includes an impairment charge of in-process research and development intangibles assets relating to progesterone gel business acquired from Columbia (\$75.8 million), impairment charges of in-process research and development intangible assets acquired as part of the December 2, 2009 acquisition of the Arrow Group (\$27.0 million), impairment charges related to the sale of our Australia R&D facility and two buildings at our Copiague, New York manufacturing facility (\$14.4 million), an other-than-temporary impairment charges related to equity-method investments (\$9.4 million) and a loss on the sale of an equity method investment (\$2.4 million). These amounts were offset by fair value adjustments of certain contingent obligations relating to the acquisition of our progesterone gel business from Columbia Labs (\$49.0 million) and net gains on the sale of certain assets (\$1.3 million).

Loss on asset sales and impairments for the year ended December 31, 2010 includes an impairment charge for certain acquired in-process research and development (IPR&D) intangibles acquired in the December 2, 2009 acquisition of the Arrow Group (\$28.6 million). Additionally, we recognized a loss on the sale of stock in our Sweden subsidiary.

**Interest Income**

(\$ in millions)	Years Ended December 31,		Change	
	2011	2010	Dollars	%
Interest income	\$ 2.1	\$ 1.6	\$ 0.5	31.3%

**Table of Contents****Interest Expense**

(\$ in millions)	Year Ended December 31,		Change	
	2011	2010	Dollars	%
Interest expense 2009 Senior Notes	\$ 49.2	\$ 48.8	\$ 0.4	
Interest expense Revolving Credit Facility	0.8		0.8	
Interest expense 2006 Credit Facility	1.1	3.7	(2.6)	
Interest expense Mandatorily Redeemable Preferred Stock accretion	16.7	15.2	1.5	
Interest expense Contingent liability accretion	13.0	15.4	(2.4)	
Interest expense Other	1.0	1.0		
<b>Interest expense</b>	<b>\$ 81.8</b>	<b>\$ 84.1</b>	<b>\$ (2.3)</b>	<b>(2.7)%</b>

Interest expense decreased for the year ended December 31, 2011 over the prior year primarily due to the reversal of previously recorded interest accretion on contingent obligations relating to our progesterone business (\$2.9 million) due to the change in fair value, and lower interest costs on lower average outstanding borrowings, partially offset by higher interest accretion charges on mandatorily redeemable preferred stock and other contingent consideration obligations.

**Other Income (expense), net**

(\$ in millions)	Years Ended December 31,		Change	
	2011	2010	Dollars	%
Gain (loss) on sale of investments	\$ 0.8	\$ 25.6	\$ (24.8)	
Earnings (loss) on equity method investments	(4.5)	1.6	(6.1)	
Loss on early extinguishment of debt		(0.5)	0.5	
Other income	3.2	1.0	2.2	
<b>Other income (expense), net</b>	<b>\$ (0.5)</b>	<b>\$ 27.7</b>	<b>\$ (28.2)</b>	<b>NM</b>

**Gain (loss) on Sale of Investments**

During 2010, we completed the sale of our outstanding shares of Scinopharm Taiwan Ltd. ( Scinopharm ) for net proceeds of approximately \$94.0 million and recorded a gain of \$23.3 million.

**Earnings on Equity Method Investments**

The Company's investments in equity method investments at December 31, 2011 consist of its investments in Columbia and Moksha8 and certain equity method investments in privately held companies acquired as part of December 2, 2009 acquisition of the Arrow Group. The Company's equity investments are accounted for under the equity-method when the Company's ownership does not exceed 50% and when the Company can exert significant influence over the management of the investee. In addition to recording our share of equity investment earnings (losses), during the year ended December 31, 2011, we also recognized amortization expense related to the underlying intangible assets associated with our equity method investments of \$1.2 million. Earnings (losses) on equity method investments for the year ended December 31, 2010 primarily represent our share of equity earnings in Scinopharm Taiwan Ltd. ( Scinopharm ), which was sold in March 2010.

**Provision for Income Taxes**

Change

Edgar Filing: Actavis, Inc. - Form 10-K

(\$ in millions)	Years Ended December 31,		Dollars	%
	2011	2010		
Provision for income taxes	\$ 196.9	\$ 67.3	\$ 129.6	NM
Effective tax rate	43.2%	26.9%		

**Table of Contents**

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate primarily due to state taxes, the inability to tax benefit losses incurred in certain foreign jurisdictions and the amortization and impairment of foreign intangibles being tax benefited at rates that are lower than the US tax rate.

The higher effective tax rate for the year ended December 31, 2011, as compared to the prior year period, is primarily a result of losses incurred in certain foreign jurisdictions for which no benefit is recognized. Additionally, in 2010, we received certain non-recurring tax benefits associated with the closure of the IRS audit for the 2004-2006 tax years, tax benefits associated with the Arrow Acquisition and the disposition and write off of foreign subsidiaries.

**LIQUIDITY AND CAPITAL RESOURCES*****Working Capital Position***

Working capital at December 31, 2012 and 2011 is summarized as follows:

(\$ in millions):	2012	2011	Increase (Decrease)
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 319.0	\$ 209.3	\$ 109.7
Marketable securities	9.0	14.9	(5.9)
Accounts receivable, net of allowances	1,303.4	1,165.7	137.7
Inventories, net	1,543.2	889.4	653.8
Prepaid expenses and other current assets	403.5	122.3	281.2
Deferred tax assets	301.6	168.1	133.5
<b>Total current assets</b>	<b>3,879.7</b>	<b>2,569.7</b>	<b>1,310.0</b>
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	2,428.9	1,535.4	893.5
Income taxes payable	68.4	106.7	(38.3)
Current portion of long-term debt and capital leases	176.2	184.5	(8.3)
Other	37.1	12.9	24.2
<b>Total current liabilities</b>	<b>2,710.6</b>	<b>1,839.5</b>	<b>871.1</b>
<b>Working Capital</b>	<b>\$ 1,169.1</b>	<b>\$ 730.2</b>	<b>\$ 438.9</b>
<b>Current Ratio</b>	<b>1.43</b>	<b>1.40</b>	

Working capital increased \$438.9 million to \$1,169.1 million at December 31, 2012 compared to \$730.2 million at December 31, 2011. The increase in working capital was primarily due to net income adjusted for non-cash items including amortization, depreciation, loss on asset sales and impairments, net and unrealized losses on foreign exchange derivatives (\$647.8 million), proceeds from divested products (\$232.5 million) and working capital acquired in connection with the Ascent and Actavis Group acquisitions (\$319.7 million) partially offset by payments on debt and debt issuance costs, net of excess long-term debt borrowings used to fund the Actavis Group acquisition (\$602.0 million) and capital expenditures (\$137.5 million).

***Cash Flows from Operations***

Summarized cash flow from operations is as follows:

Edgar Filing: Actavis, Inc. - Form 10-K

(\$ in millions)	Years Ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	\$ 665.8	\$ 632.0	\$ 571.0

**Table of Contents**

Cash flows from operations represent net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities was \$665.8 million for the year ended December 31, 2012, compared to \$632.0 million for the year ended December 31, 2011. Net cash provided by operations was higher in 2012 compared to 2011 primarily related to:

a net increase in the amount of cash provided by changes in accounts receivable (\$962.0 million), as a result of both timing of significant product launches and the normal cash collection cycle; and,

a net decrease in the amount of cash used by changes in inventories (\$276.0 million), primarily as a result of an inventory build-up in 2011 in connection with our November 2011 launch of generic version of Lipitor® (atorvastatin) and an increase in inventory reserve provisions in 2012.

These increases were partially offset by:

a net decrease in the amount of cash provided by changes in accounts payable and accrued expenses (\$449.1 million), primarily as a result of payments to Pfizer that were accrued at December 31, 2011 in connection with our launch of atorvastatin in November 2011; and,

a net decrease in amount of cash provided by changes in income and other taxes (\$216.1 million) primarily as a result of higher earnings in the prior year period and consequently, higher taxes paid in 2012 compared to the prior year period.

Cash provided by operating activities was \$632.0 million for the year ended December 31, 2011, compared to \$571.0 million for the year ended December 31, 2010. Net cash provided by operations was higher in 2011 compared to 2010 primarily due to higher cash earnings (i.e., net income adjusted for certain non-cash items) and higher accounts payable and accrued expenses, partially offset by higher accounts receivable and inventories.

Management expects that available cash balances and 2013 cash flows from operating activities will provide sufficient resources to fund our operating liquidity needs and expected 2013 capital expenditure funding requirements.

**Investing Cash Flows**

Our cash flows from investing activities are summarized as follows:

(\$ in millions)	Years Ended December 31,		
	2012	2011	2010
Net cash used in investing activities	\$ 5,749.0	\$ 719.0	\$ 74.1

Investing cash flows consist primarily of cash used in acquisitions of businesses and intangibles (primarily product rights), capital expenditures for property and equipment and purchases of investments and marketable securities partially offset by proceeds from the sale of investments and marketable securities. Net cash used in investing activities was \$5,749.0 million in 2012 compared to \$719.0 million in 2011 and \$74.1 million in 2010. Included in 2012 was cash used in connection with the Actavis Group acquisition, net of cash acquired (\$5,359.3 million), Ascent acquisition, net of cash acquired (\$383.5 million), capital expenditures for property and equipment (\$137.5 million) and investment in foreign exchange derivative (\$156.7 million). Partially offsetting these uses of cash were proceeds from the sale of the Rugby assets (\$116.6 million), products divested in connection with the Actavis Group acquisition (\$115.9 million) and the sale of our Moksh8 equity investment (\$46.6 million).

Included in 2011 was cash used in connection with the Specifar acquisition, net of cash acquired (\$561.2 million), acquisition of a portfolio of generic pharmaceutical products accounted for as business combinations (\$10.5 million), licensing and milestone payments made under license and manufacturing supply agreements accounted for as business combinations (\$3.4 million) and capital expenditures for property and equipment (\$126.7 million).



## Edgar Filing: Actavis, Inc. - Form 10-K

Included in 2010 was cash used in the acquisition of businesses (\$67.5 million), which included the acquisition of the Crinone® and progesterone gel business from Columbia Laboratories, Inc. (\$47.0 million) and acquisition of the remaining interest in Eden Biopharm Group Limited (\$15.0 million), additions to long-term

**Table of Contents**

investments (\$43.7 million), which included cash used to acquire an approximate 22% ownership share in Moksha8 (\$30.0 million) and cash used to acquire 11.2 million shares, or an approximate 13% ownership share, in Columbia (\$11.5 million) and capital expenditures for property and equipment (\$56.6 million). Partially offsetting these uses of cash were proceeds from the sale of our investment in Scinopharm (\$94.0 million).

**Financing Cash Flows**

Our cash flows from financing activities are summarized as follows:

(\$ in millions)	Years Ended December 31,		
	2012	2011	2010
Net cash provided by (used in) financing activities	\$ 5,189.6	\$ 16.4	\$ (411.3)

Financing cash flows consist primarily of borrowings and repayments of debt, repurchases of common stock and proceeds from the exercise of stock options. Cash provided by financing activities in 2012 was \$5,189.6 million and included proceeds from the issuance of 2012 Senior Notes and the Term Loan Credit Agreement to fund the purchase of the Actavis Group (\$3.9 billion and \$1.8 billion, respectively), proceeds from borrowing under the Revolving Credit Facility (\$375.0 million) and proceeds from stock option exercises (\$18.8 million) partially offset by principal payments on debt (\$679.7 million), payments on contingent consideration liabilities primarily related to atorvastatin (\$105.3 million), debt issuance costs (\$77.8 million) and the repurchase of common stock to satisfy tax withholding obligations in connection with vested restricted stock issued to employees (\$16.1 million). Cash provided by financing activities in 2011 was \$16.4 million and included borrowings under the 2006 Credit facility (\$400.0 million), which included borrowings to fund the Specifar Acquisition (\$250.0 million) and proceeds from stock issued under our incentive compensation plans (\$54.9 million), offset by debt repayments (\$428.8 million). Cash used in financing activities in 2010 was \$411.3 million and primarily related to the repayment of borrowings made under the 2006 Credit Facility (\$400.0 million).

**Debt and Borrowing Capacity**

Our outstanding debt obligations are summarized as follows:

(\$ in millions)	2012	2011	Increase (Decrease)
Current portion of long-term debt and capital leases	\$ 176.2	\$ 184.5	\$ (8.3)
Long-term debt and capital leases	6,257.1	848.5	5,408.6
<b>Total debt outstanding</b>	<b>\$ 6,433.3</b>	<b>\$ 1,033.0</b>	<b>\$ 5,400.3</b>

Debt to capital ratio 62.5% 22.5%

On October 2, 2012, the Company issued \$3.9 billion in senior debt (the 2012 Senior Notes). This debt was issued in three tranches as follows:

\$1,200.0 million aggregate principal amount of 1.875% senior notes due October 1, 2017,

\$1,700.0 million aggregate principal amount of 3.250% senior notes due October 1, 2022, and

\$1,000.0 million aggregate principal amount of 4.625% senior notes due October 1, 2042.

Interest payments on the 2012 Senior Notes are due semi-annually in arrears on April 1 and October 1 beginning April 1, 2013. Net proceeds from the offering of the 2012 Senior Notes were used for the acquisition of the Actavis Group. The outstanding balance under the 2012 Senior Notes at December 31, 2012 was \$3,866.1 million.

## Edgar Filing: Actavis, Inc. - Form 10-K

On October 31, 2012, the Company borrowed \$1,800.0 million under a senior unsecured Term Loan Credit Agreement (the Term Loan Credit Agreement ) to fund in part the acquisition of the Actavis Group. Borrowings under the Term Loan Credit Agreement will mature on the fifth anniversary of the closing date of the Actavis Group acquisition. The outstanding principal amount under the Term Loan Credit Agreement is payable in equal quarterly amounts of 2.50% per quarter prior to the fifth anniversary of the closing date of the Actavis Group acquisition (beginning with the quarter ending March 31, 2013), with the remaining balance payable on the maturity date. Borrowings under the Term Loan Credit Agreement bear interest at the Company's choice of a

**Table of Contents**

per annum rate equal to either a base rate or Eurodollar rate, plus an applicable margin. The base rate is the higher of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate as publicly announced by the Administrative Agent or (c) the one-month London Interbank Offered Rate plus 1.00%. The applicable margin is a percentage determined in accordance with a pricing grid based on the Company's credit rating and is currently set at 0.50% for base rate loans and 1.50% for Eurodollar rate loans. On December 10, 2012, the Company prepaid \$100.0 million principal amount under the Term Loan Credit Agreement. The outstanding balance under the Term Loan Credit Agreement at December 31, 2012 was \$1,700.0 million.

On August 24, 2009, the Company issued \$450.0 million aggregate principal amount of 5.00% senior notes due 2014 and \$400.0 million aggregate principal amount of 6.125% senior notes due 2019 (the 2009 Senior Notes). Interest payments are due on the 2009 Senior Notes semi-annually in arrears on February 15 and August 15, respectively, beginning February 15, 2010 at an effective annual interest rate of 5.43% on the 2014 Notes and 6.35% on the 2019 Notes. The outstanding balance under the 2009 Senior Notes at December 31, 2012 was \$848.8 million.

On May 21, 2012, the Company entered into Amendment 1 to the Revolving Credit Facility. The amended Revolving Credit Facility provides an aggregate principal amount of \$750.0 million in senior unsecured revolving loans. The revolving loans may be borrowed, repaid and re-borrowed through September 16, 2016 and, subject to certain minimum amounts, may be prepaid in whole or in part without premiums or penalties. Subject to certain limitations, borrowings under the Revolving Credit Facility may be made in alternative currencies, including Euros, British Pounds Sterling and other currencies. The Revolving Credit Facility contains a letters of credit and swingline loans sublimit of \$100.0 million and \$50.0 million, respectively. The letters of credit and swingline loans sublimit reduces the amount available to be borrowed under the Revolving Credit Facility on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit or swingline loans. Amounts borrowed under the amended Revolving Credit Facility may be used to finance working capital and other general corporate purposes.

There was no balance outstanding under the Revolving Credit Facility at December 31, 2012. As of December 31, 2012, the net availability under the Revolving Credit Facility, reflecting \$6.7 million of outstanding letters of credit, was \$743.3 million.

For additional information on the outstanding debt obligations refer to NOTE 10 Long-Term Debt in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

**Long-term Obligations**

The following table lists our enforceable and legally binding obligations as of December 31, 2012. Some of the amounts included herein are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. Because these estimates and assumptions are necessarily subjective, the enforceable and legally binding obligation we will actually pay in future periods may vary from those reflected in the table:

(in millions):	Payments Due by Period (Including Interest on Debt)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt and other debt(1)	\$ 8,787.9	\$ 370.6	\$ 1,490.0	\$ 2,506.2	\$ 4,421.1
Contingent consideration liabilities(2)	363.1	347.3	7.7	2.8	5.3
Operating lease obligations(3)	183.9	38.1	76.6	27.4	41.8
Capital lease obligations(4)	21.4	7.9	11.5	2.0	
Milestone obligations(5)	505.3	71.4	251.6	106.8	75.5
Other obligations and commitments(6)	390.5	214.2	176.3		
<b>Total(7)</b>	<b>\$ 10,252.1</b>	<b>\$ 1,049.5</b>	<b>\$ 2,013.7</b>	<b>\$ 2,645.2</b>	<b>\$ 4,543.7</b>

- (1) Amounts represent total anticipated cash payments and anticipated interest payments, as applicable, on the 2012 and 2009 Senior Notes, the Term Loan Credit Agreement and amounts outstanding on other long term-debt obligations assuming existing debt maturity or

Edgar Filing: Actavis, Inc. - Form 10-K

redemption schedules. Amounts exclude fair value adjustments, discounts or premiums on outstanding debt obligations.

**Table of Contents**

- (2) Amount primarily represents contingent consideration obligations resulting from the Actavis Group acquisition potentially payable in the form of up to 5.5 million newly issued shares of Watson common stock or, under certain circumstances, in cash. The Arrow contingent obligations include amounts due to Arrow Selling Shareholders on the after-tax gross profits on sales of atorvastatin in the U.S. (as defined under the agreement). For a more detailed description of the terms of the contingent consideration liabilities, refer to NOTE 11 Other Long-Term Liabilities in the accompanying Notes to Consolidated Financial Statements in this Annual Report.
- (3) Amount represents operating leases for the Company's global business. Leases are for rental of office space, office and laboratory equipment, and autos. There are no contingent rental amounts or sublease rentals.
- (4) Amount represents capital leases for the Company's global business. Leases are for property, plant and equipment, vehicles and furniture and fixtures.
- (5) We have future potential milestone payments payable to third parties as part of our licensing and development programs. Payments under these agreements generally become due and payable upon the satisfaction or achievement of certain developmental, regulatory or commercial milestones. Amounts represent contractual payment obligations due on achievement of developmental, regulatory or commercial milestones based on anticipated approval dates assuming all milestone approval events are met. Milestone payment obligations are uncertain, including the prediction of timing and the occurrence of events triggering a future obligation and are not reflected as liabilities in our consolidated balance sheet. Amounts in the table above do not include royalty obligations on future sales of product as the timing and amount of future sales levels and costs to produce products subject to milestone obligations is not reasonably estimable.
- (6) Other obligations and commitments include agreements to purchase third-party manufactured products, capital purchase obligations for the construction or purchase of property, plant and equipment and the liability for income tax associated with uncertain tax positions.
- (7) Total does not include contractual obligations already included in current liabilities on our Consolidated Balance Sheet (except for capital leases and the current portion of long-term debt) or certain purchase obligations, which are discussed below.

For purposes of the table above, obligations for the purchase of goods or services are included only for purchase orders that are enforceable, legally binding and specify all significant terms including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the timing of the obligation. Our purchase orders are based on our current manufacturing needs and are typically fulfilled by our suppliers within a relatively short period. At December 31, 2012, we have open purchase orders that represent authorizations to purchase rather than binding agreements that are not included in the table above.

We are involved in certain equity investments that are intended to complement our core business and markets. We have the discretion to provide funding on occasion for working capital or capital expenditures. We make an evaluation of additional funding based on an assessment of the venture's business opportunities. We believe that any possible commitments arising from the current arrangements will not be significant to our financial condition, results of operations or liquidity.

***Off-Balance Sheet Arrangements***

We do not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, net revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**CRITICAL ACCOUNTING ESTIMATES**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of



---

**Table of Contents**

the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting estimates that we believe are important to aid in fully understanding and evaluating our reported financial results include the following:

Revenue and Provision for Sales Returns and Allowances

Revenue Recognition

Inventory Valuation

Investments

Product Rights and other Definite-Lived Intangible Assets

Goodwill and Intangible Assets with Indefinite-Lives

Allocation of Acquisition Fair Values to Assets Acquired and Liabilities Assumed

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available GAAP alternatives would not produce a materially different result.

***Revenue and Provision for Sales Returns and Allowances***

As is customary in the pharmaceutical industry, our gross product sales are subject to a variety of deductions in arriving at reported net product sales. When we recognize revenue from the sale of our products, an estimate of sales returns and allowances ( SRA ) is recorded which reduces product sales. Accounts receivable and/or accrued liabilities are also reduced and/or increased by the SRA amount. These adjustments include estimates for chargebacks, rebates, cash discounts and returns and other allowances. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. We use a variety of methods to assess the adequacy of our SRA reserves to ensure that our financial statements are fairly stated. This includes periodic reviews of customer inventory data, customer contract programs and product pricing trends to analyze and validate the SRA reserves.

***Chargebacks*** The provision for chargebacks is our most significant sales allowance. A chargeback represents an amount payable in the future to a 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. Our chargeback provision and related reserve varies with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at contract prices. We validate the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent 85% to 90% of our chargeback payments. We continually monitor current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

***Rebates*** Rebates include volume related incentives to direct and indirect customers and Medicaid rebates based on claims from Medicaid benefit providers.



## Edgar Filing: Actavis, Inc. - Form 10-K

Volume rebates are generally offered to customers as an incentive to continue to carry our products and to encourage greater product sales. These rebate programs include contracted rebates based on customers' purchases made during an applicable monthly, quarterly or annual period. The provision for rebates is estimated based on our customers' contracted rebate programs and our historical experience of rebates paid. Any significant changes to our customer rebate programs are considered in establishing our provision for rebates. We continually monitor our customer rebate programs to ensure that the liability for accrued rebates is fairly stated.

---

## **Table of Contents**

The provision for Medicaid rebates is based upon historical experience of claims submitted by the various states. We monitor Medicaid legislative changes to determine what impact such legislation may have on our provision for Medicaid rebates. Our accrual of Medicaid rebates is based on historical payment rates and is reviewed on a quarterly basis against actual claim data to ensure the liability is fairly stated.

*Returns and Other Allowances* Our provision for returns and other allowances include returns, pricing adjustments, promotional allowances and billback adjustments.

Consistent with industry practice, we maintain a return policy that allows our customers to return product for credit. In accordance with our return goods policy, credit for customer returns of product is applied against outstanding account activity or by check. Product exchanges are not permitted. Customer returns of product are not resalable unless the return is due to a shipping error. Our estimate of the provision for returns is based upon historical experience and current trends of actual customer returns. Additionally, we consider other factors when estimating our current period return provision, including levels of inventory in our distribution channel as well as significant market changes which may impact future expected returns, and make adjustments to our current period provision for returns when it appears product returns may differ from our original estimates.

Pricing which include shelf stock adjustments, are credits issued to reflect price decreases in selling prices charged to our direct customers. Shelf stock adjustments are based upon the amount of product our customers have in their inventory at the time of an agreed-upon price reduction. The provision for shelf stock adjustments is based upon specific terms with our direct customers and includes estimates of existing customer inventory levels based upon their historical purchasing patterns. We regularly monitor all price changes to help evaluate our reserve balances. The adequacy of these reserves is readily determinable as pricing adjustments and shelf stock adjustments are negotiated and settled on a customer-by-customer basis.

Promotional allowances are credits that are issued in connection with a product launch or as an incentive for customers to begin carrying our product. We establish a reserve for promotional allowances based upon these contractual terms.

Billback adjustments are credits that are issued to certain customers who purchase directly from us as well as indirectly through a wholesaler. These credits are issued in the event there is a difference between the customer's direct and indirect contract price. The provision for billbacks is estimated based upon historical purchasing patterns of qualified customers who purchase product directly from us and supplement their purchases indirectly through our wholesale customers.

*Cash Discounts* Cash discounts are provided to customers that pay within a specific period. The provision for cash discounts are estimated based upon invoice billings, utilizing historical customer payment experience. Our customer's payment experience is fairly consistent and most customer payments qualify for the cash discount. Accordingly, our reserve for cash discounts is readily determinable.

The estimation process used to determine our SRA provision has been applied on a consistent basis and there have been no significant changes in underlying estimates that have resulted in a material adjustment to our SRA reserves. The Company does not expect future payments of SRA to materially exceed our current estimates. However, if future SRA payments were to materially exceed our estimates, such adjustments may have a material adverse impact on our financial position, results of operations and cash flows. For additional information on our reserves for SRA refer to NOTE 2 Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements in this Annual Report.

The provision for chargebacks as a percentage of gross revenues has decreased from 20.3% in 2010, 17.6% in 2011 and 15.9% in 2012 primarily related to growth of international revenues as a result of the acquisitions of Specifar in 2011, and Ascent and Actavis in January and October 2012, respectively, in the Actavis Pharma Segment. The provision for rebates has increased from 13.0% in 2010, 15.0% in 2011 and 15.5% in 2012 primarily related to the growth of international revenues as a result of the acquisitions of Specifar in 2011 and Ascent and Actavis in January and October 2012, respectively, in the Actavis Pharma segment. Returns and other allowances increased due to returns for new product launches and other allowances related to new product launches and customer and product mix. The increase in provision for cash discounts is due to the acquisitions of Specifar, Ascent and Actavis.

---

**Table of Contents*****Revenue Recognition***

Revenue is generally realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company records revenue from product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery to the customer. Revenues recognized from research, development and licensing agreements (including milestone payments) are recorded on the contingency-adjusted performance model which requires deferral of revenue until such time as contract milestone requirements, as specified in the individual agreements, have been met. Under this model, revenue related to each payment is recognized over the entire contract performance period, starting with the contract's commencement, but not prior to earning and/or receiving the milestone payment (i.e., removal of any contingency). The amount of revenue recognized is based on the ratio of costs incurred to date to total estimated cost to be incurred. In certain circumstances, it may be appropriate to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. Royalty and commission revenue is recognized in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and revenue can be reasonably measured.

***Inventory Valuation***

Inventories consist of finished goods held for distribution, raw materials and work in process. Included in inventory are generic pharmaceutical products that are capitalized only when the bioequivalence of the product is demonstrated or the product is already U.S. Food and Drug Administration approved and is awaiting a contractual triggering event to enter the marketplace. Inventory valuation reserves are established based on a number of factors/situations including, but not limited to, raw materials, work in process, or finished goods not meeting product specifications, product obsolescence, or lower of cost (first-in, first-out method) or market (net realizable value). The determination of events requiring the establishment of inventory valuation reserves, together with the calculation of the amount of such reserves may require judgment. Assumptions utilized in our quantification of inventory reserves include, but are not limited to, estimates of future product demand, consideration of current and future market conditions, product net selling price, anticipated product launch dates, potential product obsolescence and other events relating to special circumstances surrounding certain products. No material adjustments have been required to our inventory reserve estimates for the periods presented. Adverse changes in assumptions utilized in our inventory reserve calculations could result in an increase to our inventory valuation reserves and higher cost of sales.

***Investments***

We employ a systematic methodology that considers all available evidence in evaluating potential impairment of our investments. In the event that the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as our intent and ability to hold the investment. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. However, when a decline in the fair value of an investment falls below the carrying value for a six-month period, unless sufficient positive, objective evidence exists to support such an extended period, the decline will be considered other-than-temporary. Any decline in the market prices of our equity investments that are deemed to be other-than-temporary may require us to incur additional impairment charges.

Our equity investments are accounted for under the equity method when the Company can exert significant influence and ownership does not exceed 50%. We record equity method investments at cost and adjust for the appropriate share of investee net earnings or losses. Investments in which the Company owns less than a 20% interest and cannot exert significant influence are accounted for using the cost method if the fair value of such investments is not readily determinable.

All of our marketable securities are classified as available-for-sale and are reported at fair value, based on quoted market prices. Unrealized temporary adjustments to fair value are included on the balance sheet in a

---

## **Table of Contents**

separate component of stockholders' equity as unrealized gains and losses and reported as a component of other comprehensive income. No gains or losses on marketable securities are realized until shares are sold or a decline in fair value is determined to be other-than-temporary. If a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

### ***Product Rights and Other Definite-Lived Intangible Assets***

Our product rights and other definite-lived intangible assets are stated at cost, less accumulated amortization, and are amortized using the straight-line method over their estimated useful lives. We determine amortization periods for product rights and other definite-lived intangible assets based on our assessment of various factors impacting estimated useful lives and cash flows. Such factors include the product's position in its life cycle, the existence or absence of like products in the market, various other competitive and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the intangibles useful life and an acceleration of related amortization expense, which could cause our operating income, net income and earnings per share to decline.

Product rights and other definite-lived intangible assets are tested periodically for impairment when events or changes in circumstances indicate that an asset's carrying value may not be recoverable. The impairment testing involves comparing the carrying amount of the asset to the forecasted undiscounted future cash flows. In the event the carrying value of the asset exceeds the undiscounted future cash flows, the carrying value is considered not recoverable and impairment exists. An impairment loss is measured as the excess of the asset's carrying value over its fair value, calculated using a discounted future cash flow method. The computed impairment loss is recognized in net income in the period that the impairment occurs. Our projections of discounted cash flows use a discount rate determined by our management to be commensurate with the risk inherent in our business model. Our estimates of future cash flows attributable to our other definite-lived intangible assets require significant judgment based on our historical and anticipated results and are subject to many factors. Different assumptions and judgments could materially affect the calculation of the fair value of the other definite-lived intangible assets which could trigger impairment.

### ***Goodwill and Intangible Assets with Indefinite-Lives***

We test goodwill and intangible assets with indefinite-lives for impairment annually at the end of the second quarter by comparing the fair value of each of the Company's reporting units to the respective carrying value of the reporting units. Additionally, we may perform tests between annual tests if an event occurs or circumstances change that could potentially reduce the fair value of a reporting unit below its carrying amount. The carrying value of each reporting unit is determined by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units.

Goodwill is considered impaired if the carrying amount of the net assets exceeds the fair value of the reporting unit. Impairment, if any, would be recorded in operating income and this could result in a material reduction in net income and earnings per share. During the second quarter of 2012, the Company performed its annual impairment assessment of goodwill, acquired in-process research and development (IPR&D) intangibles and trade name intangibles assets with indefinite-lives. The Company determined there was no impairment associated with goodwill or trade name intangibles. No impairments were recognized during the Company's annual impairment assessment in the second quarter of 2010. Due to changes in market conditions in certain international locations and forecasted performance of certain products not yet launched, the Company performed off-cycle impairment reviews and recorded impairment charges related to certain acquired IPR&D assets of \$95.3 million and \$28.6 million during the fourth quarter of 2011 and 2010, respectively.

IPR&D intangible assets represent the value assigned to acquired research and development projects that, as of the date acquired, represent the right to develop, use, sell and/or offer for sale a product or other intellectual property that we have acquired with respect to products and/or processes that have not been completed or approved. The IPR&D intangible assets will be subject to impairment testing until completion or abandonment of each project. Impairment testing will require the development of significant estimates and assumptions involving the determination of estimated net cash flows for each year for each project or product (including net revenues,

**Table of Contents**

cost of sales, research and development costs, selling and marketing costs), 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. Changes in these assumptions or uncertainties could result in future impairment charges. 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. During 2012, the Company recorded \$101.0 million impairment charges related to certain IPR&D assets acquired in the Specifar acquisition. The impairments were related to delays in expected launch dates, and other competitive factors that resulted in lower forecasted pricing and additional projected manufacturing costs. These events led us to revise the estimated fair value of these IPR&D assets compared to the carrying values. In 2011, the Company recorded \$102.8 million impairment charges related to certain IPR&D assets due to changes in market conditions in certain international locations and forecasted performance of certain products not yet launched.

Upon successful completion of each project and approval of the product, Actavis will make a separate determination of useful life of the intangible, transfer the amount to currently marketed products and amortization expense will be recorded over the estimated useful life.

***Recognizing and Measuring Assets Acquired and Liabilities Assumed in Business Combinations at Fair Value***

We account for acquired businesses using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at date of acquisition at their respective fair values. The consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition. The fair value of the consideration paid, including contingent consideration, is assigned to the underlying net assets of the acquired business based on their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Beginning in 2009, amounts allocated to IPR&D are included on the balance sheet. Intangible assets, including IPR&D assets upon successful completion of the project and approval of the product, are amortized on a straight-line basis to amortization expense over the expected life of the asset. Significant judgments are used in determining the estimated fair values assigned to the assets acquired and liabilities assumed and in determining estimates of useful lives of long-lived assets. Fair value determinations and useful life estimates are based on, among other factors, estimates of expected future net cash flows, estimates of appropriate discount rates used to present value expected future net cash flow streams, the timing of approvals for IPR&D projects and the timing of related product launch dates, the assessment of each asset's life cycle, the impact of competitive trends on each asset's life cycle and other factors. These judgments can materially impact the estimates used to allocate acquisition date fair values to assets acquired and liabilities assumed and the resulting timing and amount of amounts charged to, or recognized in current and future operating results. For these and other reasons, actual results may vary significantly from estimated results.

The Company determines the acquisition date fair value of contingent consideration obligations based on a probability-weighted income approach derived from revenue estimates, post-tax gross profit levels and a probability assessment with respect to the likelihood of achieving contingent obligations including contingent payments such as milestone obligations, royalty obligations and contract earn-out criteria, where applicable. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting. The resultant probability-weighted cash flows are discounted using an appropriate effective annual interest rate. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value will be reflected as income or expense in our consolidated statement of operations. Changes in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various contingent payment obligations. Adverse changes in assumptions utilized in our contingent consideration fair value estimates could result in an increase in our contingent consideration obligation and a corresponding charge to operating income.

---

**Table of Contents**

**RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2012, the FASB issued new guidance that changed the indefinite-lived intangible assets impairment guidance. The revised standard provides entities an option to assess qualitative factors to determine whether performing a quantitative test necessary. If an entity believes, as a result of its qualitative test that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, then the quantitative test would need to be performed. Otherwise no further testing is required. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. The new guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company completed its most recent indefinite-lived intangible assets' impairment test during the second quarter of 2012 and recognized an impairment loss associated with in-process research and development, for additional information refer to NOTE 9 Goodwill, Products Rights and Other Intangible Assets. The adoption of this new guidance did not have any impact on the Company's consolidated financial statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion provides forward-looking quantitative and qualitative information about our potential exposure to market risk. Market risk represents the potential loss arising from adverse changes in the value of financial instruments. The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows or future earnings. We are exposed to market risk for changes in the market values of our investments (Investment Risk) and the impact of interest rate changes (Interest Rate Risk) and the impact of foreign currency exchange changes (Foreign Currency Exchange Risk).

We maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and government agency obligations with ratings of A or better and money market funds. Our investments in marketable securities are governed by our investment policy which seeks to preserve the value of our principal, provide liquidity and maximize return on the Company's investment against minimal interest rate risk. Consequently, our interest rate and principal risk are minimal on our non-equity investment portfolio. The quantitative and qualitative disclosures about market risk are set forth below.

**Investment Risk**

As of December 31, 2012, our total investments in marketable and equity securities of other companies, including equity method investments were \$19.6 million (included in marketable securities and investments and other assets). The fair values of these investments are subject to significant fluctuations due to volatility of the stock market and changes in general economic conditions.

We regularly review the carrying value of our investments and identify and recognize losses, for income statement purposes, when events and circumstances indicate that any declines in the fair values of such investments below our accounting basis are other than temporary.

**Interest Rate Risk**

Our exposure to interest rate risk relates primarily to our non-equity investment portfolio and our floating rate debt. Our cash is invested in bank deposits and A-rated or better money market mutual funds.

Our portfolio of marketable securities includes U.S. Treasury and agency securities classified as available-for-sale securities, with no security having a maturity in excess of two years. These securities are exposed to interest rate fluctuations. Because of the short-term nature of these investments, we are subject to minimal interest rate risk and do not believe that an increase in market rates would have a significant negative impact on the realized value of our portfolio.

*Floating Rate Debt*

At December 31, 2012, there were no borrowings outstanding under our Revolving Credit Facility. Borrowings under the Revolving Credit Facility bear interest based on one-month London Interbank Offered

**Table of Contents**

Rate ( LIBOR ), plus an applicable margin of 1.25%. At December 31, 2012, borrowings outstanding under the Term Loan Credit Agreement were \$1,700.0 million. Borrowings under the Term Loan Credit Agreement will mature on the fifth anniversary of the closing date of the Actavis Group acquisition. The outstanding principal amount under the Term Loan Credit Agreement is payable in equal quarterly amounts of 2.50% per quarter prior to the fifth anniversary of the closing date of the Actavis Group acquisition (beginning with the quarter ending March 31, 2013), with the remaining balance payable on the maturity date. Borrowings under the Term Loan Credit Agreement bear interest at the Company's choice of a per annum rate equal to either a base rate or Eurodollar rate, plus an applicable margin. The base rate is the higher of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate as publicly announced by the Administrative Agent or (c) the one-month London Interbank Offered Rate plus 1.00%. The applicable margin is a percentage determined in accordance with a pricing grid based on the Company's credit rating and is currently set at 0.50% for base rate loans and 1.50% for Eurodollar rate loans. Assuming a one percent increase in the applicable interest rate, annual interest expense under the Term Loan Credit Agreement would increase by approximately \$16.2 million in 2013.

*Fixed Rate Debt*

On October 2, 2012, the Company issued \$1,200.0 million aggregate principal amount of 1.875% senior notes due October 1, 2017 ( 2017 Notes ), \$1,700.0 million aggregate principal amount of 3.250% senior notes due October 1, 2022 ( 2022 Notes ), and \$1,000.0 million aggregate principal amount of 4.625% senior notes due October 1, 2042 ( 2042 Notes ) and together with the 2017 Notes and the 2022 Notes , the 2012 Senior Notes . Interest payments on the 2012 Senior Notes are due semi-annually in arrears on April 1 and October 1 beginning April 1, 2013. The outstanding balance under the 2012 Senior Notes at December 31, 2012 was \$3,866.1 million. On August 24, 2009, the Company issued \$450.0 million aggregate principal amount of 5.00% senior notes due 2014 and \$400.0 million aggregate principal amount of 6.125% senior notes due 2019 (the 2009 Senior Notes ). Interest payments are due on the 2009 Senior Notes semi-annually in arrears on February 15 and August 15, respectively, beginning February 15, 2010 at an effective annual interest rate of 5.43% on the 2014 Notes and 6.35% on the 2019 Notes. The outstanding balance under the 2009 Senior Notes at December 31, 2012 was \$848.8 million. As of December 31, 2012, the aggregate fair value of the 2009 and 2012 Senior Notes was \$248.2 million greater than the carrying value. Changes in market interest rates generally affect the fair value of fixed-rate debt, but do not impact earnings or cash flows. Accordingly, we believe the effect, if any, of reasonably possible near-term changes in the fair value of our Senior Notes would not be material on our financial condition, results of operations or cash flows. Based on quoted market rates of interest and maturity schedules for similar debt issues, we estimate that the fair values of our other notes payable approximated their carrying values on December 31, 2012.

**Foreign Currency Exchange Risk**

We operate and transact business in various foreign countries and are, therefore, subject to the risk of foreign currency exchange rate fluctuations. The Company manages this foreign currency risk, in part, through operational means including managing foreign currency revenues in relation to same currency costs as well as managing foreign currency assets in relation to same currency liabilities. The Company is also exposed to the potential earnings effects from intercompany foreign currency assets and liabilities that arise from normal trade receivables and payables and other intercompany loans. The Company seeks to limit exposure to foreign exchange risk involving intercompany trade receivables and payables by settling outstanding amounts through normal payment terms. Other methodologies to limit the Company's foreign exchange risks are being developed currently which may include foreign exchange forward contracts or options.

In April 2012, the Company entered into foreign exchange derivative contracts including options and forward contracts, with an aggregate notional value of 4.25 billion, to hedge the Company's agreed upon purchase price of Actavis Group. These derivatives were purchased to mitigate exposure resulting from movements of the U.S. dollar against the Euro in connection with the acquisition of Actavis Group. The foreign currency derivative contracts outstanding were settled on October 31, 2012. Since these derivatives are hedges of foreign currency exposures for a business combination denominated in a foreign currency, change in the value of the derivatives are recognized in the statement of operations. For the year ended December 31, 2012, net losses on foreign exchange derivatives was \$70.4 million. Net foreign currency gains and losses did not have a material

---

**Table of Contents**

effect on the Company's results of operations for the years ended December 31, 2012, 2011 or 2010, respectively.

At this time, we have no material commodity price risks.

We do not believe that inflation has had a significant impact on our revenues or operations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item is contained in the financial statements set forth in Item 15 (a) under the caption *Consolidated Financial Statements and Supplementary Data* as a part of this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures, as such term is defined under Rule 13a-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC's) rules and forms, and that such information is accumulated and communicated to the Company's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. However, our assessment of the disclosure controls and procedures with respect to the Company's equity method investees did include an assessment of the controls over the recording of amounts related to our investments that are recorded in our consolidated financial statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2012. Based on this evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2012.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) of the Exchange Act. We maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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



## **Table of Contents**

policies or procedures may deteriorate. Therefore, internal control over financial reporting determined to be effective provides only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

On January 24, 2012 and October 31, 2012, the Company completed the acquisitions of Ascent and the Actavis Group, respectively. As a result, management excluded the Ascent and Actavis Group businesses from its assessment of internal control over financial reporting. Ascent and Actavis Group, a wholly owned subsidiaries of the Company, represents 1% and 15% of the total assets (excluding amounts resulting from purchase price allocation); and 2% and 7% of net revenues of the related consolidated financial statement amounts as of and for the year ended December 31, 2012, respectively.

Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included an assessment of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears under Item 15(a)(1) of this Form 10-K.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting, during the fiscal quarter ended December 31, 2012, that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

We have filed with the New York Stock Exchange the most recent annual Chief Executive Officer Certification as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors**

The information concerning directors of Actavis required under this Item is incorporated herein by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A, related to our 2013 Annual Meeting of Stockholders to be held on May 10, 2013 (our 2013 Proxy Statement ).

Information concerning our Audit Committee and the independence of its members, along with information about the financial expert(s) serving on the Audit Committee, is set forth in the Audit Committee section of our 2013 Proxy Statement and is incorporated herein by reference.

**Executive Officers of the Registrant**

Below are our executive officers as of February 21, 2013:

<b>Name</b>	<b>Age</b>	<b>Principal Position with Registrant</b>
Paul M. Bisaro	52	President and Chief Executive Officer
Sigurdur O. Olafsson	44	President, Global Generics
G. Frederick Wilkinson	56	President, Global Brands
Robert A. Stewart	45	President, Global Operations
R. Todd Joyce	55	Chief Financial Officer Global
David A. Buchen	48	Chief Legal Officer Global
Charles M. Mayr	56	Chief Communications Officer Global
Patrick J. Eagan	55	Chief Human Resources Officer Global

**Paul M. Bisaro**

Paul M. Bisaro, age 52, has served as President and Chief Executive Officer since September 2007. Prior to joining Watson, Mr. Bisaro was President and Chief Operating Officer of Barr Pharmaceuticals, Inc. ( Barr ) from 1999 to 2007. Between 1992 and 1999, Mr. Bisaro served as General Counsel and from 1997 to 1999 served in various additional capacities including Senior Vice President Strategic Business Development. Prior to joining Barr, he was associated with the law firm Winston & Strawn and a predecessor firm, Bishop, Cook, Purcell and Reynolds from 1989 to 1992. Mr. Bisaro also served as a Senior Consultant with Arthur Andersen & Co. Mr. Bisaro received his undergraduate degree in General Studies from the University of Michigan in 1983 and a Juris Doctor from Catholic University of America in Washington, D.C. in 1989.

**Sigurdur O. Olafsson**

Sigurdur O. Olafsson, age 44, was appointed President, Actavis Pharma on April 27, 2012. He joined Watson as Executive Vice President, Global Generics in September 2010. Prior to joining Watson, Mr. Olafsson served as Chief Executive Officer of the Actavis Group from 2008 to 2010. From 2006 until 2008 Mr. Olafsson served as Deputy CEO of the Actavis Group and was CEO, Actavis Inc. U.S. and Chief Executive Corporate Development from 2003 to 2006, where he led Actavis sales and marketing organization. Prior to joining Actavis, he held a number of positions with Pfizer's Global Research and Development organization in both the U.S. and the U.K. from 1998 to 2003. Prior to joining Pfizer, he served as Head of Drug Development for Omega Farma in Iceland for four years. Mr. Olafsson has a M.S. in Pharmacy (Cand Pharm) from the University of Iceland.

**G. Frederick Wilkinson**

G. Frederick Wilkinson, age 56, was appointed President Actavis Specialty Brands on April 27, 2012. He joined Watson as Executive Vice President, Actavis Specialty Brands in September 2009. Prior to joining Watson, Mr. Wilkinson was President and Chief Operating Officer of Duramed Pharmaceuticals, Inc. the proprietary products subsidiary of Barr from 2006 to 2009. Prior to joining Duramed Pharmaceuticals, Inc., he was President and Chief Executive Officer of Columbia Laboratories, Inc. from 2001 to 2006. From 1996 to



**Table of Contents**

2001, Mr. Wilkinson was Senior Vice President and Chief Operating Officer of Watson Pharmaceuticals, Inc. Prior to joining Watson, he spent sixteen years at Sandoz, Inc. in numerous senior management positions of increasing responsibility. Mr. Wilkinson received his M.B.A. from Capital University in 1984 and his B.S. in Pharmacy from Ohio Northern University in 1979. Mr. Wilkinson serves as the Company designee on the Board of Directors for Columbia Laboratories, Inc.

**Robert A. Stewart**

Robert A. Stewart, age 45, was appointed President, Global Operations on April 27, 2012. As President, Global Operations, Mr. Stewart is responsible for managing Watson's Andax, Inc. distribution business, in addition to Global Operations. He had served as Executive Vice President, Global Operations, since August 2010. He joined Watson in November 2009 as Senior Vice President, Global Operations. Prior to joining Watson, Mr. Stewart held various positions with Abbott Laboratories, Inc. from 2002 until 2009 where he most recently served as Divisional Vice President, Global Supply Chain. From 2005 until 2008, he served as Divisional Vice President, Quality Assurance and prior to this position served as Divisional Vice President for U.S./Puerto Rico and Latin America Plant Operations as well as Director of Operations for Abbott's Whippany plant. Prior to joining Abbott Laboratories, Inc., he worked for Knoll Pharmaceutical Company from 1995 to 2001 and Hoffman La-Roche Inc. Mr. Stewart received B.S. degrees in Business Management / Finance in 1994 from Fairleigh Dickinson University.

**R. Todd Joyce**

R. Todd Joyce, age 55, was appointed Chief Financial Officer – Global on April 27, 2012. Mr. Joyce had served as Executive Vice President, Chief Financial Officer since March 2011. He had previously served as Senior Vice President, Chief Financial Officer since October 2009. Mr. Joyce joined Watson in 1997 as Corporate Controller, and was named Vice President, Corporate Controller and Treasurer in 2001. During the periods October 2006 to November 2007 and from July 2009 until his appointment as Chief Financial Officer, Mr. Joyce served as interim Principal Financial Officer. Prior to joining Watson, Mr. Joyce served as Vice President of Tax from 1992 to 1996 and as Vice President of Tax and Finance from 1996 until 1997 at ICN Pharmaceuticals. Prior to ICN Pharmaceuticals, Mr. Joyce served as a Certified Public Accountant with Coopers & Lybrand and Price Waterhouse. Mr. Joyce received a B.S. in Business Administration from the University of North Carolina at Chapel Hill in 1983 and a M.S. in Taxation from Golden Gate University in 1992.

**David A. Buchen**

David A. Buchen, age 48, was appointed Chief Legal Officer – Global on April 27, 2012. He also serves as Secretary to Watson's Board of Directors. Mr. Buchen had served as Executive Vice President, General Counsel and Secretary since March 2011. He had served as Senior Vice President, General Counsel and Secretary from November 2002 to March 2011. From November 2000 to November 2002, Mr. Buchen served as Vice President and Associate General Counsel. From February 2000 to November 2000, he served as Vice President and Senior Corporate Counsel. From November 1998 to February 2000, he served as Senior Corporate Counsel and as Corporate Counsel. He also served as Assistant Secretary from February 1999 to November 2002. Prior to joining Watson, Mr. Buchen was Corporate Counsel at Bausch & Lomb Surgical (formerly Chiron Vision Corporation) from November 1995 until November 1998 and was an attorney with the law firm of Fulbright & Jaworski, LLP. Mr. Buchen received a B.A. in Philosophy from the University of California, Berkeley in 1985, and a Juris Doctor with honors from George Washington University Law School in 1989.

**Charles M. Mayr**

Charles M. Mayr, age 56, was appointed Chief Communication Officer – Global on April 27, 2012. Mr. Mayr joined Watson as Senior Vice President, Corporate Affairs in September 2009. Prior to joining Watson, Mr. Mayr operated advertising and public relations consulting company, serving such clients as Watson, the Generic Pharmaceuticals Association, Barr Pharmaceuticals, Inc. and a variety of professional associations and consumer products and service companies. Prior to starting his consultancy business, he served as director of

---

**Table of Contents**

corporate communications for Barr. Prior to joining Barr, he served as director of global communications for Sterling Drug Inc., the global brand and consumer health products pharmaceutical subsidiary of Kodak. Mr. Mayr began his career as a broadcast and print journalist and has a B.A. in journalism from New York University.

**Patrick J. Eagan**

Patrick J. Eagan, age 55, was appointed Chief Human Resources Officer Global on November 01, 2012. Mr. Eagan joined Watson in July 2011 as Senior Vice President, Human Resources. Prior to joining Watson, Mr. Eagan held various positions with Abbott Laboratories, Inc. from 1993 until 2011 where he most recently served as Divisional Vice President, Human Resources, in global manufacturing operations. From 2007 until 2009 he served as Divisional Vice President, Human Resources in U.S. commercial operations and prior to this position served as Director, Talent Management at the corporate level. Prior to joining Abbott Laboratories, Inc., he worked for McDonnell Douglas Corporation from 1980 to 1993. Mr. Eagan received his M.B.A. from Lindenwood University, and his B.S. degree in Business Administration in 1980 from the University of Missouri St. Louis.

Our executive officers are appointed annually by the Board of Directors, hold office until their successors are chosen and qualified, and may be removed at any time by the affirmative vote of a majority of the Board of Directors. We have employment agreements with most of our executive officers. There are no family relationships between any director and executive officer of Watson.

***Section 16(a) Compliance***

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 will be set forth in the Section 16(a) Beneficial Ownership Reporting Compliance section of our 2013 Proxy Statement and is incorporated herein by reference.

***Code of Ethics***

Actavis has adopted a Code of Conduct that applies to our employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is posted on our Internet website at [www.Actavis.com](http://www.Actavis.com). Any person may request a copy of our Code of Conduct by contacting us at Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054, Attn: Secretary. Any amendments to or waivers from the Code of Conduct will be posted on our website at [www.Actavis.com](http://www.Actavis.com) under the caption Corporate Governance within the Investors section of our website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information concerning executive and director compensation, and concerning our compensation committee and the compensation committee report for Actavis required under this Item is incorporated herein by reference to the Compensation Discussion and Analysis section of our 2013 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information concerning security ownership of certain beneficial owners and management and related stockholder matters and the equity compensation plan information required under this Item is incorporated herein by reference to the Beneficial Ownership of Stockholders, Directors and Executive Officers and Equity Compensation Plan Information as of December 31, 2012 sections of our 2013 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information concerning certain relationships and related transactions, and director independence required under this Item is incorporated herein by reference to the Certain Relationships and Related Transactions and Director Independence sections of our 2013 Proxy Statement.

**Table of Contents**

**ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information concerning principal accountant fees and services required under this Item is incorporated herein by reference to the Audit Fees section of our 2013 Proxy Statement.

**Table of Contents****PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements and Supplementary Data*

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2012 and 2011	F-3
Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010	F-4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010	F-6
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010	F-7
Notes to Consolidated Financial Statements	F-8
Supplementary Data (Unaudited)	F-63

2. *Financial Statement Schedule*

Schedule II Valuation and Qualifying Accounts	F-63
All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.	

3. *Exhibits*

Reference is hereby made to the Exhibit Index immediately following page F-59 Supplementary Data (Unaudited) of this Annual Report on Form 10-K.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACTAVIS, INC.

(Registrant)

By: */s/ PAUL M. BISARO*  
**Paul M. Bisaro**  
*President and Chief Executive Officer*  
  
*(Principal Executive Officer)*

Date: February 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b>Title</b>	<b>Date</b>
<i>/s/ PAUL M. BISARO</i> Paul M. Bisaro	President, Chief Executive Officer and Director	February 28, 2013
<i>/s/ R. TODD JOYCE</i> R. Todd Joyce	Chief Financial Officer Global (Principal Financial and Accounting Officer)	February 28, 2013
<i>/s/ ANRREW L. TURNER</i>  Andrew L. Turner	Chairman	February 28, 2013
<i>/s/ CHRISTOPHER W. BODINE</i>  Christopher W. Bodine	Director	February 28, 2013
<i>/s/ MICHAEL J. FEDIDA</i>  Michael J. Fedida	Director	February 28, 2013
<i>/s/ MICHEL J. FELDMAN</i>  Michel J. Feldman	Director	February 28, 2013
<i>/s/ ALBERT F. HUMMEL</i>  Albert F. Hummel	Director	February 28, 2013
<i>/s/ CATHERINE M. KLEMA</i>  Catherine M. Klema	Director	February 28, 2013
<i>/s/ JACK MICHELSON</i>  Jack Michelson	Director	February 28, 2013



Edgar Filing: Actavis, Inc. - Form 10-K

/s/ RONALD R. TAYLOR

Director

February 28, 2013

Ronald R. Taylor

/s/ FRED G. WEISS

Director

February 28, 2013

Fred G. Weiss

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>	F-6
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8
<u>Supplementary Data (Unaudited)</u>	F-64
<u>Financial Statement Schedule</u>	
<u>Schedule II - Valuation and Qualifying Accounts</u>	F-63
All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.	

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

of Actavis, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Actavis, Inc. and its subsidiaries at December 31, 2012 and December 31, 2011 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15 (a)(2) presents, fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Ascent Pharmahealth Ltd. (Ascent) and Actavis Group (as defined in Note 5) from its assessment of internal control over financial reporting as of December 31, 2012 because they were acquired by the Company in a purchase business combination during 2012. We have also excluded Ascent and Actavis Group from our audit of internal control over financial reporting. Ascent and Actavis Group are wholly-owned subsidiaries whose total assets represent 1% and 15%, and total revenues represent 2% and 7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PRICEWATERHOUSECOOPERS LLP

Florham Park, New Jersey

February 26, 2013



**Table of Contents****ACTAVIS, INC.****CONSOLIDATED BALANCE SHEETS****(In millions, except par value)**

	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 319.0	\$ 209.3
Marketable securities	9.0	14.9
Accounts receivable, net	1,303.4	1,165.7
Inventories, net	1,543.2	889.4
Prepaid expenses and other current assets	403.5	122.3
Deferred tax assets	301.6	168.1
<b>Total current assets</b>	<b>3,879.7</b>	<b>2,569.7</b>
Property and equipment, net	1,479.8	713.7
Investments and other assets	91.2	71.3
Deferred tax assets	60.7	21.7
Product rights and other intangibles	3,830.0	1,613.6
Goodwill	4,762.1	1,708.3
<b>Total assets</b>	<b>\$ 14,103.5</b>	<b>\$ 6,698.3</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,428.9	\$ 1,535.4
Income taxes payable	68.4	106.7
Current portion of long-term debt and capital leases	176.2	184.5
Deferred revenue	32.3	12.8
Deferred tax liabilities	4.8	0.1
<b>Total current liabilities</b>	<b>2,710.6</b>	<b>1,839.5</b>
Long-term debt and capital leases	6,257.1	848.5
Deferred revenue	11.3	17.0
Other long-term liabilities	162.6	72.7
Other taxes payable	70.3	79.0
Deferred tax liabilities	1,035.2	279.1
<b>Total liabilities</b>	<b>10,247.1</b>	<b>3,135.8</b>
Commitments and contingencies		
Equity:		
Preferred Stock; no par value per share; 2.5 million shares authorized		
Common stock; \$0.0033 par value per share; 500.0 million shares authorized, 138.0 million and 137.1 million shares issued and 127.7 million and 127.2 million shares outstanding, respectively	0.4	0.4
Additional paid-in capital	1,956.7	1,881.0
Retained earnings	2,182.7	2,085.4
Accumulated other comprehensive income (loss)	36.8	(76.5)
Treasury stock, at cost; 10.3 million and 10.0 million shares held, respectively	(342.8)	(326.7)
<b>Total stockholders' equity</b>	<b>3,833.8</b>	<b>3,563.6</b>

Edgar Filing: Actavis, Inc. - Form 10-K

Noncontrolling interest	22.6	(1.1)
Total equity	3,856.4	3,562.5
Total liabilities and equity	\$ 14,103.5	\$ 6,698.3

See accompanying Notes to Consolidated Financial Statements.

F-3

**Table of Contents****ACTAVIS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In millions, except per share amounts)**

	Years Ended December 31,		
	2012	2011	2010
Net revenues	\$ 5,914.9	\$ 4,584.4	\$ 3,566.9
Operating expenses:			
Cost of sales (excludes amortization, presented below)	3,390.4	2,564.9	1,998.5
Research and development	401.8	295.4	296.1
Selling and marketing	546.5	401.8	320.0
General and administrative	624.8	353.1	436.1
Amortization	481.1	354.3	180.0
Loss on asset sales and impairments, net	149.5	78.7	30.8
Total operating expenses	5,594.1	4,048.2	3,261.5
Operating income	320.8	536.2	305.4
Non-Operating income (expense):			
Interest income	2.5	2.1	1.6
Interest expense	(116.7)	(81.8)	(84.1)
Other income (expense), net	38.5	(0.5)	27.7
Total other income (expense), net	(75.7)	(80.2)	(54.8)
Income before income taxes and noncontrolling interest	245.1	456.0	250.6
Provision for income taxes	146.8	196.9	67.3
Net income	98.3	259.1	183.3
(Income)/loss attributable to noncontrolling interest	(1.0)	1.8	1.1
Net income attributable to common shareholders	\$ 97.3	\$ 260.9	\$ 184.4
Earnings per share attributable to commonshareholders:			
Basic	\$ 0.77	\$ 2.10	\$ 1.51
Diluted	\$ 0.76	\$ 2.06	\$ 1.48
Weighted average shares outstanding:			
Basic	125.8	124.5	122.4
Diluted	128.4	126.5	124.2

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****ACTAVIS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In millions)**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 98.3	\$ 259.1	\$ 183.3
Other comprehensive income (loss)			
Foreign currency translation gains (losses)	113.3	(64.9)	(11.5)
Unrealized gains (losses) on securities, net of tax		(8.3)	8.1
Reclassification for gains included in net income, net of tax		(0.8)	(1.0)
Total other comprehensive income (loss), net of tax	113.3	(74.0)	(4.4)
Comprehensive income	211.6	185.1	178.9
Comprehensive (income)/loss attributable to noncontrolling interest	(1.0)	1.8	1.1
Comprehensive income attributable to common shareholders	\$ 210.6	\$ 186.9	\$ 180.0

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents****ACTAVIS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 98.3	\$ 259.1	\$ 183.3
Reconciliation to net cash provided by operating activities:			
Depreciation	97.5	93.6	101.9
Amortization	481.1	354.3	180.0
Provision for inventory reserve	62.5	44.4	50.0
Share-based compensation	48.8	39.8	23.5
Deferred income tax benefit	(221.0)	(126.9)	(118.3)
(Gain) loss on equity method investments	(1.3)	4.5	
Gain on sale of securities	(28.8)	(0.8)	(27.3)
Loss on asset sales and impairment, net	58.7	76.3	29.8
Loss on foreign exchange derivatives	70.4		
Amortization of deferred financing costs	40.6		
Increase in allowance for doubtful accounts	3.6	2.3	9.5
Accretion of preferred stock and contingent payment consideration	21.5	14.6	38.4
Contingent consideration fair value adjustment	(19.5)		
Excess tax benefit from stock-based compensation	(13.7)	(14.6)	
Other, net	3.3	(0.2)	11.3
Changes in assets and liabilities (net of effects of acquisitions):			
Accounts receivable, net	371.1	(590.9)	(57.1)
Inventories	(6.2)	(282.2)	10.5
Prepaid expenses and other current assets	(41.6)	43.5	55.4
Accounts payable and accrued expenses	(222.7)	671.8	96.5
Deferred revenue	(14.9)	(8.7)	(10.6)
Income and other taxes payable	(130.6)	85.5	(20.8)
Other assets and liabilities	8.7	(33.4)	15.0
Total adjustments	567.5	372.9	387.7
Net cash provided by operating activities	665.8	632.0	571.0
<b>Cash Flows From Investing Activities:</b>			
Additions to property and equipment	(137.5)	(126.7)	(56.6)
Additions to product rights and other intangibles	(9.0)	(18.7)	(10.9)
Additions to investments	(5.2)	(13.6)	(49.2)
Proceeds from sales of property and equipment	8.0	6.7	2.7
Proceeds from sales of marketable securities and other investments	58.9	6.1	104.9
Proceeds from sales of divested products	232.5		
Acquisition of business, net of cash acquired	(5,742.8)	(575.1)	(67.5)
Investment in foreign exchange derivative	(156.7)		
Other investing activities, net	2.8	2.3	2.5
Net cash used in investing activities	(5,749.0)	(719.0)	(74.1)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from issuance of long-term debt	\$ 5,665.5	\$	\$
Proceeds from borrowings on credit facility	375.0	400.0	
Debt issuance costs	(77.8)		
Payments on debt, including capital lease obligations	(679.7)	(428.8)	(459.7)
Proceeds from stock plans	18.8	54.9	54.7

Edgar Filing: Actavis, Inc. - Form 10-K

Payment of contingent consideration	(105.3)	(4.5)	
Repurchase of common stock	(16.1)	(14.2)	(6.3)
Acquisition of noncontrolling interest	(4.5)	(5.6)	
Excess tax benefit from stock-based compensation	13.7	14.6	
Net cash provided by (used in) financing activities	5,189.6	16.4	(411.3)
Effect of currency exchange rate changes on cash and cash equivalents	3.3	(2.9)	(4.2)
Net (decrease) increase in cash and cash equivalents	109.7	(73.5)	81.4
Cash and cash equivalents at beginning of period	209.3	282.8	201.4
Cash and cash equivalents at end of period	\$ 319.0	\$ 209.3	\$ 282.8
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	\$ 56.7	\$ 48.9	\$ 49.4
Income taxes, net of refunds	\$ 489.0	\$ 223.4	\$ 193.9

See accompanying Notes to Consolidated Financial Statements.

F-6

Table of Contents

## ACTAVIS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In millions)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
<b>BALANCE, January 1, 2010</b>	133.0	\$ 0.4	\$ 1,686.9	\$ 1,640.1	\$ 1.9	(9.6)	\$ (306.2)	\$ 3,023.1
Comprehensive income:								
Net income attributable to common shareholders				184.4				184.4
Other comprehensive (loss), net of tax					(4.4)			(4.4)
Total comprehensive income								180.0
Share-based compensation			23.5					23.5
Common stock issued under employee stock plans	2.5		54.7					54.7
Tax benefits from exercise of options			6.7					6.7
Repurchase of common stock						(0.1)	(6.3)	(6.3)
<b>BALANCE, December 31, 2010</b>	135.5	\$ 0.4	\$ 1,771.8	\$ 1,824.5	\$ (2.5)	(9.7)	\$ (312.5)	\$ 3,281.7
Comprehensive income:								
Net income attributable to common shareholders				260.9				260.9
Other comprehensive (loss), net of tax					(74.0)			(74.0)
Total comprehensive income								186.9
Share-based compensation			39.8					39.8
Common stock issued under employee stock plans	1.6		54.8					54.8
Tax benefits from exercise of options			14.6					14.6
Repurchase of common stock						(0.3)	(14.2)	(14.2)
<b>BALANCE, December 31, 2011</b>	137.1	\$ 0.4	\$ 1,881.0	\$ 2,085.4	\$ (76.5)	(10.0)	\$ (326.7)	\$ 3,563.6
Comprehensive income:								
Net income attributable to common shareholders				97.3				97.3
Other comprehensive income, net of tax					113.3			113.3
Total comprehensive income								210.6
Share-based compensation			48.1					48.1
Common stock issued under employee stock plans	0.9		18.8					18.8
Tax benefits from exercise of options			13.7					13.7
Acquisition of noncontrolling interest			(4.9)					(4.9)
Repurchase of common stock						(0.3)	(16.1)	(16.1)
<b>BALANCE, December 31, 2012</b>	138.0	\$ 0.4	\$ 1,956.7	\$ 2,182.7	\$ 36.8	(10.3)	\$ (342.8)	\$ 3,833.8

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 Description of Business**

Actavis, Inc. was incorporated in 1985 under the name Watson Pharmaceuticals, Inc. and began operations as a manufacturer and marketer of off-patent pharmaceuticals. On January 24, 2013, Watson Pharmaceuticals, Inc. adopted Actavis, Inc. (NYSE:ACT) as its new global name and on January 25, 2013 began trading under a new symbol **ACT** on the New York Stock Exchange.

Actavis, Inc. is engaged in the development, manufacturing, marketing, sale and distribution of generic and brand pharmaceutical products. Actavis is also developing biosimilar pharmaceutical products. Additionally, we distribute generic and certain select brand pharmaceutical products manufactured by third parties through our Anda Distribution business. Actavis operates manufacturing, distribution, research and development ( **R&D** ) and administrative facilities in many of the world's established and growing international markets, including the U.S., Europe, Canada, Malta, India, Southeast Asia and Brazil.

***Acquisition of Actavis Group***

On October 31, 2012, we completed the acquisition of Actavis Group for a cash payment of 4.2 billion, or approximately \$5.5 billion, and potential contingent consideration payable in the form of up to 5.5 million newly issued shares of Actavis, Inc. common stock or, under certain conditions, in cash. Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. Actavis Group's results are included in the Actavis Pharma segment as of the acquisition date. For additional information on the Actavis Group acquisition, refer to **NOTE 5 Acquisitions and Divestitures**.

***Acquisition of Ascent Pharmahealth Ltd.***

On January 24, 2012, we completed the acquisition of Ascent Pharmahealth Ltd., ( **Ascent** ) the Australian and Southeast Asian generic pharmaceutical business of Strides Arcolab Ltd. for AU\$376.6 million, or approximately \$392.6 million, including working capital adjustments. As a result of the acquisition, Actavis enhances its commercial presence in Australia and gains a selling and marketing capability in Southeast Asia through Ascent's line of generic and over-the-counter products. For additional information on the Ascent acquisition, refer to **NOTE 5 Acquisitions and Divestitures**.

***Acquisition of Specifar***

On May 25, 2011, we completed the acquisition of Specifar Commercial Industrial Pharmaceutical, Chemical and Construction Exploitations Societe Anonyme (ABEE) ( **Specifar** ), a privately-held multinational generic pharmaceutical company for 398.5 million, or approximately \$559.5 million, including net working capital adjustments. As a result of the acquisition, we enhanced our commercial presence in key European markets through Specifar's portfolio of approved products. The transaction also gave Actavis a strong branded-generic commercial presence in the Greek pharmaceutical market.

Under the terms of the acquisition agreement, Specifar's former owners could receive additional consideration based upon future profits ofesomeprazole tablets during its first five years of sales, up to a maximum of 40.0 million.

Specifar's results are included in the Actavis Pharma segment, as of the acquisition date. For additional information on the Specifar acquisition, refer to **NOTE 5 Acquisitions and Divestitures**.

***Global Generics Business Development***

The Company's two most significant products in 2012 were the authorized generic version of Concerta® (methylphenidate ER) and Lipitor® (atorvastatin), which on a combined basis comprised 20.8% of the Company's revenues. These products were sold pursuant to exclusive marketing arrangements.

---

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Methylphenidate ER is sold pursuant to an exclusive agreements with Ortho-McNeil-Janssen Pharmaceuticals, Inc. ( OMJPI ). Under the terms of the agreement, OMJPI supplies the Company with product. Actavis, Inc. launched its authorized generic of Concerta® on May 1, 2011. Under the terms of its agreement with OMJPI, the Company pays a royalty to OMJPI based on the gross profit of product revenues as defined in the agreements. During 2012, the royalty payable to OMJPI ranged from 50% to 55% of sales. This royalty includes the cost of the product supplied by OMJPI. Our royalty payable on sales of methylphenidate ER declines when a third party competitor launches a competing bioequivalent product. The change in royalty is a one-time event and is applied on a strength-by-strength basis following the launch of the first third party generic competitor. In January of 2013, a competitor launched a generic version of the 27mg strength, triggering the one time decline in royalty on this strength. Accordingly, for the 27mg strength, commencing in January 2013, the royalty payable to OMJPI will be approximately 30% of sales, which includes the cost of the product supplied by OMJPI. The royalty on the 18mg, 35mg and 54mg strengths will remain at approximately 50% until a competitive launch occurs, at which point the royalty rate will be reduced to approximately 30%. The agreement with OMJPI expires on December 31, 2014 and is subject to normal and customary early termination provisions.

During 2011 and 2012, Atorvastatin was sold pursuant to an exclusive agreement with Pfizer, Inc. ( Pfizer ). Actavis, Inc. launched its authorized generic of Lipitor® on November 30, 2011. Due to the significant decline in the market for this product, the Company agreed to terminate this agreement effective January 1, 2013. In exchange, the Company is entitled to receive a royalty on future sales of the product by Pfizer through 2015.

***Biosimilars Collaborations***

On December 19, 2011, we entered into a collaboration agreement with Amgen, Inc. to develop and commercialize, on a worldwide basis, several oncology antibody biosimilar medicines. Under the terms of the agreement, Amgen will assume primary responsibility for developing, manufacturing and initially commercializing the oncology antibody products. Watson will contribute up to \$400.0 million in co-development costs over the course of development, including the provision of development support, and will share product development risks. In addition, we will contribute our significant expertise in the commercialization and marketing of products in highly competitive specialty and generic markets, including helping effectively manage the lifecycle of the biosimilar products. The collaboration products are expected to be sold under a joint Amgen/Watson label. We will initially receive royalties and sales milestones from product revenues. The collaboration will not pursue biosimilars of Amgen's proprietary products.

On July 13, 2012, the Company entered into a global license agreement with Synthon, obtaining an exclusive license to its trastuzumab molecule, which is being developed as a biosimilar to Herceptin®. Watson subsequently contributed the product to the Company's biosimilar collaboration with Amgen. Under the terms of the Synthon agreement, Amgen and Watson will assume all responsibility for worldwide development and commercialization of biosimilar trastuzumab, including Phase III clinical trials and global manufacturing. The agreement entitles Synthon to an initial payment and the opportunity to receive a milestone payment and royalties on net sales. Synthon will also receive compensation for transitional support activities provided under the agreement.

---

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 Summary of Significant Accounting Policies*****Basis of Presentation***

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The consolidated financial statements include the accounts of wholly owned subsidiaries, after elimination of intercompany accounts and transactions.

Our consolidated financial statements include the financial results of all acquired companies subsequent to the Acquisition Date.

***Use of Estimates***

Management is required to make certain estimates and assumptions in order to prepare consolidated financial statements in conformity with GAAP. Such estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The Company's most significant estimates relate to the determination of sales returns and allowances (SRA) for accounts receivable and accrued liabilities, valuation of inventory balances, the determination of useful lives for intangible assets, pension and other post-retirement benefit plan assumptions, the assessment of expected cash flows used in evaluating goodwill and other long-lived assets for impairment and recognition and measurement of assets acquired and liabilities assumed in business combinations at fair value. The estimation process required to prepare the Company's consolidated financial statements requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. The Company's actual results could differ materially from those estimates.

***Foreign Currency Translation***

For most of the Company's international operations, the local currency has been determined to be the functional currency. We translate functional currency assets and liabilities to their U.S. dollar equivalents at rates in effect at the balance sheet date and record these translation adjustments as a component of accumulated other comprehensive income (loss) within stockholders' equity in the consolidated balance sheets. We translate functional currency statement of income amounts to their U.S. dollar equivalents at the average rates for the period. The effects of converting non-functional currency assets and liabilities into the functional currency are recorded as general and administrative expenses in the consolidated statements of operations.

***Cash and Cash Equivalents***

The Company considers cash and cash equivalents to include cash in banks, commercial paper and deposits with financial institutions that can be liquidated without prior notice or penalty. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

***Fair Value of Other Financial Instruments***

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, accounts and other receivables, investments, trade accounts payable, our \$1,200.0 million aggregate principal amount of 1.875% senior notes due 2017, \$1,700.0 million aggregate principal amount of 3.250% senior notes due 2022, and \$1,000.0 million aggregate principal amount of 4.625% senior notes due 2042, our \$450.0 million aggregate principal amount of 5.000% notes due 2014 and \$400.0 million aggregate principal amount of 6.125% notes due 2019, \$1,700.0 million Term Loan Credit Agreement, and our credit agreement with Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, N.A., as Syndication Agent, and a syndicate of banks establishing a senior unsecured revolving credit facility (the Revolving Credit Facility). The carrying amounts of cash and cash equivalents, marketable securities, accounts and other receivables and trade accounts



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

payable are representative of their respective fair values due to their relatively short maturities. The fair values of investments in companies that are publicly traded and not accounted for under the equity method are based on quoted market prices. The Company estimates the fair value of its fixed rate long-term obligations based on quoted market rates. At December 31, 2012, the fair value of our Senior Notes was approximately \$248.2 million greater than the carrying value.

***Inventories***

Inventories consist of finished goods held for sale and distribution, raw materials and work in process. Included in inventory at December 31, 2012 and 2011 was approximately \$49.7 million and \$6.8 million, respectively, of inventory that was pending approval by the U.S. Food and Drug Administration ( FDA ), by other regulatory agencies or has not been launched due to contractual restrictions. This inventory consists of generic pharmaceutical products that are capitalized only when the bioequivalence of the product is demonstrated or the product has already received regulatory approval and is awaiting a contractual triggering event to enter the marketplace. Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value). The Company writes down inventories to net realizable value based on forecasted demand and market conditions, which may differ from actual results.

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation. Major renewals and improvements are capitalized, while routine maintenance and repairs are expensed as incurred. Costs associated with internally developed software are accounted for in accordance with the guidance for the treatment of costs associated with computer software development that defines those costs to be capitalized and those to be expensed. The Company capitalizes interest on qualified construction projects. At the time property and equipment are retired from service, the cost and accumulated depreciation is removed from the respective accounts.

Depreciation expense is computed principally on the straight-line method, over the estimated useful lives of the related assets. The following table provides the range of estimated useful lives used for each asset type:

Computer software / hardware	3-10 years
Machinery and equipment	3-15 years
Research and laboratory equipment	3-10 years
Furniture and fixtures	3-10 years
Buildings, improvements, leasehold improvements and other	4-50 years

The Company assesses property and equipment for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable.

***Investments***

The Company's equity investments are accounted for under the equity method when the Company can exert significant influence and ownership does not exceed 50%. The Company records equity method investments at cost and adjust for the appropriate share of investee net earnings or losses. Investments in which the Company owns less than a 20% interest and cannot exert significant influence are accounted for using the cost method if the fair value of such investments is not readily determinable.

***Marketable Securities***

The Company's marketable securities consist of U.S. Treasury and agency securities and equity securities of publicly-held companies. The Company's marketable securities are classified as available-for-sale and are





---

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

recorded at fair value, based upon quoted market prices. Unrealized temporary adjustments to fair value are included on the balance sheet in a separate component of stockholders' equity as unrealized gains and losses and reported as a component of accumulated other comprehensive income. No gains or losses on marketable securities are realized until shares are sold or a decline in fair value is determined to be other-than-temporary. If a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

***Goodwill and Intangible Assets with Indefinite-Lives***

We test goodwill and intangible assets with indefinite-lives for impairment annually at the end of the second quarter by comparing the fair value of each of the Company's reporting units to the respective carrying value of the reporting units. Additionally, we perform impairment testing when events occur that could potentially reduce the fair value of a reporting unit below its carrying amount. The carrying value of each reporting unit is determined by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units.

Goodwill is considered impaired if the carrying amount of the net assets exceeds the fair value of the reporting unit. Impairment, if any, would be recorded in operating income and this could result in a material reduction in net income and earnings per share. During the second quarter of 2012, the Company performed its annual impairment assessment of goodwill, acquired in-process research and development (IPR&D) intangibles and trade name intangibles assets with indefinite-lives. The Company determined there was no impairment associated with goodwill or trade name intangibles.

IPR&D intangible assets represent the value assigned to acquired R&D projects that, as of the date acquired, represent the right to develop, use, sell and/or offer for sale a product or other intellectual property that we have acquired with respect to products and/or processes that have not been completed or approved. The IPR&D intangible assets are subject to impairment testing until completion or abandonment of each project. Impairment testing requires the development of significant estimates and assumptions involving the determination of estimated net cash flows for each year for each project or product (including net revenues, cost of sales, R&D costs, selling and marketing costs), 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. Changes in these assumptions or uncertainties could result in future impairment charges. 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. In 2012, the Company recorded \$101.0 million of impairment charges related to certain IPR&D assets acquired as part of the Specifar acquisition resulting in the decrease of IPR&D assets. In 2011, the Company recorded \$102.8 million impairment charges related to certain IPR&D assets due to changes in market conditions in certain international locations and forecasted performance of certain products not yet launched. (Refer to NOTE 9 Goodwill, Product Rights and Other Intangibles for additional details.)

Upon successful completion of each project and launch of the product, the Company makes a determination of the useful life of the intangible, transfers the amount to currently marketed products (CMP) and amortizes the asset over its estimated useful life.

***Contingent Consideration***

Contingent consideration is recorded at the acquisition date estimated fair value of the contingent payment for all acquisitions. The fair value of the contingent consideration is remeasured at each reporting period with any

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

adjustments in fair value included in our consolidated statement of operations. (Refer to NOTE 17 Fair Value Measurements for additional details regarding the fair value of contingent consideration.)

***Revenue Recognition***

Revenue is generally realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company records revenue from product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery to the customer. Revenues recognized from research, development and licensing agreements (including milestone receipts) are recorded on the contingency-adjusted performance model which requires deferral of revenue until such time as contract milestone requirements, as specified in the individual agreements, have been met. Under this model, revenue related to each payment is recognized over the entire contract performance period, starting with the contract's commencement, but not prior to earning and/or receiving the milestone amount (i.e., removal of any contingency). The amount of revenue recognized is based on the ratio of costs incurred to date to total estimated cost to be incurred. In certain circumstances, it may be appropriate to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. Royalty and commission revenue is recognized in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and revenue can be reasonably measured.

***Provisions for Sales Returns and Allowances***

As is customary in the pharmaceutical industry, the Company's gross product sales are subject to a variety of deductions in arriving at reported net product sales, most significantly in the U.S. When the Company recognizes revenue from the sale of its products, an estimate of SRA is recorded which reduces product sales. Accounts receivable and/or accrued liabilities are also reduced and/or increased by the SRA amount. These adjustments include estimates for chargebacks, rebates, cash discounts and returns and other allowances. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of our SRA reserves to ensure that our consolidated financial statements are fairly stated. This includes periodic reviews of customer inventory data, customer contract programs and product pricing trends to analyze and validate the SRA reserves.

***Chargebacks*** The provision for chargebacks is our most significant sales allowance. A chargeback represents an amount payable in the future to a 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 Company's chargeback provision and related reserve vary with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at contract prices. The Company validates the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent 85% - 90% of the Company's chargeback payments. The Company continually monitors current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

***Rebates*** Rebates include volume related incentives to direct and indirect customers and Medicaid rebates based on claims from Medicaid benefit providers.

---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Volume rebates are generally offered to customers as an incentive to continue to carry our products and to encourage greater product sales. These rebate programs include contracted rebates based on customer's purchases made during an applicable monthly, quarterly or annual period. The provision for rebates is estimated based on our customers' contracted rebate programs and our historical experience of rebates paid. Any significant changes to our customer rebate programs are considered in establishing our provision for rebates. The Company continually monitors its customer rebate programs to ensure that the liability for accrued rebates is fairly stated.

The provision for Medicaid rebates is based upon historical experience of claims submitted by the various states. The Company monitors Medicaid legislative changes to determine what impact such legislation may have on our provision for Medicaid rebates. Our accrual of Medicaid rebates is based on historical payment rates and is reviewed on a quarterly basis against actual claim data to ensure the liability is fairly stated.

*Returns and Other Allowances* Our provision for returns and other allowances include returns, pricing adjustments, promotional allowances and billback adjustments.

Consistent with industry practice, the Company maintains a return policy that allows our customers to return product for credit. In accordance with our return goods policy, credit for customer returns of product is applied against outstanding account activity or by check. Product exchanges are not permitted. Customer returns of product are not resalable unless the return is due to a shipping error. Our estimate of the provision for returns is based upon historical experience and current trends of actual customer returns. Additionally, we consider other factors when estimating our current period return provision, including levels of inventory in our distribution channel as well as significant market changes which may impact future expected returns, and make adjustments to our current period provision for returns when it appears product returns may differ from our original estimates.

Pricing adjustments, which include shelf stock adjustments, are credits issued to reflect price decreases in selling prices charged to our direct customers. Shelf stock adjustments are based upon the amount of product our customers have in their inventory at the time of an agreed-upon price reduction. The provision for shelf stock adjustments is based upon specific terms with our direct customers and includes estimates of existing customer inventory levels based upon their historical purchasing patterns. The Company regularly monitors all price changes to help evaluate our reserve balances. The adequacy of these reserves is readily determinable as pricing adjustments and shelf stock adjustments are negotiated and settled on a customer-by-customer basis.

Promotional allowances are credits, which are issued in connection with a product launch or as an incentive for customers to begin carrying our product. The Company establishes a reserve for promotional allowances based upon these contractual terms.

Billback adjustments are credits that are issued to certain customers who purchase directly from the Company as well as indirectly through a wholesaler. These credits are issued in the event there is a difference between the customer's direct and indirect contract price. The provision for billbacks is estimated based upon historical purchasing patterns of qualified customers who purchase product directly from the Company and supplement their purchases indirectly through the Company's wholesale customers.

*Cash Discounts* Cash discounts are provided to customers that pay within a specific period. The provision for cash discounts are estimated based upon invoice billings, utilizing historical customer payment experience. Our customer's payment experience is fairly consistent and most customer payments qualify for the cash discount. Accordingly, our reserve for cash discounts is readily determinable.

Net revenues and accounts receivable balances in the Company's consolidated financial statements are presented net of SRA estimates. Certain SRA balances are included in accounts payable and accrued expenses. Accounts receivable are presented net of SRA balances of \$824.7 million and \$556.3 million at December 31, 2012 and 2011, respectively. SRA balances in accounted receivable at December 31, 2012 increased \$268.4 million compared to December 31, 2011 primarily related to the acquisition of the Actavis Group. Accounts

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

payable and accrued expenses include \$614.2 million and \$250.5 million at December 31, 2012 and 2011, respectively, for certain rebates and other amounts due to indirect customers. SRA balances in accounts payable and accrued expenses at December 31, 2012 increased \$363.7 million compared to December 31, 2011 primarily related to the acquisition of Actavis Group.

The following table summarizes the activity in the Company's major categories of SRA (in millions):

	<b>Chargebacks</b>	<b>Rebates</b>	<b>Returns and Other Allowances</b>	<b>Cash Discounts</b>	<b>Total</b>
Balance at December 31, 2009	\$ 117.4	\$ 188.4	\$ 97.5	\$ 15.3	\$ 418.6
Provision related to sales in 2010	1,175.5	755.0	206.5	90.5	2,227.5
Credits and payments	(1,192.1)	(723.5)	(214.7)	(88.8)	(2,219.1)
Balance at December 31, 2010	100.8	219.9	89.3	17.0	427.0
Provision related to sales in 2011	1,308.1	1,113.2	306.6	120.5	2,848.4
Credits and payments	(1,248.0)	(844.1)	(273.9)	(102.6)	(2,468.6)
Balance at December 31, 2011	160.9	489.0	122.0	34.9	806.8
Add: Actavis Acquisition	94.3	344.7	174.7	11.3	625.0
Provision related to sales in 2012	1,522.4	1,484.4	485.5	155.2	3,647.5
Credits and payments	(1,566.1)	(1,482.0)	(429.4)	(162.9)	(3,640.4)
Balance at December 31, 2012	\$ 211.5	\$ 836.1	\$ 352.8	\$ 38.5	\$ 1,438.9

The provision for chargebacks as a percentage of gross revenues has decreased from 20.3% in 2010, 17.6% in 2011 and 15.9% in 2012 primarily related to growth of international revenues as a result of the acquisitions of Specifar in 2011, and Ascent and Actavis in January and October 2012, respectively, in the Actavis Pharma Segment. The provision for rebates has increased from 13.0% in 2010, 15.0% in 2011 and 15.5% in 2012 primarily related to the growth of international revenues as a result of the acquisitions of Specifar in 2011 and Ascent and Actavis in January and October 2012, respectively, in the Actavis Pharma segment. Returns and other allowances increased due to returns for new product launches and other allowances related to new product launches and customer and product mix. The increase in provision for cash discounts is due to the acquisitions of Specifar, Ascent and Actavis.

The Company does not expect future payments of SRA to materially exceed our current estimates. However, if future SRA payments were to materially exceed our estimates, such adjustments may have a material adverse impact on our financial position, results of operations and cash flows.

***Shipping and Handling Costs***

The Company records shipping and handling costs in selling and marketing expenses. These expenses were \$102.3 million, \$72.9 million and \$66.5 million in 2012, 2011 and 2010, respectively.

***Concentration of Major Customers and Suppliers***

For the years ended December 31, 2012, 2011 and 2010 there were only two customers that accounted for more than 10% of net revenues. For each of the years ended December 31, 2012 and 2011 the Company's two largest customers accounted for 16% and 14%, individually, of the Company's net revenues. For the year ended December 31, 2010, the Company's two largest customers accounted for 14% and 11%, individually,

of the Company's net revenues.

F-15

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our accounts receivable primarily arise from product sales in North America and Europe and primarily represent amounts due from wholesalers, distributors, chain drug stores and service providers in the health care and pharmaceutical industries, public hospitals and other government entities. Approximately 53% and 68% of the gross accounts receivable balance are concentrated among our four largest customers at December 31, 2012 and 2011, respectively. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential uncollectible accounts. Actual losses from uncollectible accounts have been minimal.

Outside of the U.S., concentrations of credit risk with respect to accounts receivable are limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. We monitor economic conditions, including volatility associated with international economies, and related impacts on the relevant financial markets and our business, especially in light of sovereign credit issues. As of December 31, 2012, the Company's gross accounts receivable and allowance for potential uncollectible accounts in Greece, Italy, Spain and Portugal totaled approximately \$57.6 million and \$8.7 million, respectively. Of this amount, hospital and public sector receivables were approximately \$13.5 million in the aggregate, of which approximately 36.4%, 30.1%, 18.4% and 15.1% related to Italy, Spain, Greece and Portugal, respectively. The deteriorating credit and economic conditions within Greece, Italy, Spain and Portugal as well as inherent variability of timing of cash receipts, have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect accounts receivable outstanding. We continue to monitor these conditions, including the length of time that it takes to collect on our accounts receivable outstanding in Greece, Italy, Spain and Portugal. The Company does not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on its financial position, liquidity or results of operations.

Certain of the Company's finished products and raw materials are obtained from single source suppliers. Although the Company seeks to identify more than one source for its various finished products and raw materials, loss of a single source supplier could have an adverse effect on the Company's results of operations, financial condition and cash flows. Third-party manufactured products accounted for approximately 55%, 49% and 33% of our Actavis Pharma and Actavis Specialty Brands product net revenues in 2012, 2011 and 2010, respectively, including products supplied under authorized generic arrangements.

***Research and Development Activities (R&D)***

R&D activities are expensed as incurred and consist of self-funded R&D costs and the costs associated with work performed under collaborative R&D agreements. R&D expenses include direct and allocated expenses. R&D expenses incurred under collaborative agreements were approximately \$74.2 million, \$21.5 million and \$11.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

***Income Taxes***

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We recognize potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense.

***Comprehensive Income***

Comprehensive income includes all changes in equity during a period except those that resulted from investments by or distributions to the Company's stockholders. Other comprehensive income refers to revenues, expenses, gains and losses that, under GAAP, are included in comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. Actavis' other comprehensive income (loss) is composed of unrealized gains (losses) on certain holdings of publicly traded equity securities, net of realized gains (losses) included in net income and foreign currency translation adjustments.

***Earnings Per Share (EPS)***

Basic EPS is computed by dividing net income by the weighted average common shares outstanding during a period. Diluted EPS is based on the treasury stock method and includes the effect from potential issuance of common stock, such as shares issuable pursuant to the exercise of stock options, assuming the exercise of all in-the-money stock options. Common share equivalents have been excluded where their inclusion would be anti-dilutive.

Our 2012 results include our current estimate of shares issuable to the former shareholders of the Actavis Group. The number of shares issuable is based upon year over year growth in Cash EBITDA for the legacy Actavis business, as it is defined in the acquisition agreement. Based on our current estimate, the Company believes legacy Actavis achieving year over year growth in Cash EBITDA of 10%, which would require the issuance of 3.85 million shares associated with contingent earn-out. By agreement, the Company will submit its determination of 2012 Cash EBITDA following the completion of its 2012 audit.

A reconciliation of the numerators and denominators of basic and diluted EPS consisted of the following (in millions, except per share amounts):

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>EPS basic</b>			
Net income attributable to common shareholders	\$ 97.3	\$ 260.9	\$ 184.4
Basic weighted average common shares outstanding	125.8	124.5	122.4
EPS basic	\$ 0.77	\$ 2.10	\$ 1.51
<b>EPS diluted</b>			
Net income attributable to common shareholders	\$ 97.3	\$ 260.9	\$ 184.4
Basic weighted average common shares outstanding	125.8	124.5	122.4
Effect of dilutive securities:			
Dilutive stock awards	2.6	2.0	1.8
Diluted weighted average common shares outstanding	128.4	126.5	124.2
EPS diluted	\$ 0.76	\$ 2.06	\$ 1.48





---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Stock awards to purchase 0.1 million and 1.1 million common shares in 2011 and 2010, respectively, were outstanding, but not included in the computation of diluted EPS, because the awards were anti-dilutive.

***Employee Benefits***

***Defined Contribution Plans***

The Company has a defined contribution plan that is a post-employment benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution plans are recognized as an employee benefit expense in the Income Statement in the periods during which the related services were rendered.

***Defined Benefit Plans***

The Company recognizes the overfunded or underfunded status of each of its defined benefit plans as an asset or liability on its consolidated balance sheet. The obligations are generally measured at the actuarial present value of all benefits attributable to employee service rendered, as provided by the applicable benefit formula. The estimates of the obligation and related expense of these plans recorded in the financial statements are based on certain assumptions. The most significant assumptions relate to discount rate and expected return on plan assets. Other assumptions used may include employee demographic factors such as compensation rate increases, retirement patterns, expected employee turnover and participant mortality rates. The difference between these assumptions and actual experience results in the recognition of an asset or liability based upon a net actuarial (gain) loss. If the total net actuarial (gain) loss included in accumulated other comprehensive loss exceeds a threshold of 10% of the greater of the projected benefit obligation or the market related value of plan assets, it is subject to amortization and recorded as a component of net periodic pension cost over the average remaining service lives of the employees participating in the pension plan. Net periodic benefit costs are recognized in the consolidated statement of operations.

***Share-based Compensation***

The Company issues non-vested shares in the form of restricted stock and restricted stock units under its long-term equity incentives program. Prior to 2008, we awarded stock options with an exercise price equal to the closing price of our common stock on the day the award was granted. Non-vested shares granted to employees and directors are valued at the market price of the shares on the date of grant. Share-based compensation expense recognized during a period is based on the value of the portion of share-based awards that are expected to vest with employees. That is, share-based compensation expense is reduced for estimated future forfeitures. These estimates are revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation expense in the period in which the change in estimate occurs.

***Recent Accounting Pronouncements***

In July 2012, the FASB issued new guidance that changed the indefinite-lived intangible assets impairment guidance. The revised standard provides entities an option to assess qualitative factors to determine whether performing a quantitative test is necessary. If an entity believes, as a result of its qualitative test that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, then the quantitative test would need to be performed. Otherwise no further testing is required. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. The new guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company completed its most recent indefinite-lived intangible assets' impairment test during the second quarter of 2012 and recognized an impairment loss associated with in-process research and development, for additional information refer to

---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

NOTE 9 Goodwill, Product Rights and Other Intangible Assets. The adoption of this new guidance did not have any impact on the Company's consolidated financial statements.

**NOTE 3 Share-Based Compensation**

As indicated above, the Company recognizes compensation expense for all share-based compensation awards made to employees and directors based on market price of the shares on the date of grant. A summary of the Company's share-based compensation plans is presented below.

***Equity Award Plans***

The Company has adopted several equity award plans, all of which have been approved by the Company's shareholders that authorize the granting of options, restricted stock and other forms of equity awards of the Company's common shares subject to certain conditions. At December 31, 2012, the Company had reserved 7.7 million of its common shares for issuance of share-based compensation awards under the Company's equity award plans.

Option award plans require options to be granted at the fair value of the shares underlying the options at the date of the grant and generally become exercisable over periods ranging from three to five years and expire in ten years. Beginning in 2005, the Compensation Committee of the Board of Directors of the Company (the Board) authorized and issued restricted stock and restricted stock units to the Company's employees, including its executive officers and certain non-employee directors (the Participants) under the Company's equity compensation plans. The restricted stock award program offers Participants the opportunity to earn shares of our common stock over time, rather than options that give Participants the right to purchase stock at a set price. Certain restricted stock units are performance-based issued at a target number with the actual number of restricted shares issued ranging based on achievement of the performance criteria. Restricted stock awards are grants that entitle the holder to shares of common stock subject to certain terms. Restricted stock awards generally have restrictions eliminated over a one to four year period. Restrictions generally lapse for non-employee directors after one year. Restrictions generally lapse for employees over a two to four year period. The fair value of restricted stock grants is based on the market price of our common stock on the respective grant dates. Restricted stock compensation is being amortized and charged to operations over the same period as the restrictions are eliminated for the Participants.

***Share-Based Compensation***

Share-based compensation expense recognized in the Company's results of operations for the years ended December 31, 2012, 2011 and 2010 was \$48.8 million, \$39.8 million and \$23.5 million, respectively.

**NOTE 4 Pension and Other Postretirement Benefit Plans**

***Employee Benefit Plan Obligations Assumed in Acquisition***

On October 31, 2012, the Company assumed all of the Actavis Group's defined benefit obligations and assets for its qualified and non-qualified pension plans and postretirement plans in connection with our acquisition of the Actavis Group. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and subject to local country practices and market circumstances. The disclosures below address the Actavis UK Limited Defined Benefit Pension Plan (UK Pension Plan), which comprises approximately 81% of the fair value of plan assets and 49% of the net benefit obligations of all of the plans as of December 31, 2012.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Obligations and Funded Status***

Employee benefit plans are an exception to the recognition and fair value measurement principles in business combinations. Employee benefit plan obligations are recognized and measured in accordance with the existing authoritative literature for accounting for benefit plans rather than at fair value. Accordingly, the Company remeasured the benefit plans sponsored by the Actavis Group and recognized an asset or liability for the funded status of these plans as of the Acquisition date.

Summarized information about the changes in plan assets and benefit obligation, the funded status and the amounts recorded at December 31, 2012 is as follows:

<b>(in millions)</b>	<b>Year Ended December 31, 2012</b>
Fair value of plan assets October 31, 2012 (Actavis Group acquisition)	\$ 66.5
Return on plan assets	0.5
Benefits paid	(0.2)
Effects of exchange rate changes	0.4
<b>Fair value of plan assets December 31, 2012</b>	<b>\$ 67.2</b>
Benefit obligation at October 31, 2012 (Actavis Group acquisition)	\$ 89.9
Interest cost	0.6
Benefit paid	(0.2)
Effects of exchange rate changes	0.6
<b>Benefit obligation at December 31, 2012</b>	<b>\$ 90.9</b>
<b>Funded status at December 31, 2012</b>	<b>\$ (23.7)</b>
Recognized as:	
Current liabilities	\$ (3.5)
Noncurrent liabilities	\$ (20.2)

***Plan Assets***

Companies are required to use a fair value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. There are three levels of inputs used to measure fair value with Level 1 having the highest priority and Level 3 having the lowest:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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.

Level 3 Unobservable inputs that are supported by little or no market activity. The Level 3 assets are those whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with significant unobservable inputs, as well as instruments for which the determination of fair value requires significant judgment or estimation.

## Edgar Filing: Actavis, Inc. - Form 10-K

If the inputs used to measure the financial assets fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

F-20

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair values of the Company's pension plan assets at December 31, 2012 by asset category are as follows:

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
<i>Investment funds</i>				
U.S. large cap equities	\$ 5.4			\$ 5.4
Non-U.S. developed markets equities	28.2			28.2
Corporate obligations	27.8			27.8
<i>Other investments</i>				
Other	5.8			5.8
<b>Total Assets</b>	<b>\$ 67.2</b>	<b>\$</b>	<b>\$</b>	<b>\$ 67.2</b>

The assets of the pension plan are held in separately administered trusts. The investment guidelines for its UK Pension Plan is to create an asset allocation that is expected to deliver a rate of return sufficient to meet the long-term obligation of the plan, given an acceptable level of risk. The target investment portfolio of the Company's UK Pension Plan is allocated 50% in equities, 40% in fixed-income investments, and 10% in other investments.

***Expected Contributions***

Contributions to the pension plan during 2013 are expected to be approximately \$3.5 million.

***Expected Benefit Payments***

Expected benefit payments are as follows:

2013	1.9
2014	2.0
2015	2.1
2016	2.2
2017	2.3
2018-2022	12.9

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

***Amounts Recognized in Other Comprehensive Income***

Net loss amounts reflect experience differentials primarily relating to differences between expected and actual returns on plan assets as well as the effects of changes in actuarial assumptions. Net loss amounts in excess of certain thresholds are amortized into net pension cost over the average remaining service life of employees.



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Actuarial Assumptions**

The weighted average assumptions used in determining pension plan information are as follows:

	<b>December 31, 2012</b>
Discount rate	4.5%
Expected rate of return on plan assets	5.1%
Salary growth rate	4.6%

In order to select a discount rate for purposes of valuing the plan obligations the Company uses returns of long term investment grade bonds and adjusts them as needed to fit the estimated duration of the plan liabilities.

The expected rate of return for the UK Pension Plan represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, long-term historical returns data are considered as well as actual returns on the plan assets and other capital markets experience. Using this reference information, the long-term return expectations for each asset category and a weighted average expected return for the UK Pension Plan was developed, according to the allocation among those investment categories.

**Savings Plans**

The Company also maintains certain defined contribution savings plans covering substantially all U.S.-based employees, including plans assumed in connection with the Actavis Group acquisition. The Company contributes to the plans based upon the employee contributions. The Company's contributions to these retirement plans were \$25.8 million, \$15.7 million and \$9.5 million in the years ended December 31, 2012, 2011 and 2010, respectively.

**NOTE 5 Acquisitions and Divestitures****Acquisition of Actavis Group**

On October 31, 2012, the Company consummated a Sale and Purchase Agreement (the "Purchase Agreement") with Actavis Acquisition Debt S.à r.l., a company incorporated in Luxembourg (the "Vendor"). Pursuant to the Purchase Agreement, Watson acquired (i) the entire issued share capital of Actavis, Inc., a Delaware corporation, Actavis Pharma Holding 4 ehf., a company incorporated in Iceland, and Actavis S.à r.l., a company incorporated in Luxembourg (collectively "Actavis Group") and (ii) all the rights of the Vendor in certain indebtedness of Actavis Group, in exchange for the following consideration:

A cash payment of 4,219.7 million, or approximately \$5,469.8 million, subject to net working capital adjustment;

Contingent consideration payable in the form of up to 5.5 million newly issued shares of Common Stock, \$0.0033 par value per share, of the Company stock ("Common Shares") based on Actavis' financial performance in 2012 as described in the Purchase Agreement. Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. With the acquisition, Actavis significantly expands its international market presence in established markets including Europe (Europe, Russia, Commonwealth of Independent States (CIS) and Turkey), and MEAAP (Middle East, Africa, Australia and Asia Pacific). In addition, the acquisition expands the Company's product portfolio and pipeline in modified release, solid oral dosage and transdermal products into semi-solids, liquids and injectables. Actavis' results are included in the Actavis Pharma segment as of the acquisition date.





**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value***

The transaction has been accounted for using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date and that in-process research and development ( IPR&D ) be recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology.

The following table summarizes the preliminary fair values of the tangible and identifiable intangible assets acquired and liabilities assumed at acquisition date, with the excess being allocated to goodwill. At December 31, 2012, certain amounts have not been finalized including the assessment of closing day working capital, intangible asset values, uncertain tax positions as well as evaluation of contingencies pending the finalization of the Company's evaluation of certain matters in connection with historical rebate programs. The finalization of these matters may result in changes to the goodwill and the Company expects to finalize such matters in the second half of 2013.

<b>(in millions)</b>	<b>Amount</b>
Cash and cash equivalents	\$ 110.5
Accounts receivable	501.0
Inventories	676.9
Other current assets	355.8
Property, plant & equipment	757.9
Other long term assets	16.9
IPR&D intangible assets	194.4
Intangible assets	2,378.1
Goodwill	2,813.9
Current liabilities	(1,358.1)
Long-term deferred tax and other tax liabilities	(765.5)
Other long term liabilities	(176.0)
Long-term debt and capital leases	(14.1)
Minority interest	(21.9)
<b>Net assets acquired</b>	<b>\$ 5,469.8</b>

***Inventories***

The fair value of inventories acquired included a step-up in the value of inventories of approximately \$137.3 million. Approximately \$44.1 million was amortized to cost of sales during 2012 and the remaining \$93.2 million will be amortized to cost of sales during the first half of 2013.

***IPR&D and Intangible Assets***

IPR&D intangible assets represent the value assigned to product acquired R&D projects that, as of the acquisition date, were expected to be approved for marketing over the next one to two years, had not established technological feasibility and had no alternative future use. The IPR&D intangible assets are 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 each project and launch of the product, the

---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company will make a separate determination of useful life of the IPR&D intangible and amortization will be recorded as an expense over the estimated useful life. Intangible assets represent product rights, trademarks, customer relationships and technology rights and have an estimated weighted average useful life of 8.7 years.

The fair value of the IPR&D and identifiable intangible assets was determined 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 those asset valuations include the estimated net cash flows for each year for each asset 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 discount rates used to arrive at the present value of product right intangible assets as of the acquisition date ranged from 8.8% to 11.5% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

***Goodwill***

Among the primary reasons the Company acquired the Actavis Group and factors that contributed to the preliminary recognition of goodwill were a strong commercial presence on an expanded global basis. In addition, the acquisition expands the Company's product portfolio and pipeline in modified release, solid oral dosage and transdermal products into semi-solids, liquids and injectables. The goodwill recognized from the Actavis Group acquisition is not deductible for tax purposes. Goodwill from the Actavis Group acquisition was primarily assigned to the Actavis Pharma segment.

***Contingent Consideration***

In accordance with existing U.S. GAAP, the fair value of common stock, which is contingently issuable as part of the consideration, was measured on the closing date of the acquisition at the then-current market price of \$85.95 for approximately \$329.1 million assuming the issuance of 3.85 million common shares. The Company determined the acquisition date fair value of the contingent consideration obligation based on a probability-weighted income approach and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting. The resultant probability-weighted cash flows were discounted using a risk free effective annual interest rate. Accretion expense related to the increase in the net present value of the contingent liability has been included in interest expense for the period.

***Long-Term Deferred Tax Liabilities and Other Tax Liabilities***

Long-term deferred tax liabilities and other tax liabilities result from identifiable intangible assets fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

***Acquisition-Related Expenses***

Included in general and administrative expenses for the year ended December 31, 2012 are costs totaling \$73.5 million for acquisition and integration costs including advisory, legal, and regulatory in connection with the Actavis Group acquisition.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Unaudited Pro Forma Results of Operations***

The following table presents the unaudited pro forma consolidated operating results for the Company, as though the Actavis Group acquisition had occurred as of the beginning of the prior annual reporting period. The unaudited pro forma results reflect certain adjustments related to past operating performance, acquisition costs and acquisition accounting adjustments, such as increased depreciation and amortization expense based on the fair valuation of assets acquired, the impact of acquisition financing in place at January 1, 2011 and the related tax effects. The pro forma results do not include any anticipated synergies which may be achievable subsequent to the acquisition date. Accordingly, such pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on the dates indicated, nor are they indicative of the future operating results of the combined company (in millions, except per share amounts):

<b>(Unaudited) (in millions, except per share data)</b>	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Net revenues	\$ 8,082.7	\$ 7,090.7
Net income attributable to common shareholders	111.6	(429.4)
Earnings (loss) per share:		
Basic	\$ 0.86	\$ (3.35)
Diluted	\$ 0.85	\$ (3.29)

The Company recorded net revenue and pre-tax loss of \$437.4 million and \$84.8 million related to Actavis Group during the year ended December 31, 2012.

***Divestiture of Products***

In order to obtain regulatory approval to consummate the Purchase Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, we were required to divest certain assets. In conjunction with the closing of the acquisition, these products were sold to Par Pharmaceuticals Companies, Inc. and Sandoz, Inc. (Refer to NOTE 6 Other Income (Expense) for additional details.)

***Acquisition of Ascent Pharmahealth Ltd.***

On January 24, 2012, Actavis acquired all of the outstanding equity of Ascent for AU\$376.6, or approximately \$392.6 million, including certain working capital adjustments. Through the acquisition, Actavis enhances its commercial presence in Australia and gains selling and marketing capabilities in Southeast Asia. In Australia, Ascent markets generic, brands, over-the-counter ( OTC ) and dermatology and skin care products. In Southeast Asia, Ascent markets generic and OTC products. Ascent's Southeast Asian business includes commercial operations in Singapore, Malaysia, Hong Kong, Vietnam and Thailand. Ascent operates a manufacturing facility in Singapore for generic products in Southeast Asian markets. Ascent's results are included in the Actavis Pharma segment as of the acquisition date.

***Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value***

The transaction has been accounted for using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition date and that in-process research and development ( IPR&D ) be recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the final fair values of the tangible and identifiable intangible assets acquired and liabilities assumed at acquisition date (in millions):

	<b>Amount</b>
Cash and cash equivalents	\$ 9.1
Accounts receivable	29.7
Inventories	27.2
Other current assets	3.3
Property, plant & equipment	4.4
Intangible assets	192.6
Goodwill	214.3
Current liabilities	(35.7)
Long-term deferred tax and other tax liabilities	(51.8)
Other long term liabilities	(0.4)
Long-term debt	(0.1)
Net assets acquired	\$ 392.6

***Intangible Assets***

Intangible assets represent product rights, contractual rights and trade names and have an estimated weighted average useful life of nine (9) years. The estimated fair value of the identifiable intangible assets was determined 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 those asset valuations include the estimated net cash flows for each year for each asset 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 discount rates used to arrive at the present value of product right intangible assets as of the acquisition date ranged from 7.5% to 10.0% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

***Goodwill***

Among the primary reasons the Company acquired Ascent and factors that contributed to the preliminary recognition of goodwill were a strong commercial presence in the Australian and Southeast Asian pharmaceutical markets, history of operating margins and profitability, opportunity to generate revenue as well as a platform to grow in additional Southeast Asian markets. The goodwill recognized from the Ascent acquisition is not deductible for tax purposes. All goodwill from the Ascent acquisition was assigned to the Actavis Pharma segment.

***Long-Term Deferred Tax Liabilities and Other Tax Liabilities***

Long-term deferred tax liabilities and other tax liabilities result from identifiable intangible assets fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Acquisition-Related Expenses***

Included in general and administrative expenses for the year ended December 31, 2012 is acquisition costs totaling \$5.0 million for advisory, legal and regulatory costs incurred in connection with the Ascent acquisition.

Pro forma results of operations have not been presented because the effect of the acquisition was not material.

***Acquisition of Specifar***

On May 25, 2011, Actavis and each of the shareholders (together, the Sellers) of Paomar PLC entered into a Stock Purchase Agreement pursuant to which Actavis purchased all of the outstanding equity of Paomar for cash and certain contingent consideration. Paomar is a company incorporated under the laws of Cyprus and owner of 100 percent of the shares of Specifar Commercial Industrial Pharmaceutical, Chemical and Construction Exploitations Societe Anonyme, a company organized under the laws of Greece. Specifar owns 100 percent of the shares of Alet Pharmaceuticals Industrial and Commercial Societe Anonyme (Alet). In accordance with the terms of the Stock Purchase Agreement, the Company acquired all the outstanding equity of Paomar for the following consideration:

The payment of cash totaling 398.5 million, or \$559.5 million, including working capital adjustments.

Certain contingent consideration (not to exceed an aggregate total of 40.0 million) based on the gross profits on sales of the generic tablet version of Nexium® (esomeprazole) developed by Specifar during its first five years of sales in countries including major markets in Europe, Asia and Latin America, as well as in Canada. For additional information on the contingent payment, refer to NOTE 17 Fair Value Measurements.

Through the acquisition, Actavis, Inc. gained a generic pharmaceuticals product development company that develops and out-licenses generic pharmaceutical products primarily in Europe. In addition, the acquisition enhanced the Company's commercial presence in key European markets by providing a portfolio of products and provides a commercial presence in the branded-generic Greek pharmaceuticals market, including the Specifar and Alet brands of products. Actavis, Inc. funded the transaction using cash on hand and borrowings from the Company's 2006 Credit Facility. Specifar results are included in the Actavis Pharma segment subsequent to the acquisition date.

***Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value***

The transaction has been accounted for using the acquisition method of accounting under existing U.S. GAAP. The acquisition method under existing U.S. GAAP requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date and that IPR&D be recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology. The following table summarizes the final fair values of the tangible and

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

identifiable intangible assets acquired and liabilities assumed at acquisition date, with the excess being allocated to goodwill (in millions):

	<b>Amount</b>
Cash and cash equivalents	\$ 0.6
Accounts receivable	20.6
Inventories	27.1
Other current assets	9.3
Property, plant & equipment	65.1
IPR&D intangible assets	164.3
Intangible assets	265.1
Goodwill	195.1
Other assets	5.6
Current liabilities	(28.4)
Long-term deferred tax and other tax liabilities	(94.6)
Long-term debt	(27.9)
Other long-term liabilities	(42.4)
Net assets acquired	\$ 559.5

In June 2011, the Company paid and retired \$28.8 million in long-term debt assumed in the Specifar Acquisition. During the year ended December 31, 2012, the Company recorded an impairment loss of \$40.3 million related to a manufacturing facility located in Greece that was acquired as part of the Specifar acquisition. The impairment for the Greece facility was due to a change in the intended use of the facility as a result of the Company's decision during the third quarter of 2012 to discontinue further construction as a result of the acquisition of the Actavis Group.

***Inventories***

The fair value of inventories acquired includes a step-up in the value of inventories of approximately \$10.0 million, which was fully-amortized to cost of sales during 2011.

***IPR&D and Intangible Assets***

IPR&D intangible assets represent the value assigned to acquired R&D projects that, as of the acquisition date, had not established technological feasibility and had no alternative future use. The IPR&D intangible assets are 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 each project and launch of the product, the Company will make a separate determination of useful life of the IPR&D intangible and amortization will be recorded as an expense over the estimated useful life.

The fair value of the IPR&D and identifiable intangible assets was determined 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 those assets valuations 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

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 discount rate used to arrive at the present value of IPR&D projects as of the acquisition date was approximately 17.0% to reflect the internal rate of return and incremental commercial uncertainty in the projections as the products have not yet received regulatory approval. The major risks and uncertainties associated with the timely and successful completion of the IPR&D projects include development, legal 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.

Intangible assets represent currently marketed products and have an estimated weighted average useful life of seven (7) years. IPR&D intangible assets represent products that are expected to be approved for marketing over the next one to three years.

During 2012, the Company recorded impairment charges of \$117.8 million related to product rights and in-process research and development intangible assets acquired in connection with the Specifar acquisition. The impairment relating to the intangible assets acquired in connection with the Specifar acquisition was recorded during the fourth quarter of 2012 and related to esomeprazole product rights following the Company decision to discontinue selling the product as a result of products acquired in connection with the Actavis Group acquisition (\$16.8 million). In addition, we recorded during the second quarter of 2012 a charge related to three products in development as a result of various factors occurring during the same period mainly related to delays in expected launch dates, competitive factors resulting in realization of lower pricing and incremental costs related to manufacturing efforts. These events led to revised estimates of the fair value of each IPR&D asset compared to the carrying values (\$101.0 million).

***Goodwill Allocation***

Among the primary reasons the Company entered into the Specifar Acquisition and factors that contributed to a purchase price allocation resulting in the recognition of goodwill were a history of operating margins and profitability, a strong R&D organization and expanded commercial footprint on a global basis, which will enable Actavis to expand its product offerings. The goodwill recognized from the Specifar Acquisition is not deductible for tax purposes. All goodwill from the Specifar Acquisition was assigned to the Actavis Pharma segment.

***Contingent Consideration***

The Company's purchase price allocation determined the fair value of the contingent consideration obligation to be \$35.5 million based on a probability-weighted income approach derived from revenue estimates and post-tax gross profit levels and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. During the year ended December 31, 2012, the Company recorded fair value adjustments resulting in a gain of \$27.5 million based on forecasted esomeprazole profits.

The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting. The resultant probability-weighted cash flows were discounted using an effective annual interest rate of 8.5%. At each reporting date, the Company adjusts the contingent consideration obligation to estimated fair value and records changes in fair value as income or expense in our consolidated statement of operations. Changes in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. Accretion expense related to the increase in the net present value of the contingent liability is included in interest expense for the period.



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Long-Term Deferred Tax Liabilities and Other Tax Liabilities***

Long-term deferred tax liabilities and other tax liabilities result from purchase accounting adjustments for the inventory fair value step-up and identifiable IPR&D and intangible assets fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

***Acquisition-Related Expenses***

Included in general and administrative expenses for the year ended December 31, 2011 is acquisition costs totaling \$6.5 million for advisory, legal and regulatory costs incurred in connection with the Specifar Acquisition.

**NOTE 6 Other Income (Expense)**

Other income consisted of the following (in millions):

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Gain on sale of products	\$ 88.7	\$	\$
Gain on sale of investments	28.8	0.8	25.6
Gain on sale of divested products	24.0		
Loss on foreign exchange derivative	(70.4)		
Bridge loan expenses	(37.1)		
Earnings (losses) on equity method investments	1.3	(4.5)	1.6
Other income (expense)	\$ 3.2	\$ 3.2	\$ 0.5
	\$ 38.5	\$ (0.5)	\$ 27.7

***Gain on Sale of Products***

On October 29, 2012, the Company sold its Rugby over-the-counter ( OTC ) pharmaceutical products and trademarks to The Harvard Drug Group, L.L.C. ( Harvard ) for \$116.6 million. Under the terms of the agreement, Harvard acquired the Rugby trademark and all rights to market, sell and distribute OTC products and nicotine gum products sold under the trademark. The Company retains all rights to manufacture, sell and distribute all store-branded OTC and nicotine gum products, as well as other non-Rugby OTC products in its portfolio. Actavis retains ownership of its nicotine gum Abbreviated New Drug Applications (ANDAs) as well as nicotine gum manufacturing facilities. Also as part of the transaction, Actavis and Harvard entered into a supply and license agreement under which Actavis will manufacture and supply nicotine gum products sold in the Rugby and Major labels. Major is Harvard s existing private label brand. The Company recorded a gain of \$88.7 million in other income (expense), in the fourth quarter of 2012.

***Gain on Sale of Investments***

On October 22, 2012, the Company sold its investment in Moksha8 for \$46.6 million. Simultaneously, Actavis expanded its ongoing sales and marketing collaboration with Moksha8 by granting a license to Moksha8 for five new branded generic products to be developed for the Brazil and Mexico markets in exchange for defined milestones and sales royalties. Actavis will continue to retain generic marketing rights in each market for all products licensed to Moksha8. The Company recorded a gain of \$28.8 million in other income (expense) in the fourth quarter of 2012.



**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Gain on Sale of Divested Products***

In order to obtain regulatory approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with the Actavis Group acquisition, Actavis was required to divest certain assets. On October 31, 2012, these products were sold to Par Pharmaceuticals Companies, Inc. and Sandoz, Inc., which resulted in a gain of \$24.0 million in the fourth quarter of 2012.

***Other Income (loss)***

Included in other income (loss) for the year ended December 31, 2012 is approximately \$70.4 million of realized losses for the derivative instruments entered into to mitigate the exposure resulting from movements of the U.S. dollar against the Euro in connection with the purchase of the Actavis Group and approximately \$37.1 million for the expenses of the bridge loan entered into to fund the purchase of the Actavis Group.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 7 Balance Sheet Components**

Selected balance sheet components consisted of the following (in millions):

	December 31,	
	2012	2011
<b>Inventories:</b>		
Raw materials	\$ 426.9	\$ 219.2
Work-in-process	126.2	55.7
Finished goods	1,101.3	655.0
	1,654.4	929.9
Less: inventory reserves	(111.2)	(40.5)
Inventories, net	\$ 1,543.2	\$ 889.4
<b>Property and equipment:</b>		
Machinery and equipment	\$ 850.1	\$ 597.2
Buildings and improvements	698.6	382.2
Research and laboratory equipment	112.4	108.7
Leasehold improvements	107.0	89.5
Furniture and fixtures	296.5	51.7
Land and land improvements	46.2	47.1
Construction in progress	114.5	131.1
Total property and equipment, at cost	2,225.3	1,407.5
Less accumulated depreciation	(745.5)	(693.8)
Total property and equipment, net	\$ 1,479.8	\$ 713.7
<b>Accounts payable and accrued expenses:</b>		
Trade accounts payable	\$ 598.6	\$ 755.9
Accrued third-party rebates	561.3	221.6
Current portion of contingent consideration obligations	351.9	128.3
Accrued payroll and related benefits	260.1	121.4
Proposed legal settlements	173.3	28.8
Royalties and sales agent payables	86.2	119.9
Accrued indirect returns	52.9	28.9
Interest payable	49.5	17.8
Accrued severance, retention and other shutdown costs	65.1	14.1
Other accrued expenses	230.0	98.7
Total accounts payable and accrued expenses	\$ 2,428.9	\$ 1,535.4

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 Investments in Marketable Securities and Other Investments**

Investments in marketable securities and other investments consisted of the following (in millions):

	December 31, 2012	2011
<b>Marketable securities:</b>		
U.S. Treasury and agency securities maturing within one year	\$ 6.5	\$ 4.9
U.S. Treasury and agency securities maturing within two years	2.5	10.0
<b>Total marketable securities</b>	<b>\$ 9.0</b>	<b>\$ 14.9</b>
<b>Investments and other assets:</b>		
Equity method investments	\$ 9.6	\$ 28.8
Cost method and other long-term investments	1.0	0.3
Other assets	80.6	42.2
<b>Total investments and other assets</b>	<b>\$ 91.2</b>	<b>\$ 71.3</b>

Actavis' marketable securities and other long-term investments are classified as available-for-sale and are recorded at fair value based on quoted market prices using the specific identification method. These investments are classified as either current or non-current, as appropriate, in the Company's Consolidated Balance Sheets.

The following table provides a summary of the fair value and unrealized gains (losses) related to Actavis' available-for-sale securities classified as current assets (in millions):

<b>At December 31, 2012</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available-for-sale:</b>				
U.S. Treasury and agency securities	\$ 9.0	\$	\$	\$ 9.0
<b>Total</b>	<b>\$ 9.0</b>	<b>\$</b>	<b>\$</b>	<b>\$ 9.0</b>
<b>At December 31, 2011</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available-for-sale:</b>				
U.S. Treasury and agency securities	\$ 14.8	\$ 0.1	\$	\$ 14.9
<b>Total</b>	<b>\$ 14.8</b>	<b>\$ 0.1</b>	<b>\$</b>	<b>\$ 14.9</b>

**Current Investments**

## Edgar Filing: Actavis, Inc. - Form 10-K

The Company invests in U.S. Treasury and agency securities. These investments are included in marketable securities on the Company's Consolidated Balance Sheets at December 31, 2012 and 2011. Current investments are classified as available-for-sale and are recorded at fair value based on quoted market prices.

F-33

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Investment in Equity Method Investments**

The Company's equity method investments at December 31, 2012 consist of various equity method investments in privately held companies.

**Cost Method Investments**

The Company's cost method investments consist primarily of investments in common shares of a number of private and public companies where our ownership interest is less than 20% or where we do not have the ability to exercise significant influence.

**Other Assets**

Other assets include security and equipment deposits and deferred financing fees, net of amortization.

**NOTE 9 Goodwill, Product Rights and Other Intangible Assets**

Goodwill for the Company's reporting segments consisted of the following (in millions):

	December 31,	
	2012	2011
Actavis Specialty Brands segment	\$ 371.6	\$ 371.6
Actavis Pharma segment	4,304.2	1,250.4
Anda Distribution segment	86.3	86.3
 Total goodwill	 \$ 4,762.1	 \$ 1,708.3

The increase in Actavis Pharma segment goodwill in 2012 is primarily due to goodwill of \$3,028.2 million recognized in connection with the Ascent and Actavis Group acquisitions. (Refer to NOTE 5 Acquisitions and Divestitures for additional details.)

Other intangible assets consist primarily of product rights. The original cost and accumulated amortization of these intangible assets, where applicable, consisted of the following (in millions):

	December 31,	
	2012	2011
Intangibles with definite lives:		
Product rights and other related intangibles	\$ 5,242.2	\$ 2,582.5
Core technology	92.2	52.5
Customer relationships	169.0	49.1
	5,503.4	2,684.1
Less accumulated amortization	(2,055.3)	(1,566.0)
	3,448.1	1,118.1

Intangibles with indefinite lives:

Edgar Filing: Actavis, Inc. - Form 10-K

IPR&D	305.7	419.3
Tradename	76.2	76.2
	381.9	495.5
Total product rights and related intangibles, net	\$ 3,830.0	\$ 1,613.6

F-34



---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In October 2012, the Company acquired intangible assets in connection with the Actavis Group acquisition of \$2,572.5 million, including \$2,222.5 million relating to CMP, \$194.4 relating to IPR&D intangibles, \$38.9 relating to Core technology and \$116.7 relating to Customer relationships. CMP intangibles have been included in product rights and other related intangibles and will be amortized over a weighted average useful life of 8.7 years.

In January 2012, the Company acquired product rights, contractual rights and trade name intangible assets in connection with the Ascent Acquisition of \$192.6 million. These intangibles have been included in product rights and other related intangibles and will be amortized over a weighted average useful life.

In May 2011, the Company acquired intangible assets in connection with the Specifar Acquisition of \$429.4 million, including \$265.1 million relating to CMP and \$164.3 relating to IPR&D intangibles. CMP intangibles have been included in product rights and other related intangibles and will be amortized over a weighted average useful life. During the second quarter of 2012, the Company recorded an impairment charge of \$101.0 million related to certain IPR&D assets acquired as part of the Specifar acquisition resulting in the decrease of IPR&D assets at December 31, 2012. The charge was related to three products in development as a result of various factors occurring during the same period mainly related to delays in expected launch dates, competitive factors resulting in realization of lower pricing and incremental costs related to manufacturing efforts. During the fourth quarter of 2012, the Company recorded an impairment charge of \$16.8 million related to esomeprazole product rights following the Company decision to discontinue selling the product as a result of products acquired in connection with the Actavis Group acquisition.

During 2012 and 2011 approximately \$211.3 million and \$250.4 million of IPR&D intangibles were transferred to product rights and other related intangibles as products received regulatory approval. Amortization of these intangibles commenced upon product launch using a weighted average useful life.

Actavis re-evaluates the carrying value of identifiable intangible and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company continually evaluates the appropriateness of useful lives assigned to long-lived assets, including product rights.

Due to changes in market conditions in certain international locations and forecasted performance of certain products not yet launched, the Company performed off-cycle impairment reviews in 2011 and recorded impairment charges of \$102.8 million related to certain acquired IPR&D assets during 2011. The impairment charges in 2011 include \$75.8 million related to IPR&D intangibles acquired in our acquisition of the progesterone gel business from Columbia and \$27.0 million of IPR&D intangibles acquired in the Arrow Acquisition. These impairment charges result from the Company's current estimates of the fair value of these IPR&D assets, based on updated forecasts, compared to their assigned fair values on the acquisition date. The fair value of acquired identifiable intangible assets generally is determined using an income approach, based on a forecast of all expected future net cash flows related to the asset which are adjusted to present value using appropriate discount rates. Forecasts used to determine fair values of IPR&D assets are based on appropriate assumptions which include, among other factors, the impact of changes to the development programs, the current competitive environment, the regulatory timeframes impacting future product launch dates and the risk associated with these assets.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Assuming no additions, disposals or adjustments are made to the carrying values and/or useful lives of the intangible assets, annual amortization expense on product rights and related over the next five years is estimated to be as follows (in millions):

	<b>Amount</b>
2013	\$ 614
2014	\$ 596
2015	\$ 514
2016	\$ 426
2017	\$ 408

The above amortization expense is an estimate. Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, finalization of preliminary fair value estimate, potential impairments, accelerated amortization or other events.

**NOTE 10 Long-Term Debt**

Long-term debt consisted of the following (in millions):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Senior Notes,</b>		
\$450.0 million 5.000% notes due August 14, 2014	\$ 450.0	\$ 450.0
\$1,200.0 million 1.875% notes due October 1, 2017	1,200.0	
\$400.0 million 6.125% notes due August 14, 2019	400.0	400.0
\$1,700.0 million 3.250% notes due October 1, 2022	1,700.0	
\$1,000.0 million 4.625% notes due October 1, 2042	1,000.0	
Less: Unamortized discount	(35.1)	(1.7)
 Senior Notes, net	 4,714.9	 848.3
 <b>Term Loan Credit Agreement</b>	 1,700.0	
<b>Mandatorily Redeemable Preferred Stock</b>		183.2
<b>Other, including capital leases</b>	18.4	1.5
 Total debt	 6,433.3	 1,033.0
Less: Current portion	176.2	184.5
 Total long-term debt	 \$ 6,257.1	 \$ 848.5

**Senior Notes***Senior Notes Issued in 2012*

On October 2, 2012, the Company issued \$1,200.0 million aggregate principal amount of 1.875% senior notes due 2017, \$1,700.0 million aggregate principal amount of 3.250% senior notes due 2022, and \$1,000.0 million aggregate principal amount of 4.625% senior notes due 2042 in a registered offering pursuant to an effective Registration Statement on Form S-3 filed with the Securities and Exchange Commission ( SEC )

## Edgar Filing: Actavis, Inc. - Form 10-K

(collectively, the 2012 Senior Notes ). The 2012 Senior Notes were issued pursuant to an indenture dated as of August 24, 2009 (the Base Indenture ), between the Company and Wells Fargo Bank, National Association, as trustee (the Trustee ), as supplemented by a third supplemental indenture dated as of October 2, 2012, between the Company and the trustee.

F-36

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Interest payments are due on the 2012 Senior Notes semi-annually in arrears on April 1 and October 1 beginning April 1, 2013.

The Company may redeem the 2012 Senior Notes, in whole at any time or in part from time to time, at the Company's option, at a redemption price equal to the greater of 100% of the principal amount of notes to be redeemed and the sum of the present values of the remaining scheduled payments of principal and interest in respect of the 2012 Senior Notes being redeemed discounted on a semi-annual basis at the Treasury Rate plus 20 basis points in the case of the 2017 Notes, 25 basis points in the case of the 2022 Notes and 30 basis points in the case of the 2042 Notes, plus in each case accrued and unpaid interest, if any, to, but excluding, the date of redemption.

In addition, the Company may redeem the 2022 Notes on or after July 1, 2022 (three months prior to their maturity date), and the 2042 Notes on or after April 1, 2042 (six months prior to their maturity date) in each case, in whole at any time or in part from time to time, at the Company's option at a redemption price equal to 100% of the aggregate principal amount of the 2012 Senior Notes being redeemed, plus, in each case, accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Upon a change of control triggering event and a downgrade of the 2012 Senior Notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Rating Services, the Company will be required to make an offer to purchase each of the 2012 Senior Notes at a price equal to 101% of the principal amount of the 2012 Senior Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the date of repurchase.

Net proceeds from the offering of the 2012 Senior Notes were used for the acquisition of the Actavis Group. The outstanding balance under the 2012 Senior Notes at December 31, 2012 was \$3,866.1 million.

*Senior Notes Issued in 2009*

On August 24, 2009, the Company issued \$450.0 million aggregate principal amount of 5.00% senior notes due 2014 and \$400.0 million aggregate principal amount of 6.125% senior notes due 2019 (collectively, the 2009 Senior Notes) pursuant to an effective Registration Statement on Form S-3 filed with the SEC. The Senior Notes Issued in 2009 were issued pursuant to the Base Indenture, as supplemented by a first supplemental indenture dated August 24, 2009.

Interest payments are due on the 2009 Senior Notes semi-annually in arrears on February 15 and August 15, respectively, beginning February 15, 2010.

The Company may redeem the 2009 Senior Notes in whole at any time or in part from time to time, at the Company's option at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest in respect of the 2009 Senior Notes being redeemed, discounted on a semi-annual basis at the Treasury Rate plus 40 basis points, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Upon a change of control triggering event, as defined by the Indenture, the Company is required to make an offer to repurchase the 2009 Senior Notes for cash at a repurchase price equal to 101% of the principal amount of the 2009 Senior Notes to be repurchased plus accrued and unpaid interest to the date of purchase.

Net proceeds from the offering of 2009 Senior Notes were used to repay certain debt with the remaining net proceeds being used to fund a portion of the cash consideration for the Arrow acquisition. The outstanding balance under the 2009 Senior Notes at December 31, 2012 was \$848.8 million.

---

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Term Loan Credit Agreement***

On June 22, 2012, the Company, Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, N.A. as Syndication Agent, and a syndicate of banks participating as lenders entered into a senior unsecured Term Loan Credit Agreement (the Term Loan Credit Agreement) pursuant to which the lenders agreed to provide the Company a Term Loan in an aggregate amount not to exceed \$1.8 billion. On October 31, 2012, the Company borrowed \$1.8 billion under the Term Loan Credit Agreement to fund the Actavis Group acquisition. Debt related costs for the borrowing were \$5.9 million, which the Company paid on the date of the borrowing. On December 10, 2012, the Company prepaid \$100.0 million of the Term Loan Credit Agreement. The outstanding balance of the Term Loan Credit Agreement at December 31, 2012 was \$1.7 billion.

Borrowings under the Term Loan Credit Agreement are subject to several conditions, including (i) no Target Material Adverse Effect (as defined in the Term Loan Credit Agreement) having occurred, (ii) receipt of certain financial statements as more fully set forth in the Term Loan Credit Agreement, (iii) receipt of customary closing documents and (iv) other customary closing conditions more fully set forth in the Term Loan Credit Agreement. Borrowings under the Term Loan Credit Agreement will bear interest at the Company's choice of a per annum rate equal to either a base rate or Eurodollar rate, plus an applicable margin. The base rate is the higher of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate as publicly announced by the Administrative Agent or (c) the one-month London Interbank Offered Rate plus 1.00%. The applicable margin is a percentage determined in accordance with a pricing grid based on the Company's credit rating and is currently set at 0.50% for base rate loans and 1.50% for Eurodollar rate loans.

The Term Loan Credit Agreement matures on the fifth anniversary of the closing date of the Actavis Group acquisition. The outstanding principal amount under the Term Loan Credit Agreement is payable in equal quarterly amounts of 2.50% per quarter prior to the fifth anniversary of the closing date of the Actavis Group acquisition (beginning with the quarter ending March 31, 2013), with the remaining balance payable on the maturity date. The Term Loan Credit Agreement contains covenants that are substantially similar to those in the Company's Revolving Credit Facility. The Term Loan Credit Agreement contains standard events of default (the occurrence of which may trigger an acceleration of amounts outstanding under the Term Loan Credit Agreement). The Term Loan Credit Agreement became effective in accordance with its terms on June 22, 2012.

***Amended Revolving Credit Facility***

On May 21, 2012, the Company entered into Amendment 1 to Credit Agreement and Joinder Agreement (the Amendment) to the Company's existing credit agreement that closed on September 16, 2011, with Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, N.A., as Syndication Agent, and a syndicate of banks establishing a senior unsecured revolving credit facility (as amended by the Agreement, the Revolving Credit Facility). The Revolving Credit Facility provides an aggregate principal amount of \$750.0 million in senior unsecured revolving loans. The revolving loans may be borrowed, repaid and re-borrowed through September 16, 2016 and, subject to certain minimum amounts, may be prepaid in whole or in part without premiums or penalties.

Committed borrowings under the Revolving Credit Facility bear interest at the Company's choice of a per annum rate equal to either a base rate or Eurocurrency rate, plus an applicable margin. The base rate is the higher of (a) the Federal Funds Rate plus 0.50%, (b) prime rate as publicly announced by the Administrative Agent, or (c) one-month London Interbank Offered Rate plus 1.00%. The applicable margin is a percentage determined in accordance with a pricing grid based on the Company's credit rating and is currently set at 0.25% for base rate loans and 1.25% for Eurocurrency rate loans. Additionally, to maintain availability of funds, the Company pays an unused commitment fee, which according to the pricing grid is set at 0.15% of the unused portion of the Revolving Credit Facility.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subject to certain limitations, borrowings under the Revolving Credit Facility may be made in alternative currencies, including Euros, British Pounds Sterling and other currencies. The Revolving Credit Facility contains sublimits on letters of credit and swingline loans in the amount of \$100.0 million and \$50.0 million, respectively. The issuance of letters of credit and borrowings of swingline loans reduces the amount available to be borrowed under the Revolving Credit Facility on a dollar-for-dollar basis. Amounts borrowed under the Revolving Credit Facility may be used to finance working capital and other general corporate purposes.

The Revolving Credit Facility imposes certain customary restrictions including, but not limited to, limits on the incurrence of debt or liens upon the assets of the Company or its subsidiaries, investments and restricted payments. The Revolving Credit Facility includes a Consolidated Leverage Ratio covenant providing that the aggregate principal amount of Acquisition Indebtedness (as such term is defined in the Amendment) that includes a special mandatory redemption provision (or other similar provision) requiring the Company to redeem such Acquisition Indebtedness will be excluded for purposes of determining Consolidated Total Debt at any time prior to the proposed Actavis Group acquisition as more fully set forth in the Amendment. The Amendment also provides that (a) during the period prior to the date on which the Actavis Group acquisition is consummated (such date, the Acquisition Date), the Company is permitted to have a maximum Consolidated Leverage Ratio as of the last date of any period of four consecutive fiscal quarters of the Company of up to 3.50 to 1.00, and (b) as of the Acquisition Date and thereafter the Company is permitted to have a maximum Consolidated Leverage Ratio as of the last day of any period of four consecutive fiscal quarters of the Company of up to (i) with respect to the four consecutive fiscal quarters from the Acquisition Date through December 31, 2013, 4.25 to 1.00; (ii) with respect to the four consecutive fiscal quarters from January 1, 2014 through December 31, 2014, 4.00 to 1.00; and (iii) with respect to the period of four consecutive fiscal quarters ending from January 1, 2015 and thereafter, 3.50 to 1.00. To the extent litigation, settlement charges and unusual charges in each case which are paid in cash exceed 7.50% of the Company's net worth for the prior twelve month period for the most recent ended fiscal quarter, the Company would be subject to maintenance of a springing minimum net worth covenant not less than the sum of (x) 75% of the Company's consolidated net worth as of June 30, 2011 plus (y) 50% of the Company's consolidated net income (but not loss) for each fiscal quarter ending after June 30, 2011.

The Company is subject to, and, at December 31, 2012, was in compliance with, all financial and operational covenants under the terms of the Revolving Credit Facility. The Credit Agreement contains standard events of default (the occurrence of which may trigger an acceleration of amounts outstanding under the credit facilities). There was no balance outstanding under the Revolving Credit Facility at December 31, 2012. As of December 31, 2012, the net availability under the Revolving Credit Facility, reflecting \$6.7 million of outstanding letters of credit, was \$743.3 million.

**2006 Credit Facility**

In November 2006, the Company entered into the 2006 Credit Facility with Canadian Imperial Bank of Commerce, acting through its New York agency, as Administrative Agent, Wachovia Capital Markets, LLC, as Syndication Agent, and a syndicate of banks. The 2006 Credit Facility provided an aggregate of \$1.15 billion of senior financing to Actavis, consisting of a \$500.0 million revolving credit facility (2006 Revolving Facility) and a \$650.0 million senior term loan facility (Term Facility). The 2006 Credit Facility had a five-year term and was scheduled to mature in November 2011. In May 2011, the Company borrowed \$250.0 million under the 2006 Revolving Facility to partially fund the Specifar acquisition as discussed in NOTE 5 Acquisitions and Divestitures. On September 16, 2011, concurrent with executing the Revolving Credit Facility, the Company repaid the then amount outstanding and terminated the 2006 Revolving Facility.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Bridge Facility**

On April 25, 2012, pending execution of the Company's final financing plans in connection with the purchase of Actavis Group, the Company entered into a senior unsecured bridge loan ( Bridge Facility ) with Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. in an amount up to \$6.0 billion. Debt related costs paid in connection with the Bridge Facility were \$37.1 million, which was fully amortized in 2012 as the Bridge Facility was permanently terminated on October 31, 2012.

**Mandatorily Redeemable Preferred Stock**

In connection with the Arrow Acquisition, on December 2, 2009, pursuant to the Purchase Agreement, Actavis issued 200,000 shares of newly designed non-voting Series A Preferred Stock of Actavis, having a stated value of \$1,000 per share (the Stated Value ), or an aggregate stated value of \$200.0 million, which have been placed in an indemnity escrow account for a period of three years. The fair value of the Mandatorily Redeemable Preferred Stock was initially estimated to be \$150.0 million at Acquisition Date based on the mandatory redemption value of \$200.0 million on December 2, 2012 using a discount rate of 9.63% per annum. The mandatorily redeemable preferred stock was redeemed for cash of \$200.0 million on December 2, 2012.

**Fair Value of Outstanding Debt**

As of December 31, 2012, the fair value of our Senior Notes was \$248.2 million greater than the carrying value. Generally changes in market interest rates affect the fair value of fixed-rate debt, but do not impact earnings or cash flows. Accordingly, we believe the effect, if any, of reasonably possible near-term changes in the fair value of our debt would not be material on our financial condition, results of operations or cash flows.

**Annual Debt Maturities**

At December 31, 2012, annual debt maturities were as follows (in millions):

2013	170
2014	620
2015	170
2016	170
2017	2,220
2018 and after	3,100

Amounts represent total anticipated cash payments assuming scheduled repayments under the Term Loan Credit Agreement and maturities of our existing Senior Notes. Future prepayments under the Term Loan will lead to a pro-rata reduction in the Term Loan principal amounts due. Any early settlement of our Senior Notes through redemption or repurchase privileges, as defined under the terms of the Senior Notes, would change the timing of principal amounts due.

**Lease Commitments**

The Company has operating leases for certain facilities and equipment. The terms of the operating leases for the Company's facility leases require the Company to pay property taxes, normal maintenance expense and maintain minimum insurance coverage. Total rental expense for operating leases in for December 31, 2012, 2011, and 2010 was \$33.1 million, \$32.4 million, and \$26.0 million, respectively. The Company also has capital leases for certain facilities and equipment, as addressed below. The future minimum lease payments under both capital and operating leases that have remaining terms in excess of one year are:





**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Capital</b>	<b>Operating</b>
2013	\$ 7.9	\$ 38.1
2014	7.8	32.1
2015	2.3	26.9
2016	1.4	17.6
2017	0.6	13.0
Thereafter	1.4	56.2
<b>Total minimum lease payments</b>	<b>21.4</b>	<b>183.9</b>
Less: amount representing interest	(3.0)	
<b>Present value of net minimum lease payments</b>	<b>\$ 18.4</b>	

The assets recorded under capital leases as of December 31, 2012 are:

Machinery & Equipment	\$ 7.9
Furniture & Fixtures	0.8
Building & Improvements	0.5
Land	6.5
<b>Total</b>	<b>\$ 15.7</b>

**NOTE 11 Other Long-Term Liabilities**

Other long-term liabilities consisted of the following (in millions):

	<b>December 31,</b>	<b>2011</b>
	<b>2012</b>	<b>2011</b>
Acquisition related contingent consideration liabilities	\$ 363.1	\$ 181.6
Long term pension liability	44.3	
Other long-term liabilities	107.1	19.4
	514.5	201.0
Less: Current portion included in accounts payable and accrued expenses	351.9	128.3
<b>Total other long-term liabilities</b>	<b>\$ 162.6</b>	<b>\$ 72.7</b>

The Company determines the acquisition date fair value of contingent consideration obligations based on a probability-weighted income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving contingent obligations including contingent payments such as milestone obligations, royalty obligations and contract earn-out criteria, where applicable. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting. The resultant probability-weighted cash flows are discounted using an appropriate effective annual interest rate to reflect the internal rate of return and incremental commercial uncertainty, major risks and uncertainties associated with the successful completion of the projects triggering the contingent obligation. At each reporting date, the Company revalues the contingent consideration

Edgar Filing: Actavis, Inc. - Form 10-K

obligation to estimated fair value and records changes in fair value as income or expense in our consolidated statement of

F-41

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

operations. Changes in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various contingent consideration obligations. Accretion expense related to the increase in the net present value of the contingent liability is included in interest expense for the period.

The Company incurred contingent consideration in the December 2, 2009 acquisition of the Arrow Group, the July 2, 2010 acquisition of the U.S. rights to Crinone<sup>®</sup> and progesterone gel, on the gross profits on sales of the generic tablet version of Nexium<sup>®</sup> (esomeprazole) and in the acquisition of the Actavis Group.

**NOTE 12 Income Taxes**

The Company's income before provision for income taxes was generated from the United States and international operations as follows (in millions):

	Years Ended December 31,		
	2012	2011	2010
Income before income taxes:			
U.S.	\$ 730.6	\$ 731.4	\$ 391.6
Foreign	(485.5)	(275.4)	(141.0)
Income before income taxes	\$ 245.1	\$ 456.0	\$ 250.6

The Company's provision for income taxes consisted of the following (in millions):

	Years Ended December 31,		
	2012	2011	2010
Current provision:			
Federal	\$ 328.5	\$ 301.2	\$ 161.4
State	18.0	10.8	14.9
Foreign	21.3	11.8	9.3
Total current provision	367.8	323.8	185.6
Deferred (benefit) provision:			
Federal	(75.5)	(53.2)	(54.1)
State	5.6	(3.9)	(10.2)
Foreign	(151.1)	(69.8)	(54.0)
Total deferred (benefit) provision	(221.0)	(126.9)	(118.3)
Total provision for income taxes	\$ 146.8	\$ 196.9	\$ 67.3

The exercise of certain stock options resulted in a tax benefit and has been reflected as a reduction of income taxes payable and an increase to additional paid-in capital. Such benefits recorded were \$13.7 million, \$14.6 million and \$6.7 million for the years ended December 31, 2012, 2011, and 2010, respectively.



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Reconciliations between the statutory federal income tax rate and the Company's effective income tax rate were as follows:

	Years Ended December 31,		
	2012	2011	2010
Federal income tax at statutory rates	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	5.5%	2.4%	1.6%
Foreign rate differential	(3.7)%	1.9%	2.8%
Foreign intangible amortization	18.7%	6.1%	0.0%
Effect of Ascent reorganization	(15.0)%	0.0%	0.0%
Loss on foreign currency hedge	10.1%	0.0%	0.0%
Foreign impairments	8.4%	0.6%	0.7%
Tax audit outcomes	(7.0)%	(1.4)%	(7.8)%
Non-deductible expenses	5.9%	2.5%	5.0%
R&D credit and U.S. manufacturing deduction	(4.5)%	(3.7)%	(3.7)%
Rate changes	2.8%	(1.2)%	(4.3)%
Transaction costs	2.7%	0.2%	0.0%
Valuation allowance	(1.6)%	1.4%	(1.4)%
Sale of subsidiary	0.0%	0.0%	(2.1)%
Other	2.6%	(0.6)%	1.1%
Effective income tax rate	59.9%	43.2%	26.9%

Deferred tax assets and liabilities are measured based on the difference between the financial statement and tax basis of assets and liabilities at the applicable tax rates. The significant components of the Company's net deferred tax assets (liabilities) consisted of the following (in millions):

	December 31,	
	2012	2011
Benefits from net operating loss and tax credit carryforwards	\$ 248.1	\$ 101.3
Differences in financial statement and tax accounting for:		
Inventories, receivables and accruals	342.2	163.9
Deferred revenue	6.3	9.9
Share-based compensation	24.0	19.4
Other	49.7	18.3
Total deferred tax asset, gross	670.3	312.8
Less: Valuation allowance	(101.6)	(37.8)
Total deferred tax asset, net	\$ 568.7	\$ 275.0
Differences in financial statement and tax accounting for:		
Property, equipment and intangible assets	(906.9)	(288.1)
Basis difference in debt	(269.6)	
Deferred interest expense	(76.3)	(76.3)
Total deferred tax liabilities	\$ (1,252.8)	\$ (364.4)

Edgar Filing: Actavis, Inc. - Form 10-K

Total deferred taxes	\$ (684.1)	\$ (89.4)
----------------------	------------	-----------

The total net deferred tax liability increased by \$786.5 due to acquisitions.

F-43

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company had the following carryforward tax attributes at December 31, 2012:

\$68.1 million state tax net operating loss ( NOL ) which begin to expire in 2013;

\$441.7 million foreign tax NOLs which begin to expire in 2013; and \$296.0 million foreign tax NOLs which are not subject to expiration.

\$22.1 million of tax credits in foreign jurisdictions which begin to expire in 2013 and \$87.8 million of tax credits in foreign jurisdiction which are not subject to expiration.

A valuation allowance has been established due to the uncertainty of realizing certain net operating losses (\$89.7 million), some foreign deferred tax assets (\$6.7 million) and deferred tax assets relating to some impaired investments (\$5.2 million).

Deferred income taxes have not been provided on the undistributed earnings of certain of the Company's foreign subsidiaries of approximately \$242.7 as of December 31, 2012, as these amounts are intended to be indefinitely reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation. In making this assertion, the Company evaluates, among other factors, the profitability of its United States and foreign operations and the need for cash within and outside the United States, including cash requirements for capital improvement, acquisitions and market expansion. Additionally, the Company has accrued withholding taxes of approximately \$8 million for certain pre-acquisition earnings for some of the Actavis subsidiaries. The Company expects that future earnings in these subsidiaries will be indefinitely reinvested.

**Accounting for Uncertainty in Income Taxes**

At December 31, 2012, 2011 and 2010, the liability for income tax associated with uncertain tax positions was \$103.7 million, \$71.2 million and \$68.0 million, respectively. As of December 31, 2012, the Company estimates that this liability would be reduced by \$28.4 million, from offsetting tax benefits associated with the correlative effects of state income taxes and net operating losses with valuation allowances. The net amount of \$75.3 million, if recognized, would favorably affect the Company's effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	2012	December 31, 2011	2010
Balance at the beginning of the year	\$ 71.2	\$ 68.0	\$ 72.2
Increases for current year tax positions	4.3	8.5	5.9
Increases for prior year tax positions	6.7	11.0	20.1
Increases due to acquisitions	41.9		
Decreases for prior year tax positions	(10.4)	(14.9)	(27.5)
Settlements	(9.3)	(1.2)	(2.3)
Lapse of applicable statute of limitations	(1.3)	(0.2)	(0.4)
Foreign Exchange	0.6		
Balance at the end of the year	\$ 103.7	\$ 71.2	\$ 68.0

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in tax expense. During the years ended December 31, 2012, 2011 and 2010, the company recognized approximately \$1.3 million, \$2.2 million and \$2.3 million in interest and penalties,

## Edgar Filing: Actavis, Inc. - Form 10-K

respectively. At December 31, 2012, 2011 and 2010 the Company had accrued \$9.5 million (net of tax benefit of \$4.4 million), \$4.2 million (net of tax

F-44



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

benefit of \$2.6 million) and \$2.4 million (net of tax benefit of \$1.8 million) of interest and penalties related to uncertain tax positions, respectively. The Company does not expect significant changes in its uncertain tax positions in the next twelve months.

The Company conducts business globally and, as a result, it files federal, state and foreign tax returns. The Company strives to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While the Company has accrued for amounts it believes are the probable outcomes, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the consolidated financial statements. Furthermore, the Company may later decide to challenge any assessments, if made, and may exercise its right to appeal. The uncertain tax positions are reviewed quarterly and adjusted as events occur that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations with or between tax authorities and issuance of new legislation, regulations, rulings or case law. Management believes that adequate amounts of tax and related penalty and interest have been provided for any adjustments that may result from these uncertain tax positions.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2007. In the third quarter of 2012 the IRS concluded its examination of the Company's 2007-2009 tax returns resulting in a release of tax reserves of \$7.8 million. The Company and the IRS have agreed on all issues except the timing of the deductibility of certain litigation costs. The Company intends to appeal the disputed issue and believes that it will prevail on its position. The IRS is still examining the 2007-2009 tax returns for Arrow's US business and is focusing on certain pre-acquisition transfer pricing issues. Additionally, the IRS has indicated that it will begin the audit of the Company's next audit cycle in 2013. The significant foreign jurisdictions which have open statutes to assessment include Australia, Greece, Iceland, India, Malta, Russia and the UK. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company has accrued for amounts it believes are the likely outcomes.

**Note 13 Stockholders Equity*****Preferred stock***

In 1992, the Company authorized 2.5 million shares of no par preferred stock. The Board has the authority to fix the rights, preferences, privileges and restrictions, including but not limited to, dividend rates, conversion and voting rights, terms and prices of redemptions and liquidation preferences without vote or action by the stockholders. On December 2, 2009 the Company issued 200,000 shares of Mandatorily Redeemable Preferred Stock in connection with Arrow acquisition. The Mandatorily Redeemable Preferred Stock was redeemed for cash of \$200.0 million on December 2, 2012. (For additional information on the Mandatorily Redeemable Preferred Stock refer to NOTE 10 Long-Term Debt ).

***Stock option plans***

The Company has adopted several stock option plans, all of which have been approved by the Company's shareholders that authorize the granting of options to purchase the Company's common shares subject to certain conditions. At December 31, 2012, the Company had reserved 7.7 million of its common shares for issuance upon exercise of options granted or to be granted under these plans and for restricted stock grants (see discussion below). The option award plans require options to be granted at the fair value of the shares underlying the options at the date of the grant and generally become exercisable over periods ranging from three to five years and expire in ten years. No additional options have been granted under any of these plans.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the Company's stock option plans consisted of the following (options and aggregate intrinsic value in millions):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2011	1.7	\$ 31.74		
Granted				
Exercised	(0.6)	32.18		
Cancelled				
Outstanding, December 31, 2012	1.1	\$ 31.50	3.1	\$ 62.1
Vested and expected to vest at December 31, 2012	1.1	\$ 31.50	3.1	\$ 62.1
Options exercisable at December 31, 2012	1.1	\$ 31.50	3.1	\$ 62.1

As of December 31, 2012, the stock options were completely expensed. Total intrinsic value of options exercised for the year ended December 31, 2012 and 2011 was \$24.4 million and \$24.3 million, respectively.

**Restricted Stock Plan**

Beginning in 2005, the Compensation Committee of the Board authorized and issued restricted stock to the Company's Participants under the Company's equity compensation plans. The restricted stock award program offers Participants the opportunity to earn shares of our common stock over time, rather than options that give Participants the right to purchase stock at a set price. Restricted stock and restricted stock unit awards are grants that entitle the holder to shares of common stock subject to certain terms. Actavis' restricted stock and restricted stock unit awards generally have restrictions lapse over a one- to four-year period. Restrictions generally lapse for non-employee directors after one year. Restrictions generally lapse for employees over a two- to four-year period. Certain restricted stock units are performance-based awards issued at a target number, subject to adjustments up or down based upon achievement of certain financial targets. The fair value of restricted stock grants is based on the fair market value of our common stock on the respective grant dates. Restricted stock compensation is being amortized and charged to operations over the same period as the restrictions lapse for the Participants.

A summary of the changes in restricted stock grants during the year ended December 31, 2012 is presented below (shares and aggregate intrinsic value in millions):

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Restricted shares outstanding at December 31, 2011	2.5	\$ 44.37	1.5	\$ 110.8
Granted	0.9	66.03		64.9
Vested	(0.7)	62.84		(46.9)
Cancelled	(0.1)	51.49		(6.0)

Edgar Filing: Actavis, Inc. - Form 10-K

Restricted shares outstanding at December 31, 2012	2.6	\$ 46.92	1.4	\$ 122.8
--	-----	----------	-----	----------

F-46

---

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2012, the Company had \$51.3 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock grants, which will be recognized over the remaining weighted average period of 1.4 years.

***Stock Repurchases***

During the years ended December 31, 2012 and 2011, the Company repurchased approximately 0.3 million each of its common stock surrendered to the Company to satisfy tax withholding obligations in connection with the exercise and sale of stock options or vesting of restricted stock issued to employees for total consideration of \$16.1 million and \$14.2 million, respectively.

***Accumulated Other Comprehensive Income (Loss)***

Accumulated other comprehensive income (loss) at December 31, 2012 consists of unrealized gains on securities of \$0.1 million and foreign currency translation gain of \$36.7 million. Accumulated other comprehensive income (loss) at December 31, 2011 consists of unrealized gains on securities of \$0.1 million and foreign currency translation adjustments of (\$76.6) million.

**NOTE 14 Segments**

Actavis operates in three segments: Actavis Pharma (previously Global Generics), Actavis Specialty Brands (previously Global Brands) and Anda Distribution (previously Distribution). The Actavis Pharma segment includes off-patent pharmaceutical products that are therapeutically equivalent to proprietary products. The Actavis Specialty Brands segment includes patent-protected products and certain trademarked off-patent products that Actavis sells and markets as brand pharmaceutical products. The Anda Distribution segment mainly distributes generic pharmaceutical products manufactured by third parties, as well as by Actavis, primarily to independent pharmacies, pharmacy chains, pharmacy buying groups and physicians' offices. The Anda Distribution segment operating results exclude sales by Anda of products developed, acquired, or licensed by Actavis' Actavis Pharma and Actavis Specialty Brands segments.

The accounting policies of the operating segments are the same as those described in NOTE 2 Summary of Significant Accounting Policies. The Company evaluates segment performance based on segment contribution. Segment contribution represents segment net revenues less cost of sales (excludes amortization), R&D expenses and selling and marketing expenses. The Company does not report total assets, capital expenditures, corporate general and administrative expenses, amortization, gains or losses on asset sales or disposals and impairments by segment as not all such information has been accounted for at the segment level, nor has such information been used by all segments.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Segment net revenues, segment operating expenses and segment contribution information for the Company's Actavis Pharma, Actavis Specialty Brands and Anda Distribution segments consisted of the following (in millions):

	Years Ended December 31,		
	2012	2011	2010
<b>Actavis Pharma Segment</b>			
Product sales	\$ 4,385.2	\$ 3,320.2	\$ 2,268.9
Other revenue	60.9	47.0	69.5
Net revenues	4,446.1	3,367.2	2,338.4
Operating expenses:			
Cost of sales <sup>(1)</sup>	2,428.4	1,817.8	1,198.9
Research and development	255.6	227.7	194.6
Selling and marketing	281.2	156.0	111.9
<b>Actavis Pharma Contribution</b>	<b>\$ 1,480.9</b>	<b>\$ 1,165.7</b>	<b>\$ 833.0</b>
Contribution margin	33.3%	34.6%	35.6%
<b>Actavis Specialty Brands Segment</b>			
Product sales	\$ 411.6	\$ 364.9	\$ 316.3
Other revenue	70.8	76.1	81.5
Net revenues	482.4	441.0	397.8
Operating expenses:			
Cost of sales <sup>(1)</sup>	115.4	94.4	88.4
Research and development	146.2	67.7	101.5
Selling and marketing	175.5	168.6	137.8
<b>Actavis Specialty Brands Contribution</b>	<b>\$ 45.3</b>	<b>\$ 110.3</b>	<b>\$ 70.1</b>
Contribution margin	9.4%	25.0%	17.6%
<b>Anda Distribution Segment</b>			
Product sales	\$ 986.4	\$ 776.2	\$ 830.7
Other revenue			
Net revenues	986.4	776.2	830.7
Operating expenses:			
Cost of sales <sup>(1)</sup>	846.6	652.7	711.2
Research and development			
Selling and marketing	89.8	77.2	70.3
<b>Anda Distribution Contribution</b>	<b>\$ 50.0</b>	<b>\$ 46.3</b>	<b>\$ 49.2</b>
Contribution margin	5.1%	6.0%	5.9%
<b>Total Segment Contribution</b>	<b>\$ 1,576.2</b>	<b>\$ 1,322.3</b>	<b>\$ 952.3</b>
Corporate general and administrative	624.8	353.1	436.1

Edgar Filing: Actavis, Inc. - Form 10-K

Amortization	481.1	354.3	180.0
Loss on asset sales and impairments, net	149.5	78.7	30.8
Operating income	\$ 320.8	\$ 536.2	\$ 305.4

(1) Excludes amortization of acquired intangibles including product rights.

F-48

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's net product sales are represented by the sale of products in the following geographic areas for the years ended December 31 (in millions):

	2012	2011	2010
United States	\$ 4,718.8	\$ 3,960.6	\$ 2,990.1
International	1,064.4	500.7	425.8
	\$ 5,783.2	\$ 4,461.3	\$ 3,415.9

The Company's net product sales are represented by the sale of products in the following therapeutic categories for the years ended December 31 (in millions):

	2012	2011	2010
Central nervous system	\$ 1,964.0	\$ 1,517.4	\$ 907.6
Cardiovascular	1,298.5	977.2	594.6
Hormones and synthetic substitutes	868.5	724.7	682.3
Anti-infective agents	267.9	197.9	161.5
Urology	174.0	140.5	127.3
Other	1,210.3	903.6	942.6
	\$ 5,783.2	\$ 4,461.3	\$ 3,415.9

**NOTE 15 Business Restructuring Charges**

During 2012 activity related to our business restructuring and facility rationalization activities primarily related to the cost optimization initiatives in conjunction with the acquisition of Actavis Group and additional steps to improve our operating cost structure and achieve operating excellence and efficiencies through our Global Supply Chain Initiative ( GCSI ). Restructuring activities involved facilities and operations in Corona, California; Morristown, New Jersey; and Zug, Switzerland for the year ended December 31, 2012 as follows (in millions):

	Balance at December 31, 2011	Assumed Liability Actavis Group	Charged to Expense	Cash Payments	Non-cash Adjustments	Balance at December 31, 2012
Cost of sales						
Severance and retention	\$ 7.9	\$ 1.0	\$ 7.9	\$ (0.6)	\$ (1.3)	\$ 14.9
Product transfer costs	0.3		4.7	(4.5)		0.5
Facility decommission costs	1.2	6.2	0.8	(0.7)	(0.2)	7.3
Accelerated depreciation			0.3		(0.3)	
	9.4	7.2	13.7	(5.8)	(1.8)	22.7
Operating expenses						

Edgar Filing: Actavis, Inc. - Form 10-K

Research and development	3.8	1.4	1.1	(2.9)		3.4
Accelerated R & D			0.2		(0.2)	
Selling, general and administrative	0.9	12.0	32.3	(6.5)	0.3	39.0
	\$ 4.7	\$ 13.4	\$ 33.6	\$ (9.4)	\$ 0.1	\$ 42.4
Total	\$ 14.1	\$ 20.6	\$ 47.3	\$ (15.2)	\$ (1.7)	\$ 65.1

F-49



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Activity related to our business restructuring and facility rationalization activities primarily consisted of restructuring activities involving facilities at Carmel, New York, Mississauga, Canada and Melbourne, Australia for the year ended December 31, 2011 as follows (in millions):

	Accrual Balance at December 31, 2010	Charged to Expense	Cash Payments	Non-cash Adjustments	Accrual Balance at December 31, 2011
Cost of sales					
Severance and retention	\$ 12.9	\$ 1.1	\$ (6.1)	\$	\$ 7.9
Product transfer costs	1.4	3.2	(4.3)		0.3
Facility decommission costs	1.6	1.1	(1.5)		1.2
Accelerated depreciation		3.8		(3.8)	
	15.9	9.2	(11.9)	(3.8)	9.4
Operating expenses					
R&D	3.1	3.9	(3.2)		3.8
Accelerated depreciation R&D		1.0		(1.0)	
Selling, general and administrative	1.0	1.7	(1.8)		0.9
Accelerated depreciation S,G&A		0.3		(0.3)	
	4.1	6.9	(5.0)	(1.3)	4.7
Total	\$ 20.0	\$ 16.1	\$ (16.9)	\$ (5.1)	\$ 14.1

Product transfer costs consist of documentation, testing and shipping costs to transfer product to other facilities. Operating expenses include severance, retention and accelerated depreciation. Retention is expensed over the service period of employees. Activity related to our business restructuring and facility rationalization activities is primarily attributable to our Actavis Pharma segment.

During the year ended December 31, 2012, 2011 and 2010, the Company recognized restructuring charges of \$47.3 million, \$16.1 million and \$45.1 million, respectively.

**NOTE 16 Derivative Instruments and Hedging Activities**

The Company entered into foreign currency exchange options and foreign currency forward contracts to hedge its purchase of Actavis Group for 4.25 billion. The foreign currency exchange options had a net premium of \$156.8 million that was settled and paid on October 9, 2012. These transactions were entered into to mitigate exposure resulting from movements of the U.S. dollar against the Euro in connection with the purchase obligation. Since these derivatives were hedges on foreign currency risk for a business combination denominated in a foreign currency, the change in the value of the derivatives was recognized in the statement of operations. The net loss on the derivative contracts of \$70.4 million was recognized in other income and expense during the twelve months ended December 31, 2012.

**NOTE 17 Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants. Fair values determined based on Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Fair values determined based on Level 3



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. A financial asset or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value or disclosed at fair value on a recurring basis as at December 31, 2012 and 2011 consisted of the following (in millions):

	Fair Value Measurements as at December 31, 2012 Using:			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Marketable securities	\$ 9.0	\$ 9.0	\$	\$
<b>Liabilities:</b>				
Contingent consideration	\$ 363.1	\$	\$	\$ 363.1

	Fair Value Measurements as at December 31, 2011 Using:			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Marketable securities	\$ 14.9	\$ 14.9	\$	\$
<b>Liabilities:</b>				
Contingent consideration	\$ 181.6	\$	\$	\$ 181.6

Marketable securities and investments consist of available-for-sale investments in U.S. Treasury and agency securities and publicly traded equity securities for which market prices are readily available. Unrealized gains or losses on marketable securities and investments are recorded in accumulated other comprehensive (loss) income.

The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs. The fair value of contingent consideration obligations is based on a probability-weighted income approach. The measurement is based upon unobservable inputs supported by little or no market activity based on our own assumptions. Changes in the fair value of the contingent consideration obligations are recorded in our consolidated statement of operations. For the year ended December 31, 2012, charges (credits) of \$1.0 million, (\$27.5) million, and \$5.2 million have been included in cost of sales, loss on asset sales and impairments and interest expense, respectively, in the accompanying consolidated statement of operations.

The table below provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 (in millions):

	Balance at December 31, 2011	Net transfers in to (out of) Level 3	Purchases and settlements, net	Net accretion and fair value adjustments	Foreign currency translation	Balance at December 31, 2012
<b>Liabilities:</b>						
Contingent consideration obligations	\$181.6	\$	\$197.3	\$(21.3)	\$5.5	\$363.1

Edgar Filing: Actavis, Inc. - Form 10-K

	Balance at December 31, 2010	Net transfers in to (out of) Level 3	Purchases and settlements, net	Net accretion and fair value adjustments	Foreign currency translation	Balance at December 31, 2011
<b>Liabilities:</b>						
Contingent consideration obligations	\$198.5	\$	\$37.2	\$(51.1)	\$(3.0)	\$181.6

F-51

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 18 Commitments and Contingencies***Legal Matters*

Actavis and its affiliates are involved in various disputes, governmental and/or regulatory inspections, inquiries, investigations and proceedings, and litigation matters that arise from time to time in the ordinary course of business. The process of resolving matters through litigation or other means is inherently uncertain and it is possible that an unfavorable resolution of these matters will adversely affect the Company, its results of operations, financial condition and cash flows. The Company's general practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when losses are probable and reasonably estimable.

We evaluate, on a quarterly basis, developments in legal proceedings and other matters that could cause an increase or decrease in the amount of the liability that has been accrued previously. At December 31, 2012, the Company's consolidated balance sheets include accrued loss contingencies of \$230.8 million. This amount includes contingent losses associated with the drug pricing litigation discussed below, as well as additional reserves for potential immaterial contingent losses.

Our legal proceedings range from cases brought by a single plaintiff to mass tort actions and class actions with thousands of putative class members. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims (including, but not limited to, *qui tam* actions, antitrust, product liability, securities, patent infringement and trade practices), some of which present novel factual allegations and/or unique legal theories. In addition, a number of the matters pending against us are at very early stages of the legal process (which in complex proceedings of the sort faced by us often extend for several years). As a result, some matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to estimate a range of possible loss. In those proceedings in which plaintiffs do request publicly quantified amounts of relief, we do not believe that the quantified amounts are meaningful because they are merely stated jurisdictional limits, exaggerated and/or unsupported by the evidence or applicable burdens of proof.

*Cipro® Litigation.* Beginning in July 2000, a number of suits were filed against the Company, The Rugby Group, Inc. (Rugby) and other company affiliates in various state and federal courts alleging claims under various federal and state competition and consumer protection laws. Several plaintiffs have filed amended complaints and motions seeking class certification. Approximately 42 were cases filed against the Company, Rugby and other Company entities. Many of these actions have been dismissed. Actions remain pending in various state courts, including California, Kansas, Tennessee, and Florida. The actions generally allege that the defendants engaged in unlawful, anticompetitive conduct in connection with alleged agreements, entered into prior to the Company's acquisition of Rugby from Sanofi Aventis (Sanofi), related to the development, manufacture and sale of the drug substance ciprofloxacin hydrochloride, the generic version of Bayer's brand drug, Cipro®. The actions generally seek declaratory judgment, damages, injunctive relief, restitution and other relief on behalf of certain purported classes of individuals and other entities. In the action pending in Kansas, the court has administratively terminated the matter. There has been no action in the cases pending in Florida and Tennessee since 2003. In the action pending in the California Superior Court for the County of San Diego (*In re: Cipro Cases I & II, JCCP Proceeding Nos. 4154 & 4220*), on July 21, 2004, the California Court of Appeal ruled that the majority of the plaintiffs would be permitted to pursue their claims as a class. On August 31, 2009, the California Superior Court granted defendants' motion for summary judgment, and final judgment was entered on September 24, 2009. On October 31, 2011, the California Court of Appeal affirmed the Superior Court's judgment. On December 13, 2011, the plaintiffs filed a petition for review in the California Supreme Court. On February 15, 2012, the California Supreme Court granted review. On September 12, 2012, the California Supreme Court entered a stay of all proceedings in the case pending possible action by the United States Supreme Court in an unrelated case that raises similar legal issues. In addition to the pending actions, the

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company understands that various state and federal agencies are investigating the allegations made in these actions. Sanofi has agreed to defend and indemnify the Company and its affiliates in connection with the claims and investigations arising from the conduct and agreements allegedly undertaken by Rugby and its affiliates prior to the Company's acquisition of Rugby, and is currently controlling the defense of these actions.

*Governmental Reimbursement Investigations and Drug Pricing Litigation.* In November 1999, Schein Pharmaceutical, Inc., now known as Watson Pharma, Inc. (Watson Pharma) was informed by the U.S. Department of Justice that it, along with numerous other pharmaceutical companies, is a defendant in a *qui tam* action brought in 1995 under the U.S. False Claims Act currently pending in the U.S. District Court for the Southern District of Florida (the Florida Qui Tam Action). Watson Pharma has not been served in the *qui tam* action. A *qui tam* action is a civil lawsuit brought by an individual or a company (the *qui tam* relator) for an alleged violation of a federal statute, in which the U.S. Department of Justice has the right to intervene and take over the prosecution of the lawsuit at its option. Pursuant to applicable federal law, the *qui tam* action is under seal as to Watson Pharma. The Company believes that the *qui tam* action relates to whether allegedly improper price reporting by pharmaceutical manufacturers led to increased payments by Medicare and/or Medicaid. The Company believes that the Florida Qui Tam Action against the Company was dismissed without prejudice while still sealed as to the Company. Watson Pharma subsequently also received and responded to notices or subpoenas from the Attorneys General of various states, including Florida, Nevada, New York, California and Texas, relating to pharmaceutical pricing issues and whether allegedly improper actions by pharmaceutical manufacturers led to excessive payments by Medicare and/or Medicaid. On June 26, 2003, the Company received a request for records and information from the U.S. House Committee on Energy and Commerce in connection with that committee's investigation into pharmaceutical reimbursements and rebates under Medicaid. The Company produced documents in response to the request. Other state and federal inquiries regarding pricing and reimbursement issues are anticipated.

The Company and certain of its subsidiaries also are named as defendants in various lawsuits filed by numerous states and *qui tam* relators, including Wisconsin, Kentucky, Illinois, Mississippi, Missouri, South Carolina, Alabama, Utah, Kansas and Louisiana captioned as follows: *State of Wisconsin v. Abbott Laboratories, et al., Case No. 04-cv-1709, Wisconsin Circuit Court for Dane County; State of Wisconsin, ex rel., et al. v. Actavis Mid Atlantic LLC, et al., Case No. 11-cv-5544, Wisconsin Circuit Court for Dane County; Commonwealth of Kentucky v. Alpharma, Inc., et al., Case Number 04-CI-1487, Kentucky Circuit Court for Franklin County; State of Alabama v. Abbott Laboratories, Inc. et al., Civil Action No. CV05-219, Alabama Circuit Court for Montgomery County; State of Illinois v. Abbott Laboratories, Inc. et al., Civil Action No. 05-CH-02474, Illinois Circuit Court for Cook County; State of Mississippi v. Abbott Laboratories, Inc. et al., Civil Action No. G2005-2021 S/2, Mississippi Chancery Court of Hinds County; State of Missouri ex rel. Jeremiah W. (Jay) Nixon v. Mylan Laboratories, et al, Case No. 054-2486, Missouri Circuit Court of St. Louis; State of South Carolina and Henry D. McMaster v. Watson Pharmaceuticals (New Jersey), Inc., In the Court of Common Pleas for the Fifth Judicial Circuit, State of South Carolina, County of Richland, C.A. No. 2006-CP-40-7152; State of South Carolina and Henry D. McMaster v. Watson Pharmaceuticals (New Jersey), Inc., In the Court of Common Pleas for the Fifth Judicial Circuit, State of South Carolina, County of Richland, C.A. No. 2006-CP-40-7155; State of Utah v. Actavis U.S., Inc., et al., In the Third Judicial District Court of Salt Lake County, Civil No. 07-0913719; State of Kansas ex rel. Steve Six v. Watson Pharmaceuticals, Inc. and Watson Pharma, Inc., Case Number: 08CV2228, District Court of Wyandotte County, Kansas, Civil Court Department; and State of Louisiana V. Abbott Laboratories, Inc., et al., Case No. 596144, Parish of East Baton Rouge, 19<sup>th</sup> Judicial District.*

In 2011, the Company settled certain claims made against it by a relator in a *qui tam* action brought against the Company on behalf of the United States. The settlement of that *qui tam* action resolved all claims on behalf of the United States asserted in that action except for claims relating to the federal share of Medicaid payments made by the States of Alabama, Alaska, Kentucky, Idaho, Illinois, South Carolina and Wisconsin. The Company

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

subsequently settled all claims, including the claims on behalf of the United States, brought by Alabama. The settlement with Alabama is contingent upon the parties finalizing and executing mutually acceptable definitive settlement agreements. The case against the Company on behalf of Kentucky was tried in November 2011. The jury reached a verdict in the Company's favor on each of Kentucky's claims against the Company. Kentucky has filed post-trial motions for relief from the jury verdict. The case against the Company on behalf of Mississippi was tried from November 2012 through February 2013. The Company is awaiting a decision in that case. The case against the Company on behalf of Louisiana is scheduled for trial in August 2013. The case against the Company on behalf of Missouri is scheduled for trial in November 2013. The case against the Company on behalf of Kansas is scheduled for trial in January 2014.

At December 31, 2012, the Company's consolidated balance sheets included accrued expenses in connection with the remaining drug pricing actions of \$154.4 million. With regard to the remaining drug pricing actions, the Company believes that it has meritorious defenses and intends to vigorously defend itself in those actions. The Company continually monitors the status of these actions and may settle or otherwise resolve some or all of these matters on terms that the Company deems to be in its best interests. However, the Company can give no assurance that it will be able to settle the remaining actions on terms it deems reasonable, or that such settlements or adverse judgments in the remaining actions, if entered, will not exceed the amounts of the liability reserves. Additional actions by other states, cities and/or counties are anticipated. These actions and/or the actions described above, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Medicaid Drug Reimbursement Litigation.* In December 2009, the Company learned that numerous pharmaceutical companies, including certain subsidiaries of the Company, have been named as defendants in a *qui tam* action pending in the United States District Court for the District of Massachusetts (*United States of America ex rel. Constance A. Conrad v. Actavis Mid-Atlantic, LLC, f/k/a Biovail Pharmaceuticals, LLC, et. al., USDC Case No. 02-CV-11738-NG*). The seventh amended complaint, which was served on certain of the Company's subsidiaries in December 2009, alleges that the defendants falsely reported to the United States that certain pharmaceutical products were eligible for Medicaid reimbursement and thereby allegedly caused false claims for payment to be made through the Medicaid program. In July 2011, the plaintiff served a tenth amended complaint that unseals the action in its entirety and continues to allege the previously asserted claims against certain subsidiaries of the Company. The Company's subsidiaries named in the action together with all other named defendants filed a Joint Motion to Dismiss the Tenth Amended Complaint on December 9, 2011. On February 25, 2013, the court granted the motion to dismiss as to all defendants. The plaintiff may appeal. Additional actions alleging similar claims could be asserted. The Company believes that it has meritorious defenses to the claims and intends to vigorously defend itself in the action. However, this action or similar actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*FDA Matters.* In May 2002, the Company's subsidiary reached an agreement with the FDA on the terms of a consent decree with respect to its Corona, California manufacturing facility. The court approved the consent decree on May 13, 2002 (*United States of America v. Watson Laboratories, Inc., et. al., United States District Court for the Central District of California, EDCV-02-412-VAP*). The consent decree applies only to the Company's Corona, California facility and not other manufacturing sites. The decree requires Watson Laboratories to ensure that its Corona, California facility complies with the FDA's current Good Manufacturing Practices (cGMP) regulations.

Pursuant to the agreement, the Company hired an independent expert to conduct inspections of the Corona facility at least once each year. In each year since 2002, the independent expert has reported its opinion to the FDA that, based on the findings of the audit of the facility, the FDA's applicable cGMP requirements, applicable FDA regulatory guidance, and the collective knowledge, education, qualifications and experience of the expert's auditors and reviewers, the systems at the Corona facility audited and evaluated by the expert are in compliance.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with the FDA's cGMP regulations. However, the FDA is not required to accept or agree with the independent expert's opinion. The FDA has conducted periodic inspections of the Corona facility since the entry of the consent decree, and concluded its most recent general cGMP inspection in November 2012. At the conclusion of the inspection, the inspectors issued a Form 483 to the Company identifying certain observations concerning the instances where the Company failed to follow cGMP regulations. The Company has responded to the Form 483 observations and has provided the FDA with a corrective action plan to address the observations noted in the Form 483. If in the future, the FDA determines that, with respect to its Corona facility, the Company has failed to comply with the consent decree or FDA regulations, including cGMPs, or has failed to adequately address the FDA's inspectional observations, the consent decree allows the FDA to order the Company to take a variety of actions to remedy the deficiencies. These actions could include ceasing manufacturing and related operations at the Corona facility, and recalling affected products. Such actions, if taken by the FDA, could have a material adverse effect on the Company, its results of operations, financial position and cash flows.

*AndroGel® Antitrust Litigation.* On January 29, 2009, the U.S. Federal Trade Commission and the State of California filed a lawsuit in the United States District Court for the Central District of California (*Federal Trade Commission, et. al. v. Watson Pharmaceuticals, Inc., et. al., USDC Case No. CV 09-00598*) alleging that the Company's September 2006 patent lawsuit settlement with Solvay Pharmaceuticals, Inc., related to AndroGel® 1% (testosterone gel) CIII is unlawful. The complaint generally alleged that the Company improperly delayed its launch of a generic version of AndroGel® in exchange for Solvay's agreement to permit the Company to co-promote AndroGel® for consideration in excess of the fair value of the services provided by the Company, in violation of federal and state antitrust and consumer protection laws. The complaint sought equitable relief and civil penalties. On February 2 and 3, 2009, three separate lawsuits alleging similar claims were filed in the United States District Court for the Central District of California by various private plaintiffs purporting to represent certain classes of similarly situated claimants (*Meijer, Inc., et. al., v. Unimed Pharmaceuticals, Inc., et. al., USDC Case No. EDCV 09-0215*); (*Rochester Drug Co-Operative, Inc. v. Unimed Pharmaceuticals Inc., et. al., Case No. EDCV 09-0226*); (*Louisiana Wholesale Drug Co. Inc. v. Unimed Pharmaceuticals Inc., et. al., Case No. EDCV 09-0228*). On April 8, 2009, the Court transferred the government and private cases to the United States District Court for the Northern District of Georgia. On April 21, 2009 the State of California voluntarily dismissed its lawsuit against the Company without prejudice. The Federal Trade Commission and the private plaintiffs in the Northern District of Georgia filed amended complaints on May 28, 2009. The private plaintiffs amended their complaints to include allegations concerning conduct before the U.S. Patent and Trademark Office, conduct in connection with the listing of Solvay's patent in the Food and Drug Administration's Orange Book, and sham litigation. Additional actions alleging similar claims have been filed in various courts by other private plaintiffs purporting to represent certain classes of similarly situated direct or indirect purchasers of AndroGel® (*Stephen L. LaFrance Pharm., Inc. d/b/a SAJ Dist. v. Unimed Pharms., Inc., et al., D. NJ Civ. No. 09-1507*); (*Fraternal Order of Police, Fort Lauderdale Lodge 31, Insurance Trust Fund v. Unimed Pharms. Inc., et al., D. NJ Civ. No. 09-1856*); (*Scurto v. Unimed Pharms., Inc., et al., D. NJ Civ. No. 09-1900*); (*United Food and Commercial Workers Unions and Employers Midwest Health Benefits Fund v. Unimed Pharms., Inc., et al., D. MN Civ. No. 09-1168*); (*Rite Aid Corp. et al. v. Unimed Pharms., Inc. et al., M.D. PA Civ. No. 09-1153*); (*Walgreen Co., et al. v. Unimed Pharms., LLC, et al., MD. PA Civ. No. 09-1240*); (*Supervalu, Inc. v. Unimed Pharms., LLC, et al, ND. GA Civ. No. 10-1024*); (*LeGrand v. Unimed Pharms., Inc., et al., ND. GA Civ. No. 10-2883*); (*Jabos Pharmacy Inc. v. Solvay Pharmaceuticals, Inc., et al., Cocke County, TN Circuit Court Case No. 31,837*). On April 20, 2009, the Company was dismissed without prejudice from the *Stephen L. LaFrance* action pending in the District of New Jersey. On October 5, 2009, the Judicial Panel on Multidistrict Litigation transferred all actions then pending outside of the United States District Court for the Northern District of Georgia to that district for consolidated pre-trial proceedings (*In re: AndroGel® Antitrust Litigation (No. II), MDL Docket No. 2084*), and all currently-pending related actions are presently before that court. On February 22, 2010, the judge presiding over all the consolidated litigations related to AndroGel® then pending in the United States District Court for the Northern District of Georgia granted the Company's motions to dismiss



**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the complaints, except the portion of the private plaintiffs' complaints that include allegations concerning sham litigation. Final judgment in favor of the defendants was entered in the Federal Trade Commission's action on April 21, 2010. On April 25, 2012, the Court of Appeals affirmed the dismissal. On December 7, 2012, the U.S. Supreme Court granted the FTC's Petition for a Writ of Certiorari. The hearing on the petition is scheduled for March 25, 2013. On July 20, 2010, the plaintiff in the *Fraternal Order of Police* action filed an amended complaint adding allegations concerning conduct before the U.S. Patent and Trademark Office, conduct in connection with the listing of Solvay's patent in the Food and Drug Administration's Orange Book, and sham litigation similar to the claims raised in the direct purchaser actions. On October 28, 2010, the judge presiding over MDL 2084 entered an order pursuant to which the *LeGrand* action, filed on September 10, 2010, was consolidated for pretrial purposes with the other indirect purchaser class action as part of MDL 2084 and made subject to the Court's February 22, 2010 order on the motion to dismiss. In February 2012, the direct and indirect purchaser plaintiffs and the defendants filed cross-motions for summary judgment, and on June 22, 2012, the indirect purchaser plaintiffs, including Fraternal Order of Police, LeGrand and HealthNet, filed a motion for leave to amend and consolidate their complaints. On September 28, 2012, the district court granted summary judgment in favor of the defendants on all outstanding claims. The defendants have appealed.

The Company believes that these actions are without merit and intends to defend itself vigorously. However, these actions, if successful, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Hormone Replacement Therapy Litigation.* Beginning in early 2004, a number of product liability suits were filed against the Company and certain Company affiliates, as well as numerous other pharmaceutical companies, for personal injuries allegedly arising out of the use of hormone replacement therapy products, including but not limited to estropipate and estradiol. Many of the cases originally filed against the Company and its affiliates have been dismissed. Approximately 32 cases remain pending against the Company and/or its affiliates in state and federal courts, representing claims by 32 plaintiffs. Breast cancer is the injury predominately alleged in the remaining cases, but stroke is claimed in two cases. The majority of the cases have been transferred to and consolidated in the United States District Court for the Eastern District of Arkansas (*In re: Prempro Products Liability Litigation, MDL Docket No. 1507*). Discovery in the individual cases has not been completed. The Company believes it has substantial meritorious defenses to these cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Fentanyl Transdermal System Litigation.* Beginning in 2009, a number of product liability suits were filed against the Company and certain Company affiliates, as well as other manufacturers and distributors of fentanyl transdermal system products, for personal injuries or deaths allegedly arising out of the use of the fentanyl transdermal system products. The Company settled the majority of these cases in November 2012. There are approximately ten cases that remain pending against the Company and/or its affiliates in state and federal courts that are not part of the November 2012 settlement, representing claims by approximately 21 plaintiffs. Discovery is ongoing. The Company believes it has substantial meritorious defenses to these cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Metoclopramide Litigation.* Beginning in 2009, a number of product liability suits were filed against the Company and certain Company affiliates, including legacy Actavis and Watson companies, as well as other manufacturers and distributors of metoclopramide, for personal injuries allegedly arising out of the use of metoclopramide. Approximately 2,000 cases are pending against the Company and/or its affiliates in state and

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

federal courts, representing claims by multiple plaintiffs. These cases are generally in their preliminary stages and discovery is ongoing. The Company believes that, with respect to the majority of the cases against the legacy Watson companies, it will be defended in and indemnified by Pliva, Inc., an affiliate of Teva Pharmaceutical Industries, Ltd., from whom the Company purchased its metoclopramide product line in late 2008. With respect to the cases pending against the legacy Actavis companies, the Company is actively defending them. The Company believes that it has substantial meritorious defenses to these cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if our indemnification arrangements or insurance do not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Fax Litigation*

*Medical West Ballas Pharmacy, LTD, et al. v. Anda, Inc.*, (Circuit Court of the County of St. Louis, State of Missouri, Case No. 08SL-CC00257). In January 2008, Medical West Ballas Pharmacy, LTD, filed a putative class action complaint against the Company alleging conversion and alleged violations of the Telephone Consumer Protection Act ( TCPA ) and Missouri Consumer Fraud and Deceptive Business Practices Act. In April 2008, plaintiff filed an amended complaint substituting Anda, Inc., a subsidiary of the Company, as the defendant. The amended complaint alleges that by sending unsolicited facsimile advertisements, Anda misappropriated the class members' paper, toner, ink and employee time when they received the alleged unsolicited faxes, and that the alleged unsolicited facsimile advertisements were sent to the plaintiff in violation of the TCPA and Missouri Consumer Fraud and Deceptive Business Practices Act. The TCPA allows recovery of minimum statutory damages of \$500 per violation, which can be trebled if the violations are found to be willful. The complaint seeks to assert class action claims on behalf of the plaintiff and other similarly situated third parties. In April 2008, Anda filed an answer to the amended complaint, denying the allegations. In November 2009, the court granted plaintiff's motion to expand the proposed class of plaintiffs from individuals for which Anda lacked evidence of express permission or an established business relationship to "All persons who on or after four years prior to the filing of this action, were sent telephone facsimile messages advertising pharmaceutical drugs and products by or on behalf of Defendant." In November 2010, the plaintiff filed a second amended complaint further expanding the definition and scope of the proposed class of plaintiffs. On December 2, 2010, Anda filed a motion to dismiss claims the plaintiff is seeking to assert on behalf of putative class members who expressly consented or agreed to receive faxes from Defendant, or in the alternative, to stay the court proceedings pending resolution of Anda's petition to the FCC (discussed below). On April 11, 2011, the court denied the motion. On May 19, 2011, the plaintiff's filed their motion seeking certification of a class of entities with Missouri telephone numbers who were sent Anda faxes for the period January 2004 through January 2008. The motion has been briefed and is currently scheduled for hearing on May 15, 2013. No trial date has been set in the matter.

On May 1, 2012, an additional action under the TCPA was filed by Physicians Healthsource, Inc., purportedly on behalf of the end users of the fax numbers in the United States but outside Missouri to which faxes advertising pharmaceutical products for sale by Anda were sent. ( *Physicians Healthsource Inc. v. Anda Inc.* . United States District Court for the Southern District of Florida, 12 CV 60798). On July 10, 2012, Anda filed its answer and affirmative defenses. The matter is in its preliminary stages and no trial date has been set.

Several issues raised in plaintiff's motion for class certification in the *Medical West* matter are currently under consideration in the Eighth Circuit Court of Appeals in an unrelated case to which Anda is not a party, *Nack v. Walburg* , No. 11-1460. *Nack* concerns whether there is a private right of action for failing to include any opt-out notice on faxes sent with express permission, contrary to a Federal Communications Commission (FCC) Regulation that requires such notice on fax advertisements. The Eighth Circuit granted Anda leave to file an

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*amicus* brief and to participate during oral argument in the matter, which was held on September 19, 2012. No decision has been issued to date.

In a related matter, on November 30, 2010, Anda filed a petition with the FCC, asking the FCC to clarify the statutory basis for its regulation requiring opt-out language on faxes sent with express permission of the recipient (the FCC Petition). On May 2, 2012, the Consumer & Governmental Affairs Bureau of the FCC dismissed the FCC Petition. On May 14, 2012, Anda filed an application for review of the Bureau's dismissal by the full Commission, requesting the FCC to vacate the dismissal and grant the relief sought in the FCC Petition. The FCC has not ruled on the application for review. Anda believes it has substantial meritorious defenses to the putative class actions brought under the TCPA, including but not limited to its receipt of consent to receive facsimile advertisements from many of the putative class members, and intends to defend the actions vigorously. However, these actions, if successful, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Levonorgestrel/Ethinyl Estradiol Tablets (Generic version of Seasonique®)*. On March 6, 2008, Duramed (now known as Teva Women's Health) sued the Company in the United States District Court for the District of Nevada, alleging that sales of the Company's levonorgestrel/ethinyl estradiol tablets, a generic version of Duramed's Seasonique® tablets, would infringe Duramed's U.S. Patent No. 7,320,969 (*Duramed v. Watson Pharmaceuticals, Inc., et. al., Case No. 08cv00116*). The complaint sought damages and injunctive relief. On March 31, 2010, the District Court granted Duramed's motion for summary judgment that the asserted claims are not invalid as obvious. The Company appealed and on March 25, 2011, the U.S. Court of Appeals for the Federal Circuit reversed the District Court and remanded the case for a determination of whether the asserted claims are obvious. On June 9, 2011, Duramed moved for a preliminary injunction to prevent the Company from launching its product until after a trial on the merits. On June 16, 2011, the court denied Duramed's motion. Duramed appealed and also requested temporary injunctive relief during the pendency of its appeal (*Duramed v. Watson Laboratories, Case No. 3011-1438*). On July 27, 2011, the U.S. Court of Appeals for the Federal Circuit denied Duramed's request for temporary relief. Watson launched its generic product on July 28, 2011. On November 10, 2011, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court's denial of Duramed's preliminary injunction motion. On August 5, 2011, Duramed filed a motion in the District Court to amend its complaint to add a claim for damages as a result of the Company's launch of its generic product. On November 18, 2011, the Company moved for summary judgment. On June 29, 2012, in a litigation involving the same patent, the United States District Court for the District of New Jersey held that the asserted claims of the patent are invalid. That case is now on appeal to the United States Court of Appeals for the Federal Circuit. On July 9, 2012, the Company filed a motion for judgment based on the collateral estoppel effect of the New Jersey decision. In response, on July 20, 2012, Duramed filed a motion to stay the litigation pending the Federal Circuit's decision in the appeal of the New Jersey decision. On July 25, 2012, the Court granted Duramed's motion to stay and denied without prejudice the Company's motion for summary judgment and judgment based on collateral estoppels. No trial date has been set. The Company believes it has substantial meritorious defenses to the case. However, the Company has sold and is continuing to sell its generic version of Seasonique®. Therefore, an adverse ruling in the case or a subsequent final appellate determination that the patent in suit is valid, and that the Company has infringed the patent in suit, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Drospirenone/Ethinyl Estradiol Tablets (Generic version of Yaz®)*. On November 5, 2007, Bayer Schering Pharma AG sued the Company in the United States District Court for the District of Nevada, alleging that sales of the Company's drospirenone/ethinyl estradiol tablets, a generic version of Bayer's Yaz® tablets, would infringe numerous Bayer patents. (*Bayer Schering Pharma AG v. Watson Pharmaceuticals, Inc., et. al., Case No. 07cv1472*) The complaint sought damages and injunctive relief and included claims related to U.S. Patent No. 5,787,531, U.S. Patent No. RE 37,564, and U.S. Patent No. RE 37,838. The Company filed an amended answer and counterclaims for a Declaratory Judgment of invalidity and/or non-infringement of U.S. Patent Nos.

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

5,798,338, 6,933,395, 6,958,326, 7,163,931 and RE 38,253. Thereafter, the U.S. Court of Appeals for the Federal Circuit ruled that U.S. Patent No. 5,787,531 was invalid and the claims related to that patent were dismissed. The District Court subsequently entered a consent judgment that the Company does not infringe U.S. Patent Nos. 5,798,338, 6,933,395, 6,958,326, and 7,163,931, and dismissed with prejudice Bayer's claims related to U.S. Patent Nos. RE 37,838 and RE 38,253. The only patent still in dispute in the Nevada lawsuit is U.S. Patent No. RE 37,564 (the 564 Patent). On March 31, 2012, the court granted Bayer's motion for summary judgment that the 564 Patent is not invalid and denied the Company's motion for summary judgment that the patent is invalid. Watson timely filed a Notice of Appeal with the United States Court of Appeals for the Federal Circuit. The appeal is currently pending. The Company has suspended sales of its generic version of Yaz and intends to appeal the decision. However, the Company sold its generic version of Yaz<sup>®</sup> from January 7, 2012 through March 31, 2012. Therefore, if the Company is not successful in its appeal of the adverse ruling in the Nevada District Court or if there is a subsequent final determination that the Company has infringed the patent in suit, it could adversely affect the Company's business, results of operations, financial condition and cash flows.

*Tranexamic Acid Tablets (Generic version of Lysteda<sup>®</sup>)*. On July 7, 2011, Ferring B.V. sued the Company in the United States District Court for the District of Nevada, alleging that sales of the Company's tranexamic acid tablets, a generic version of Ferring's Lysteda<sup>®</sup> tablets, would infringe U.S. Patent No. 7,947,739 (the 739 patent) (*Ferring B.V. v. Watson Pharmaceuticals, Inc., et. al., Case No. 3:11-cv-00481*). On November 25, 2011, Ferring filed a second complaint in the District of Nevada alleging that sales of the Company's tranexamic acid tablets would infringe U.S. Patent No. 8,022,106 (the 106 patent). (*Ferring B.V. v. Watson Pharmaceuticals, Inc., et. al., Case No. 3:11-cv-00853*). On November 9, 2012, Ferring filed a third complaint in the District of Nevada alleging that sales of the Company's tranexamic acid tablets would infringe U.S. Patent No. 8,273,795 (the 795 patent) (*Ferring B.V. v. Watson Pharmaceuticals, Inc., et. al., Case No. 2:12-cv-01935*). The cases are still pending. The District Court has consolidated all three cases and has set a trial for January 21, 2104. On January 3, 2013, the Company began selling its generic version of Lysteda<sup>®</sup>. The Company believes it has substantial meritorious defenses to the case. However, the Company has sold and is continuing to sell its generic version of Lysteda<sup>®</sup>. Therefore, an adverse final determination that one of the patents in suit is valid and infringed could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Oxymorphone Extended-Release Tablets (Generic version of Opana<sup>®</sup> ER)*. On December 11, 2012, Endo Pharmaceuticals Inc. sued the Company in the United States District Court for the Southern District of New York, alleging that sales of the Company's 7.5 mg and 15 mg oxymorphone extended-release tablets, generic versions of Endo's Opana<sup>®</sup> ER, infringe U.S. Patent Nos. 7,851,482; 8,309,122; and 8,329,216, which the USPTO recently issued or Endo recently acquired. The Company believes it has substantial meritorious defenses to the case. However, the Company has sold and is continuing to sell its generic versions of Opana<sup>®</sup> ER, 7.5 mg and 15 mg. Therefore, an adverse final determination that one of the patents in suit is valid and infringed could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Alendronate Litigation*. Beginning in 2010, a number of product liability suits were filed against the Company and certain Company affiliates, as well as other manufacturers and distributors of alendronate, for personal injuries including femur fractures and osteonecrosis of the jaw allegedly arising out of the use of alendronate. Approximately 380 cases are pending against the Company and/or its affiliates in various state and federal courts, representing claims by approximately 465 plaintiffs. These cases are generally at their preliminary stages. The Company believes that it will be defended in, and indemnified for, the majority of these claims by Merck & Co., the New Drug Application holder and manufacturer of the product sold by the Company during most of 2008. Several claims have also been asserted against Cobalt Laboratories, which the Company acquired in 2009 as part of its acquisition of the Arrow Group, in connection with Cobalt's manufacture and sale of alendronate. Eighteen of the cases naming the Company and/or Cobalt were consolidated for pre-trial proceedings as part of a multi-district litigation (MDL) matter pending in the United States District Court for the District of New Jersey (*In*

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*re: Fosamax (Alendronate Sodium) Products Liability Litigation, MDL No. 2243*). In 2012, the United States District Court for the District of New Jersey granted the Company's motion to dismiss all of the cases then pending against the Company in the New Jersey MDL matter. Several of the plaintiffs appealed the dismissal to the United States Court of Appeals for the Third Circuit and that appeal remains pending. Any cases filed against the Company in the District of New Jersey MDL after the Court's 2012 dismissal are subject to a case management order that calls for their dismissal unless plaintiffs can establish that their claims should be exempted from the 2012 dismissal order. To date, no plaintiff with a post-January 2012 complaint in the District of New Jersey against the Company has moved for such exemption. Several other cases are part of a similar MDL in the United States District Court for the Southern District of New York, where the Company has filed a similar motion to dismiss. That motion is pending. Seven additional cases are part of consolidated litigation in the California Superior Court (Orange County). Additional individual cases are pending in state court in Missouri. Approximately 350 cases are pending as part of a mass tort coordinated proceeding in the Superior Court of New Jersey, Atlantic County. In that state court proceeding, responsive pleadings and discovery have been suspended with respect to the Company pending the court's decision on a motion to dismiss, which the Company filed in March 2012. The Company believes that it has substantial meritorious defenses to these cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if our indemnification arrangements or insurance do not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Columbia Laboratories, Inc. Securities Litigation.* On June 8, 2012, the Company and certain of its officers were named as defendants in a consolidated amended class action complaint filed in the United States District Court for the District of New Jersey (In re: Columbia Laboratories, Inc. Securities Litigation, Case No. CV 12-614) by a putative class of Columbia Laboratories' stock purchasers. The amended complaint generally alleges that between December 6, 2010 and January 20, 2012, Watson and certain of its officers, as well as Columbia Laboratories and certain of its officers, made false and misleading statements regarding the likelihood of Columbia Laboratories obtaining FDA approval of Prochieve<sup>®</sup> progesterone gel, Columbia Laboratories' developmental drug for prevention of preterm birth. Watson licensed the rights to Prochieve<sup>®</sup> from Columbia Laboratories in July 2010. The amended complaint further alleges that the defendants failed to disclose material information concerning the statistical analysis of the clinical studies performed by Columbia Laboratories in connection with its pursuit of FDA approval of Prochieve<sup>®</sup>. The complaint seeks unspecified damages. On August 14, 2012, the defendants filed a motion to dismiss all of the claims in the amended complaint. The motion to dismiss remains pending. Watson believes the case is without merit and that it has substantial meritorious defenses, which it intends to vigorously pursue. Additionally, Watson maintains insurance to provide coverage for the claims alleged in the action. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. The action, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Ibandronate Tablets (Generic version of Boniva<sup>®</sup>).* On September 21, 2007, Hoffmann-La Roche Inc. sued Cobalt Laboratories, Inc. and Cobalt Pharmaceuticals Inc. (both of which were subsequently acquired by the Company in 2009) in the United States District Court for the District of New Jersey, alleging that sales of Ibandronate Tablets, a generic version of Hoffmann-La Roche's Boniva<sup>®</sup> tablets, would infringe U.S. Patent Nos. 4,927,814 (the '814 Patent); 6,294,196 (the '196 Patent); and 7,192,938 (the '938 Patent) (*Hoffmann-La Roche Inc. v. Cobalt Pharmaceuticals Inc., et. al., Case No. 07cv4540*). The complaint sought damages and injunctive relief. Thereafter, Hoffmann-La Roche asserted additional claims, alleging infringement of U.S. Patent Nos. 7,410,957 (the '957 Patent) and 7,718,634 (the '634 patent) against the Company, and the parties entered into stipulations to dismiss Hoffman-La Roche's claims related to the '196 and the '938 Patent. On August 24, 2010, the District Court granted Hoffmann-La Roche's motion for summary judgment that the Company would infringe at least one claim of the '814 patent. On March 17, 2012, the '814 patent expired, leaving the '957 and

**Table of Contents****ACTAVIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

634 patents as the only patents in suit. On May 7, 2012, the District Court granted the Company's motion for summary judgment that the claims of the 634 patent are invalid. On October 1, 2012, the District Court granted the Company's motion for summary judgment that the claims of the 957 patent are invalid. On January 25, 2013 the District Court denied Plaintiffs' motion for reconsideration of the summary judgment decisions finding the 634 patent and 957 patents invalid. The plaintiff has appealed. In June 2012, the Company began selling its generic version of Boniva<sup>®</sup>. The Company believes it has substantial meritorious defenses to the case. However, the Company has sold and is continuing to sell its generic version of Boniva<sup>®</sup>. Therefore, an adverse final appellate determination that one of the patents in suit is valid and infringed could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

*Generess<sup>®</sup> Fe* On November 22, 2011, Warner Chilcott Company sued Mylan Inc., Mylan Pharmaceuticals Inc. and Famy Care Ltd. in the United States District Court for the District of New Jersey, alleging that sales of norethindrone and ethinyl estradiol and ferrous fumarate tablets, a generic version of Warner Chilcott's Generes<sup>®</sup> Fe tablets (which is exclusively licensed by the Company), would infringe U.S. Patent No. 6,667,050 (the 050 patent) (*Warner Chilcott Company LLC v. Mylan Inc., et al., Case No. 11cv6844*). The complaint seeks injunctive relief. On December 12, 2011 Warner Chilcott sued Lupin Ltd. and Lupin Pharmaceuticals, Inc. in the United States District Court for the District of New Jersey, alleging that sales of Lupin's generic version of Generes<sup>®</sup> Fe would infringe the 050 patent. (*Warner Chilcott Company LLC v. Lupin Ltd., et al., Case No. 11cv7228*). The complaint seeks injunctive relief. Warner Chilcott's lawsuits against Mylan and Lupin have been consolidated and remain pending. Pursuant to the provisions of the Hatch-Waxman Act, the FDA is precluded from granting final approval to the generic applicants until the earlier of thirty months after the generic applicant provided Warner Chilcott with notice of its abbreviated new drug application filing or the generic applicant prevails in the pending litigation. The Company believes Warner Chilcott has meritorious claims to prevent the generic applicants from launching a generic version of Generes Fe. However, if a generic applicant prevails in the pending litigation or launches a generic version of Generes Fe before the pending litigation is finally resolved, it could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

*West Virginia Prescription Drug Abuse Litigation.* On June 26, 2012, the State of West Virginia filed a lawsuit against multiple distributors of prescription drugs, including Anda, Inc., a subsidiary of the Company (*State of West Virginia v. Amerisourcebergen Drug Corporation, et al., Boone County Circuit Court Civil Case No. 12-C-141*). The complaint generally alleges that the defendants distributed prescription drugs in West Virginia in violation of state statutes, regulation and common law. The complaint seeks injunctive relief and unspecified damages and penalties. The case is in its preliminary stages and the Company believes it has substantial meritorious defenses to the claims alleged. However, an adverse determination in the case could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

Watson and its affiliates are involved in various other disputes, governmental and/or regulatory inspections, inquires, investigations and proceedings that could result in litigation, and other litigation matters that arise from time to time. The process of resolving matters through litigation or other means is inherently uncertain and it is possible that an unfavorable resolution of these matters will adversely affect the Company, its results of operations, financial condition and cash flows.

**NOTE 19 Subsequent Events***Name and ticker symbol change*

On January 24, 2013, the Company changed its name from Watson Pharmaceuticals, Inc. to Actavis, Inc. Additionally, Watson Pharmaceuticals, Inc.'s common stock was traded on the New York Stock Exchange under the symbol WPI until close of trading on January 23, 2013, at which time it was changed to ticker symbol to ACT.

**Table of Contents**

**ACTAVIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Acquisition of Uteron Pharma SA***

On January 23, 2013, we completed the acquisition of Belgium-based Uteron Pharma SA for \$150.0 million in cash up front, and up to \$155.0 million in potential future milestone payments. As a result of the acquisition of Uteron, we have expanded our Actavis Specialty Brand pipeline of Women's Health products including two potential near term commercial opportunities in contraception and infertility, and one oral contraceptive, projected to launch globally in 2018. Several additional products in earlier stages of development are also included in the acquisition. Given the proximity of this acquisition, the initial accounting for the business combination was incomplete at the time the financial statements were issued.

F-62

**Table of Contents****Schedule II****Actavis, Inc.****Valuation and Qualifying Accounts****Years Ended December 31, 2012, 2011 and 2010****(in millions)**

	<b>Balance at beginning of period</b>	<b>Charged to costs and expenses</b>	<b>Deductions/ Write-offs</b>	<b>Other*</b>	<b>Balance at end of period</b>
<b>Allowance for doubtful accounts:</b>					
Year ended December 31, 2012	\$ 6.8	\$ 3.6	\$ (1.9)	\$ 39.4	\$ 47.9
Year ended December 31, 2011	\$ 12.5	\$ 2.3	\$ (8.3)	\$ 0.3	\$ 6.8
Year ended December 31, 2010	\$ 5.4	\$ 9.5	\$ (2.4)	\$	\$ 12.5
<b>Tax valuation allowance:</b>					
Year ended December 31, 2012	\$ 37.8	\$ 15.1	\$ 1.8	\$ 46.9	\$ 101.6
Year ended December 31, 2011	\$ 29.7	\$ 9.1	\$ (1.6)	\$ 0.6	\$ 37.8
Year ended December 31, 2010	\$ 28.4	\$ 7.3	\$ (6.0)	\$	\$ 29.7

\* Represents opening balances of businesses acquired in the period.

F-63



**Table of Contents****SUPPLEMENTARY DATA (UNAUDITED)**

Selected unaudited quarterly consolidated financial data and market price information are shown below (in millions except per share data):

	For Three Month Periods Ended			
	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Net revenues	\$ 1,750.2	\$ 1,285.2	\$ 1,355.2	\$ 1,524.3
Operating expenses	1,731.5	1,196.2	1,259.0	1,407.4
Operating income	18.7	89.0	96.2	116.9
Provision for income taxes	88.2	35.0	(18.7)	42.3
Net income attributable to common shareholders	\$ 28.0	\$ 76.7	\$ (62.2)	\$ 54.8
Basic earnings per share	\$ 0.22	\$ 0.61	\$ (0.49)	\$ 0.44
Diluted earnings per share	\$ 0.21	\$ 0.60	\$ (0.49)	\$ 0.43
Market price per share:				
High	\$ 91.47	\$ 86.07	\$ 77.73	\$ 67.50
Low	\$ 81.73	\$ 73.39	\$ 65.70	\$ 55.00

	For Three Month Periods Ended			
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011
Net revenues	\$ 1,544.6	\$ 1,081.6	\$ 1,081.7	\$ 876.5
Operating expenses	1,377.3	941.8	963.4	765.7
Operating income	167.3	139.8	118.3	110.8
Provision for income taxes	61.5	50.9	43.2	41.3
Net income attributable to common shareholders	\$ 94.8	\$ 68.1	\$ 52.7	\$ 45.3
Basic earnings per share	\$ 0.76	\$ 0.55	\$ 0.42	\$ 0.37
Diluted earnings per share	\$ 0.75	\$ 0.54	\$ 0.42	\$ 0.36
Market price per share:				
High	\$ 72.06	\$ 73.35	\$ 69.04	\$ 57.52
Low	\$ 59.50	\$ 58.84	\$ 56.13	\$ 50.47

**Table of Contents****EXHIBIT INDEX****Exhibit**

No.	Description
2.2	Share Purchase Agreement dated as of June 16, 2009, by and among Robin Hood Holdings Limited, Watson Pharmaceuticals, Inc., certain shareholders of Robin Hood Holdings Limited, and Anthony Selwyn Tabatznik, solely in his capacity as the Shareholders Representative, is incorporated by reference to Exhibit 2.1 to the Company's June 16, 2009 Form 8-K.
2.3	First Amendment to Share Purchase Agreement, dated as of November 26, 2009, by and among Robin Hood Holdings Limited, Arrow Pharmaceutical Holdings Ltd., Cobalt Laboratories, Inc., Arrow International Ltd., Arrow Supplies Ltd., Watson Pharmaceuticals, Inc., Watson Pharma S.À.R.L., Watson Cobalt Holdings, LLC, the shareholders of Robin Hood Holdings Limited, and Anthony Selwyn Tabatznik, solely in his capacity as Shareholders Representative, is incorporated by reference to Exhibit 2.2 to the Company's November 26, 2009 Form 8-K.
2.4	Share Purchase Agreement dated May 25, 2011 by and among Watson Pharmaceuticals, Inc. and each of the shareholders (together, the <u>Sellers</u> ) of Paomar PLC ( <u>Paomar</u> ), is incorporated by reference to Exhibit 2.4 to the Company's May 27, 2011 Form 8-K.
2.5	Share Purchase Agreement dated January 24, 2012 by and among Watson Pharmaceuticals, Inc., Strides Pharma Limited, I-Investments Pty Ltd, Strides Arcolab Limited, Ascent Pharmahealth Limited and Dennis Bastas is incorporated by reference to Exhibit 2.1 to the Company's January 26, 2012 Form 8-K.
2.6	Sale and Purchase Agreement dated as of April 25, 2012 by and among Nitrogen DS Limited, Landsbanki Islands hf., ALMC Eignarhaldsfélag ehf., ALMC hf., Argon Management S.à.r.l., the Managers party thereto, Deutsche Bank AG, London Branch, Actavis Acquisition Debt S.à.r.l., Watson Pharma S.à.r.l., and Watson Pharmaceuticals, Inc. is incorporated by reference to Exhibit 2.1 to the Company's April 30, 2012 Form 8-K.
2.7	Deed of Modification and Withdrawal from Escrow Accounts, dated as of October 31, 2012, to the Sale and Purchase Agreement dated April 25, 2012, by and among Nitrogen DS Limited, Landsbanki Islands hf., ALMC Eignarhaldsfélag ehf., ALMC hf., Argon Management S.à.r.l., the Managers party thereto, Deutsche Bank AG, London Branch, Actavis Acquisition Debt S.à.r.l., Watson Pharma S.à.r.l. and Watson Pharmaceuticals, Inc. is incorporated by reference to the Company's November 2, 2012 Form 8-K.
2.8	Stock Purchase Agreement, dated as of January 19, 2013, by and among Actavis, Inc., Watson Pharma Actavis S.a.r.l. and each of the shareholders of Uteron Pharma SA is incorporated by reference to the Company's January 25, 2013 Form 8-K.
2.9A	Articles of Merger of Actavis, Inc., a Nevada Corporation, into Watson Pharmaceuticals, Inc., a Nevada Corporation, filed with the Nevada Secretary of State on January 17, 2013.
2.9B	Certificate of Correction of the Articles of Merger of Actavis, Inc., a Nevada Corporation, into Watson Pharmaceuticals, Inc., a Nevada Corporation, filed on February 12, 2013.
3.1	Articles of Incorporation of the Company and all amendments thereto are incorporated by reference to Exhibit 3.1 to the Company's June 30, 1995 Form 10-Q and to Exhibit 3.1(A) to the Company's June 30, 1996 Form 10-Q.
3.2A	Second Amended and Restated Bylaws of Watson Pharmaceuticals, Inc. are incorporated by reference to Exhibit 3.1 to the Company's March 5, 2009 Form 8-K.
3.2B	Amended and Restated Articles of Incorporation of Watson Pharmaceuticals, Inc. are incorporated by reference to Appendix A to the Company's April 1, 2011 Form DEF 14A.

**Table of Contents**

3.2C	Amendment to the Second Amended and Restated Bylaws of the Company (the Bylaws ), are incorporated by reference to Exhibit 5.03 to the Company s January 16, 2012 Form 8-K.
3.2D	Amended and Restated Articles of Incorporation of Actavis, Inc.
3.2E	Amendment to the Second Amended and Restated Bylaws of the Company (the Bylaws ).
3.3	Certificate of Designations for Series A Preferred Stock is incorporated by reference to Exhibit 3.1 to the Company s November 26, 2009 Form 8-K.
4.1	Indenture between the Company and Wells Fargo Bank, N.A., as trustee, dated as of August 24, 2009, is incorporated by reference to Exhibit 4.1 to the Company s August 18, 2009 Form 8-K.
4.2	First Supplemental Indenture between the Company and Wells Fargo Bank, N.A., as trustee, dated as of August 24, 2009, including the forms of the Company s 5.000% Senior Notes due 2014 and 6.125% Senior Notes due 2019, is incorporated by reference to Exhibit 4.2 to the Company s August 18, 2009 Form 8-K.
4.3	Second Supplemental Indenture between the Company and Wells Fargo Bank, N.A., as trustee, dated as of May 7, 2010, is incorporated by reference to Exhibit 10. to the Company s March 31, 2010 10-Q.
4.4	Shareholders Agreement, dated as of December 2, 2009, by and among Watson Pharmaceuticals, Inc., Quiver Inc. and Friar Tuck Limited, is incorporated by reference to Exhibit 4.1 to the Company s November 26, 2009 Form 8-K.
4.5	Credit Agreement, dated September 16, 2011, by and among Watson Pharmaceuticals, Inc., Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, N.A., as Syndication Agent, and a syndicate of Lenders, is incorporated by reference to Exhibit 99.1 to the Company s September 19, 2011 Form 8-K.
4.6	Amendment No. 1 to Credit Agreement and Joinder Agreement by and among Watson Pharmaceuticals, Inc., Bank of America, N.A., as Administrative Agent, and the lenders party thereto, dated May 21, 2012 is incorporated by reference to Exhibit 10.1 to the Company s May 23, 2012 Form 8-K.
4.7	Term Loan Credit Agreement by and among Watson Pharmaceuticals, Inc., Bank of America, N.A., as Administrative Agent, and the lenders party thereto, dated June 22, 2012 is incorporated by reference to Exhibit 10.1 to the Company s June 26, 2012 Form 8-K.
4.8	Third Supplemental Indenture between the Company and Wells Fargo Bank, N. A., as trustee, dated as of October 2, 2012, including the forms of the Company s 1.875% Notes due 2017, 3.250% Notes due 2022 and 4.625% Notes due 2042, is incorporated by reference to Exhibit 4.2 to the Company s October 2, 2012 Form 8-K.
*10.2A	Amendment and Restatement of the 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc. is incorporated by reference to Exhibit 10.1 to the Company s June 30, 2005 Form 10-Q.
*10.2B	Second Amendment and Restatement of the 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc. is incorporated by reference to Exhibit 10.1 to the Company s March 31, 2007 Form 10-Q.
*10.2C	Third Amendment and Restatement of the 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc.
*10.2D	Fourth Amendment and Restatement of the 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc. are incorporated by reference to Appendix B to the Company s April 1, 2011 Form DEF 14A.

**Table of Contents**

*10.2E	Amendment to Fourth Amendment and Restatement of the 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc., is incorporated by reference to Exhibit 10.28 to the Company's September 30, 2012 Form 10-Q.
*10.3A	Key Employee Agreement entered into as of February 28, 2000, between David A. Buchen and the Company, is incorporated by reference to Exhibit 10.4 to the Company's 2000 Form 10-K.
*10.3B	Amendment to Key Employment Agreement entered into as of December 31, 2008, between David A. Buchen and the Company, is incorporated by reference to Exhibit 10.9 to the Company's 2008 Form 10-K.
*10.4A	2001 Incentive Award Plan Form of Notice of Grant and Signature Page for an Employee or a Consultant is incorporated by reference to Exhibit 10.15 to the Company's 2004 Form 10-K.
*10.4B	2001 Incentive Award Plan Form of Notice of Grant and Signature Page for a Director is incorporated by reference to Exhibit 10.16 to Exhibit 10.16 to the Company's 2004 Form 10-K.
*10.4C	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Non-Employee Director Restricted Stock Award is incorporated by reference to Exhibit 10.2 to the Company's June 30, 2005 Form 10-Q.
*10.4D	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Non-Employee Director Option Grant is incorporated by reference to Exhibit 10.3 to the Company's June 30, 2005 Form 10-Q.
*10.4E	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for an Employee Restricted Stock Award is incorporated by reference to Exhibit 10.4 to the Company's June 30, 2005 Form 10-Q.
*10.4F	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for an Employee Stock Option Award is incorporated by reference to Exhibit 10.5 to the Company's June 30, 2005 Form 10-Q.
*10.4G	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Vice-President and Above Stock Option Award is incorporated by reference to Exhibit 10.6 to the Company's June 30, 2005 Form 10-Q.
*10.4H	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Vice-President and Above Restricted Stock Award is incorporated by reference to Exhibit 10.22 to the Company's 2006 Form 10-K.
*10.4I	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Vice-President and Above Restricted Stock Units Award.
*10.4J	Form of Amendment and Restatement of the 2001 Incentive Award Plan Notice of Grant and Signature Page for a Vice-President and Above Restricted Stock Award.
*10.5A	Key Employee Agreement between Watson Pharmaceuticals, Inc. and Paul M. Bisaro, dated as of August 1, 2007, is incorporated by reference to Exhibit 10.2 to the Company's August 1, 2007 Form 8-K.
*10.5B	Amendment to Watson Pharmaceuticals, Inc. Key Employee Agreement entered into as of December 22, 2008 by and between Paul M. Bisaro and the Company is incorporated by reference to Exhibit 10.27 to the Company's 2008 Form 10-K.
*10.5C	Amended and Restated Key Employee Agreement between Watson Pharmaceuticals, Inc. and Paul M. Bisaro entered into as of November 12, 2012 is incorporated by reference to the Company's November 14, 2012 Form 8-K.

**Table of Contents**

*10.6A	Key Employee Agreement between Anda, Inc. and Al Paonessa III, dated as of August 2, 2007 is incorporated by reference to Exhibit 10.28 to the Company's 2007 Form 10-K.
*10.6B	Amendment to Key Employment Agreement entered into as of December 31, 2008, between Al Paonessa III and the Company is incorporated by reference to Exhibit 10.8 to the Company's 2008 Form 10-K.
*10.7	Key Employee Agreement entered into as of October 30, 2009 by and between R. Todd Joyce and the Company is incorporated by reference to Exhibit 10.1 to the Company's October 30, 2009 Form 8-K.
10.8A	Purchase and Collaboration Agreement, dated as of March 3, 2010, by and among Columbia Laboratories, Inc., Coventry Acquisition, Inc. and Watson Pharmaceuticals, Inc., is incorporated by reference to Exhibit 2.1 to the Company's March 5, 2010 Form 8-K.
10.8B	Letter agreement dated February 10, 2012 amending the Purchase and Collaboration Agreement, dated as of March 3, 2010, by and among Columbia Laboratories, Inc., Coventry Acquisition, Inc. and Watson Pharmaceuticals, Inc is incorporated by reference to Exhibit 10.23B to the Company's 2011 Form 10-K.
10.9	Consulting agreement between Arrow No. 7 Ltd., and Anthony Selwyn Tabatznik as of May 10, 2010, is incorporated by reference to Exhibit 10.1 to the Company's March 31, 2010 Form 10-Q.
10.10	U.S. Supply and Distribution Agreement dated April 18, 2008 by and between Cobalt Pharmaceuticals Inc., Cobalt Laboratories Inc. and Pfizer Inc., is incorporated by reference to Exhibit 10.25 to the Company's March 31, 2012 Form 10-Q.
10.11	Supply Agreement dated November 1, 2010 by and between Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Watson Laboratories, Inc., is incorporated by reference to Exhibit 10.26 to the Company's March 31, 2012 Form 10-Q.
10.12	Commitment Letter dated as of April 25, 2012, by and among Watson Pharmaceuticals, Inc., Bank of America, N.A., Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated is incorporated by reference to Exhibit 10.1 to the Company's April 30, 2012 Form 8-K.
10.13	Watson Pharmaceuticals, Inc. 2012 Annual Incentive Compensation Plan is incorporated by reference to the Company's March 30, 2012 Form DEF 14A.
12.1	Statement regarding the computation of the ratio of earnings to fixed charges is incorporated by reference to Exhibit 12.1 to the Company's August 17, 2009 Form S-3.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

\* Compensation Plan or Agreement Compensation Plan or Agreement

\*\* Furnished herewith and not filed for purposes of Section 18 of the Exchange Act.

Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.