INTERNATIONAL BUSINESS MACHINES CORP
Form 4
July 01, 2015

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
KAVANAUGH JAMES J

(Last) (First) (Middle)

IBM CORPORATION, ONE NEW ORCHARD ROAD

(Street)

ARMONK, NY 10504

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INTERNATIONAL BUSINESS MACHINES CORP [IBM]

3. Date of Earliest Transaction (Month/Day/Year)
06/30/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price of Derivative

Security (Instr. 3)	or Exercise Price of Derivative Security	any (Month/Day/Year)	Code (Instr. 8)	of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	(Month/Day/Year)	(Instr. 3 and 4)		Security (Instr. 5)
			Code V	(A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Phantom Stock Unit	$ 0 (1)	06/30/2015	A(2)	5	(3)	(3)	Common Stock	5	$ 162.66

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KAVANAUGH JAMES J IBM CORPORATION ONE NEW ORCHARD ROAD ARMONK, NY 10504			Senior Vice President	

Signatures

M. Clemens on behalf of J. J. Kavanaugh	07/01/2015
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Phantom stock units convert to the cash value of the company's common stock on a one-for-one basis.

(2) Acquisition of phantom stock units under the IBM Excess 401(k) Plus Plan.

(3) Distribution of phantom stock units under the IBM Excess 401(k) Plus Plan is deferred until separation from the company. The reporting person may transfer these phantom stock units into an alternative investment account under such plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n:right;font-size:10pt;">

Cost of revenues
—

333,084

53,349

(21,613
)

364,820

Selling, general and administrative
—

229,252

25,218

(16
)

254,454

Research and development
—

87,674

1,014

—

88,688

Asset impairment charges
—

40,000

—

—

40,000

Acquisition-related and integration items, net
—

3,355

394

—

3,749

OPERATING (LOSS) INCOME
$
—

$
(65,493
)

$
5,285

$
(870
)

$
(61,078
)
INTEREST EXPENSE, NET
11,348

35,532

16

—

46,896

NET LOSS ON EXTINGUISHMENT OF DEBT
5,426

—

—

—

5,426

OTHER EXPENSE (INCOME), NET
—

522

(62
)

(9
)

451

(LOSS) INCOME BEFORE INCOME TAX
$
(16,774
)

$
(101,547
)

$
5,331

$
(861
)

$
(113,851

)
INCOME TAX
(6,028
)

(32,972
)

7

(333
)

(39,326
)
EQUITY FROM LOSS IN SUBSIDIARIES
(76,599
)

(2,999
)

—

79,598

—

CONSOLIDATED NET (LOSS) INCOME
$
(87,345
)

$
(71,574
)

$
5,324

$
79,070

$
(74,525
)

Less: Net income attributable to noncontrolling interests	—	—	12,820	—	12,820		
NET LOSS ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	$ (87,345)	$ (71,574)	$ (7,496)	$ 79,070	$ (87,345)		

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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended March 31, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET INCOME	$ 15,349	$ 39,405	$ 10,026	$ (38,177)	$ 26,603
OTHER COMPREHENSIVE (LOSS) INCOME	(2,364)	817	(3,199)	2,382	(2,364)
CONSOLIDATED COMPREHENSIVE INCOME	$ 12,985	$ 40,222	$ 6,827	$ (35,795)	$ 24,239
Less: Comprehensive income attributable to noncontrolling interests	—	—	11,254	—	11,254
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	$ 12,985	$ 40,222	$ (4,427)	$ (35,795)	$ 12,985

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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
(In thousands)

	Three Months Ended March 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET (LOSS) INCOME	$(87,345)	$(71,574)	$ 5,324	$ 79,070	$ (74,525)
OTHER COMPREHENSIVE INCOME (LOSS)	2,242	(832)	3,202	(2,370)	2,242
CONSOLIDATED COMPREHENSIVE (LOSS) INCOME	$(85,103)	$(72,406)	$ 8,526	$ 76,700	$ (72,283)
Less: Comprehensive income attributable to noncontrolling interests	—	—	12,820	—	12,820
COMPREHENSIVE LOSS ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	$(85,103)	$(72,406)	$ (4,294)	$ 76,700	$ (85,103)

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Three Months Ended March 31, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash used in operating activities	$(3,316)	$(52,701)	$(2,730)	$—	$(58,747)
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	—	(20,935)	(3,021)	—	(23,956)
Proceeds from sale of property, plant and equipment	—	20	291	—	311
Acquisitions, net of cash acquired	—	—	(3,645)	—	(3,645)
Patent acquisition costs and license fees	—	(10,000)	—	—	(10,000)
Net cash used in investing activities	$—	$(30,915)	$(6,375)	$—	$(37,290)
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(39)	(50)	—	(89)
Direct financing arrangement repayments	—	(857)	—	—	(857)
Proceeds from other indebtedness	—	—	223	—	223
Principal payments on Term Loans	(100,000)	—	—	—	(100,000)
Deferred financing fees	(7,251)	—	—	—	(7,251)
Payment for contingent consideration	—	(5,000)	—	—	(5,000)
Tax benefits of stock awards	—	1,998	—	—	1,998
Exercise of Endo Health Solutions Inc. stock options	12,826	—	—	—	12,826
Issuance of common stock from treasury	1,557	—	—	—	1,557
Cash distributions to noncontrolling interests	—	—	(12,832)	—	(12,832)
Cash buy-out of noncontrolling interests, net of cash contributions	—	—	(1,525)	—	(1,525)
Intercompany activity	96,422	(113,246)	16,824	—	—
Net cash provided by (used in) financing activities	$3,554	$(117,144)	$2,640	$—	$(110,950)
Effect of foreign exchange rate	—	—	(412)	—	(412)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$238	$(200,760)	$(6,877)	$—	$(207,399)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	512	499,932	47,472	—	547,916
CASH AND CASH EQUIVALENTS, END OF PERIOD	$750	$299,172	$40,595	$—	$340,517

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Three Months Ended March 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities(1)	$1,398	$58,035	$(72,495)	$—	$(13,062)
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	—	(27,580)	(1,532)	—	(29,112)
Proceeds from sale of property, plant and equipment	—	—	191	—	191
Patent acquisition costs and license fees	—	(5,000)	—	—	(5,000)
Net cash used in investing activities	$—	$(32,580)	$(1,341)	$—	$(33,921)
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(127)	—	—	(127)
Principal payments on Term Loans	(219,063)	—	—	—	(219,063)
Principal payments on other indebtedness	—	—	(439)	—	(439)
Tax benefits of stock awards	—	3,521	—	—	3,521
Exercise of Endo Health Solutions Inc. stock options	9,543	—	—	—	9,543
Purchase of common stock	(33,000)	—	—	—	(33,000)
Issuance of common stock from treasury	1,412	—	—	—	1,412
Cash distributions to noncontrolling interests	—	—	(13,120)	—	(13,120)
Cash buy-out of noncontrolling interests, net of cash contributions	—	—	(849)	—	(849)
Intercompany activity(1)	232,438	(318,552)	86,114	—	—
Net cash (used in) provided by financing activities(1)	$(8,670)	$(315,158)	$71,706	$—	$(252,122)
Effect of foreign exchange rate	—	—	(212)	—	(212)
NET DECREASE IN CASH AND CASH EQUIVALENTS	$(7,272)	$(289,703)	$(2,342)	$—	$(299,317)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	48,318	455,756	43,546	—	547,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	$41,046	$166,053	$41,204	$—	$248,303

(1) Subsequent to the issuance of the first quarter 2012 financial statements, the Company determined that a revision was required to correct the classification of certain intercompany cash transfers among Endo Health Solutions Inc., referred to herein as the Parent, and Guarantor and Non-Guarantor Subsidiaries. The intercompany transfers for the three months ended March 31, 2012, which were previously included as a component of operating activities and are now being reclassified as a component of financing activities, included $232.4 million of net cash inflows received by the Parent, $318.5 million of net cash outflows paid by Guarantor Subsidiaries and $86.1 million of net cash inflows received by the Non-Guarantor Subsidiaries. In order to reclassify these transfers, adjustments have been made. The net effect of these adjustments was to include the impact of these intercompany cash transfers within financing activities. These adjustments had no effect on the consolidated Net cash used in operating activities or Net cash used in financing activities for the three months ended March 31, 2012 and the change did

not impact the Condensed Consolidating Balance Sheets or Condensed Consolidating Statements of Operations.

Explanation of Responses:

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations describes the principal factors affecting the results of operations, liquidity and capital resources and critical accounting estimates of Endo. This discussion should be read in conjunction with the accompanying quarterly unaudited Condensed Consolidated Financial Statements and our Annual Report on Form 10-K, for the year ended December 31, 2012 (Annual Report). Our Annual Report includes additional information about our significant accounting policies, practices and the transactions that underlie our financial results, as well as a detailed discussion of the most significant risks and uncertainties associated with our financial and operating results. Except for the historical information contained in this Report, including the following discussion, this Report contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” beginning on page i of this Report.

EXECUTIVE SUMMARY

During the first quarter of 2013, Rajiv De Silva was appointed as our new President and Chief Executive Officer. Mr. De Silva was also appointed to the Board of Directors effective March 18, 2013. With Mr. De Silva's arrival, the Company initiated an enterprise-wide business assessment of the Company's strategy, cost structure and operating model to develop a plan to accelerate both our short-term and long-term growth while focusing on further enhancing operating efficiency and effectiveness.

Also during the first quarter of 2013, we commenced Lidoderm® shipments to the wholesaler affiliate of Watson pursuant to the 2012 Watson Settlement Agreement. Total units shipped to Watson's wholesaler affiliate during the quarter were approximately 152,000.

On March 26, 2013, we amended and restated our existing credit agreement to extend its term by approximately two years and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our $500 million Revolving Credit Facility and our Term Loan A Facility to March 15, 2018. The 2013 Credit Agreement keeps in place the Company’s Term Loan B Facility which matures on June 17, 2018. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to $500 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

Also in April 2013, in a joint meeting of the Advisory Committee for Reproductive Health Drugs and the Drug Safety and Risk Management Advisory Committee, panelists voted on whether Aveed™ is safe as a treatment for male hypogonadism. The results of this vote were split 9 - 9. Panelists also voted on whether the proposed instructions for use in Aveed™'s product labeling are sufficient to ameliorate the risk of severe post-injection reactions. The results of this vote were 17 against, 1 in favor. The FDA is not required to follow advisory committee recommendations. The Prescription Drug User Fee Act (PDUFA) date related to our New Drug Application (NDA) for Aveed™ is set for late May 2013.

RESULTS OF OPERATIONS

Our quarterly results have fluctuated in the past, and may continue to fluctuate. These fluctuations are primarily due to (1) the timing of mergers, acquisitions and other business development activity, (2) the timing of new product launches, (3) purchasing patterns of our customers, (4) market acceptance of our products, (5) the impact of competitive products and products we recently acquired and (6) pricing. These fluctuations are also attributable to charges incurred for compensation related to stock compensation, amortization of intangible assets, asset impairment charges and certain upfront, milestone and other payments made or accrued pursuant to acquisition or licensing agreements.

Consolidated Results Review

Revenues. Revenues for the three months ended March 31, 2013 increased 3% to $708.5 million from $690.6 million in the comparable 2012 period. This increase in revenues was driven by revenue growth from our Qualitest segment, partially offset by revenue decreases at our Endo Pharmaceuticals, AMS and HealthTronics segments.

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The following table displays our revenues by category and as a percentage of total revenues for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,			
	2013		2012	
	$	%	$	%
Lidoderm®	$187,024	26	$210,014	30
Opana® ER	56,327	8	81,086	12
Voltaren® Gel	36,110	5	—	—
Percocet®	26,618	4	23,380	3
Frova®	13,777	2	15,644	2
Supprelin® LA	13,426	2	13,446	2
Other brands	24,307	3	20,004	3
Total Endo Pharmaceuticals*	$357,589	50	$363,574	53
Qualitest	178,253	25	145,345	21
AMS	122,652	17	130,166	19
HealthTronics	50,025	7	51,548	7
Total revenues*	$708,519	100	$690,633	100

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*Percentages may not add due to rounding.

Lidoderm®. Net sales of Lidoderm® for the three months ended March 31, 2013 decreased 11% to $187.0 million from $210.0 million in the comparable 2012 period. This decrease was mainly attributable to the 2013 commencement of Lidoderm® shipments at zero cost to Watson's wholesaler affiliate under the terms of the Watson Settlement Agreement. In addition, pursuant to the Watson Settlement Agreement, we expect Actavis to launch its lidocaine patch 5%, a generic version of Lidoderm®, on September 15, 2013, negatively impacting future net sales of Lidoderm®.

Opana® ER. Net Sales of Opana® ER for the three months ended March 31, 2013 decreased 31% to $56.3 million from $81.1 million in the comparable 2012 period. In the first half of 2012, after our first quarter supply disruption associated with the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, we transitioned to our formulation of Opana® ER, that is designed to be crush-resistant. While we believe our ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. In addition, Impax launched a generic version of the non-crush resistant formulation Opana® ER on January 2, 2013, negatively impacting first quarter sales. Impax's generic may continue to negatively impact sales in future periods; however, the extent to which our revenues will be affected in future periods is subject to a number of uncertainties including the FDA's determination regarding whether the original formulation of Opana® ER was withdrawn for safety reasons, which we expect will be decided in May 2013, as well as certain other FDA actions that could impact the ability of both branded and generic competition for Opana® ER to enter the market.

In April 2013, the FDA announced that it had determined that the original OxyContin® extended-release tablets marketed by a competitor, which were withdrawn from the market in August 2010 upon the launch of the reformulated OxyContin®, were withdrawn for reasons of safety or effectiveness. The FDA further stated that it would not accept or approve any ANDAs that rely upon the approval of original OxyContin®, precluding the pending generic OxyContin® applicants to come to market. While uncertainty remains with respect to how the FDA will respond to our August 13, 2012 Citizen Petition on Opana® ER, we believe our situation shares many similarities to the original OxyContin®. However, there can be no assurance that a similar determination will be made for Opana® ER. The FDA is expected to respond to this Citizen Petition on May 10, 2013.

Voltaren® Gel. Net Sales of Voltaren® Gel for the three months ended March 31, 2013 totaled $36.1 million. We had no sales of Voltaren® Gel in the comparable 2012 period due to temporary supply constraints resulting from the

shutdown of Novartis's Lincoln, Nebraska manufacturing facility. Subject to FDA approval, we believe one or more competing products could potentially enter the market during the second quarter of 2014, negatively impacting future sales of Voltaren® Gel.

Percocet®. Net sales of Percocet® for the three months ended March 31, 2013 increased 14% to $26.6 million from $23.4 million in the comparable 2012 period. This increase was primarily attributable to price increases, partially offset by reduced volumes.

Frova®. Net sales of Frova® for the three months ended March 31, 2013 decreased 12% to $13.8 million from $15.6 million in the comparable 2012 period. This decrease was primarily attributable to reduced volumes, partially offset by price increases.

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Supprelin® LA. Net sales of Supprelin® LA for the three months ended March 31, 2013 were consistent with the comparable 2012 period.

Other brands. Net sales of our other branded products for the three months ended March 31, 2013 increased 22% to $24.3 million from $20.0 million in the comparable 2012 period. This increase was primarily attributable to sales growth of Fortesta® Gel.

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

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,			
	2013		2012	
	$	% of Revenues	$	% of Revenues
Cost of revenues	$285,926	40	$364,820	53
Selling, general and administrative	236,382	33	254,454	37
Research and development	41,569	6	88,688	13
Litigation-related and other contingencies	68,232	10	—	—
Asset impairment charges	1,100	—	40,000	6
Acquisition-related and integration items, net	1,318	—	3,749	1
Total costs and expenses*	$634,527	90	$751,711	109

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*Percentages may not add due to rounding.

Cost of Revenues and Gross Margin. Cost of revenues for the three months ended March 31, 2013 decreased 22% to $285.9 million from $364.8 million in the comparable 2012 period. This decrease was primarily driven by the inclusion in the first quarter of 2012 of a $110.0 million charge related to our Impax Settlement Agreement. This decrease was partially offset by an increase in cost of revenues at Qualitest due to increased demand. Gross profit margins increased to 60% for the three months ended March 31, 2013 compared to 47% in the comparable 2012 period. This increase in gross profit was primarily due to the impact of the previously described charge related to the Impax Settlement Agreement, partially offset by changes in the mix of revenues and the corresponding margins.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended March 31, 2013 decreased 7% to $236.4 million from $254.5 million in the comparable 2012 period. This decrease was primarily driven by the results of ongoing, company-wide efforts to reduce costs. Cost reductions included Endo Pharmaceuticals' legal expense of approximately $6.0 million and salaries and wages expense of approximately $3.1 million. In addition, AMS severance expense decreased by $9.9 million compared to the prior year.

Research and Development Expenses. Research and development expenses for the three months ended March 31, 2013 decreased 53% to $41.6 million from $88.7 million in the comparable 2012 period. This decrease was primarily driven by a decline in expenses related to milestones in the current year quarter. In January 2012, the Company signed a worldwide license and development agreement (the BioDelivery Agreement) with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. BEMA® Buprenorphine is currently in Phase III trials for the treatment of moderate to severe chronic pain. The Company made an upfront payment to BioDelivery for $30.0 million and incurred $15.0 million of additional costs related to the achievement of certain regulatory milestones during the first quarter of 2012, which were recorded as Research and development expenses.

Litigation-Related and Other Contingencies. Charges for Litigation-related and other contingencies for the three months ended March 31, 2013 totaled $68.2 million with no comparable charges in the comparable 2012 period. The amount for the three months ended March 31, 2013 relates to charges associated with certain of our legal proceedings

and other contingent matters as described in more detail in Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.
Asset Impairment Charges. Asset impairment charges were not material to the Condensed Consolidated Financial Statements during the three months ended March 31, 2013. Asset impairment charges for the three months ended March 31, 2012 relate primarily to impairments of intangible assets, including a $40.0 million charge to write down our Sanctura XR® intangible asset. Further discussion of intangible asset impairment charges is included in Note 8. Goodwill and Other Intangibles of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

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Acquisition-Related and Integration Items, net. Acquisition-related and integration items, net totaled $1.3 million in expense for the three months ended March 31, 2013 compared to $3.7 million in expense in the comparable 2012 period. The decrease is primarily due to lower integration costs on our recent acquisitions.

Interest Expense, net. The components of interest expense, net for the three months ended March 31, 2013 and 2012 are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Interest expense	$44,390	$47,008
Interest income	(87)	(112)
Interest expense, net	$44,303	$46,896

Interest expense for the three months ended March 31, 2013 totaled $44.4 million compared to $47.0 million in the comparable 2012 period. This decrease was primarily attributable to a decrease in our average total indebtedness from $3.4 billion during the three months ended March 31, 2012 to $3.1 billion during the three months ended March 31, 2013.

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

On March 26, 2013, we made an additional prepayment of $100.0 million on our Term Loan B Facility. Approximately $2.2 million of the remaining unamortized financing costs was written off in connection with this prepayment.

Also, in March 2013, we amended and restated our Credit Agreement. Upon the closing of 2013 Credit Agreement, related debt issuance costs of $0.5 million and previously deferred debt issuance costs of $8.6 million associated with the 2011 Credit Agreement were charged to expense.

Other (Income) Expense, Net. Other (income) expense, net for the three months ended March 31, 2013 was $18.2 million of income compared to $0.5 million of expense in the comparable 2012 period. Approximately $19.2 million of the income during the three months ended March 31, 2013 was Watson litigation settlement income, net related to the Watson Settlement Agreement. For a complete description of the accounting for the Watson Settlement Agreement, see Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Income Tax. During the three months ended March 31, 2013, we recognized $9.9 million of income tax expense compared to a benefit of $39.3 million in the comparable 2012 period. The effective income tax rate was 27.2% during the three months ended March 31, 2013 compared to 34.5% in the comparable 2012 period. The decrease in the effective tax rate is largely driven by the reinstatement of the research and development tax credit effective January 2013, which resulted in recording a benefit for the estimated 2013 credit as well as the recording of the credit for 2012 in the three-month period ending March 31, 2013. Also contributing to the decrease in the effective tax rate is a reduction in the state tax rate due to law changes and the impact of a current period foreign rate differential for certain of our foreign operations, which had a favorable impact during the three months ended March 31, 2013 compared to an unfavorable impact during the comparable 2012 period. These decreases were partially offset by the impact of certain excess golden parachute payments. During the three months ended March 31, 2012, the effective tax rate benefited from the favorable impact of certain excess golden parachute payments. This benefit did not reoccur during the three months ended March 31, 2013.

Net Income Attributable to Noncontrolling Interests. As a result of our July 2010 acquisition of HealthTronics, Inc., we own interests in various partnerships and limited liability corporations (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interest totaled $11.3 million in during the three months ended March 31, 2013 and $12.8 million in the comparable 2012 period.

2013 Outlook. We estimate that our 2013 total revenues will be between $2.80 billion and $2.95 billion. This estimate is based on our expectation of growth in Qualitest and AMS offset by a decrease in Endo Pharmaceuticals revenues resulting from the entry of a single generic competitor to Lidoderm®, and by erosion in market share for Opana® ER due to competition from a single, non-AB-rated generic. Cost of revenues as a percent of total revenues is expected to increase when compared to 2012 as a result of the simultaneous growth in lower margin generic pharmaceutical product sales and decline in higher margin branded pharmaceutical sales in 2013. Selling, general and administrative expenses as a percentage of revenues are expected to decline in 2013 relative to 2012 reflecting continuing efficiency improvement efforts and the annualization of the effects of cost reductions initiated in 2012. Research

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and development expenses, excluding upfront and milestone payments, are expected to decrease as we streamline and integrate the R&D functions of our subsidiaries and focus our efforts on key products in development. There can be no assurance that the Company will achieve these results.

Business Segment Results Review

The Company has four reportable segments: (1) Endo Pharmaceuticals, (2) Qualitest, (3) AMS and (4) HealthTronics. These segments reflect the level at which executive management regularly reviews financial information to assess performance and to make decisions about resources to be allocated. Each segment derives revenue from the sales or licensing of their respective products or services and is discussed in more detail below.

We evaluate segment performance based on each segment's adjusted income before income tax, a financial measure not determined in accordance with GAAP. We define adjusted income before income tax as income (loss) before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income before income tax by adding the adjusted income before income tax of each of our reportable segments to Corporate unallocated adjusted income before income tax.

We refer to adjusted income before income tax in making operating decisions because we believe it provides meaningful supplemental information regarding the Company's operational performance. For instance, we believe that this measure facilitates its internal comparisons to its historical operating results and comparisons to competitors' results. The Company believes this measure is useful to investors in allowing for greater transparency related to supplemental information used by us in our financial and operational decision-making. In addition, we have historically reported similar financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting at this time. Further, we believe that adjusted income before income tax may be useful to investors as we are aware that certain of our significant stockholders utilize adjusted income before income tax to evaluate our financial performance. Finally, adjusted income before income tax is utilized in the calculation of adjusted diluted net income per share, which is used by the Compensation Committee of Endo's Board of Directors in assessing the performance and compensation of substantially all of our employees, including our executive officers.

There are limitations to using financial measures such as adjusted income before income tax. Other companies in our industry may define adjusted income before income tax differently than we do. As a result, it may be difficult to use adjusted income before income tax or similarly named adjusted financial measures that other companies may use to compare the performance of those companies to our performance. Because of these limitations, adjusted income before income tax should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. The Company compensates for these limitations by providing reconciliations of our consolidated adjusted income before income tax to our consolidated income before income tax, which is determined in accordance with U.S. GAAP and included in our Condensed Consolidated Statements of Operations.

Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm®, Opana® ER, Voltaren® Gel, Percocet®, Frova®, Supprelin® LA, Vantas®, Valstar® and Fortesta® Gel.

Qualitest

The Qualitest segment is composed of our legacy Endo non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. The Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. With the addition of Qualitest Pharmaceuticals, the segment's

product offerings now include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

AMS

The AMS segment currently focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and benign prostatic hyperplasia (BPH) therapy. We distribute devices through our direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, we distribute devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of our AMS customers or distributors accounted for ten percent or

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more of our total revenues during the three months ended March 31, 2013 or 2012. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

HealthTronics

The HealthTronics segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are sold through the following business lines: lithotripsy services, prostate treatment services, anatomical pathology services, medical products manufacturing, sales and maintenance and electronic medical records services.

Revenues. The following table displays our revenue by reportable segment for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net revenues to external customers:		
Endo Pharmaceuticals	$357,589	$363,574
Qualitest	178,253	145,345
AMS(1)	122,652	130,166
HealthTronics	50,025	51,548
Total consolidated net revenues to external customers	$708,519	$690,633

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	Three Months Ended March 31,	
	2013	2012
AMS:		
United States	$78,367	$86,970
International	44,285	43,196
Total AMS revenues	$122,652	$130,166

Endo Pharmaceuticals. Revenues from our Endo Pharmaceuticals segment for the three months ended March 31, 2013 decreased 2% to $357.6 million from $363.6 million in the comparable 2012 period. This decrease was primarily driven by decreased revenues from Lidoderm® and Opana® ER, partially offset by an increase in Voltaren® Gel.

Qualitest. Net sales of our generic products for the three months ended March 31, 2013 increased 23% to $178.3 million from $145.3 million in the comparable 2012 period. This increase was primarily driven by strong demand for Qualitest's diversified product portfolio. During the three months ended March 31, 2013, revenues from Qualitest's top 15 products increased 7% to $100.0 million from $93.5 million in the comparable 2012 period.

AMS. Revenues from our AMS segment for the three months ended March 31, 2013 decreased 6% to $122.7 million from $130.2 million in the comparable 2012 period. This decrease was primarily driven by lower sales in the women's health line, which relates primarily to a reduction in mesh procedural volumes, particularly as to pelvic organ prolapse (POP) repair procedures. This reduction in mesh procedural volumes may be in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and stress urinary incontinence (SUI), as well as to the attorney advertising associated with transvaginal mesh litigation.

HealthTronics. Revenues from our HealthTronics segment for the three months ended March 31, 2013 decreased 3% to $50.0 million from $51.5 million in the comparable 2012 period. This decrease was primarily driven by lower treatment volumes in the lithotripsy services and lower sales volumes in the medical products manufacturing business lines, partially offset by increased treatment volumes in the anatomical pathology services business line.

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Adjusted income before income tax. The following table displays our adjusted income before income tax by reportable segment for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Adjusted income before income tax:		
Endo Pharmaceuticals	$174,407	$178,826
Qualitest	47,112	36,251
AMS	31,644	27,052
HealthTronics	10,289	12,408
Corporate unallocated	(84,498)	(92,160)
Total consolidated adjusted income before income tax	$178,954	$162,377

Endo Pharmaceuticals. Adjusted income before income tax for the three months ended March 31, 2013 decreased 2% to $174.4 million from $178.8 million in the comparable 2012 period. This decrease was primarily driven by decreased revenues, partially offset by decreased operating expenses associated with our ongoing efforts to improve our operating efficiency.

Qualitest. Adjusted income before income tax for the three months ended March 31, 2013 increased 30% to $47.1 million from $36.3 million in the comparable 2012 period. This increase was primarily driven by the continued revenue growth.

AMS. Adjusted income before income tax for the three months ended March 31, 2013 increased 17% to $31.6 million from $27.1 million in the comparable 2012 period. This increase was primarily driven by decreased operating expenses, including research and development expenses, partially offset by decreased revenues.

HealthTronics. Adjusted income before income tax for the three months ended March 31, 2013 decreased 17% to $10.3 million from $12.4 million in the comparable 2012 period. This decrease was primarily driven by a decrease in revenues.

Corporate unallocated. Corporate unallocated adjusted loss before income tax for the three months ended March 31, 2013 decreased 8% to $84.5 million from $92.2 million in the comparable 2012 period. This decrease was primarily driven by decreased general and administrative expenses associated with our ongoing efforts to improve our operating efficiency and the previously discussed decrease in interest expense.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income before income tax to our consolidated income (loss) before income tax, which is determined in accordance with U.S. GAAP, for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Total consolidated adjusted income before income tax:	$178,954	$162,377
Upfront and milestone payments to partners	(2,574)	(45,841)
Asset impairment charges	(1,100)	(40,000)
Acquisition-related and integration items, net(1)	(1,318)	(3,749)
Separation benefits and other cost reduction initiatives(2)	(14,404)	(11,614)
Amortization of intangible assets	(48,946)	(53,360)
Inventory step-up	—	(1,262)
Non-cash interest expense	(5,450)	(4,976)
Net loss on extinguishment of debt	(11,312)	(5,426)
Watson litigation settlement income, net	19,227	—
Accrual for payment to Impax Laboratories Inc. related to sales of Opana® ER	—	(110,000)
Certain litigation-related charges(3)	(76,532)	—
Total consolidated income (loss) before income tax	$36,545	$(113,851)

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(1) Included within this line are transaction costs directly associated with the closing of certain immaterial acquisitions, changes in the fair value of contingent consideration and the costs of integration activities related to both current and prior period acquisitions.

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(2) Separation benefits and other cost reduction initiatives include employee separation costs of $1.5 million and $11.2 million for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, approximately $13.3 million of employee separation costs are included in Accrued expenses on the Condensed Consolidated Balance Sheets. Approximately $6.6 million was paid during the three months ended March 31, 2013 and the majority of the balance is expected to be paid over the remainder of 2013. Additionally, Separation benefits and other cost reduction initiatives includes an expense recorded upon the cease use date of our Chadds Ford, Pennsylvania properties in the first quarter of 2013, representing a liability for our remaining obligations under the respective lease agreements of $7.2 million. The expense was recorded as Selling, general and administrative expense in our Condensed Consolidated Statements of Operations.

(3) Included within this amount for the three months ended March 31, 2013 are charges for Litigation-related and other contingencies, consisting primarily of mesh-related product liability charges, as well as mesh litigation-related defense costs.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is cash generated from operations. Our principal liquidity requirements are for working capital for operations, licenses, milestone payments, capital expenditures and debt service payments. The Company continues to maintain a sufficient level of working capital, which was approximately $376.8 million at March 31, 2013 compared to $241.2 million at December 31, 2012. In addition, we have historically had broad access to financial markets that provide liquidity. Cash and cash equivalents, which primarily consisted of bank deposits, time deposits and/or money market accounts, totaled approximately $340.5 million at March 31, 2013 compared to $547.9 million at December 31, 2012.

In 2013, we expect that sales of our current portfolio of products and services will allow us to continue to generate positive cash flow from operations. We expect cash generated from operations together with our cash and cash equivalents to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due.

We depend on patents or other forms of intellectual property protection for most of our branded pharmaceutical revenues, cash flows and earnings. In recent years, various generic manufacturers have filed ANDAs seeking FDA approval for generic versions of certain of the Company's key pharmaceutical products, including but not limited to Lidoderm® and both the original and crush-resistant formulations of Opana® ER. In connection with such filings, these manufacturers have challenged the validity and/or enforceability of one or more of the underlying patents protecting our products. If ultimately successful in these patent challenges and in obtaining FDA approval of these generic products, the impact of generic competition could cause a rapid decline in revenue from the affected products and have a material adverse effect on our liquidity and financial position. However, the extent to which our revenues will be affected in future periods is subject to a number of uncertainties. Our goal is to mitigate the effect of these competitive activities by leveraging growth across the remainder of our portfolio and by acquiring and in-licensing additional products, product rights or technologies. Additionally, the Company has recently initiated an enterprise-wide business assessment of the Company's strategy, financials and operating model to develop a plan to return the Company to both short-term and long-term growth while focusing on operating efficiency and effectiveness.

Beyond 2013, we expect cash generated from operations together with our cash, cash equivalents and marketable securities to continue to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due. At this time, we cannot accurately predict the effect of certain developments on the rate of sales growth, such as the degree of market acceptance, patent protection and exclusivity of our products, the impact of competition, the effectiveness of our sales and marketing efforts and the outcome of our current efforts to develop, receive approval for and successfully launch our near-term product candidates. Any of the above could adversely affect our future cash flows. We may need to obtain additional funding for future strategic transactions, to repay our outstanding indebtedness, or for our future operational needs, and we cannot be certain that funding will be available on terms

acceptable to us, or at all.

We may also elect to incur additional debt or issue equity or convertible securities to finance ongoing operations, acquisitions or to meet our other liquidity needs. Any issuances of equity securities or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact net income per share in future periods. An acquisition may be accretive or dilutive and, by its nature, involves numerous risks and uncertainties.

On March 26, 2013, we entered into an amendment and restatement agreement, pursuant to which we amended and restated our existing credit agreement to extend its term and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our $500 million Revolving Credit Facility and our Term Loan A Facility which, at the time of the amendment and restatement, had a remaining principal balance of $1,387.5 million, to March 15, 2018. The 2013 Credit Agreement provides the Company with greater flexibility under certain of its affirmative and negative covenants, including, without limitation, the designation of unrestricted subsidiaries, capital expenditures, asset sales, indebtedness and restricted payments. Under the 2013 Credit Agreement, the Company is required to maintain a leverage

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ratio (as the definition of such ratio has been modified in the 2013 Credit Agreement) of no greater than 3.75 to 1.00, which provides the Company with greater financial and operating flexibility than the prior credit agreement. The 2013 Credit Agreement continues to require the Company to maintain a minimum interest coverage ratio of 3.50 to 1.00. The 2013 Credit Agreement keeps in place the Company’s Term Loan B Facility which matures on June 17, 2018 and, at the time of the amendment and restatement, had a remaining principal balance of $60.6 million. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to $500 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

The obligations of the Company under our credit facility continue to be guaranteed by certain of the Company’s domestic subsidiaries (the Subsidiary Guarantors) and continue to be secured by substantially all of the assets of the Company and the Subsidiary Guarantors, subject to certain exceptions. The 2013 Credit Agreement contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company’s affiliates.

As set forth in the 2013 Credit Agreement, borrowings under our credit facility will continue to bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company’s leverage ratio, as defined in the 2013 Credit Agreement. For the Term Loan A Facility and Revolving Credit Facility, the Company may elect to pay interest based on an adjusted London Inter-Bank Offer Rate (LIBOR) plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2013 Credit Agreement) plus between 0.75% and 1.50%. For the Term Loan B Facility, the Company may elect to pay interest based on an adjusted LIBOR plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

At March 31, 2013, the Company's indebtedness also includes senior notes with aggregate principal amounts totaling $1.3 billion. These notes mature between 2019 and 2022, subject to earlier repurchase or redemption in accordance with the terms of the respective indentures. Interest rates on these notes range from 7.00% to 7.25%. These notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company’s domestic subsidiaries.

At March 31, 2013, the Company's indebtedness also includes convertible notes with an aggregate principal amount totaling $379.5 million. These notes mature in 2015, subject to earlier conversion. Holders of these convertible notes may convert their notes based on a conversion rate of 34.2466 shares of our common stock per $1,000 principal amount of notes (the equivalent of $29.20 per share), subject to adjustment upon certain events, only under the following circumstances as described in the indenture for these convertible notes: (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of these convertible notes is below a specified threshold; (3) at any time after October 15, 2014; or (4) upon the occurrence of certain corporate transactions. We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the notes. It is our current intention to settle the principal amount of any conversion consideration in cash.

These convertible notes are only included in the dilutive net income per share calculation using the treasury stock method during periods in which the average market price of our common stock was above the applicable conversion price of $29.20 per share. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the convertible notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that

could potentially be included if the warrants were exercised is approximately 13.0 million.

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The following table provides the range of shares that would be included in the dilutive net income per share calculation for the convertible notes and warrants based on share price sensitivity (in thousands except per share data):

	Three Months Ended March 31, 2013			
	-5%	Actual	+5%	+10%
Average market price of Endo common stock:	$27.79	$29.25	$30.71	$32.18
Impact on dilutive shares:				
Convertible notes	—	21	639	1,204
Warrants	—	—	—	—
	—	21 (1)	639	1,204

(1) Amount included in total diluted shares outstanding of 113.2 million for the three month period ended March 31, 2013.

Share Repurchase Programs. Pursuant to our share repurchase programs, we did not purchase any shares of our common stock during the three months ended March 31, 2013. We purchased approximately 0.9 million shares of our common stock during the three months ended March 31, 2012 totaling $33.0 million.

Working Capital. The components of our working capital and our current ratio at March 31, 2013 and December 31, 2012 are below (in thousands):

	March 31, 2013	December 31, 2012
Total current assets	$1,799,019	$1,969,234
Less: total current liabilities	(1,422,183)	(1,728,020)
Working capital	$376,836	$241,214
Current ratio	1.3:1	1.1:1

Working capital increased by $135.6 million from December 31, 2012 to March 31, 2013 primarily due to Net cash provided by operating activities, excluding changes in assets and liabilities, of $140.7 million. Additionally, approximately $61.9 million of indebtedness was reclassified from a current liability to a non-current liability as a result of the March 2013 amendment and restatement of our credit facility and the current portion of our product liability accrual decreased by approximately $37.5 million, representing the net impact of reclassifications to a non-current liability offset by new accruals. These items were partially offset by the first quarter 2013 prepayment of $100.0 million on indebtedness which had been classified as a non-current liability.

The following table summarizes our Condensed Consolidated Statements of Cash Flows and liquidity for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,	
	2013	2012
Net cash flow provided by (used in):		
Operating activities	$(58,747)	$(13,062)
Investing activities	(37,290)	(33,921)
Financing activities	(110,950)	(252,122)
Effect of foreign exchange rate	(412)	(212)
Net decrease in cash and cash equivalents	$(207,399)	$(299,317)
Cash and cash equivalents, beginning of period	$547,916	$547,620
Cash and cash equivalents, end of period	$340,517	$248,303
Days sales outstanding	47	45

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Net cash used in operating activities. Net cash used in operating activities was $58.7 million for the three months ended March 31, 2013 compared to $13.1 million used in operating activities in the comparable 2012 period. Significant components of our operating cash flows for the three months ended March 31, 2013 and 2012 are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cash Flow Data-Operating Activities:		
Consolidated net income (loss)	$26,603	$(74,525)
Depreciation and amortization	66,819	66,957
Stock-based compensation	15,331	14,518
Amortization of debt issuance costs and premium / discount	9,776	7,868
Deferred income taxes	8,644	(24,461)
Net loss on extinguishment of debt	11,312	5,426
Asset impairment charges	1,100	40,000
Changes in assets and liabilities which provided (used) cash	(199,398)	(48,862)
Other, net	1,066	17
Net cash used in operating activities	$(58,747)	$(13,062)

Net cash used in operating activities represents the cash receipts and cash disbursements from all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting our Consolidated net income (loss) for non-cash operating items, gains and losses attributed to investing and financing activities and changes in operating assets and liabilities resulting from timing differences between the receipts and payments of cash and when the transactions are recognized in our results of operations. As a result, changes in cash from operating activities reflect, among other things, the timing of cash collections from customers, payments to suppliers, managed care organizations and government agencies, collaborative partners, employees, and tax payments in the ordinary course of business.

The $45.7 million fluctuation in Net cash used in operating activities for the three months ended March 31, 2013 compared to the comparable 2012 period was primarily the result of the timing of cash collections and cash payments, including the first annual royalty payment to Teikoku in the amount of approximately $56 million and payments to settle pricing litigation cases of approximately $29 million. These decreases were partially offset by an increase as a result of improved operating performance.

Net cash used in investing activities. Net cash used in investing activities was $37.3 million for the three months ended March 31, 2013 compared to $33.9 million used in investing activities in the comparable 2012 period. This $3.4 million fluctuation relates primarily to an increase in patent acquisition costs of $5.0 million and an increase in net cash used for acquisitions of $3.6 million, partially offset by a reduction in purchases of property, plant and equipment of $5.2 million.

Net cash used in financing activities. Net cash used in financing activities was $111.0 million for the three months ended March 31, 2013 compared to $252.1 million used in financing activities in the comparable 2012 period. This $141.2 million fluctuation relates primarily to a reduction in principal payments on term loan indebtedness totaling $119.1 million and a reduction in cash used to repurchase stock of $33.0 million, partially offset by an increase in cash paid for deferred financing fees of $7.3 million and an increase in cash paid for contingent consideration of $5.0 million.

Research and Development. Over the past few years, we have incurred significant expenditures related to conducting clinical studies to develop new products and exploring the value of our existing products in treating disorders beyond those currently approved in their respective labels. We may seek to mitigate the risk in, and expense of, our research and development programs by entering into collaborative arrangements with third parties. However, we intend to retain a portion of the commercial rights to these programs and, as a result, we still expect to spend significant funds on our share of the cost of these programs, including the costs of research, preclinical development, clinical research and manufacturing.

We expect to continue to incur significant levels of research and development expenditures as we focus on the development and advancement of our product pipeline. There can be no assurance that results of any ongoing or future preclinical or clinical trials related to these projects will be successful, that additional trials will not be required, that any drug or product under development will receive FDA approval in a timely manner or at all, or that such drug or product could be successfully manufactured in accordance with U.S. current Good Manufacturing Practices, or successfully marketed in a timely manner, or at all, or that we will have sufficient funds to develop or commercialize any of our products.

Manufacturing, Supply and Other Service Agreements. We contract with various third-party manufacturers and suppliers to provide us with raw materials used in our products and finished goods, as well as to provide us certain services. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG, Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc.,

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Grünenthal GmbH, Sharp Corporation, Ventiv Commercial Services, LLC and UPS Supply Chain Solutions, Inc. If, for any reason, we are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. For additional discussion of commitments under manufacturing, supply and other service agreements, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

License and Collaboration Agreements. We have agreed to certain contingent payments in certain of our license, collaboration and other agreements. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. Due to the fact that it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded in our Condensed Consolidated Balance Sheets. In addition, under certain arrangements, we may have to make royalty payments based on a percentage of future sales of the products in the event regulatory approval for marketing is obtained. From a business perspective, we view these payments favorably as they signify that the products are moving successfully through the development phase toward commercialization. For additional discussion of our contingent payments involving our license and collaboration agreements, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 7. License and Collaboration Agreements and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Acquisitions. As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings for merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure costs or costs of restructuring activities.

Legal Proceedings. We are subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Contingent accruals are recorded when we determine that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events. For additional discussion of legal proceedings, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Fluctuations. Our quarterly results have fluctuated in the past, and may continue to fluctuate. These fluctuations may be due to the timing of new product launches, purchasing patterns of our customers, market acceptance of our products, the impact of competitive products and pricing, asset impairment charges, separation benefits, business combination transaction costs, upfront, milestone and certain other payments made or accrued pursuant to licensing agreements and changes in the fair value of financial instruments and contingent assets and liabilities recorded as part of a business combination. Further, a substantial portion of our total revenues are through three wholesale drug distributors who in turn supply our products to pharmacies, hospitals and physicians. Accordingly, we are potentially subject to a concentration of credit risk with respect to our trade receivables.

Growth Opportunities. We continue to evaluate growth opportunities including strategic investments, licensing arrangements, acquisitions of businesses, product rights or technologies, and strategic alliances and promotional arrangements which could require significant capital resources. We intend to continue to focus our business development activities on further diversifying our revenue base through product licensing and company acquisitions, as well as other opportunities to enhance stockholder value. Through execution of our business strategy we intend to focus on developing new products through both an internal and a virtual research and development organization with greater scientific and clinical capabilities; expanding the Company’s product line by acquiring new products and technologies in existing therapeutic and complementary areas; increasing revenues and earnings through sales and

marketing programs for our innovative product offerings and effectively using the Company’s resources; and providing additional resources to support our generics business.

Non-U.S. Operations. Our operations outside of the U.S. were not material during the three months ended March 31, 2013. As a result, fluctuations in foreign currency exchange rates did not have a material effect on our Condensed Consolidated Financial Statements.

Inflation. We do not believe that inflation had a material adverse effect on our financial statements for the periods presented.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

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CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates have not changed materially since December 31, 2012. For additional discussion of the Company's critical accounting estimates, see "Critical Accounting Estimates" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB or the Board) issued Accounting Standards Update (ASU) 2013-04. The amendments in this update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. This guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective on a retrospective basis for fiscal years and interim periods within those fiscal years beginning after December 15, 2013 and early adoption is permitted. The Company is currently evaluating ASU 2013-04 but we do not expect the impact of adoption to be material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A. "Quantitative and Qualitative Disclosures about Market Risk." of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013. Our exposures to market risk have not changed materially since December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of March 31, 2013. Based on that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the first three months of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Notwithstanding the foregoing, we recently announced the appointment of Rajiv De Silva as the Company's President and Chief Executive Officer.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The disclosures under Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q are incorporated into this Part II, Item 1. by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013. Risk factors disclosed in Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 are incorporated into this document by reference.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of common stock of the Company during the indicated periods.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan (1)
January 1, 2013 to January 31, 2013	—	—	—	$ 250,000,024
February 1, 2013 to February 28, 2013	—	—	—	$ 250,000,024
March 1, 2013 to March 31, 2013	—	—	—	$ 250,000,024
Total	—	—	—	

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(1) All shares were repurchased under the Company's announced repurchase programs. In August 2012, our Board of Directors approved a share repurchase program (the 2012 Share Repurchase Program). The 2012 Share Repurchase Program authorizes the Company to repurchase in the aggregate of up to $450 million of shares of its outstanding common stock and is set to expire on March 31, 2015. The amounts above reflect shares remaining under the 2012 Share Repurchase Plan. All shares are to be purchased in the open market or in privately negotiated transactions, as in the opinion of management, market conditions warrant.

(2) Average price paid per share is calculated on a settlement basis and excludes commission.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The information called for by this item is incorporated by reference to the Exhibit Index of this Report.

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SIGNATURES

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

ENDO HEALTH SOLUTIONS INC.
(Registrant)

/s/ RAJIV DE SILVA
Name: Rajiv De Silva
Title: President and Chief Executive Officer
Date: May 7, 2013

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Exhibit Index

Exhibit No.	Title
10.41	Policy of Endo Relating to Insider Trading in Company Securities and Confidentiality of Information, effective April 4, 2013
10.44	Executive Employment Agreement between Endo Health Solutions Inc. and Alan G. Levin, effective as of June 1, 2013 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on March 8, 2013)
10.108	Credit Facility, among Endo Health Solutions Inc., the lenders named therein, Morgan Stanley Senior Funding, Inc. and Bank of America, N.A., dated as of March 26, 2013 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on March 28, 2013)
21	Subsidiaries of the Registrant
31.1	Certification of the President and Chief Executive Officer of Endo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer of Endo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the President and Chief Executive Officer of Endo 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 the Chief Financial Officer of Endo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Endo Health Solutions Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements.