Avery Dennison Corp
Form 8-K
December 08, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

**December 7, 2017**

Date of Report (Date of earliest event reported)

# AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| **Delaware** | **1 -7685** | **95-1492269** |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|---|
| **207 Goode Avenue** | |
| **Glendale, California** | **91203** |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code **(626) 304-2000**

(Former name or former address, if changed since last report.)

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

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

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

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

**Section 5 Corporate Governance and Management**

**Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(b) (e) At a regularly-scheduled meeting of the Board of Directors (the Board ) of Avery Dennison Corporation (the Company ) held on December 7, 2017, Dean A. Scarborough, Executive Chairman, notified the Board that he would be retiring from the Company at the end of the year. Mr. Scarborough will no longer be an employee of the Company after December 31, 2017 though he will continue to serve as non-executive Chairman. As Chairman, Mr. Scarborough s compensation will be pursuant to the Company s non-employee director compensation program, as described in the Company s 2017 Proxy Statement filed with the Securities and Exchange Commission on March 10, 2017.

**Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year**

(a) On and effective as of December 7, 2017, upon the recommendation of the Governance and Social Responsibility Committee, the Board adopted Amended and Restated Bylaws to implement proxy access. Article II, Section 17 has been added to permit a stockholder or group of no more than 20 stockholders owning 3% or more of the Company s common stock continuously for at least three years to nominate and include in the Company s proxy materials with respect to an annual meeting of stockholders, director candidates not to exceed the greater of (i) two and (ii) 20% of the total number of directors in office (rounded down to the nearest whole number), provided that the stockholder or group and each director nominee satisfy the applicable requirements specified in the Amended and Restated Bylaws. The Amended and Restated Bylaws reflect a few other changes to accommodate and reference the new proxy access provision, make certain administrative changes and account for changes in Delaware law since the bylaws were last revised.

The foregoing summary is qualified by reference to the Amended and Restated Bylaws, marked to show the changes described above, which is filed as Exhibit 3.1(ii) to this Form 8-K and incorporated herein by reference.

**Section 9 Financial Statements and Exhibits**

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits.

| **Exhibit Number** | **Exhibit Title** |
|---|---|
| 3.1(ii) | Amended and Restated Bylaws of Avery Dennison Corporation, effective December 7, 2017, marked to show changes |

**EXHIBIT INDEX**

| Exhibit Number | Exhibit Title |
|---|---|
| 3.1(ii) | Amended and Restated Bylaws of Avery Dennison Corporation, effective December 7, 2017, marked to show changes |

**SIGNATURES**

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

**AVERY DENNISON CORPORATION**

Date: December 8, 2017

| | | |
|---|---|---|
| By: | /s/ Mitchell R. Butier | |
| | Name: | Mitchell R. Butier |
| | Title: | President and Chief Executive Officer |

tions were made. Actual results may differ significantly from our estimates.

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

***Revenue Recognition***

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

Decisions made by wholesaler customers and large retail chain customers regarding the levels of inventory they hold (and thus the amount of product they purchase from us) can materially affect the level of our sales in any particular period and thus may not correlate to the number of prescriptions written for our products based on external third-party data. We believe that speculative buying of product, particularly in anticipation of possible price increases, has been the historic practice of many pharmaceutical wholesalers. Over the past three years, our wholesaler customers, as well as others in the industry, began modifying their business models from arrangements where they derive profits from price arbitrage, to arrangements where they charge a fee for their services. Accordingly, we have entered into Distribution Service Agreements (referred to as DSAs) with five of our wholesaler customers. These agreements, which pertain to branded products only, obligate the wholesalers to provide us with specific services, including the provision of periodic retail demand information and current inventory levels for our branded products held at their warehouse locations; additionally, under these DSAs, the wholesalers have agreed to manage the variability of their purchases and inventory levels within specified limits based on product demand.

Under the DSAs, we received information from our five wholesaler customers about the levels of inventory they held for our branded products as of December 31, 2009. Based on this information, which we have not

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independently verified, we believe that total branded inventory held at these wholesalers is within normal levels. In addition, we also evaluate market conditions for products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally-generated information.

***Sales Deductions***

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

The following table presents the activity and ending balances for our product sales provisions for the last three years (in thousands):

| | Returns | Rebates | Chargebacks | Other Sales Deductions | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2007 | $ 20,110 | $ 72,813 | $ 33,928 | $ 5,872 | $ 132,723 |
| Current year provision | 20,770 | 193,051 | 307,604 | 34,164 | 555,589 |
| Prior year provision | (1,357) | (2,220) | 3,753 | | 176 |
| Payments or credits | (8,325) | (182,411) | (310,710) | (34,879) | (536,325) |
| Balance at December 31, 2007 | $ 31,198 | $ 81,233 | $ 34,575 | $ 5,157 | $ 152,163 |
| Current year provision | 15,596 | 291,580 | 345,378 | 40,641 | 693,195 |
| Prior year provision | 200 | (5,763) | (948) | | (6,511) |
| Payments or credits | (8,012) | (262,383) | (343,023) | (40,656) | (654,074) |
| Balance at December 31, 2008 | $ 38,982 | $ 104,667 | $ 35,982 | $ 5,142 | $ 184,773 |
| Current year provision | 20,220 | 396,599 | 495,721 | 49,368 | 961,908 |
| Prior year provision | (1,287) | (5,749) | 1,164 | | (5,872) |
| Payments or credits | (9,641) | (371,074) | (480,963) | (48,450) | (910,128) |
| Balance at December 31, 2009 | $ 48,274 | $ 124,443 | $ 51,904 | $ 6,060 | $ 230,681 |

*Returns*

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

the shelf life or expiration date of each product;

historical levels of expired product returns;

external data with respect to inventory levels in the wholesale distribution channel;

external data with respect to prescription demand for our products; and

estimated returns liability to be processed by year of sale based on analysis of lot information related to actual historical returns.

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

Our estimate for returns may be impacted by a number of factors, but the principal factor relates to the level of inventory in the distribution channel. When we are aware of an increase in the level of inventory of our products in the distribution channel, we consider the reasons for the increase to determine if the increase may be temporary or other-than-temporary. Increases in inventory levels assessed as temporary will not result in an adjustment to our provision for returns. Other-than-temporary increases in inventory levels, however, may be an indication that future product returns could be higher than originally anticipated and, accordingly, we may need to adjust our estimate for returns. Some of the factors that may be an indication that an increase in inventory levels will be temporary include:

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

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

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

*Rebates*

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

- direct rebates;
- indirect rebates;

managed care rebates; and

Medicaid and Medicare Part D rebates.

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

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We are subject to rebates on sales made under governmental and managed-care pricing programs. In estimating our provisions for these types of rebates, we consider relevant statutes with respect to governmental pricing programs and contractual sales terms with managed-care providers and group purchasing organizations. We estimate an accrual for managed-care, Medicaid and Medicare Part D rebates as a reduction of revenue at the time product sales are recorded. These rebate reserves are estimated based upon the historical utilization levels, historical payment experience, historical relationship to revenues and estimated future trends. Changes in the level of utilization of our products through private or public benefit plans and group purchasing organizations will affect the amount of rebates that we owe.

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

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

*Chargebacks*

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

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

*Other sales deductions*

We offer our customers 2% prompt pay cash discounts. Provisions for prompt pay discounts are estimated and recorded at the time of sale. We estimate provisions for cash discounts based on contractual sales terms with customers, an analysis of unpaid invoices and historical payment experience. Estimated cash discounts have

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historically been predictable and less subjective, due to the limited number of assumptions involved, the consistency of historical experience and the fact that we generally settle these amounts within thirty to sixty days.

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

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

***Marketable Securities***

We classify our marketable securities as available-for-sale securities or trading securities, depending on our intent. In rare or unique circumstances, management may determine that a one-time transfer of securities from available-for-sale to a trading classification is appropriate. Available-for-sale and trading securities are carried at fair value with unrealized holding gains and losses recorded within other comprehensive income and net income, respectively. Fair value is determined based on observable market quotes or valuation models using assessments of counterparty credit worthiness, credit default risk or underlying security and overall capital market liquidity. The Company reviews unrealized losses associated with available-for-sale securities to determine the classification as a temporary or other-than-temporary impairment. A temporary impairment results in an unrealized loss being recorded in other comprehensive income. An impairment that is viewed as other-than-temporary is recognized in net income. The Company considers various factors in determining the classification, including the length of time and extent to which the fair value has been less than the Company s cost basis, the financial condition and near-term prospects of the issuer or investee, and the Company s ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Generally, the Company classifies marketable securities as current when maturity is less than or equal to twelve months or, if time to maturity is greater than twelve months, when they represent investments of cash that are intended to be used in current operations. As of December 31, 2009 and 2008, the Company held certain assets that are required to be measured at fair value on a recurring basis, including money market funds, available-for-sale securities and trading securities. Our available-for-sale and trading securities consist primarily of auction-rate securities.

*Overview of Auction-Rate Securities*

Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven, twenty-eight, or thirty-five days; every six months; etc.). In an active market, auction-rate securities are bought and sold at each reset date through a competitive bidding process, often referred to as a Dutch auction . Auctions are successful when the supply and demand of securities are in balance. Financial institutions brokering the auctions would also participate in the auctions to balance the supply and demand. Beginning in the second half of 2007, auctions began to fail for specific securities and in mid-February 2008 auction failures became common, prompting market participants, including financial institutions, to cease or limit their exposure to the auction-rate market. Given the current negative liquidity conditions in the global credit markets, the auction-rate securities market has become inactive. Consequently, our auction-rate securities are currently illiquid through the normal auction process. As a result of the inactivity in the market, quoted market prices and other observable data are not available or their utility is limited.

At December 31, 2009 and 2008, the Company determined that the market for its auction-rate securities were inactive. That determination was made considering that there are very few observable transactions for the auction-rate securities or similar securities, the prices for transactions that have occurred are not current, and the observable prices for those transactions to the extent they exist vary substantially either over time or among market makers, thus reducing the potential usefulness of those observations. In addition, the current lack of liquidity prevents the Company from comparing our securities directly to securities with quoted market prices. Consequently, while we have appropriately considered those observable inputs, ultimately, our auction-rate securities will be classified within Level 3 of the fair value hierarchy described in Note 3 to the Consolidated Financial Statements included in Part IV Item 15 of this Annual Report on Form 10-K.

The Company s auction-rate securities consist of municipal bonds with an auction reset feature, the underlying assets of which are student loans that are backed substantially by the federal government and have underlying credit ratings of Baa3 or better as of December 31, 2009. Further, the issuers have been making interest payments promptly.

*Overview of Auction-Rate Securities Rights*

In October 2008, UBS AG (referred to as UBS) made an offer (referred to as the UBS Offer) to the Company and other clients of UBS Securities LLC and UBS Financial Services Inc. (collectively referred to as the UBS Entities), pursuant to which the Company would receive auction-rate securities rights (referred to as the Rights) to sell to UBS all auction-rate securities held by the Company as of February 13, 2008 in a UBS account (referred to as the Eligible Auction-Rate Securities). The Rights permit the Company to require UBS to purchase the Eligible Auction-Rate Securities for a price equal to par value plus any accrued but unpaid dividends or interest beginning on June 30, 2010 and ending on July 2, 2012. As of December 31, 2009, we had Eligible Auction-Rate Securities with a par value of $230.3 million, representing 92% of our total auction-rate securities portfolio at par. The remaining eight percent (8%), or $18.8 million at par, of our auction-rate securities portfolio are not held in a UBS account and therefore are not subject to the UBS Offer.

On November 10, 2008, the Company accepted the UBS Offer. As a result, the Company granted to the UBS Entities, the sole discretion and right to sell or otherwise dispose of, and/or enter orders in the auction process with respect to the Eligible Auction-Rate Securities on the Company s behalf until the Expiration Date, without prior notification, so long as the Company receives a payment of par value plus any accrued but unpaid dividends or interest upon any sale or disposition.

Acceptance of the UBS Offer created an enforceable legal right by and between the Company and UBS. The UBS Offer is a legally separate contractual agreement and is non-transferable. The Rights are not readily convertible to cash and do not provide for net settlement. That is, the Company must tender the securities to receive the Rights. Accordingly, the Rights do not meet the definition of a derivative instrument and are being treated as a freestanding financial instrument. Accordingly, in 2008, the Company recognized an asset, measured at fair value, in the amount of $25.4 million with the resultant gain recorded in Other (income) expense, net in the Consolidated Statements of Operations.

*Subsequent Accounting for Auction-Rate Securities and Auction-Rate Securities Rights*

Acceptance of the UBS Offer constituted a substantive change in facts and circumstances that altered the Company s view that it intended to hold the illiquid securities until their scheduled maturity date. As a result of the change, we recognized an other than temporary impairment charge as of December 31, 2008 of approximately $26.4 million that is included in Other (income) expense, net in the Consolidated Statements of Operations.

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Concurrent with the acceptance of the UBS offer, the Company made a one-time election to re-classify the Eligible Auction-Rate Securities from an available-for-sale security to a trading security. The Company made the election to transfer the securities into trading after considering the unprecedented failure of the entire market for auction-rate securities and the broad-reaching legal settlements that have been agreed to by certain broker-dealers and securities regulators. Subsequent changes to the fair value of these trading securities resulted in a gain of $15.2 million and an additional expense of $4.2 million during the year ended December 31, 2009 and 2008, respectively, and were recorded in other (income) expense, net in the Consolidated Statements of Operations.

During 2008, we elected the fair value option for our auction-rate securities rights. As a result of our election, the fair value of the auction-rate securities rights are re-measured each reporting period with the corresponding changes in fair value reported in earnings. Since the auction-rate securities rights are freestanding financial instruments, they do not affect the separate determination of the fair value of the Eligible Auction-Rate Securities. However, in management s view, the auction-rate securities rights act as an economic hedge against further fair value changes in the Eligible Auction-Rate Securities. At December 31, 2009, the fair value of our auction-rate securities rights were $15.7 million. The changes in fair value from November 10, 2008 to December 31, 2008 resulted in a $1.9 million gain compared to an $11.7 million loss during the year ended December 31, 2009. These amounts were recognized in earnings and included in other (income) expense, net in the Consolidated Statements of Operations. Future changes in fair value will also be recognized in earnings.

*Valuation of the Auction-Rate Securities*

The Company has determined that an income approach (present value technique) that maximizes the use of observable market inputs is the preferred approach to measuring the fair value of our securities. Specifically, the Company used the discount rate adjustment technique to determine an indication of fair value.

To calculate a price for our auction-rate securities, the Company calculates duration to maturity, coupon rates, market required rates of return (discount rate) and a discount for lack of liquidity in the following manner:

The Company identifies the duration to maturity of the auction-rate securities as the time at which principal is available to the investor. This can occur because the auction-rate security is paying a coupon that is above the required rate of return, and the Company treats the security as being called. It can also occur because the market has returned to normal and the Company treats the auctions as having recommenced. Lastly, and most frequently, the Company treats the principal as being returned as prepayment occurs and at the maturity of the security. The weighted average life used for each security representing time to maturity ranges from five to eight years. The weighted average life measured across the entire auction-rate portfolio is approximately eight years.

The Company calculates coupon rates based on estimated relationships between the maximum coupon rate (the coupon rate in event of a failure) and market interest rates. The representative coupon rates on December 31, 2009 and 2008 ranged from 5.37% to 6.12% and 3.86% to 3.96%, respectively. The Company calculates appropriate discount rates for securities that include base interest rates, index spreads over the base rate, and security-specific spreads. These spreads include the possibility of changes in credit risk over time. At December 31, 2009 and 2008, the spreads over the base rate for our securities applied to our securities ranged from 154 basis points to 410 basis points and 264 basis points to 588 basis points, respectively.

The Company believes that a market participant would require an adjustment to the required rate of return to adjust for the lack of liquidity. We do not believe it is unreasonable to assume a 150 basis points adjustment to the required rate of return and a term of either three, four or five years to adjust for this lack of liquidity. The increase in the required rate of return decreases the prices of the securities. However, the assumption of a three, four or five-year term shortens the times to maturity and increases the prices of the securities. The Company has evaluated the impact of applying each term and the reasonableness of the range indicated by the results. The Company chose to use a four-year term to

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adjust for the lack of liquidity as we believe it is the point within the range that is most representative of fair value. The Company s conclusion is based in part on the fact that the fair values indicated by the results are reasonable in relation to each other given the nature of the securities and current market conditions.

At December 31, 2009, the fair value of our auction-rate securities, as determined by applying the above described discount rate adjustment technique, was approximately $232.6 million, representing a seven percent (7%), or $16.5 million discount from their original purchase price or par value. This compares to approximately $240.5 million, representing a 12%, or $32.4 million discount from their original purchase price or par value at December 31, 2008. Had the Company chosen to apply a three or five year term with respect to the liquidity adjustment at December 31, 2009, the resultant discount to the original purchase price or par value would have been $12.9 million and $19.9 million, respectively. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in pricing the assets in a current transaction to sell the asset at the measurement date. Accordingly, the carrying value of our auction-rate securities at December 31, 2009 and 2008 were reduced by approximately $16.5 million and $32.4 million, respectively. These adjustments appropriately reflect the changes in fair value, which the Company attributes to liquidity issues rather than credit issues.

The portion of this increase in fair value related to the Eligible Auction-Rate Securities from December 31, 2008 was recorded in earnings as changes in the fair value of trading securities. The Company has assessed the portion of the change in fair value not associated with the Eligible Auction-Rate Securities to be temporary due to the financial condition and near-term prospects of the underlying issuers, our intent and ability to retain our investment in the issuers for a period of time sufficient to allow for any anticipated recovery in market value and based on the extent to which fair value is less than par. Accordingly, we recorded a $0.6 million gain and a $1.7 million loss in shareholders equity in accumulated other comprehensive loss as of December 31, 2009, and 2008, respectively. Securities not subject to the UBS Offer are analyzed each reporting period for other-than-temporary impairment factors. Any future fluctuation in fair value related to these instruments that the Company judges to be temporary, including any recoveries of previous write-downs, would be recorded to other comprehensive income. If the Company determines that any future valuation adjustment was other-than-temporary, it would record a charge to earnings as appropriate. However, there can be no assurance that our current belief that the securities not subject to the UBS Offer will recover their value will not change.

*Valuation of the Auction-Rate Securities Rights*

The Company has determined that an income approach (present value technique) that maximizes the use of observable market inputs is the preferred approach to measuring the fair value of the auction-rate securities rights. Specifically, the Company used the discount rate adjustment technique to determine fair value.

The values of the Rights were estimated as the value of a portfolio designed to approximate the cash flows of the UBS Agreement. The portfolio consists of a bond issued by UBS that will mature equal to the face value of the auction-rate securities, a series of payments that will replicate the coupons of the auction-rate securities, and a short position in the callable auction-rate security. If the UBS agreement is in the money on the exercise date, then both the UBS agreement and the replicating portfolio will be worth the difference between the par value of the auction-rate-securities and the market value of the auction-rate-securities. If the UBS agreement is out of the money on the exercise date, then both the replicating portfolio and the UBS agreement will have no value.

For purposes of valuing the UBS bond, management selected a required rate of return for a UBS obligation based on market factors including relevant credit default spreads. The rate of return for the auction-rate securities is determined as described above under Valuation of the Auction-Rate Securities and is used to determine the present value of the coupons of the auction-rate security.

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At December 31, 2009 and 2008, the fair value of our auction-rate securities rights, as determined by applying the above described discount rate adjustment technique, was approximately $15.7 million and $27.3 million, respectively. As described above, the Company chose to use a four-year term to adjust for the lack of liquidity on the auction-rate securities as we believe it is the point within the range that is most representative of fair value. Accordingly, the same term was used when valuing the Rights. Had the Company chosen to apply a three or five-year term with respect to the liquidity adjustment for the auction-rate securities, the resultant value of the Rights at December 31, 2009 would have been $12.2 million and $18.8 million, respectively. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in pricing the asset in a current transaction to sell the asset at the measurement dates.

Given the inactivity in the auction-rate securities market, the Company cannot predict when future auctions related to our existing auction-rate securities portfolio will be successful. As a result of the current illiquidity in the auction-rate securities markets and the long-term remaining duration of the underlying securities, we have classified these investments as long-term marketable securities in the Consolidated Balance Sheets. Auction-rate securities classified as long-term at December 31, 2009 and December 31, 2008 were $207.3 million and $234.0 million, respectively.

Since February 2008, when we began to experience failed auctions, we have divested, without a loss, $89.9 million of our original par value auction-rate securities, either through successful auctions or mandatory tenders by the issuers. We do not employ an asset management strategy or tax planning strategy that would require us to sell any of our existing securities at a loss. Furthermore, there have been no adverse changes in our business or industry that could require us to sell the securities at a loss in order to meet working capital requirements.

***Valuation of Long-lived Assets***

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

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

During 2009, we did not recognize an impairment charge as a result of our review of long-lived assets.

During the year ended December 31, 2008, as a result of our decision to discontinue the development of Rapinyl , we recorded an impairment charge of $8.1 million related to the remaining unamortized portion of our Rapinyl intangible asset, and $3.1 million to write off certain other assets related to the development of Rapinyl . In addition, during the year ended December 31, 2008, we recorded impairment charges totaling $1.5 million related to the abandonment of certain long-lived assets.

The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from five to twenty years, with a weighted average useful life of approximately 10.3 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the license and an acceleration of related amortization expense, which could cause our operating income, net income and earnings per share to decrease. The value of these licenses is subject to continuing scientific, medical and marketplace uncertainty.

***Goodwill and Indefinite-lived Intangible Assets***

Endo tests goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Our annual assessment is performed as of January 1st. Although the Company has one operating segment, Pharmaceutical Products, we have determined that the Company has two reporting units; (1) Pain & Specialty Generics and (2) Urology, Endocrinology and Oncology (referred to as UEO). The goodwill test consists of a Step I analysis that requires a comparison between the respective reporting unit s fair value and carrying value. A Step II analysis would be required if the fair value of the reporting unit is lower than its carrying value. If the fair value of the reporting unit exceeds its carrying value, an impairment does not exist and no further analysis is required.

On December 2, 2009, the Company received a complete response letter from the FDA regarding its NDA for Aveed™ and determined this to be a triggering event requiring us to perform an interim goodwill impairment test on our UEO reporting unit. Therefore, we performed a goodwill impairment test on our UEO reporting unit as of December 2, 2009 after giving effect to the Aveed™ indefinite-lived intangible asset impairment described below. Our UEO reporting unit was also tested for impairment again as of January 1, 2010, our annual assessment date, along with our Pain & Specialty Generics reporting unit. The results of our analyses showed that the fair value of both of our reporting units substantially exceeded their respective carrying values and thus no goodwill impairment exists.

Based upon recent market conditions, and a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting units fair value. The income approach converts future amounts to a single present value amount (discounted cash flow model). Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flow (including long-term growth rates), discount rate, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. We believe we have appropriately reflected our best estimates of the assumptions that market participants would use in determining the fair value of our reporting units at the measurement dates.

The Company also performed an impairment analysis on all of its indefinite-lived intangible assets. The impairment test consists of a one step analysis that compares the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In December 2009, the Company s Phase III clinical trials for Pro2000 provided conclusive results that the drug was not effective. In December 2009, the Company concluded there was no further value or alternative future uses associated with this indefinite-lived asset. Accordingly, we recorded a $4 million impairment charge to write-off the Pro2000 intangible asset in its entirety. Additionally, as a result of the FDA s Complete Response letter related to our NDA for Aveed , the Company performed an impairment review as of December 2, 2009 for the Aveed indefinite-lived intangible asset.

Although the Company is continuing to evaluate the FDA s findings to better understand the agency s concerns, we were required to estimate the fair value of our Aveed™ indefinite-lived intangible asset as of the date we received the Complete Response letter. To estimate fair value we assessed the possible changes to the product s indication and targeted population of eligible recipients, the future probability of regulatory approval, relative timing of commercialization, and estimates of the amount and timing of future cash flows. In January

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2010, the Company was notified that the U.S. patent office had issued a Notice of Allowance on a patent covering the Aveed™ formulation. Therefore, management considered the likely benefit of patent exclusivity when estimating these future cash flows. To calculate the fair value of the Aveed intangible asset, the Company used an income approach using a discounted cash flow model considering management s current evaluation of the above mentioned factors. The Company utilized probability-weighted cash flow models using a present value discount factor of 15% which we believe to be commensurate with the overall risk associated with this particular product. The cash flow models included our best estimates of future FDA approval associated with each potential indication and population of eligible recipients. The Company believes that the level and timing of cash flows assumed, discount rate, and probabilities of success appropriately reflect market participant assumptions.

The fair value of the Aveed intangible asset was determined to be $35 million. Accordingly, the Company recorded a pre-tax non-cash impairment charge of $65 million for the year ended December 31, 2009, representing the difference between the carrying value of the intangible asset and its estimated fair value. The impairment charge has been recognized in earnings and is included the Impairment of other intangible assets line item in the Consolidated Statements of Operations. We believe the most subjective assumption in our discounted cash flow model is the probability of regulatory approval. Assessing the probability of achieving the estimated cash flows is challenging particularly as it relates to in-process research and development assets. These probabilities have a material impact on the ultimate fair value of the asset as the probability of regulatory approval is applied directly to our future revenue projections. Although we believe our probabilities of success used in our fair value determination are reasonable, changes in these assumptions would impact the impairment charge as follows: A 500 basis point change in the overall probability of approval would have resulted in a change to the impairment charge of approximately $5 million.

The Company is continuing to evaluate how best to address the concerns of the FDA and intends to have future dialogue with the agency regarding a possible regulatory pathway. The outcome of future communications with the FDA could have a material impact on (1) management s assessment of the overall probability of approval, (2) the timing of such approval, (3) the targeted indication or patient population and (4) the likelihood of additional clinical trials. Changes in any of these assumptions may result in a further reduction to the estimated fair value of the Aveed™ intangible asset resulting in additional and potentially full future impairment charges. Such additional impairment charges could materially impact our results of operations in future periods.

***Acquisition-related In-Process Research and Development and Contingent Consideration***

Effective January 1, 2009, acquired businesses are accounted for using the acquisition method of accounting, which requires that the purchase price be allocated to the net assets acquired at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in process research and development (referred to as IPR&D) and contingent consideration are recorded to the balance sheet at the date of acquisition based on their relative fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

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

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

We account for contingent consideration in accordance with applicable guidance provided within the business combination rules. As part of our consideration for the Indevus acquisition, we are contractually obligated to pay certain consideration resulting from the outcome of future events. Therefore, we are required to update our assumptions each reporting period, based on new developments, and record such amounts at fair value until such consideration is satisfied.

The contingent consideration relates to the amounts payable under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. In the event that the Company receives an approval letter from the FDA with respect to the Aveed™ NDA on or before the third anniversary of the time at which we purchased the Indevus Shares in the Offer, then the Company will, subject to the terms described below, (i) pay an additional $2.00 per Indevus Share to the former stockholders of Indevus, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed ™ that does not contain a boxed warning (Aveed™ With Label) or alternatively, (ii) pay an additional $1.00 per Indevus Share, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed™ that contains a boxed warning (Aveed™ Without Label). In the event that either an Aveed™ With Label approval or an Aveed™ Without Label approval has not been obtained prior to the third anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders will not receive, any payments under the Aveed™ Contingent Cash Consideration Agreement.

Further, in the event that the Aveed™ Without Label approval is received and subsequently, Endo and its subsidiaries publicly report audited financial statements which reflect cumulative net sales of Aveed™ of at least $125.0 million for four consecutive calendar quarters on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ (Aveed™ Net Sales Event), then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus. In the event that the Aveed™ Net Sales Event does not occur prior to the fifth anniversary of the date of the first commercial sale of Aveed™ then the Company will not pay, and former Indevus stockholders will not receive, any additional amounts under the Aveed™ Contingent Cash Consideration Agreement.

The range of the undiscounted amounts the Company could pay under the Aveed™ Contingent Cash Consideration Agreement is between $0 and approximately $175 million. The fair value of the contractual obligation to pay the Aveed™ contingent consideration recognized as of December 31, 2009 was $7.5 million. We determined the fair value of the obligation to pay the Aveed™ contingent consideration based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Aveed™ Contingent Cash Consideration Agreement, there are three scenarios that could potentially lead to amounts being paid to the former stockholders of Indevus. These scenarios are (1) obtaining an Aveed™ With Label approval, (2) obtaining an Aveed™ Without Label approval and (3) achieving the $125.0 million sales milestone on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ should the Aveed™ Without Label approval be obtained. The fourth scenario is Aveed™ not receiving approval within three years of the closing of the Offer, which would result in no payment to the former stockholders of Indevus. Each scenario was assigned a probability based on the current regulatory status of Aveed™. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

Similarly, in the event that an approval letter from the FDA is received with respect to an octreotide NDA (such approval letter, the Octreotide Approval) on or before the fourth anniversary of the closing of the Offer, then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus (such payment, the Octreotide Contingent Cash Consideration Payment). In the

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event that an Octreotide Approval has not been obtained prior to the fourth anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders shall not receive, the Octreotide Contingent Cash Consideration Payment.

The range of the undiscounted amounts the Company could pay under the Octreotide Contingent Cash Consideration Agreement is between $0 and approximately $91 million. The fair value of the octreotide contractual obligation to pay the contingent consideration recognized as of December 31, 2009 was $42.5 million. We determined the fair value of the contractual obligation to pay the Octreotide Contingent Consideration Payment based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Octreotide Contingent Cash Consideration Agreement, the two scenarios that require consideration are (1) Octreotide Approval on or before the fourth anniversary of the closing of the Offer or (2) no Octreotide Approval on or before the fourth anniversary of the closing of the Offer. Each scenario was assigned a probability based on the current development stage of octreotide. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

In addition to the potential contingent payments under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement, the Company assumed a pre-existing contingent consideration obligation relating to Indevus s acquisition of Valera Pharmaceuticals, Inc. (Valera Contingent Consideration), which was consummated on April 18, 2007. The Valera Contingent Consideration entitles former Valera shareholders to receive additional Indevus Shares based on an agreed upon conversion factor if FDA approval of the octreotide implant for the treatment for acromegaly is achieved on or before April 18, 2012. Upon Endo s acquisition of Indevus, each Valera shareholder s right to receive additional Indevus Shares was converted into the right to receive $4.50 per Indevus Share that such former Valera shareholder would have received plus contractual rights to receive up to an additional $3.00 per Indevus Share that such former Valera shareholder would have received in contingent cash consideration payments under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. These amounts would only be payable to former Valera shareholders if there were Octreotide Approval. The range of the undiscounted amounts the Company could pay with respect to the Valera Contingent Consideration is between $0 and approximately $33 million.

The Company is accounting for the Valera Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Indevus. Accordingly, the fair value of the Valera Contingent Consideration recognized as of December 31, 2009 was $8.5 million. Fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the Valera Contingent Consideration is estimated using the same assumptions used for the Aveed™ Contingent Cash Consideration Agreement and Octreotide Contingent Cash Consideration Agreement, except that the probabilities associated with the Valera Contingent Consideration take into account the probability of obtaining the Octreotide Approval on or before the fourth anniversary of the closing of the Offer. This is due to the fact that the Valera Contingent Consideration will not be paid unless octreotide for the treatment of acromegaly is approved prior to April 18, 2012.

As of December 31, 2009, the fair value of the acquisition-related contingent consideration decreased by approximately $128.1 million from the acquisition date primarily reflecting management s current assessment of the decreased probability that we will be obligated to make contingent consideration payments under the Aveed™ Contingent Cash Consideration Agreement within the specified contractual timeframe, as well as the anticipated timeline for the NDA filing and FDA approval of octreotide. The decrease in the liability was recorded as a gain and is included in the Acquisition-related items line item in the accompanying Consolidated Statements of Operations. A 500 basis point change in the probability of receiving FDA approval on Aveed™ within the specified contractual timeframe would have resulted in an approximate $4.0 million change in the

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value of our acquisition-related contingent consideration. Changes in any of our assumptions may result in a further volatility to the estimated fair value of the acquisition-related contingent consideration. Such additional changes to fair value could materially impact our results of operations in future periods.

***Income Taxes***

Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to assess the likelihood of realization are the Company s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company s effective tax rate on future earnings.

At December 31, 2009, we had $303.8 million of gross deferred tax assets, which included federal and state net operating loss carryforwards (NOLs) of $122.6 million, research and development (R&D) credit carryforwards of $11.6 million, capital loss carryforwards of $11.2 million and temporary differences of approximately $158.4 million. At December 31, 2009, our NOLs and R&D credit carryforwards were related to multiple tax jurisdictions, including federal and various state jurisdictions, which expire at intervals between 2010 and 2028. We evaluate the potential realization of our deferred tax benefits on a jurisdiction-by-jurisdiction basis. Our analysis of the realization considers the probability of generating taxable income or other sources of income as defined within the applicable income tax authoritative guidance, which could be utilized to support the assets over the permitted carryforward period in each jurisdiction. Where we have determined under the more likely than not standard that we do not have a better-than-50% probability of realization, we establish a valuation allowance against that portion of the deferred tax asset where our analysis and judgment indicates a less-than-50% probability of realization. Based on our forecasted taxable income within these jurisdictions, we believe we will generate sufficient future taxable income to realize a significant portion of our deferred tax assets associated with our NOLs and R&D credit carryfowards. However, the Company does not anticipate future capital gains that would be required to obtain the tax benefit of our net unrealized capital loss. Accordingly, this deferred tax asset is offset by a valuation allowance of $11.2 million at December 31, 2009.

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

On January 1, 2007, the Company adopted the provisions for accounting for uncertain tax positions. The provisions apply to all material tax positions in all taxing jurisdictions for all open tax years. The guidance establishes a two-step process for evaluating tax positions. Step 1 Recognition, requires the Company to determine whether a tax position, based solely on its technical merits, has a likelihood of more than 50 percent ( more-likely-than-not ) that the tax position taken will be sustained upon examination. Step 2 Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

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***Contingencies***

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

***Stock-Based Compensation***

The Company accounts for its stock-based compensation plans in accordance with the guidance for share-based payments. Accordingly, all stock-based compensation is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expenses over the requisite service period. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options.

The Black-Scholes option pricing model utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is expected to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company s stock price and other factors. To the extent volatility of our stock price increases in the future, our estimates of the fair value of stock options granted in the future could increase, thereby increasing stock-based compensation expense in future periods. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected term of options granted based on our historical experience with our employees exercise of stock options and other factors, including an estimate of the number of share-based awards which will be forfeited due to employee turnover. Changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. Changes in the inputs and assumptions can materially affect the measurement of the estimated fair value of our employee stock options. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Also, the accounting estimate of stock-based compensation expense is reasonably likely to change from period to period as further stock options are granted and adjustments are made for stock option forfeitures and cancellations.

The fair value of our restricted stock grants is based on the fair market value of our common stock on the date of grant discounted for expected future dividends.

**RECENT ACCOUNTING PRONOUNCEMENTS**

*Accounting Pronouncements Issued But Not Yet Adopted*

In June 2009, FASB issued authoritative guidance on accounting for variable interest entities, which is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (referred to as VIE) to a primarily qualitative analysis. The party that consolidates the VIE (the primary beneficiary) is defined as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE s economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a

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change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. The Company is currently evaluating the impact on our consolidated results of operations and financial position.

In September 2009, the FASB ratified authoritative guidance relating to Revenue Recognition, which is effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements with early adoption permitted. The guidance provides greater ability to separate and allocate arrangement consideration in a multiple element revenue arrangement. In addition, it will require the use of estimated selling price to allocate arrangement considerations, therefore eliminating the use of the residual method of accounting. The Company is currently evaluating the impact on our consolidated results of operations and financial position.

**Item 7A.** ***Quantitative and Qualitative Disclosures about Market Risk***

Market risk is the potential loss arising from adverse changes in the financial markets, including interest rates and foreign currency exchange rates.

*Interest Rate Risk*

Our exposure to interest rate risk relates primarily to our money market funds and current and long-term marketable debt securities portfolio. Additionally, if we were to utilize amounts under our Credit Facility, we could be exposed to interest rate risk. Our current and long-term marketable debt securities classified as available for sale and trading consist of auction-rate securities. Our investments in marketable securities are governed by our investment policy, which has been approved by our Board of Directors. Our investment policy seeks to preserve the value of capital, consistent with maximizing return on the Company s investment, while maintaining adequate liquidity. To achieve this objective, we maintain our portfolio in a variety of high credit quality debt securities. Generally, our interest rate risk with respect to these investments is limited due to yields earned, which approximate current interest rates. We attempt to mitigate default risk by maintaining our portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository.

As of December 31, 2009 and December 31, 2008, we have no other assets or liabilities that have significant interest rate sensitivity.

*Investment Risk*

At December 31, 2009, we had publicly traded equity securities totaling $4.5 million included in long-term marketable securities. The fair value of our investments are subject to significant fluctuations due to the volatility of the stock market, changes in general economic conditions and changes in the financial condition of the Companies we invest in. Based on the fair value of the publicly traded equity securities we held at December 31, 2009, an assumed 25%, 40% and 50% adverse change in the market prices of these securities would result in a corresponding decline in total fair value of approximately $1.1 million, $1.8 million and $2.2 million, respectively. Any decline in value below our original investments will be evaluated to determine if the decline in value is considered temporary or other-than-temporary. An other-than-temporary decline in fair value would be included as a charge to earnings.

Beginning in 2008 and continuing into 2009, the securities and credit markets have been experiencing severe volatility and disturbance, increasing risk with respect to certain of our financial assets. At December 31, 2008, the Company determined that the market for its auction-rate securities was inactive. That determination was made considering that there are very few observable transactions for the auction-rate securities or similar securities, the prices for transactions that have occurred are not current, and the observable prices for those transactions to the extent they exist vary substantially either over time or among market makers, thus reducing the potential usefulness of those observations.

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In January 2008, the Company chose to reduce its exposure to auction-rate securities and ceased all purchases of auction-rate securities effective February 1, 2008, prior to when we began to experience failed auctions. There were no realized holding gains or losses resulting from the sales of our auction-rate securities during the twelve months ended December 31, 2008.

The underlying assets of our auction-rate securities are student loans. Student loans are insured by either the Federal Family Education Loan Program, or FFELP, or a combination of FFELP and other monocline insurers such as Ambac Assurance Corp., or AMBAC, and MBIA Insurance Corp., or MBIA. As of February 19, 2010, MBIA was rated Ba3 by Moody s and BB- by Standard and Poor s. AMBAC was rated Ca by Moody s and CC by Standard and Poor s.

If uncertainties in the credit and capital markets continue, these markets deteriorate further or we experience any additional cover rating downgrades on any investments in our portfolio (including on our auction-rate securities), we may incur additional impairments in future periods, which could negatively affect our financial condition, cash flow or reported earnings. Any of these events could materially affect our results of operations, financial condition, and cash flows. In the event we need to access these funds, we could be required to sell these securities at an amount below our original purchase value. However, based on our ability to access our cash and cash equivalents and our other liquid investments, and our expected operating cash flows, we do not expect to be required to sell these securities at a loss. However, there can be no assurance that we will not have to sell these securities at a loss.

*Foreign Currency Risk*

While all of our revenues are within the United States and denominated in U.S. dollars, we purchase Lidoderm®, in U.S. dollars, from Teikoku Seiyaku Co., Ltd., a Japanese manufacturer. As part of the purchase agreement with Teikoku, there is a price adjustment feature that prevents the cash payment in U.S. dollars from falling outside of a certain pre-defined range in Japanese yen even if the spot rate is outside of that range.

A 10% change in foreign currency exchange rates would not have a material impact on our financial condition, results of operations or cash flows.

*Inflation*

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

**Item 8.** ***Financial Statements and Supplementary Data***

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

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

**Item 9A.** ***Controls and Procedures***

***(a) Evaluation of Disclosure Controls and Procedures***

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2009. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2009.

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***(b) Management s Report on Internal Control over Financial Reporting***

The report of management of the Company regarding internal control over financial reporting is set forth in Item 15(a) of this Annual Report on Form 10-K under the caption Management s Report on Internal Control over Financial Reporting and incorporated herein by reference.

***(c) Attestation Report of Independent Registered Public Accounting Firm***

The attestation report of the Company s independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 15(a) of this Annual Report on Form 10-K under the caption Report of Independent Registered Public Accounting Firm and incorporated herein by reference.

***(d) Changes in Internal Control over Financial Reporting***

There were no changes in the Company s internal control over financial reporting during the fourth quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**Item 9B.** ***Other Information***

On February 24, 2010, the Board of Directors approved amended and restated by-laws (the Bylaws ) which provides for the removal of certain provisions relating to Kelso & Company (referred to as Kelso) and its affiliates and Algos Pharmaceutical Corporation (referred to as Algos). Kelso and its affiliates and certain former members of management held an interest in Endo Pharma LLC, which was formed in connection with our acquisition of Algos in 2000. Endo Pharma LLC was a limited liability company that is no longer affiliated with the Company but had historically held significant portions of our common stock.

The Bylaws, as amended and restated, are filed as Exhibit 3.2 to the Annual Report on Form 10-K.

## PART III

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

**Directors**

The information concerning our directors required under this Item is incorporated herein by reference from our proxy statement, which will be filed with the Securities and Exchange Commission, relating to our 2010 Annual Meeting of Stockholders (referred to as our 2010 Proxy Statement).

**Executive Officers**

For information concerning Endo s executive officers, see Item 1. Business Executive Officers of the Registrant and our 2010 Proxy Statement.

**Code of Ethics**

The information concerning our Code of Conduct is incorporated herein by reference from our 2010 Proxy Statement.

**Audit Committee**

The information concerning our Audit Committee is incorporated herein by reference from our 2010 Proxy Statement.

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**Audit Committee Financial Experts**

The information concerning our Audit Committee Financial Experts is incorporated herein by reference from our 2010 Proxy Statement.

**Item 11.** ***Executive Compensation***

The information required under this Item is incorporated herein by reference from our 2010 Proxy Statement.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

*Equity Compensation Plan Information.* The following information relates to plans in effect as of December 31, 2009 under which equity securities of Endo may be issued to employees and directors. Although the Endo Pharmaceuticals Holdings Inc. 2000, 2004 and 2007 Stock Incentive Plans provide that stock options may be granted there under to non-employee consultants, Endo has never granted any such options to any such consultants.

| Plan Category | Column A Number of securities to be issued upon exercise of outstanding options, warrants and rights | Column B Weighted-average exercise price of outstanding options, warrants and rights | Column C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A) |
|---|---|---|---|
| **Equity compensation plans approved by security holders** | | | |
| Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan | 947,355 | 18.24 | 114,004 |
| Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan | 2,886,001 | 25.07 | 979,681 |
| Endo Pharmaceuticals Holdings Inc. 2007 Stock Incentive Plan | 2,692,423 | 21.52(1) | 4,164,565 |

(1) Excludes shares of restricted stock units outstanding

**Equity compensation plans not approved by security holders**

43,500 restricted stock units and 66,503 non-qualified stock options were granted to an executive officer of the Company as an inducement to commence employment with the Company. The restricted stock units and non-qualified stock options were granted outside of the 2007 Stock Incentive Plan but are subject to the terms and conditions of the 2007 Stock Incentive Plan and the applicable award agreements. In accordance with NASDAQ rules, these awards were not required to be approved by the Company s shareholders. The restricted stock units and stock options vest (and, in the case of the options, become exercisable) at a rate of 25% on each of the first four anniversaries of the date of grant.

The other information required under this Item is incorporated herein by reference from our 2010 Proxy Statement.

**Item 13.** ***Certain Relationships and Related Transactions, and Director Independence***

The information required under this Item is incorporated herein by reference from our 2010 Proxy Statement.

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**Item 14.** ***Principal Accountant Fees and Services***

Information about the fees for 2009 and 2008 for professional services rendered by our independent registered public accounting firm is incorporated herein by reference from our 2010 Proxy Statement. Our Audit Committee s policy on pre-approval of audit and permissible non-audit services of our independent registered public accounting firm is incorporated by reference from our 2010 Proxy Statement.

## PART IV

**Item 15.** ***Exhibits, Financial Statement Schedules***

*Documents filed as part of this Annual Report on Form 10-K*

1. Consolidated Financial Statements: See accompanying Index to Consolidated Financial Statements.

2. Consolidated Financial Statement Schedule:

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

**(in thousands)**

| | Balance at Beginning of Period | Additions, Costs and Expenses | Deductions, Write-offs | Balance at End of Period |
|---|---|---|---|---|
| **Allowance For Doubtful Accounts:** | | | | |
| Year Ended December 31, 2007 | $ 1,475 | $ | $ (10) | $ 1,465 |
| Year Ended December 31, 2008 | $ 1,465 | $ | $ | $ 1,465 |
| Year Ended December 31, 2009 | $ 1,465 | $ | $ (442) | $ 1,023 |

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

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

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## SIGNATURES

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

ENDO PHARMACEUTICALS HOLDINGS INC.
(Registrant)

/s/ David P. Holveck
**Name:** **David P. Holveck**
**Title:** ***President and Chief Executive Officer,***
Date: February 26, 2010

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

| Signature | Title | Date |
|---|---|---|
| /s/ David P. Holveck | President and Chief Executive Officer | February 26, 2010 |
| **David P. Holveck** | | |
| /s/ Alan G. Levin | Executive Vice President, Chief Financial Officer | February 26, 2010 |
| **Alan G. Levin** | | |
| * | Chairman and Director | February 26, 2010 |
| **Roger H. Kimmel** | | |
| * | Director | February 26, 2010 |
| **John J. Delucca** | | |
| * | Director | February 26, 2010 |
| **Nancy J. Hutson, Ph.D.** | | |
| * | Director | February 26, 2010 |
| **Michael Hyatt** | | |
| * | Director | February 26, 2010 |
| **Clive A. Meanwell, M.D., Ph.D.** | | |
| * | Director | February 26, 2010 |
| **William P. Montague** | | |
| * | Director | February 26, 2010 |

| | | | |
|---|---|---|---|
| | **Joseph C. Scodari** | | |
| | * | Director | February 26, 2010 |
| | **William F. Spengler** | | |
| *By: | /s/ CAROLINE B. MANOGUE | Attorney-in-fact, pursuant to a Power of Attorney filed with this Report as Exhibit 24 | February 26, 2010 |
| | **Caroline B. Manogue** | | |

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## INDEX TO FINANCIAL STATEMENTS

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**MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Endo Pharmaceuticals Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Endo Pharmaceuticals Holdings Inc. s internal control system was designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation and fair presentation of its published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Endo Pharmaceuticals Holdings Inc. s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of December 31, 2009, the Company s internal control over financial reporting is effective based on those criteria.

Endo Pharmaceuticals Holdings Inc. s independent registered public accounting firm has issued its report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. This report appears on page F-4.

/s/ DAVID P. HOLVECK
David P. Holveck

President and Chief Executive Officer

/s/ ALAN G. LEVIN
Alan G. Levin
Executive Vice President, Chief Financial Officer
February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Endo Pharmaceuticals Holdings Inc.

Chadds Ford, Pennsylvania

We have audited the accompanying consolidated balance sheets of Endo Pharmaceuticals Holdings Inc. and subsidiaries (the Company ) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Endo Pharmaceuticals Holdings Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the new authoritative guidance on convertible debt instruments that may be settled in cash or other assets upon conversion, effective January 1, 2009.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Endo Pharmaceuticals Holdings Inc.

Chadds Ford, Pennsylvania

We have audited the internal control over financial reporting of Endo Pharmaceuticals Holdings Inc. and subsidiaries (the Company ) as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company and our report dated February 26, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the adoption of the new authoritative guidance on convertible debt instruments that may be settled in cash or other assets upon conversion, effective January 1, 2009.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

February 26, 2010

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2009 AND 2008**

**(In thousands, except share and per share data)**

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 708,462 | $ 775,693 |
| Restricted cash | 1,515 | |
| Marketable securities | 25,275 | 6,500 |
| Accounts receivable, net of allowance of $1,023 and $1,465 at December 31, 2009 and 2008 | 323,501 | 246,326 |
| Income taxes receivable | 13,762 | 1,600 |
| Inventories | 84,893 | 80,656 |
| Prepaid expenses and other current assets | 17,081 | 24,515 |
| Auction-rate Securities Rights, at fair value | 15,659 | |
| Deferred income taxes | 90,433 | 48,404 |
| Total current assets | 1,280,581 | 1,183,694 |
| MARKETABLE SECURITIES | 211,792 | 239,204 |
| AUCTION-RATE SECURITIES RIGHTS, at fair value | | 27,321 |
| PROPERTY AND EQUIPMENT, Net | 47,529 | 44,378 |
| GOODWILL | 302,534 | 181,079 |
| OTHER INTANGIBLES, Net | 609,909 | 205,055 |
| OTHER ASSETS | 36,458 | 28,002 |
| TOTAL ASSETS | $ 2,488,803 | $ 1,908,733 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 176,076 | $ 160,468 |
| Accrued expenses | 286,606 | 226,005 |
| Income taxes payable | 9,498 | |
| Total current liabilities | 472,180 | 386,473 |
| DEFERRED INCOME TAXES | 49,180 | 1,270 |
| ACQUISITION-RELATED CONTINGENT CONSIDERATION | 58,470 | |
| CONVERTIBLE SENIOR SUBORDINATED NOTES DUE 2015 | 260,279 | 243,150 |
| NON-RECOURSE NOTES PAYABLE | 62,255 | |
| OTHER LIABILITIES | 89,028 | 70,729 |
| COMMITMENTS AND CONTINGENCIES (NOTE 14) | | |
| STOCKHOLDERS EQUITY: | | |
| Preferred Stock, $0.01 par value; 40,000,000 shares authorized; none issued | | |
| Common Stock, $0.01 par value; 350,000,000 shares authorized; 134,986,612 and 134,302,004 shares issued; 117,270,309 and 116,585,701 outstanding at December 31, 2009 and 2008, respectively | 1,350 | 1,343 |
| Additional paid-in capital | 817,467 | 793,285 |
| Retained earnings | 1,105,291 | 838,955 |
| Accumulated other comprehensive loss | (1,881) | (1,656) |
| Treasury stock, 17,716,303 shares at December 31, 2009 and December 31, 2008 | (424,816) | (424,816) |

| | | |
|---|---|---|
| Total stockholders equity | 1,497,411 | 1,207,111 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | $ 2,488,803 | $ 1,908,733 |

See notes to consolidated financial statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(In thousands, except per share data)**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| REVENUES: | | | |
| Net sales | $ 1,451,577 | $ 1,260,536 | $ 1,085,608 |
| Royalty and other revenue | $ 9,264 | | |
| TOTAL REVENUES | $ 1,460,841 | $ 1,260,536 | $ 1,085,608 |
| COSTS AND EXPENSES: | | | |
| Cost of revenues | 375,058 | 267,235 | 217,369 |
| Selling, general and administrative | 534,523 | 488,063 | 411,869 |
| Research and development | 185,317 | 110,211 | 138,255 |
| Acquisition-related items | (93,081) | | |
| Impairment of other intangible assets | 69,000 | 8,083 | 889 |
| Purchased in-process research and development | | (530) | |
| OPERATING INCOME | 390,024 | 387,474 | 317,226 |
| INTEREST EXPENSE (INCOME), NET | 37,718 | (6,107) | (35,426) |
| OTHER (INCOME) EXPENSE, NET | (3,329) | 1,753 | (598) |
| GAIN ON EXTINGUISHMENT OF DEBT, NET | (4,025) | | |
| INCOME BEFORE INCOME TAX | 359,660 | 391,828 | 353,250 |
| INCOME TAX | 93,324 | 136,492 | 125,810 |
| NET INCOME | $ 266,336 | $ 255,336 | $ 227,440 |
| NET INCOME PER SHARE: | | | |
| Basic | $ 2.27 | $ 2.07 | $ 1.70 |
| Diluted | $ 2.27 | $ 2.06 | $ 1.69 |
| WEIGHTED AVERAGE SHARES: | | | |
| Basic | 117,112 | 123,248 | 133,903 |
| Diluted | 117,515 | 123,720 | 134,525 |

See notes to consolidated financial statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(In thousands, except share data)**

| | Common Stock | | | | | Treasury Stock | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number Of Shares | Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Number of Shares | Amount | Total Stockholders Equity | Comprehensive Income |
| BALANCE, January 1, 2007 | 133,600,959 | $ 1,336 | $ 679,704 | $ 358,831 | $ 1,117 | | $ | $ 1,040,988 | |
| Estimated tax sharing distributions due to Endo Pharma LLC | | | (506) | | | | | (506) | |
| Compensation related to stock-based awards | | | 13,928 | | | | | 13,928 | |
| Grants of restricted stock awards | 13,572 | | | | | | | | |
| Exercise of options | 530,462 | 5 | 7,726 | | | | | 7,731 | |
| Tax benefits of stock awards | | | 3,453 | | | | | 3,453 | |
| Cumulative effect from the adoption of ASC 740 | | | | (2,652) | | | | (2,652) | |
| Unrealized gain on securities, net of tax | | | | | 1,908 | | | 1,908 | 1,908 |
| Net income | | | | 227,440 | | | | 227,440 | 227,440 |
| Comprehensive income | | | | | | | | | $ 229,348 |
| BALANCE, DECEMBER 31, 2007 | 134,144,993 | $ 1,341 | $ 704,305 | $ 583,619 | $ 3,025 | | $ | $ 1,292,290 | |
| Estimated tax sharing distributions due to Endo Pharma LLC | | | 14 | | | | | 14 | |
| Compensation related to stock-based awards | | | 16,934 | | | | | 16,934 | |
| Forfeiture of restricted stock awards | (1,131) | | | | | | | | |
| Exercise of options | 150,191 | 2 | 2,233 | | | | | 2,235 | |
| Tax benefits of stock awards | | | (92) | | | | | (92) | |
| Common stock issued | 7,951 | | 185 | | | | | 185 | |
| Issuance of Convertible Senior Subordinated Notes due 2015, net of tax of $56,417 | | | 85,782 | | | | | 85,782 | |
| Sale of common stock warrants | | | 50,371 | | | | | 50,371 | |
| Purchase of common stock call options | | | (107,607) | | | | | (107,607) | |
| Tax benefit of call options | | | 41,160 | | | | | 41,160 | |
| Treasury stock acquired | | | | | | (17,716,303) | (424,816) | (424,816) | |
| Unrealized gain on securities, net of tax | | | | | (31,098) | | | (31,098) | (31,098) |
| Reclassification due to other-than-temporary impairment | | | | | 26,417 | | | 26,417 | 26,417 |
| Net income | | | | 255,336 | | | | 255,336 | 255,336 |
| Comprehensive income | | | | | | | | | $ 250,655 |
| | 134,302,004 | $ 1,343 | $ 793,285 | $ 838,955 | $ (1,656) | (17,716,303) | $ (424,816) | $ 1,207,111 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| BALANCE, DECEMBER 31, 2008 | | | | | | | | | |
| Compensation related to stock-based awards | | | 19,593 | | | | | 19,593 | |
| Forfeiture of restricted stock awards | (1,131) | | | | | | | | |
| Exercise of options | 554,827 | 6 | 8,031 | | | | | 8,037 | |
| Tax benefits of stock awards | | | (3,693) | | | | | (3,693) | |
| Common stock issued | 130,912 | 1 | 251 | | | | | 252 | |
| Treasury stock acquired | | | | | | | | | |
| Unrealized loss on securities, net of tax | | | | | (225) | | | (225) | (225) |
| Net income | | | | 266,336 | | | | 266,336 | 266,336 |
| Comprehensive income | | | | | | | | | $ 266,111 |
| BALANCE, DECEMBER 31, 2009 | 134,986,612 | $ 1,350 | $ 817,467 | $ 1,105,291 | $ (1,881) | (17,716,303) | $ (424,816) | $ 1,497,411 | |

See notes to consolidated financial statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(In thousands)**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net income | $ 266,336 | $ 255,336 | $ 227,440 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 80,381 | 46,445 | 17,405 |
| Stock-based compensation | 19,593 | 16,934 | 13,928 |
| Amortization of deferred financing/debt issuance costs and premium/discount | 19,503 | 13,833 | (1,114) |
| Selling, general and administrative expenses paid in shares of common stock | 251 | 185 | |
| Deferred income taxes | (36,395) | 3,082 | (1,624) |
| (Gain) loss on disposal of property and equipment | (16) | 143 | (495) |
| Change in the fair value of acquisition-related contingent consideration | (128,090) | | |
| Loss (gain) on auction-rate securities rights | 11,662 | (27,321) | |
| Unrealized (gain) loss on trading securities | (15,222) | 4,225 | |
| Gain on extinguishment of debt | (4,025) | | |
| Impairment of long-lived assets | 69,000 | 12,680 | 3,164 |
| Purchased in-process research and development | | (530) | |
| Other-than-temporary impairment of available-for-sale securities | | 26,417 | |
| Changes in assets and liabilities which provided (used) cash: | | | |
| Accounts receivable | (62,584) | 3,458 | 30,430 |
| Inventories | 12,920 | (11,428) | (7,099) |
| Note receivable | | (489) | 86 |
| Prepaid and other assets | 13,554 | (1,755) | (3,347) |
| Accounts payable | 12,068 | (17,969) | 52,496 |
| Accrued expenses | 34,112 | 40,561 | 22,884 |
| Other liabilities | 9,653 | 11,009 | 4,323 |
| Income taxes receivable/payable | (7,295) | (19,189) | 7,265 |
| Net cash provided by operating activities | 295,406 | 355,627 | 365,742 |
| INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | (12,415) | (17,428) | (20,007) |
| Purchases of available-for-sale securities | | (134,211) | (806,409) |
| Proceeds from sales of trading securities | 23,750 | 975 | |
| Proceeds from sales of available-for-sale securities | | 447,111 | 214,901 |
| Proceeds from sale of property and equipment | | 27 | 162 |
| Principal payments on note receivable | | 3,333 | |
| License fees | (4,485) | (85,000) | |
| Acquisition, net of cash acquired | (250,359) | (15,000) | |
| Distribution of equity method investment | | | 2,125 |
| Other investments | (2,000) | (20,000) | (5,300) |
| Net cash (used in) provided by investing activities | (245,509) | 179,807 | (614,528) |
| FINANCING ACTIVITIES: | | | |
| Capital lease obligations repayments | (250) | (625) | (1,118) |
| Tax sharing payments to Endo Pharma LLC | | (671) | (38,514) |

| | | | |
|---|---|---|---|
| Tax benefits of stock awards | 717 | 307 | 2,927 |
| Deferred financing fees | (5,162) | | |
| Exercise of Endo Pharmaceuticals Holdings Inc. Stock Options | 8,037 | 2,235 | 7,731 |
| Principal payments on 6.25% convertible notes due July 2009 | (71,990) | | |
| Principal payments on non-recourse notes payable | (48,480) | | |
| Net proceeds from issuance of convertible senior subordinated notes due 2015 | | 370,740 | |
| Purchase of hedge on convertible senior subordinated notes due 2015 | | (107,607) | |
| Sale of common stock warrants | | 50,371 | |
| Purchase of common stock | | (424,816) | |
| Net cash used in financing activities | (117,128) | (110,066) | (28,974) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (67,231) | 425,368 | (277,760) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 775,693 | 350,325 | 628,085 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 708,462 | $ 775,693 | $ 350,325 |

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(In thousands)**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| SUPPLEMENTAL INFORMATION: | | | |
| Interest paid | $ 19,265 | $ 3,373 | $ 117 |
| Income taxes paid | $ 126,431 | $ 142,660 | $ 110,305 |
| SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Purchase of property and equipment financed by capital leases | $ 235 | $ 798 | $ 419 |
| Accrual for purchases of property and equipment | $ 2,635 | $ 4,211 | $ 4,643 |
| Settlement of note receivable | $ | $ (46,667) | $ |
| Acquisition of license rights | $ | $ 90,657 | $ |
| Transfer of securities from available-for-sale to trading | $ | $ 228,633 | $ |
| In connection with the purchase of all of the capital stock of Indevus Pharmaceuticals, Inc., liabilities were assumed as follows: | | | |
| Fair value of assets acquired | $ 868,581 | $ | $ |
| Cash paid for the capital stock | (368,034) | $ | $ |
| Contingent consideration | (172,860) | $ | $ |
| Liabilities assumed | $ 449,142 | $ | $ |

See notes to consolidated financial statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**NOTE 1. Description of Business**

Endo Pharmaceuticals Holdings Inc. (referred to as the Company or we) is a specialty pharmaceutical company. The Company, through its wholly-owned subsidiary, Endo Pharmaceuticals Inc. (referred to as Endo or EPI), is engaged in the research, development, manufacturing, marketing and sale of branded and generic prescription pharmaceuticals used primarily to treat and manage pain, overactive bladder, prostate and bladder cancer and the early onset of puberty in children, or central precocious puberty. The Company was incorporated on November 18, 1997 under the laws of the state of Delaware. The stock of Endo is the only asset of the Company, and the Company has no other operations or business.

In the first quarter of 2009, we acquired Indevus Pharmaceuticals (referred to as Indevus), a specialty pharmaceutical company engaged in the acquisition, development and commercialization of products to treat conditions in urology and endocrinology.

**NOTE 2. Summary of Significant Accounting Policies**

*Principles of Consolidation* The consolidated financial statements include the accounts of Endo Pharmaceuticals Holdings Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated.

*Reclassifications* Certain prior period amounts in the Consolidated Balance Sheets, Statements of Cash Flows and Statements of Operations have been reclassified to conform to the current period presentation.

*Use of Estimates* The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made and assumptions used are in the determination of sales deductions for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and losses; inventory reserves; deferred taxes; contingencies; the valuation of stock-based compensation; the capitalization of and the selection of amortization periods for intangible assets with finite lives; fair value of acquisition-related contingent consideration; and the assessment of the recoverability of long-lived and other intangible assets, including goodwill.

*Customer, Product and Supplier Concentration* We sell our products directly to a limited number of large pharmacy chains and through a limited number of wholesale drug distributors who, in turn, supply products to pharmacies, hospitals, governmental agencies and physicians. Net sales to customers who accounted for 10% or more of our net sales during the years ended December 31 were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cardinal Health, Inc. | 35% | 36% | 34% |
| McKesson Corporation | 29% | 31% | 31% |
| AmerisourceBergen Corporation. | 16% | 15% | 15% |

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The Company derives a majority of its net sales from a limited number of products. Products that accounted for 10% or more of our Net sales during the years ended December 31 were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Lidoderm® | 52% | 61% | 65% |
| Opana® ER and Opana® | 16% | 14% | 10% |
| Percocet® | 9% | 10% | 11% |

We have agreements with Novartis Consumer Health, Inc., Novartis AG, Teikoku Seiyaku Co., Ltd., Almac Pharma Services and Sharp Corporation for the manufacture and supply of a substantial portion of our existing pharmaceutical products. Additionally, we utilize UPS Supply Chain Solutions, Inc. for customer service support, warehouse and distribution services (see Note 14 for further details).

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

*Sales Deductions* When we recognize revenue from the sale of our products, we simultaneously record an adjustment to revenue for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and losses. These provisions, are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these adjustments do not appropriately reflect future activity, our financial position, results of operations and cash flows could be materially impacted.

*Research and Development* Expenditures for research and development are expensed as incurred. Property and equipment that are acquired or constructed for research and development activities and that have alternate future uses are capitalized and depreciated over their estimated useful lives on a straight-line basis. Upfront and milestone payments made to third parties in connection with agreements with third parties are generally expensed as incurred up to the point of regulatory approval, absent any alternative future uses. Payments made to third parties subsequent to regulatory approval are generally capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in other intangibles, net of accumulated amortization.

*Purchased In-Process Research and Development* Purchased in-process research and development (referred to as IPR&D) represents the estimated fair value assigned to research and development projects acquired in a purchase business combination or asset acquisition that have not been completed at the date of acquisition and which have no alternative future use. IPR&D assets acquired in a business combination after January 1, 2009, are capitalized as indefinite-lived intangible assets. These assets remain indefinite-lived until the completion or abandonment of the associated research and development efforts. During the period in which (i.e., the period prior to completion or abandonment) those acquired indefinite- lived assets are not amortized but are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Alternatively, the fair value of assets acquired as part of an asset acquisition is charged to expense as of the date of acquisition.

*Cash and Cash Equivalents* The Company considers all highly liquid money market instruments with an original maturity of three months or less when purchased to be cash equivalents. At December 31, 2009, cash equivalents were deposited in financial institutions and consisted of immediately available fund balances. The Company maintains its cash deposits and cash equivalents with well-known and stable financial institutions.

*Marketable Securities* At the time of purchase, we classify our marketable securities as either available-for-sale securities or trading securities, depending on our intent at that time. In rare or unique circumstances, management may determine that a one-time transfer of securities from available-for-sale to a trading classification is appropriate.

Available-for-sale and trading securities are carried at fair value with unrealized holding gains and losses recorded within other comprehensive income or net income, respectively. Fair value is determined based on observable market quotes or valuation models using assessments of counterparty credit worthiness, credit default risk or underlying security and overall capital market liquidity. The Company reviews unrealized losses associated with available-for-sale securities to determine the classification as a temporary or other-than-temporary impairment. A temporary impairment results in an unrealized loss being recorded in other comprehensive income. An impairment that is viewed as other-than-temporary is recognized in net income. The Company considers various factors in determining the classification, including the length of time and extent to which the fair value has been less than the Company s cost basis, the financial condition and near-term prospects of the issuer or investee, and the Company s ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Generally, the Company classifies marketable securities as current when maturity is less than or equal to twelve months or, if time to maturity is greater than twelve months, when they represent investments of cash that are intended to be used in current operations.

The cost of securities sold is based on the specific identification method. Auction-rate securities that become illiquid as a result of a failed auction are generally classified as non-current assets as the Company cannot predict when future auctions related to these securities will be successful.

*Concentrations of Credit Risk* Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, marketable debt securities, and accounts receivable. We invest our excess cash in high-quality, liquid money market instruments and auction-rate debt securities maintained by major U.S. banks and financial institutions. We have not experienced any losses on our cash equivalents.

At December 31, 2009, $232.6 million of our marketable securities portfolio is invested in auction-rate securities with underlying ratings ranging from AAA to Baa. As explained in Note 3, the fair value of these securities, as determined using a valuation model, was $232.6 million, $16.5 million less than their original par value of approximately $249.1 million. Due to the continuing changes and uncertainty in the credit markets, it is possible that the valuation of auction-rate securities will further fluctuate in the near term.

We perform ongoing credit evaluations of our customers and generally do not require collateral. We have no history of significant losses from uncollectible accounts. Approximately 78% and 86% of our trade accounts receivable balance represent amounts due from three customers at December 31, 2009 and 2008, respectively.

*Inventories* Inventories consist of finished goods held for distribution, raw materials and work-in-process. Our inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. We write-down inventories to net realizable value based on forecasted demand and market conditions, which may differ from actual results.

*Property and Equipment* Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful life of the related assets, ranging from two to ten years, on a straight-line basis. Leasehold improvements and capital lease assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the terms of their respective leases.

*License Rights* The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from five to twenty years, with a weighted average useful life of approximately 10.3 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms.

*Impairment of Long-Lived Assets* Long-lived assets, which includes property and equipment, and other intangible assets, are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The impairment testing involves comparing the carrying amount of the asset to the forecasted undiscounted future cash flows generated by that asset. In the event the carrying value of the asset exceeds the undiscounted future cash flows generated by that asset and the carrying value is not considered recoverable, an 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. An impairment loss would be recognized in net income in the period that the impairment occurs.

*Goodwill* Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is carried at cost. Goodwill is not amortized; rather, it is subject to a periodic assessment for impairment by applying a fair value based test. Goodwill is assessed for impairment on an annual basis as of January 1st of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment model prescribes a two-step method for determining a goodwill impairment. In the first step, we determine the fair value of our two reporting units using a discounted cash flow analysis. If the net book values of our reporting units exceed the fair value, we would then perform the second step of the impairment test which requires allocation of our reporting units fair value to all of its assets and liabilities using the acquisition method prescribed under authoritative guidance for business combinations with any residual fair value being allocated to goodwill. An impairment charge will be recognized only when the implied fair value of our reporting unit s goodwill is less than its carrying amount.

*Advertising Costs* Advertising costs are expensed as incurred and included in selling, general and administrative expenses and amounted to $56.9 million, $50.9 million and $47.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

*Income Taxes* Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to assess the likelihood of realization are the Company s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company s effective tax rate on future earnings.

Effective January 1, 2007, we adopted the provisions for accounting for uncertain tax provisions, Accordingly, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not

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that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

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

*Contingent Consideration* We account for contingent consideration in a purchase business combination in accordance with applicable guidance provided within the business combination rules. As part of our consideration for the Indevus acquisition, we are contractually obligated to pay additional purchase price consideration upon the achievement of certain regulatory or commercial milestones. Therefore, we are required to update our assumptions each reporting period, based on new developments, and record such amounts at fair value until such consideration is satisfied.

*Stock-Based Compensation* Effective January 1, 2006, the Company adopted the fair value recognition provisions for share based compensation using the modified-prospective-transition method. Under that transition method, compensation cost recognized during the years ended December 31, 2009, 2008 and 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value.

*Segment Information* We report segment information in accordance with applicable guidance on segment disclosures. We have one reportable segment, pharmaceutical products.

*Comprehensive Income* Comprehensive income includes all changes in equity during a period except those that resulted from investments by or distributions to a company s stockholders. Other comprehensive income or loss refers to revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to stockholders equity. Our other comprehensive income or loss is comprised of unrealized holding gains and losses, net of income taxes.

*Treasury Stock* Treasury stock consists of shares of Endo Pharmaceuticals Holdings Inc. that have been issued but subsequently reacquired. We account for treasury stock purchases under the cost method. In accordance with the cost method, we account for the entire cost of acquiring shares of our stock as treasury stock, which is a contra equity account. If these shares are reissued, we use an average cost method for determining cost. Proceeds in excess of cost would then be credited to additional paid-in capital. No treasury shares have been reissued as of December 31, 2009.

*Convertible Senior Subordinated Notes* We accounted for the issuance of our 1.75% Convertible Senior Subordinated Notes due April 2015 (referred to as the Convertible Notes) in accordance with the guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion, which among other items, specifies that contracts issued or held by an entity that are both (1) indexed to the entities own common stock and (2) classified in stockholders equity in its statement of financial position are not considered to be derivative financial instruments if the appropriate provisions are met. Accordingly, we have recorded the Convertible Notes as long-term debt in the accompanying consolidated balance sheets.

Concurrent with the issuance of the Convertible Notes we entered into privately negotiated common stock call options with affiliates of the initial purchasers. In addition, we sold warrants to affiliates of certain of the initial purchasers. In addition to entering into the convertible note hedge transaction and the warrant transaction, we entered into a privately-negotiated accelerated share repurchase agreement with the same counterparty, as

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part of our broader share repurchase program described in Note 12. We accounted for the call options, warrants, and accelerated share repurchase agreement in accordance with the guidance regarding the accounting derivative financial instruments indexed to, and potentially settled in, a company s own stock. The call options, warrants, and accelerated share repurchase agreement meet the requirements to be accounted for as equity instruments. The cost of the call options and the proceeds related to the sale of the warrants are included in additional paid-in capital in the accompanying consolidated balance sheet.

*Recently Adopted Accounting Pronouncements*

The Company adopted new authoritative guidance on business combinations for acquisitions occurring on or after January 1, 2009. This requires recognition of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. In a business combination achieved in stages, this pronouncement requires recognition of identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. This pronouncement also requires the fair value of acquired in-process research and development ( referred to as IPR&D) to be recorded as indefinite lived intangibles, contingent consideration to be recorded on the acquisition date, and restructuring and acquisition-related deal costs to be expensed as incurred. In addition, any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. See Note 5 for Indevus purchase accounting details.

The Company adopted new authoritative guidance on collaborative arrangements which was effective January 1, 2009 and the provisions have been applied retroactively. According to this pronouncement a collaborative arrangement is one in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavor. Payments to or from collaborators are evaluated and presented based on the nature of the arrangement and its terms, the nature of the entity s business, and whether those payments are within the scope of other accounting literature. The nature and purpose of collaborative arrangements are disclosed along with the accounting policies and the classification of significant financial statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity are accounted for under other accounting literature; however, required disclosure applies to the entire collaborative agreement. This pronouncement did not have a material impact on the Company s consolidated financial statements.

The Company adopted new authoritative guidance on the fair value option for financial assets and financial liabilities which became effective for fiscal years beginning after November 15, 2007. The Standard s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. This authoritative guidance helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. This Standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the Company s choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. Upon adoption, we chose not to elect the fair value option for our existing financial assets and liabilities. Therefore, the adoption did not have any impact on our consolidated financial statements. In November 2008, simultaneously with our execution of the agreement with UBS with respect to certain auction rate securities in UBS accounts, we elected the fair value option for the auction-rate securities rights (See Note 3).

The Company adopted the new authoritative guidance on convertible debt instruments that may be settled in cash or other assets on conversion as of January 1, 2009. The guidance requires that issuers of convertible debt instruments that may be settled in cash or other assets on conversion to separately account for the liability and equity components of the instrument in a manner that will reflect the entity s nonconvertible debt borrowing rate on the instrument s issuance date when interest cost is recognized in subsequent periods. Our Convertible Notes are within the scope of this new guidance. Therefore, we are required to separate the debt portion of our Convertible Notes from the equity portion at their fair value retrospective to the date of issuance and amortize the resulting discount into interest expense over the life of the debt. The provisions of the guidance are to be applied retrospectively to all periods presented upon adoption and became effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption will result in the recognition of approximately $138.7 million of additional interest expense, on a pre-tax basis, over the life of our Convertible Notes. See Note 17 for further details.

The Company adopted the new authoritative guidance on determining the fair value of a financial asset when the market for that asset is not active for the period ending September 30, 2008. The guidance clarifies the application of fair value measurements when determining the fair value of a financial asset when the market for that asset is not currently active. Additionally, it emphasizes that approaches other than the market approach to determining fair value may be appropriate when it is determined that, as a result of market inactivity, other valuation approaches are more representative of fair value. Other valuation approaches can involve significant assumptions regarding future cash flows. The guidance clarifies that these assumptions must incorporate adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset in an inactive market. See Note 3 for a further discussion of fair value.

The Company adopted the new authoritative guidance on interim disclosure about fair value of financial instruments beginning with the period ending June 30, 2009. The guidance amends previous authoritative guidance by requiring disclosures with respect to the fair value of financial instruments in interim and annual financial statements. The adoption did not have a material effect on the Company s consolidated results of operations or financial condition; however it did result in enhanced disclosures about fair value of financial instruments in our interim financial statements. See Note 3, Fair Value Measurements for further discussion.

*Accounting Pronouncements Issued But Not Yet Adopted*

In June 2009, FASB issued authoritative guidance on accounting for variable interest entities, which is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (referred to as a VIE) to a primarily qualitative analysis. The party that consolidates the VIE (the primary beneficiary) is defined as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE s economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. The company is currently evaluating the impact on our consolidated results of operations and financial position.

In September 2009, the FASB ratified authoritative guidance relating to revenue recognition in multiple element arrangements, which is effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements with early adoption permitted. The guidance provides greater ability to separate and allocate arrangement consideration in a multiple element revenue arrangement. In addition, it will require the use of estimated selling price to allocate arrangement considerations, therefore eliminating the use of the residual method of accounting. The Company is currently evaluating the impact on our consolidated results of operations and financial position.

**NOTE 3. Fair Value Measurements**

The financial instruments recorded in our Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, marketable securities, auction-rate securities rights, equity and cost method investments, accounts payable, acquisition related contingent consideration and our debt obligations. Included in cash and cash equivalents are money market funds representing a type of mutual fund required by law to invest in low-risk securities (for example, U.S. government bonds, U.S. Treasury Bills and commercial paper). Money market funds are structured to maintain the fund s net asset value at $1 per unit, which assists in ensuring adequate liquidity upon demand by the holder. Money market funds pay dividends that generally reflect short-term interest rates. Thus, only the dividend yield fluctuates. Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values.

The following table presents the carrying amounts and estimated fair values of our other financial instruments for the years ended December 31 (in thousands):

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Current assets: | | | | |
| Auction-rate securities | $ 25,275 | $ 25,275 | $ 6,500 | $ 6,500 |
| Auction-rate securities rights | 15,659 | 15,659 | | |
| Long-term assets: | | | | |
| Auction-rate securities | 207,334 | 207,334 | 234,005 | 234,005 |
| Auction-rate securities rights | | | 27,321 | 27,321 |
| Equity securities | 4,458 | 4,458 | 5,199 | 5,199 |
| Equity and cost method investments | 30,236 | N/A | 27,343 | N/A |
| | $ 282,962 | | $ 300,368 | |
| Long-term liabilities: | | | | |
| Acquisition-related contingent consideration | $ (58,470) | $ (58,470) | $ | $ |
| 1.75% Convertible Senior Subordinated Notes Due 2015 | $ (260,279) | $ (277,651) | $ (243,150) | $ (236,852) |
| Non-recourse Notes Payable | (62,255) | (61,896) | | |
| Minimum Voltaren® Gel royalties due to Novartis | (49,996) | (49,996) | (46,625) | (46,625) |
| | $ (431,000) | $ (448,013) | $ (289,775) | $ (283,477) |

Equity securities consist of publicly traded common stock the value which is based on a quoted market price. These securities are not held to support current operations and are therefore classified as non-current assets. The acquisition-related contingent consideration represents amounts payable to the former shareholders under contingent cash consideration agreements relating to the development of Aveed™ and octreotide (see Note 5 for further details). These amounts are required to be measured at fair value on a recurring basis. The fair value of our 1.75% Convertible Senior Subordinated Notes is based on an income approach known as the binomial lattice model which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and a stock price volatility of 36% that was based on historic volatility of the Company s common stock and other factors. The Non-recourse Notes were recorded at fair value as of February 23, 2009, the date we acquired Indevus. Fair value was determined using an income approach (present value technique). The Non-recourse Notes due in 2024 are being amortized down to their face value at maturity of $57.0 million (see Note 17 for further details). The fair value of our Non-recourse Notes at December 31, 2009 was determined using an income approach (present value technique) consistent with the methodology used as of February 23, 2009.

The minimum Voltaren® Gel royalty due to Novartis AG was recorded at fair value at inception during 2008 using an income approach (present value technique) and is being accreted up to the maximum potential future payment of $60.0 million. The Company is not aware of any events or circumstances that would have a significant effect on the fair value of this Novartis AG liability. We believe the carrying amount of this minimum royalty guarantee at December 31, 2009 represents a reasonable approximation of the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. Accordingly, the carrying value approximates fair value as of December 31, 2009. The fair value of equity method and cost

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method investments is not readily available nor have we estimated the fair value of these investments and disclosure is not required. The Company is not aware of any identified events or changes in circumstances that would have a significant adverse effect on the carrying value of our $20.0 million cost method investment.

As of December 31, 2009, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including money market funds, available-for-sale securities and trading securities, auction-rate securities rights, and acquisition-related contingent consideration. In addition, due to developments during the fourth quarter ended December 31, 2009, the Company was required to measure certain indefinite-lived intangible assets which are subject to the fair value guidance on a nonrecurring basis. Fair value guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; 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 and that are significant to the fair value of the assets or liabilities.

The Company s financial assets and liabilities measured at fair value on a recurring basis at December 31, 2009, were as follows (in thousands):

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Assets:** | | | | |
| Money market funds | $ 279,772 | $ | $ | $ 279,772 |
| Auction-rate securities | 25,275 | | 207,334 | 232,609 |
| Auction-rate securities rights | | | 15,659 | 15,659 |
| Equity securities | 4,458 | | | 4,458 |
| Total | $ 309,505 | $ | $ 222,993 | $ 532,498 |
| **Liabilities:** | | | | |
| Acquisition-related contingent consideration long-term | | | (58,470) | $ (58,470) |
| Total | $ | $ | $ (58,470) | $ (58,470) |

Auction-rate securities included in Level 1 represent trading securities that were sold subsequent to December 31, 2009 at amounts equal to our original par value investment. Consequently, these trading securities categorized within Level 1 of the fair value hierarchy are classified as current marketable securities at December 31, 2009.

*Overview of Auction-Rate Securities*

Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven, twenty-eight, or thirty-five days; every six months; etc.). In an active market, auction-rate securities are bought and sold at each reset date through a competitive bidding process, often referred to as a Dutch auction . Auctions are successful when the supply and demand of securities are in balance. Financial institutions brokering the auctions would also participate in the auctions to balance the supply and demand. Beginning in the second half of 2007, auctions began to fail for specific securities and in mid-February 2008 auction failures became common, prompting market participants, including financial institutions, to cease or limit their exposure to the auction-rate market. Given the current negative liquidity conditions in the global credit markets, the auction-rate securities market has become inactive. Consequently, our auction-rate securities are currently illiquid through the normal auction process. As a result of the inactivity in the market, quoted market prices and other observable data are not available or their utility is limited.

At December 31, 2009 and 2008, the Company determined that the market for its auction-rate securities were inactive. That determination was made considering that there are very few observable transactions for the auction-rate securities or similar securities, the prices for transactions that have occurred are not current, and the observable prices for those transactions to the extent they exist vary substantially either over time or among market makers, thus reducing the potential usefulness of those observations. In addition, the current lack of liquidity prevents the Company from comparing our securities directly to securities with quoted market prices.

The Company s auction-rate securities consist of municipal bonds with an auction reset feature, the underlying assets of which are student loans that are backed substantially by the federal government and have underlying credit ratings of Baa3 or better as of December 31, 2009. Further, the issuers have been making interest payments promptly.

*Overview of Auction-Rate Securities Rights*

In October 2008, UBS AG (referred to as UBS) made an offer (referred to as the UBS Offer) to the Company and other clients of UBS Securities LLC and UBS Financial Services Inc. (collectively referred to as the UBS Entities), pursuant to which the Company received auction-rate securities rights (referred to as the Rights) to sell to UBS all auction-rate securities held by the Company as of February 13, 2008 in a UBS account (referred to as the Eligible Auction-Rate Securities). The Rights permit the Company to require UBS to purchase the Eligible Auction-Rate Securities for a price equal to par value plus any accrued but unpaid dividends or interest beginning on June 30, 2010 and ending on July 2, 2012. As of December 31, 2009, we had Eligible Auction-Rate Securities with a par value of $230.3 million, representing 92% of our total auction-rate securities portfolio at par. The remaining eight percent (8%), or $18.8 million at par, of our auction-rate securities portfolio are not held in a UBS account and therefore are not subject to the UBS Offer.

The UBS Offer was made pursuant to agreements in principle entered into by the UBS Entities with the Securities and Exchange Commission, the New York Attorney General, the Texas State Securities Board and other state regulatory agencies represented by North American Securities Administrators Association, and a settlement agreement with the Massachusetts Securities Division to settle investigations brought by each of these agencies against the UBS Entities relating to the sale and marketing of auction-rate securities. The alleged conduct underlying these investigations suggested that the UBS Entities marketed auction-rate securities as cash alternatives but failed to adequately disclose liquidity risk.

On November 10, 2008, the Company accepted the UBS Offer. As a result, the Company granted to the UBS Entities, the sole discretion and right to sell or otherwise dispose of, and/or enter orders in the auction process with respect to the Eligible Auction-Rate Securities on the Company s behalf until the Expiration Date, without prior notification, so long as the Company receives a payment of par value plus any accrued but unpaid dividends or interest upon any sale or disposition.

In addition, as part of the UBS Offer, Endo is eligible for no net cost loans, should we desire to borrow money prior to the commencement of the exercise period for the Rights. Under the terms of the UBS Offer, Endo may be eligible for no net cost loans for an amount up to 75% of the market value of the Eligible Auction-Rate Securities at the time of the loan. If and as soon as UBS receives proceeds from a purchase of the Eligible Auction-Rate Securities, the loans will become partially payable in the amount of the proceeds.

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Acceptance of the UBS Offer constituted a substantive change in facts and circumstances that altered the Company s view that it intends to hold the impaired securities until their anticipated recovery. Accordingly, we could no longer assert that we had the intent to hold the auction-rate securities until anticipated recovery. As a result, during the fourth quarter of 2008, we recognized an other-than-temporary impairment charge recorded in earnings. The charge was measured as the difference between the par value and fair value of the auction-rate securities on November 10, 2008. Previously recognized declines in fair value associated with the Eligible Auction-Rate Securities that were determined to be temporary were transferred out of other comprehensive income and charged to earnings as part of the impairment charge.

Acceptance of the UBS Offer created an enforceable legal right by and between the Company and UBS. The UBS Offer is a legally separate contractual agreement and is non-transferable. The Rights are not readily convertible to cash and do not provide for net settlement. Accordingly, the Rights do not meet the definition of a derivative instrument and are being treated as a freestanding financial instrument. Accordingly, during the fourth quarter of 2008, the Company recognized an asset, measured at fair value, with the resultant gain recorded in earnings.

*Subsequent Accounting for Auction-Rate Securities and Auction-Rate Securities Rights*

Acceptance of the UBS Offer constituted a substantive change in facts and circumstances that altered the Company s view that it intended to hold the illiquid securities until their scheduled maturity date. As a result of the change, we recognized an other than temporary impairment charge as of December 31, 2008 of approximately $26.4 million that is included in Other (income) expense, net in the Consolidated Statements of Operations.

Concurrent with the acceptance of the UBS offer, the Company made a one-time election to re-classify the Eligible Auction-Rate Securities from an available-for-sale security to a trading security. The Company made the election to transfer the securities into trading after considering the unprecedented failure of the entire market for auction-rate securities and the broad-reaching legal settlements that have been agreed to by certain broker-dealers and securities regulators. Subsequent changes to the fair value of these trading securities resulted in $15.2 million of income during 2009 and additional expense of $4.2 million during the years ended December 31, 2009 and 2008, respectively, and were recorded in Other (income) expense, net in the Consolidated Statements of Operations.

During 2008, we elected the fair value option for our auction-rate securities rights. As a result of our election, the fair value of the auction-rate securities rights are re-measured each reporting period with the corresponding changes in fair value reported in earnings. Since the auction-rate securities rights are freestanding financial instruments, they do not affect the separate determination of the fair value of the Eligible Auction-Rate Securities. However, in management s view, the auction-rate securities rights act as an economic hedge against further fair value changes in the Eligible Auction-Rate Securities. At December 31, 2009, the fair value of our auction-rate securities rights were $15.7 million to reflect the fair value measurement of the auction-rate securities rights at that date. The changes in fair value from November 10, 2008 to December 31, 2008 resulted in a $1.9 million gain compared to an $11.7 million loss during the year ended December 31, 2009. These amounts were recognized in earnings and included in other (income) expense, net in the Consolidated Statements of Operations.

*Valuation of the Auction-Rate Securities*

The Company has determined that an income approach (present value technique) that maximizes the use of observable market inputs is the preferred approach to measuring the fair value of our securities. Specifically, the Company used the discount rate adjustment technique to determine an indication of fair value.

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To calculate a price for our auction-rate securities, the Company calculates duration to maturity, coupon rates, market required rates of return (discount rate) and a discount for lack of liquidity in the following manner:

The Company identifies the duration to maturity of the auction-rate securities as the time at which principal is available to the investor. This can occur because the auction-rate security is paying a coupon that is above the required rate of return, and the Company treats the security as being called. It can also occur because the market has returned to normal and the Company treats the auctions as having recommenced. Lastly, and most frequently, the Company treats the principal as being returned as prepayment occurs and at the maturity of the security. The weighted average life used for each security representing time to maturity ranges from five to eight years. The weighted average life measured across the entire auction-rate portfolio is approximately eight years.

The Company calculates coupon rates based on estimated relationships between the maximum coupon rate (the coupon rate in event of a failure) and market interest rates. The representative coupon rates on December 31, 2009 and 2008 ranged from 5.37% to 6.12% and 3.86% to 3.96%, respectively. The Company calculates appropriate discount rates for securities that include base interest rates, index spreads over the base rate, and security-specific spreads. These spreads include the possibility of changes in credit risk over time. At December 31, 2009 and 2008, the spreads over the base rate for our securities applied to our securities ranged from 154 basis points to 410 basis points and 264 basis points to 588 basis points, respectively.

The Company believes that a market participant would require an adjustment to the required rate of return to adjust for the lack of liquidity. We do not believe it is unreasonable to assume a 150 basis points adjustment to the required rate of return and a term of either three, four or five years to adjust for this lack of liquidity. The increase in the required rate of return decreases the prices of the securities. However, the assumption of a three, four or five-year term shortens the times to maturity and increases the prices of the securities. The Company has evaluated the impact of applying each term and the reasonableness of the range indicated by the results. The Company chose to use a four-year term to adjust for the lack of liquidity as we believe it is the point within the range that is most representative of fair value. The Company s conclusion is based in part on the fact that the fair values indicated by the results are reasonable in relation to each other given the nature of the securities and current market conditions.

At December 31, 2009, the fair value of our auction-rate securities, as determined by applying the above described discount rate adjustment technique, was approximately $232.6 million, representing a seven percent (7%), or $16.5 million discount from their original purchase price or par value. This compares to approximately $240.5 million, representing a 12%, or $32.4 million discount from their original purchase price or par value at December 31, 2008. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in pricing the assets in a current transaction to sell the asset at the measurement date. Accordingly, the carrying value of our auction-rate securities at December 31, 2009 and 2008 were reduced by approximately $16.5 million and $32.4 million, respectively. These adjustments appropriately reflect the changes in fair value, which the Company attributes to liquidity issues rather than credit issues.

The portion of this decline in fair value related to the Eligible Auction-Rate Securities was recorded in earnings as an other-than-temporary impairment charge or as changes in the fair value of trading securities. The Company has assessed the portion of the decline in fair value not associated with the Eligible Auction-Rate Securities to be temporary due to the financial condition and near-term prospects of the underlying issuers, our intent and ability to retain our investment in the issuers for a period of time sufficient to allow for any anticipated recovery in market value and based on the extent to which fair value is less than par. Accordingly, we recorded a $0.6 million gain and a $1.7 million loss in shareholders equity in accumulated other comprehensive loss as of December 31, 2009, and 2008, respectively. Securities not subject to the UBS Offer are analyzed each reporting period for other-than-temporary impairment factors. Any future fluctuation in fair value related to these instruments that the Company judges to be temporary, including any recoveries of previous write-downs, would be recorded to other comprehensive income. If the Company determines that any future valuation adjustment was

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other-than-temporary, it would record a charge to earnings as appropriate. However, there can be no assurance that our current belief that the securities not subject to the UBS Offer will recover their value will not change.

*Valuation of the Auction-Rate Securities Rights*

The Company has determined that an income approach (present value technique) that maximizes the use of observable market inputs is the preferred approach to measuring the fair value of the auction-rate securities rights. Specifically, the Company used the discount rate adjustment technique to determine an indication of fair value. The Rights provide the Company with the ability to sell the Eligible Auction-Rate Securities at par to UBS beginning on June 30, 2010.

The values of the Rights were estimated as the value of a portfolio designed to approximate the cash flows of the UBS Agreement. The portfolio consists of a bond issued by UBS that will mature equal to the face value of the auction-rate securities, a series of payments that will replicate the coupons of the auction-rate securities, and a short position in the callable auction-rate security. If the UBS agreement is in the money on the exercise date, then both the UBS agreement and the replicating portfolio will be worth the difference between the par value of the ARS and the market value of the ARS. If the UBS agreement is out of the money on the exercise date, then both the replicating portfolio and the UBS agreement will have no value.

For purposes of valuing the UBS bond, management selected a required rate of return for a UBS obligation based on market factors including relevant credit default spreads. The rate of return for the auction-rate securities is determined as described above under Valuation of the Auction-Rate Securities and is used to determine the present value of the coupons of the auction-rate security.

At December 31, 2009, the fair value of our auction-rate securities rights, as determined by applying the above described discount rate adjustment technique, was approximately $15.7 million. As described above, the Company chose to use a four-year term to adjust for the lack of liquidity on the auction-rate securities as we believe it is the point within the range that is most representative of fair value. Accordingly, the same term was used when valuing the Rights. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in pricing the asset in a current transaction to sell the asset at the measurement date.

The following table presents changes to the Company s financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2009 (in thousands):

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | Auction-rate Securities | Auction-rate Securities Rights | Total |
| Balance at January 1, 2009 | $ 234,005 | $ 27,321 | $ 261,326 |
| Securities sold or redeemed | (17,250) | | (17,250) |
| Securities purchased or acquired | | | |
| Transfers in and/or (out) of Level 3 | (25,275) | | (25,275) |
| Changes in fair value recorded in earnings | 15,222 | (11,662) | 3,560 |
| Unrealized gain included in other comprehensive loss | 632 | | 632 |
| Balance at December 31, 2009 | $ 207,334 | $ 15,659 | $ 222,993 |

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| | | |
|---|---|---|
| | | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Acquisition-related Contingent Consideration |
| **Liabilities:** | | |
| Balance at January 1, 2009 | $ | |
| Amounts acquired or issued | | (186,560) |
| Transfers in and/or (out) of Level 3 | | |
| Changes in fair value recorded in earnings | | 128,090 |
| Balance at December 31, 2009 | $ | (58,470) |

The following table presents changes to the Company s financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2008 (in thousands):

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | Auction-rate Securities | Auction-rate Securities Rights | Total |
| Balance at January 1, 2008 | $ | $ | $ |
| Transfers to Level 3 | 356,250 | | 356,250 |
| Securities sold or redeemed | (83,374) | | (83,374) |
| Securities purchased or acquired | | 25,378 | 25,378 |
| Transfers in and/or (out) of Level 3 | (6,500) | | (6,500) |
| Other-than-temporary impairment charge recorded in earnings | (26,417) | | (26,417) |
| Changes in fair value recorded in earnings | (4,225) | 1,943 | (2,282) |
| Unrealized loss included in other comprehensive loss | (1,729) | | (1,729) |
| Balance at December 31, 2008 | $ 234,005 | $ 27,321 | $ 261,326 |

At December 31, 2009, the fair value of the Company s trading securities was $214.9 million. The following is a summary of available-for-sale securities held by the Company as of December 31, 2009 and 2008 (in thousands):

| | Available-for-sale | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| **December 31, 2009:** | | | | |
| Money market funds | $ 279,772 | $ | $ | $ 279,772 |
| *Total included in cash and cash equivalents* | 279,772 | | | 279,772 |
| Auction-rate securities | 18,800 | | (1,096) | 17,704 |
| Equity securities | 5,564 | | (1,106) | 4,458 |
| *Long-term available-for-sale securities* | 24,364 | | (2,202) | 22,162 |
| *Total available-for-sale securities* | $ 304,136 | $ | $ (2,202) | $ 301,934 |

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| | Amortized Cost | Available-for-sale Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---|---|---|---|
| **December 31, 2008:** | | | | |
| Money market funds | $ 356,867 | $ | $ | $ 356,867 |
| *Total included in cash and cash equivalents* | 356,867 | | | 356,867 |
| Auction-rate securities | 18,800 | | (1,729) | 17,071 |
| Equity securities | 5,000 | 199 | | 5,199 |
| *Long-term available-for-sale securities* | 23,800 | 199 | (1,729) | 22,270 |
| *Total available-for-sale securities* | $ 380,667 | $ 199 | $ (1,729) | $ 379,137 |

During the year ended December 31, 2009, we sold $23.8 million of auction-rate securities at par value. During the year ended December 31, 2008, we sold $113.8 million of original par value variable-rate demand obligations and $313.7 million of auction-rate securities at par value and $5.0 million of municipal bonds at par value. There were no realized holding gains and losses resulting from the sales of our auction rate securities and variable rate demand obligations during the period ended December 31, 2009 and 2008. The cost of securities sold is based on the specific identification method.

During the year ended December 31,2008, equity securities consisting of investments in open-end mutual funds that invest in U.S. government securities were sold in their entirety for cash proceeds totaling $15.2 million. Of the $15.2 million of cash proceeds, $15.0 million was a return of principal with the remaining $0.2 million accounted for as a realized holding gain in both 2008 and 2007. The realized gain is included in Other (Income) Expense, net in the Consolidated Statement of Operations. There were no realized holding gains and losses resulting from the sale of our auction-rate securities and variable rate demand obligations during the year ended December 31, 2008.

The underlying assets of our auction-rate securities are student loans. Student loans are insured by either the Federal Family Education Loan Program, or FFELP, or a combination of FFELP and other monocline insurers such as Ambac Assurance Corp., or AMBAC, and MBIA Insurance Corp, or MBIA. As of February 19, 2010, MBIA was rated Ba3 by Moody s and BB- by Standard and Poor s. AMBAC was rated Ca by Moody s and CC by Standard and Poor s.

The following table sets forth the fair value of our long-term auction-rate securities by type of security and underlying credit rating as of December 31, 2009 (in thousands):

| | Underlying Credit Rating(1) AAA | A | B2 | Ba2 | Baa3 | Total |
|---|---|---|---|---|---|---|
| *Underlying security:* | | | | | | |
| Student loans | $ 130,861 | $ 51,781 | $ 9,934 | $ 7,201 | $ 7,557 | $ 207,334 |
| *Total auction-rate securities included in long-term marketable securities* | $ 130,861 | $ 51,781 | $ 9,934 | $ 7,201 | $ 7,557 | $ 207,334 |

(1) Our auction-rate securities maintain split ratings. For purposes of this table, securities are categorized according to their lowest rating.

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The following table sets forth the fair value of our long-term auction-rate securities by type of security and underlying credit rating as of December 31, 2008 (in thousands):

| | Underlying Credit Rating(1) | | | |
|---|---|---|---|---|
| | AAA | AA | A | Total |
| *Underlying security:* | | | | |
| Student loans | $ 166,885 | $ 35,302 | $ 31,818 | $ 234,005 |
| *Total auction-rate securities included in long-term marketable securities* | $ 166,885 | $ 35,302 | $ 31,818 | $ 234,005 |

(1) Our auction-rate securities maintain split ratings. For purposes of this table, securities are categorized according to their lowest rating.
As of December 31, 2009, the yields on our long-term auction-rate securities ranged from 0.42% to 0.88%. These yields represent the predetermined maximum reset rates that occur upon auction failures according to the specific terms within each security s prospectus. As of December 31, 2009, the weighted average yield for our long-term auction-rate securities was 0.73%. Total interest recognized on our auction-rate securities and variable rate demand obligations during the year ended December 31, 2009, 2008 and 2007 was $2.4 million, $15.5 million, and $11.6 million respectively. Further, the issuers have been making interest payments promptly.

The amortized cost and estimated fair value of available-for-sale debt and equity securities by contractual maturities are shown below (in thousands). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available-for-sale debt securities: | | | | |
| Due in less than 1 year | $ | $ | $ | $ |
| Due in 1 to 5 years | | | | |
| Due in 5 to 10 years | | | | |
| Due after 10 years | 18,800 | 17,704 | 18,800 | 17,071 |
| Equity securities | 5,564 | 4,458 | 5,000 | 5,199 |
| Total | $ 24,364 | $ 22,162 | $ 23,800 | $ 22,270 |

The Company s financial assets measured at fair value on a nonrecurring basis at December 31, 2009, were as follows (in thousands):

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Loss |
| **Assets:** | | | | |
| Aveed indefinite-lived intangible asset | $ | $ | $ 35,000 | $ (65,000) |
| Total | $ | $ | $ 35,000 | $ (65,000) |

As a result of the FDA s Complete Response letter related to our NDA for Aveed , the Company performed an impairment review for the Aveed intangible asset and concluded that it is required, under generally accepted accounting principles, to record a pre-tax, non-cash impairment charge to write-down the asset to its estimated fair value. In the complete response letter, the FDA requested information to address the

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agency s concerns regarding rare but serious adverse events, including post-injection anaphylactic reaction and pulmonary oil microembolism. The letter also specified that our proposed Risk Evaluation and Mitigation Strategy with respect to the product is not sufficient. We believe that significant regulatory uncertainty currently exists with respect to the timing, label and regulatory path forward for Aveed™, and accordingly determined that a review for asset impairment was appropriate. Although the Company is continuing to evaluate the FDA s findings to better understand the agency s concerns, we were required to estimate the fair value of our Aveed™ indefinite-lived intangible asset as of the date we received the Complete Response letter. To estimate fair value we assessed the possible changes to the product s indication and targeted population of eligible recipients, the future probability of regulatory approval, relative timing of commercialization, and estimates of the amount and timing of future cash flows. In January 2010, the Company was notified that the U.S. patent office had issued a Notice of Allowance on a patent covering the Aveed™ formulation. Therefore, management considered the likely benefit of patent exclusivity when estimating these future cash flows. To calculate the fair value of the Aveed intangible asset, the Company used an income approach using a discounted cash flow model considering management s current evaluation of the above mentioned factors. The Company utilized probability-weighted cash flow models using a present value discount factor of 15% which we believe to be commensurate with the overall risk associated with this particular product. The cash-flow models included our best estimates of future FDA approval associated with each potential indication and population of eligible recipients. The Company believes that the level and timing of cash flows assumed, discount rate, and probabilities of success appropriately reflect market participant assumptions.

The fair value of the Aveed intangible asset was determined to be $35 million. Accordingly, the Company recorded a pre-tax non-cash impairment charge of $65 million for the year ended December 31, 2009, representing the difference between the carrying value of the intangible asset and its estimated fair value. The impairment charge has been recognized in earnings and included the Impairment of other intangible assets line item in the Consolidated Statements of Operations. Changes in any of these assumptions may result in a further reduction to the estimated fair value of the Aveed™ intangible asset resulting in additional and potentially full future impairment charges. Such additional impairment charges could materially impact our results of operations in future periods.

As required, we also performed an impairment analysis on all other indefinite-lived intangible assets as of January 1, 2010. None of our other indefinite-lived intangible assets are impaired.

**NOTE 4. INVENTORIES**

Inventories are comprised of the following for the years ended December 31 (in thousands):

| | **2009** | **2008** |
|---|---|---|
| Raw materials | $ 8,510 | $ 7,157 |
| Work-in-process | 25,799 | 10,131 |
| Finished goods | 50,584 | 63,368 |
| Total | $ 84,893 | $ 80,656 |

**NOTE 5. ACQUISITIONS**

***Indevus Pharmaceuticals, Inc.***

On February 23, 2009 (referred to as the Acquisition Date), the Company completed its initial tender offer (referred to as the Offer) for all outstanding shares of common stock, par value $0.001 per share (referred to as the Indevus Shares), of Indevus, a Delaware corporation. On that day, the Company accepted for payment in accordance with the terms of the Offer, approximately 60.3 million Indevus Shares representing approximately 76% of the total outstanding Indevus Shares. Through purchases in subsequent offering periods, the exercise of a top-up option and a subsequent merger (referred to as the Merger), the Company completed its acquisition of

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Indevus on March 23, 2009, at which time Indevus became a wholly-owned subsidiary of the Company. The Indevus Shares were purchased at a price of $4.50 per Indevus Share, net to the seller in cash, plus contractual rights to receive up to an additional $3.00 per Indevus Share in contingent cash consideration payments (referred to as the Offer Price), pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2009. Accordingly, the Company paid approximately $368 million in aggregate initial cash consideration for the Indevus Shares and entered into the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement (each as defined in the Merger Agreement), providing for the payment of up to an additional $3.00 per Indevus Share in contingent cash consideration payments, in accordance with the terms of the Offer. The total cost to acquire all outstanding Indevus Shares pursuant to the Offer and the Merger could be up to an additional approximately $267 million, if Endo is obligated to pay the maximum amounts under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. The fair value of those potential obligations is $58.5 million at December 31, 2009.

Indevus was a specialty pharmaceutical company engaged in the acquisition, development, and commercialization of products to treat conditions in urology, endocrinology and oncology. Following the completion of the Merger, Indevus was renamed Endo Pharmaceuticals Solutions Inc.

Approved products include the following:

Sanctura® (trospium chloride) was launched in August 2004. Sanctura® is indicated for the treatment of overactive bladder (referred to as OAB) with symptoms of urge urinary incontinence, urgency and urinary frequency. Sanctura® is currently promoted in the U.S. by Allergan Inc.

Sanctura XR® (trospium chloride extended release capsules) is a 60 mg, once-daily formulation of Sanctura®, the only approved quaternary amine compound clinically proven to effectively treat OAB symptoms in as early as one week, with a low incidence of side effects. Sanctura XR® is currently promoted in the U.S. by Allergan Inc. and by Madaus AG in Europe.

Supprelin® LA (histrelin acetate) was launched in June 2007. Supprelin® LA is a 12-month hydrogel implant for treating central precocious puberty (referred to as CPP) or the early onset of puberty in children. Supprelin® LA utilizes our patented Hydron® Polymer Technology, designed to provide the continuous 12-month administration of a controlled dose of histrelin, a GnRH agonist.

Vantas® (histrelin) was launched in the U.S. in November 2004. Vantas® is a soft and flexible 12-month hydrogel implant currently marketed in the U.S. that provides histrelin, a luteinizing hormone releasing hormone (referred to as LHRH) agonist, for the palliative treatment of advanced prostate cancer. The product utilizes our patented Hydron® Polymer Technology that allows for a controlled delivery of medicine over a 12-month period. In November 2005, Vantas® was approved in Denmark, and in March 2006, received approval for marketing in Canada from Health Canada. Regulatory approval was granted in May 2007 in Germany, Ireland, Italy, Spain and the United Kingdom. As of August 2007, Vantas® was approved in Thailand, Singapore, and Malaysia and approval is pending in Taiwan, Korea, Hong Kong and China. Additionally, Vantas® received approval in Argentina in January 2007 and is currently being marketed in that country.

Delatestryl® (testosterone enanthate) is a marketed injectable testosterone preparation for the treatment of male hypogonadism. Delatestryl® provides testosterone enanthate, a derivative of the primary endogenous androgen testosterone, for intramuscular injection.

Hydron® Implant is a subcutaneous, retrievable, non-biodegradable, hydrogel reservoir drug delivery device. The Hydron® Implant is designed to provide sustained release of a broad spectrum of drugs continuously, at constant, predetermined rates. The Hydron® Implant is the only soft, flexible, reservoir-based drug delivery system available for parenteral administration. The hydrogel polymer compositions possess flexible, tissue-like characteristics providing excellent biocompatibility and patient comfort. This technology serves as the basis for two of our currently marketed products including Vantas® and Supprelin® LA.

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Valstar® (valrubicin) is a sterile solution of valrubicin for intravesical instillation and is the only product approved by the FDA for therapy of bacillus Calmette-Guerin (referred to as BCG)-refractory carcinoma *in situ* (referred to as CIS) of the bladder. Valstar®, originally approved by the FDA in 1998, was withdrawn from the market due to a manufacturing problem involving impurity issues in the original formulation and was placed on the FDA Drug Shortages List. In April 2007, the Company submitted a supplemental New Drug Application (referred to as sNDA) to the FDA seeking approval to reintroduce Valstar® and in February 2009 obtained FDA approval of its sNDA for Valstar®. In September 2009, we launched Valstar® for the treatment of patients with BCG-refractory CIS of the bladder. We continue to work closely with the manufacturer to build quantities of the product to support our newly launched product.

Primary development products include the following:

AveedTM (testosterone undecanoate) is expected to be the first long-acting injectable testosterone preparation available in the U.S. for the treatment of male hypogonadism in the growing market for testosterone replacement therapies. AveedTM had historically been referred to as Nebido® which the Company acquired the U.S. rights to from Schering AG, Germany, in July 2005. On May 6, 2009, we received notice from the FDA that Nebido® was unacceptable as a proprietary name for testosterone undecanoate. In August 2009, we received approval from FDA to use the name AveedTM. The contingent cash consideration agreement relating to the product, which we have historically referred to as the Nebido® Contingent Cash Consideration Agreement, will now be referred to as the AveedTM Contingent Cash Consideration Agreement throughout this Report. On December 2, 2009, we received a complete response letter from the FDA regarding AveedTM in response to our March 2009 complete response submission. In the complete response letter, the FDA has requested information from Endo to address the agency s concerns regarding very rare but serious adverse events, including post-injection anaphylactic reaction and pulmonary oil microembolism. The letter also specified that the proposed REMS is not sufficient. The Company is continuing to evaluate how best to address the concerns of the FDA and intends to have future dialogue with the agency regarding a possible regulatory pathway. The outcome of future communications with the FDA could have a material impact on (1) management s assessment of the overall probability of approval, (2) the timing of such approval, (3) the targeted indication or patient population and (4) the likelihood of additional clinical trials.

Octreotide implant, currently in Phase III clinical trials for the treatment of acromegaly, utilizes our patented Hydron® Polymer Technology to deliver six months of octreotide, a long-acting octapeptide that mimics the natural hormone somatostatin to block production of growth hormone (referred to as GH). Octreotide implant is also approved to treat symptoms associated with metastatic carcinoid tumors and vasoactive intestinal peptide secreting adenomas, which are gastrointestinal tumors. The octreotide implant is also currently in Phase II trials for the treatment of carcinoid syndrome.

Management believes the Company s acquisition of Indevus is particularly significant because it reflects our commitment to expand our business beyond pain management into complementary medical areas where we believe we can be innovative and competitive. The combined company markets products through four field sales forces and has the capability to develop innovative new therapies using a novel drug delivery technology.

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The operating results of Indevus from February 23, 2009 to December 31, 2009 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheet as of December 31, 2009 reflects the acquisition of Indevus, effective February 23, 2009, the date the Company obtained control of Indevus. The acquisition date fair value of the total consideration transferred was $540.9 million, which consisted of the following (in thousands):

| | Fair Value of Consideration Transferred |
|---|---|
| Cash | $ 368,034 |
| Contingent consideration | 172,860 |
| Total | $ 540,894 |

The contingent consideration relates to the amounts payable under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. In the event that the Company receives an approval letter from the FDA with respect to the Aveed™ NDA on or before the third anniversary of the time at which we purchased the Indevus Shares in the Offer, then the Company will, subject to the terms described below, (i) pay an additional $2.00 per Indevus Share to the former stockholders of Indevus, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed™ that does not contain a boxed warning (referred to as Aveed™ With Label) or alternatively, (ii) pay an additional $1.00 per Indevus Share, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed™ that contains a boxed warning (Aveed™ Without Label). In the event that either an Aveed™ With Label approval or an Aveed™ Without Label approval has not been obtained prior to the third anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders will not receive, any payments under the Aveed™ Contingent Cash Consideration Agreement.

Further, in the event that the Aveed™ Without Label approval is received and subsequently, Endo and its subsidiaries publicly report audited financial statements which reflect cumulative net sales of Aveed™ of at least $125.0 million for four consecutive calendar quarters on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ (referred to as Aveed™ Net Sales Event), then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus. In the event that the Aveed™ Net Sales Event does not occur prior to the fifth anniversary of the date of the first commercial sale of Aveed™ then the Company will not pay, and former Indevus stockholders will not receive, any additional amounts under the Aveed™ Contingent Cash Consideration Agreement.

The range of the undiscounted amounts the Company could pay under the Aveed™ Contingent Cash Consideration Agreement is between $0 and approximately $175 million. The fair value of the contractual obligation to pay the Aveed™ contingent consideration recognized on the Acquisition Date was $133.1 million. We determined the fair value of the obligation to pay the Aveed™ contingent consideration based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Aveed™ Contingent Cash Consideration Agreement, there are three scenarios that could potentially lead to amounts being paid to the former stockholders of Indevus. These scenarios are (1) obtaining an Aveed™ With Label approval, (2) obtaining an Aveed™ Without Label approval and (3) achieving the $125.0 million sales milestone on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ should the Aveed™ Without Label approval be obtained. The fourth scenario is Aveed™ not receiving approval within three years of the closing of the Offer, which would result in no payment to the former stockholders of Indevus. Each scenario was assigned a probability based on the current regulatory status of Aveed™. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

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Similarly, in the event that an approval letter from the FDA is received with respect to an octreotide NDA (such approval letter, the Octreotide Approval) on or before the fourth anniversary of the closing of the Offer, then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus (such payment, the Octreotide Contingent Cash Consideration Payment). In the event that an Octreotide Approval has not been obtained prior to the fourth anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders shall not receive, the Octreotide Contingent Cash Consideration Payment.

The range of the undiscounted amounts the Company could pay under the Octreotide Contingent Cash Consideration Agreement is between $0 and approximately $91 million. The fair value of the octreotide contractual obligation to pay the contingent consideration recognized on the Acquisition Date was $39.8 million. We determined the fair value of the contractual obligation to pay the Octreotide Contingent Consideration Payment based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Octreotide Contingent Cash Consideration Agreement, the two scenarios that require consideration are (1) Octreotide Approval on or before the fourth anniversary of the closing of the Offer or (2) no Octreotide Approval on or before the fourth anniversary of the closing of the Offer. Each scenario was assigned a probability based on the current development stage of octreotide. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

In addition to the potential contingent payments under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement, the Company has assumed a pre-existing contingent consideration obligation relating to Indevus s acquisition of Valera Pharmaceuticals, Inc. (referred to as the Valera Contingent Consideration), which was consummated on April 18, 2007. The Valera Contingent Consideration entitles former Valera shareholders to receive additional Indevus Shares based on an agreed upon conversion factor if FDA approval of the octreotide implant for the treatment for acromegaly is achieved on or before April 18, 2012. Upon Endo s acquisition of Indevus, each Valera shareholder s right to receive additional Indevus Shares was converted into the right to receive $4.50 per Indevus Share that such former Valera shareholder would have received plus contractual rights to receive up to an additional $3.00 per Indevus Share that such former Valera shareholder would have received in contingent cash consideration payments under the Aveed ™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. These amounts would only be payable to former Valera shareholders if there were Octreotide Approval. The range of the undiscounted amounts the Company could pay with respect to the Valera Contingent Consideration is between $0 and approximately $33 million.

The Company is accounting for the Valera Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Indevus. Accordingly, the fair value of the Valera Contingent Consideration recognized on the Acquisition Date was $13.7 million. Fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the Valera Contingent Consideration is estimated using the same assumptions used for the Aveed™ Contingent Cash Consideration Agreement and Octreotide Contingent Cash Consideration Agreement, except that the probabilities associated with the Valera Contingent Consideration take into account the probability of obtaining the Octreotide Approval on or before the fourth anniversary of the closing of the Offer. This is due to the fact that the Valera Contingent Consideration will not be paid unless Octreotide for the treatment of acromegaly is approved prior to April 18, 2012.

As of December 31, 2009, the fair value of the acquisition-related contingent consideration decreased by approximately $128.1 million from the acquisition date primarily reflecting management s current assessment of the decreased probability that we will be obligated to make contingent consideration payments under the Aveed™ Contingent Cash Consideration Agreement within the specified contractual timeframe, as well as the

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anticipated timeline for the NDA filing and FDA approval of octreotide. The decrease in the liability was recorded as a gain and is included in the Acquisition-related items line item in the accompanying Consolidated Statements of Operations. Changes in any of our assumptions may result in a further volatility to the estimated fair value of the acquisition-related contingent consideration. Such additional changes to fair value could materially impact our results of operations in future periods.

As of December 31, 2009, there were no changes to the range of the undiscounted amounts the Company may be required to pay under the Aveed ™ Contingent Cash Consideration Agreement and the Octreotide Contingent Consideration Agreement or related to the Valera Contingent Consideration.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

| | February 23, 2009 (As initially reported) | Measurement Period Adjustments | February 23, 2009 (As adjusted) |
|---|---|---|---|
| Cash and cash equivalents | $ 117,675 | $ | $ 117,675 |
| Accounts receivable | 13,725 | 866 | 14,591 |
| Inventories | 15,808 | 1,349 | 17,157 |
| Prepaid and other current assets | 8,327 | (5) | 8,322 |
| Property, plant and equipment | 8,266 | 590 | 8,856 |
| Other intangible assets | 586,900 | (54,000) | 532,900 |
| Deferred tax assets | 159,769 | 7,980 | 167,749 |
| Other non-current assets | 764 | 567 | 1,331 |
| Total identifiable assets | $ 911,234 | $ (42,653) | $ 868,581 |
| Accounts payable | $ (5,081) | $ (35) | $ (5,116) |
| Accrued expenses | (27,357) | 632 | (26,725) |
| Convertible notes | (71,682) | (830) | (72,512) |
| Non-recourse notes | (115,235) | | (115,235) |
| Deferred tax liabilities | (234,599) | 23,952 | (210,647) |
| Other non-current liabilities | (18,199) | (708) | (18,907) |
| Total liabilities assumed | (472,153) | 23,011 | (449,142) |
| Net identifiable assets acquired | $ 439,081 | $ (19,642) | $ 419,439 |
| Goodwill | $ 102,490 | $ 18,965 | $ 121,455 |
| Net assets acquired | $ 541,571 | $ (677) | $ 540,894 |

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. As of December 31, 2009, our measurement period adjustments are complete.

Of the $532.9 million of acquired intangible assets, $255.9 million was assigned to in-process research and development. The remaining $277.0 million has been assigned to license rights and is subject to a weighted average useful life of approximately 11 years.

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The valuation of the intangible assets acquired and related amortization periods are as follows:

| | Valuation (in millions) | Amortization Period (in years) |
|---|---|---|
| **In Process Research & Development:** | | |
| Valstar®(1) | $ 88.0 | n/a |
| Aveed™ | 100.0 | n/a |
| Octreotide | 31.0 | n/a |
| Pagoclone | 21.0 | n/a |
| Pro2000 | 4.0 | n/a |
| Other | 11.9 | n/a |
| Total | $ 255.9 | n/a |
| **License Rights:** | | |
| Hydron® Polymer | $ 22.0 | 10 |
| Vantas® | 36.0 | 10 |
| Sanctura® Franchise | 94.0 | 12 |
| Supprelin® LA | 124.0 | 10 |
| Other | 1.0 | 4 |
| Total | $ 277.0 | 11 |
| Total other intangible assets | $ 532.9 | |

(1) The FDA approved the sNDA for Valstar® subsequent to the Acquisition Date. Therefore, Valstar® was initially classified as in-process research and development and subsequently transferred to License Rights upon obtaining FDA approval.

The fair value of the in-process research and development assets and License Rights assets, with the exception of the Hydron® Polymer Technology, were estimated using an income approach. Under this method, an intangible asset s fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were generally assumed to extend either through or beyond the patent life of each product, depending on the circumstances particular to each product. The fair value of the Hydron® Polymer Technology was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to out-license the technology. The Hydron® Polymer Technology is currently used in the following products: Vantas®, Supprelin® LA and octreotide. Thus, we derived the hypothetical royalty income from the projected revenues of those drugs. The fair value of the Hydron® Polymer Technology also includes an existing royalty payable by the Company to certain third party partners based on the net sales derived from drugs that use the Hydron® Polymer Technology. Discount rates applied to the estimated cash flows for all intangible assets acquired ranged from 13% to 20%, depending on the current stage of development, the overall risk associated with the particular project or product and other market factors. We believe the discount rates used are consistent with those that a market participant would use.

The $121.5 million of goodwill was assigned to our pharmaceutical products segment, which is our only reportable segment as of December 31, 2009. The goodwill recognized is attributable primarily to the potential additional applications for the Hydron® Polymer Technology, expected corporate synergies, the assembled workforce of Indevus and other factors. None of the goodwill is expected to be deductible for income tax purposes.

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The deferred tax assets of $167.7 million are related primarily to federal net operating loss and credit carryforwards of Indevus and its subsidiaries. The deferred tax liabilities of $210.6 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

During the year ended December 31, 2009, we recorded a net gain of $93.1 million of acquisition-related items. These amounts are included Acquisition-related items in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

| | | Acquisition-related Items February 23, 2009 to December 31, 2009 |
|---|---|---|
| Investment bank fees, includes Endo and Indevus | $ | 13,030 |
| Accounting and legal | | 7,851 |
| Separation and other costs | | 14,128 |
| | | 35,009 |
| Changes in fair value of acquisition-related contingent consideration | | (128,090) |
| Total | $ | (93,081) |

The amounts of revenue and net loss of Indevus included in the Company s Consolidated Statements of Operations for the year ended December 31, 2009 are as follows (dollars in thousands, except per share data):

| | | Revenue and Losses included in the Consolidated Statements of Operations February 23, 2009 to December 31, 2009 |
|---|---|---|
| Revenue | $ | 66,719 |
| Net loss | $ | (107,779) |
| Basic and diluted loss per share | $ | (0.92) |

The following supplemental pro forma information presents the financial results as if the acquisition of Indevus had occurred January 1, 2009 for the year ended December 31, 2009 and on January 1, 2008 for the year ended December 31, 2008. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition of Indevus been completed on January 1, 2008 or January 1, 2009, nor are they indicative of any future results.

| | Twelve Months Ended December 31, 2009 | 2008 |
|---|---|---|
| **Pro forma consolidated results (in thousands, except per share data):** | | |
| Revenue | $ 1,471,141 | $ 1,326,717 |
| Net income | $ 243,336 | $ 192,826 |
| Basic net income per share | $ 2.08 | $ 1.56 |
| Diluted net income per share | $ 2.07 | $ 1.56 |

These amounts have been calculated after applying the Company s accounting policies and adjusting the results of Indevus to reflect a different revenue recognition model, the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, intangible assets, unfavorable leases and current and long-term debt, had been applied on January 1, 2009 or 2008, as applicable, together with the consequential tax effects.

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***RxKinetix, Inc.***

On October 12, 2006, the Company acquired all of the outstanding common stock of privately held RxKinetix, Inc. RxKinetix specialized in developing new therapeutics focused on improving the quality of life for patients being treated for cancer. RxKinetix s most advanced product, now named EN3285, was, as of the acquisition date, in clinical Phase II for the prevention of oral mucositis, a painful, debilitating and often dose-limiting side effect that afflicts many patients being treated for cancer with radiation and/or chemotherapy. All of the purchased in-process research and development value from this transaction was assigned to EN3285 since the other products, as of the acquisition date, were very early stage and did not meet the criteria to be recognized as assets.

In December 2007, the Company initiated the first of two phase III clinical trials of EN3285 for the prevention or delay of oral mucositis (OM). Endo had agreed to the trial design with the FDA under the Special Protocol Assessment (referred to as SPA) process. In March 2008, the first dosage of EN 3285 was administered to a patient enrolled in the clinical phase III trial, triggering a contingent purchase consideration payment to former shareholders of RxKinetix in the amount of $15 million that was made in March 2008. In April 2008, the FDA notified us that they were placing our studies on clinical hold pending the submission to the FDA of additional pre-clinical data. In February 2009, the Company decided to discontinue all development activities related to EN3285.

**NOTE 6. LICENSE AND COLLABORATION AGREEMENTS**

*Commercial Products*

*Novartis AG and Novartis Consumer Health, Inc.*

On March 4, 2008, we entered into a License and Supply Agreement (referred to as the Voltaren® Gel Agreement) with and among Novartis AG and Novartis Consumer Health, Inc. (referred to as Novartis) to obtain the exclusive U.S. marketing rights for the prescription medicine Voltaren® Gel (referred to as Voltaren® Gel or Licensed Product). Voltaren® Gel received regulatory approval in October 2007 from the U.S. Food and Drug Administration (referred to as the FDA), becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren® Gel has been granted marketing exclusivity in the U.S. as a prescription medicine until at least October 2010.

Under the terms of the five-year Voltaren® Gel Agreement, Endo made an upfront cash payment of $85 million. Endo has agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds as defined in the Voltaren® Gel Agreement. In addition, Endo has agreed to make certain guaranteed minimum annual royalty payments of $30 million per year payable in the fourth and fifth year of the Voltaren® Gel Agreement, subject to certain limitations. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that Endo s obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren® Gel Agreement year. No royalty payments were payable to Novartis during 2009 and 2008. Novartis is also eligible to receive a one-time milestone payment of $25 million if annual net sales of Voltaren® Gel exceed $300 million in the U.S. The $85 million upfront payment and the present value of the guaranteed minimum royalties have been capitalized as an intangible asset in the amount of $129 million, representing the fair value of the exclusive license to market Voltaren® Gel. We are amortizing this intangible asset into cost of revenues over its estimated five-year useful life.

Endo shall be solely responsible to commercialize the Licensed Product during the term of the Voltaren® Gel Agreement. With respect to each year during the term of the Voltaren® Gel Agreement, Endo is required to incur a minimum amount of annual advertising and promotional expenses on the commercialization of the Licensed Product, subject to certain limitations. In addition, Endo will be required to perform a minimum

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number of face-to-face one-on-one discussions with physicians and other healthcare practitioners (referred to as details) for the purpose of promoting the Licensed Product within its approved indication during each year of the Voltaren® Gel Agreement Further, during the term of the Voltaren® Gel Agreement, Endo will share in the costs of certain clinical studies and development activities initiated at the request of the FDA or as considered appropriate by Novartis and Endo.

During the term of the Voltaren® Gel Agreement, Endo has agreed to purchase all of its requirements for the Licensed Product from Novartis. The price is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials.

Novartis has the exclusive right, at its sole discretion, to effect a switch of the Licensed Product from a prescription product to an over-the-counter (referred to as OTC) product in the United States, referred to as an OTC Switch, by filing an amendment or supplement to the Licensed Product New Drug Application or taking any other action necessary or advisable in connection therewith to effect the OTC Switch, and thereafter to commercialize such OTC product. Notwithstanding the foregoing, Novartis shall not launch an OTC equivalent product prior to a time specified in the Voltaren® Gel Agreement, and Novartis shall not take any action that results in the loss of the prescription product status for the Licensed Product prior to such time. Novartis will notify Endo if it submits a filing to the FDA in respect of an OTC equivalent product. In the event that Novartis gains approval of an OTC equivalent product that results in the Licensed Product being declassified as a prescription product, then Novartis will make certain royalty payments to Endo on net sales of such OTC equivalent product in the United States by Novartis, its affiliates and their respective licensees or sublicensees as set forth in the Voltaren® Gel Agreement As a condition to the payment of any and all such royalties, net sales of the Licensed Product in the United States must have exceeded a certain threshold prior to the launch of the OTC equivalent product by Novartis or its affiliates.

The initial term of the Voltaren® Gel Agreement will expire on June 30, 2013. Endo has the option to extend the Voltaren® Gel Agreement for two successive one year terms. The Voltaren® Gel Agreement will remain in place after the first two renewal terms unless either party provides written notice of non-renewal to the other party at least six months prior to the expiration of any renewal term after the first renewal term or the Voltaren® Gel Agreement is otherwise terminated in accordance with its terms. Among other standard and customary termination rights granted under the Voltaren® Gel Agreement, the Voltaren® Gel Agreement can be terminated by either party upon reasonable written notice, if either party has committed a material breach that has not been remedied within ninety (90) days from the giving of written notice. Endo may terminate the Voltaren® Gel Agreement by written notice upon the occurrence of several events, including the launch in the United States of a generic to the Licensed Product. Novartis may terminate the Voltaren® Gel Agreement upon reasonable written notice (1) if Endo fails to deliver a set percentage of the minimum details in any given six-month period under the Voltaren® Gel Agreement; or (2) on or after the launch in the United States of an OTC equivalent product by Novartis, its affiliates or any third party that does not result in the declassification of the Licensed Product as a prescription product, following which net sales in any six-month period under the Voltaren® Gel Agreement are less than a certain defined dollar amount.

*Hind Healthcare Inc.*

In November 1998, Endo entered into a license agreement (referred to as the Hind License Agreement) with Hind Healthcare Inc., (referred to as Hind), for the sole and exclusive right to develop, use, market, promote and sell Lidoderm® in the United States. Under the terms of the Hind License Agreement, Endo paid Hind approximately $10 million based upon the achievement of certain milestones and capitalized this amount as an intangible asset representing the fair value of these exclusive rights. In addition, Endo pays Hind nonrefundable royalties based on net sales of Lidoderm®. Royalties are recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm®. The royalty rate is 10% of net sales through the shorter of (1) the expiration of the last licensed patent or (2) November 20, 2011, including a minimum royalty of at least $500,000 per year. During 2009, 2008 and 2007, we recorded $84.9

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million, $84.8 million and $78.2 million for these royalties to Hind, respectively. At December 31, 2009 and 2008, $22.8 million and $22.8 million, respectively, is recorded as a royalty payable and included in accounts payable in the accompanying balance sheet. In March 2002, we extended this license with Hind to cover Lidoderm® in Canada and Mexico.

*Penwest Pharmaceuticals Co.*

In September 1997, we entered into a collaboration agreement with Penwest Pharmaceuticals Co. (referred to as Penwest) to exclusively co-develop opioid analgesic products for pain management, using Penwest s patent-protected proprietary technology, for commercial sale worldwide. On April 2, 2002, we amended and restated this agreement between the parties (referred to as the 2002 Agreement) to provide, among other things, that this collaboration would cover only the opioid analgesic product, oxymorphone ER, now known as Opana® ER. We had historically shared, on an equal basis, the costs of products developed under this agreement. On March 18, 2003, we received notice from Penwest that it was exercising its right under the agreement to cease funding its share of the development and pre-launch marketing costs of Opana® ER. Accordingly, we were responsible for funding 100% of these remaining costs until June 22, 2006, the date on which Opana® ER received FDA approval. In January 2007, the Company and Penwest entered into an amendment (referred to as the 2007 Amendment) to the 2002 Agreement. Under the terms of the 2007 Amendment, Endo and Penwest agreed to restructure the 2002 Agreement to provide that royalties payable to Penwest for U.S. sales of Opana® ER will be calculated based on net sales of the product rather than on operating profit, and to change certain other provisions of the 2002 Agreement. The 2007 Amendment also resolved the parties ongoing disagreement with regard to sharing of marketing expenses during the period prior to when Opana® ER reached profitability. The key financial terms of the 2007 Amendment are summarized as follows:

- With respect to U.S. sales of Opana® ER, Endo s royalty payments to Penwest will be calculated starting at 22% of annual net sales of the product, and, based on agreed-upon levels of annual net sales achieved, the royalty rate can increase to a maximum of 30%.

- No royalty payments will be due to Penwest for the first $41 million of royalties that would otherwise have been payable beginning from the time of the product launch in July 2006.

- Penwest is entitled to receive milestone payments of up to $90 million based upon the achievement of certain agreed-upon annual sales thresholds.

- In 2003, Penwest opted out of funding development costs for Opana® ER. Under the 2007 Amendment, the parties have agreed that Penwest s share of these unfunded development costs will be fixed at $28 million and will be recouped by Endo through a temporary 50% reduction in royalties payable to Penwest. As of December 31, 2009, Endo has recouped approximately $24.3 million of these unfunded development costs.

Royalties will be reduced by fifty percent (50%) until we recoup our previously recognized unfunded development costs, after which time royalties will be payable on annual net sales based on the royalty rates described above. In September 2008, the $41 million royalty threshold was met. As a result, we began incurring royalties on the net sales of Opana® ER. Such royalties will be reduced by fifty percent (50%) until we recoup Penwest s share of the unfunded development costs of $28 million, after which time royalties will be payable on annual net sales based on the royalty rates described above. During the year ended December 31, 2009, we recorded, in costs of sales, royalties on the net sales of Opana® ER of approximately $19.3 million. Royalties of $5.0 million were payable during the year ended December 31, 2008.

*Valeant Canada Ltd*

In June 2009, the Company entered into a License Agreement with Valeant Canada Ltd (referred to as Valeant) granting Valeant a license to market Opana® and Opana® ER in Canada, Australia and New Zealand. Opana® ER, the extended release formulation of oxymorphone, was jointly developed by Penwest and Endo. Under the terms of the collaboration agreement between Penwest and Endo, the two companies have agreed to

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share equally in the proceeds received from Valeant for Opana® ER. The license agreement with Valeant also includes rights to Opana®, the immediate release formulation of oxymorphone developed by Endo. Under the terms of the licensing agreement Valeant made an upfront payment to Endo and will make future payments if certain sales milestones are reached. In addition, Valeant has agreed to pay royalties on net sales of Opana® ER and Opana® in each of the three countries, subject to royalty reductions upon patent expiry or generic entry.

*Vernalis Development Limited*

In July 2004, we entered into a License Agreement and a Loan Agreement with Vernalis Development Limited (referred to as Vernalis), under which Vernalis agreed to license, exclusively to us, rights to market frovatriptan succinate (referred to as Frova®) in North America (referred to as the Vernalis License Agreement). Frova® was launched in June 2002 in the U.S. and is indicated for the acute treatment of migraine headaches in adults. Under the terms of the Vernalis License Agreement, we paid Vernalis an upfront fee of $30 million and annual $15 million payments each in 2005 and 2006. Under the loan agreement, we provided Vernalis with a loan of $50 million in August 2004. We capitalized the $30 million up-front payment, the present value of the two $15 million anniversary payments and the difference of $6.2 million between the face amount of the loan and its present value at inception as an intangible asset representing the fair value of the exclusive license to market Frova®. We are amortizing this intangible asset into cost of revenues on a straight-line basis over its estimated useful life of twelve and one-half years.

Under the terms of the License Agreement, we would have been required to make a $40 million milestone payment upon FDA approval for the short-term prevention of menstrual migraine indication. In September 2007, the FDA issued to the Company and our development partner Vernalis, a not approvable letter pertaining to our supplemental new drug application (sNDA) for Frova® for the additional indication of short-term prevention of menstrual migraine. In April 2008, Endo notified the FDA of the withdrawal of the sNDA without prejudice to refiling as afforded under 21 CFR 314.65 for Frova® 2.5 mg tablets. Frova® is approved and marketed for the acute treatment of migraine with or without aura in adults.

In addition, Vernalis could receive one-time milestone payments for the achievement of defined annual net sales targets. These sales milestone payments increase based on increasing net sales targets ranging from a milestone of $10 million on $200 million in net sales to a milestone of $75 million on $1.2 billion in net sales. These sales milestones could total up to $255 million if all of the defined net sales targets are achieved. Beginning on January 1, 2007, we began paying royalties to Vernalis based on the net sales of Frova®. We withheld 50% of those royalties and used the withholding to offset a portion of the unpaid accrued interest on the note receivable. The term of the license agreement is for the shorter of the time (i) that there are valid claims on the Vernalis patents covering Frova® or there is market exclusivity granted by a regulatory authority, whichever is longer, or (ii) until the date on which a generic version of Frova® is first offered, but in no event longer than 20 years. We can terminate the license agreement under certain circumstances, including upon one years written notice. In July 2007, Vernalis and Endo entered into an Amendment (referred to as Amendment No. 3) to the License Agreement dated July 14, 2004. Under Amendment No. 3, Vernalis granted an exclusive license to Endo to make, have made, use, commercialize and have commercialized the product Frova® in Canada, under the Canadian Trademark.

On July 1, 2005, we entered into a co-promotion agreement, as amended on December 22, 2005, with Vernalis. The co-promotion agreement, as amended, was related to the above described license agreement under which Vernalis agreed to exclusively license to us rights to market the product Frova® in North America. Pursuant to the license agreement, Vernalis had retained rights to co-promote Frova® in the United States and exercised its co-promotion option effective January 2006. Concurrent with the execution of Amendment No. 4 to the License Agreement (see below), the co-promotion agreement was terminated.

In February 2008, we entered into a termination agreement with Vernalis to terminate the existing loan agreement between the parties and to settle the outstanding note receivable. Concurrent with the termination agreement, we entered into Amendment No. 4 to the 2004 License Agreement between Vernalis and the

Company (referred to as Amendment No. 4). In addition to amending certain specific terms and conditions of the License Agreement, Amendment No. 4 sets forth an annual minimum net sales threshold such that no royalties will be due on annual U.S. net sales of Frova® less than $85 million. Prior to this amendment, royalties were payable by us to Vernalis on all net sales of Frova® in the United States. Now, once the annual minimum net sales amount is reached, royalty payments will be due only on the portion of annual net sales that exceed the $85 million threshold. We received a cash payment from Vernalis of $7 million and acquired an intangible asset representing a future royalty stream on the net sales of Frova® as consideration for the full settlement of the note receivable.

The fair value of the royalty stream that we acquired as a result of the settlement of the note receivable was calculated using the present value of expected future cash flows using a discount rate that we considered to be appropriate given the inherent risk in the timing and the amount of estimated cash flows. Our estimate of expected future cash flows was based on the royalty savings that we expect to realize as a result of Amendment No. 4 described above. Based upon our analysis, the fair value of the royalties that we would have otherwise been required to pay plus the $7 million cash payment made by Vernalis to us in February 2008 was sufficient to recover the amounts owed to us.

Accordingly, we recorded the intangible asset on our books in an amount equal to the book value of the note receivable surrendered, after applying the $7 million payment received from Vernalis, or $46.7 million. We are amortizing this acquired intangible asset into cost of revenues on a straight-line basis over its estimated useful life of nine years. The nine-year estimated useful life is consistent with the period of time we currently expect to maximize use of the asset without the significant risk of generic competition for Frova®.

*Allergan/Esprit*

In September 2007, Indevus entered into an Amended and Restated License, Commercialization and Supply Agreement with Esprit Pharma, Inc (referred to as Esprit), which re-defined the obligations of each party and superseded all previous agreements (referred to as the Allergan Agreement). On October 16, 2007, the effective date of the Allergan Agreement, Allergan, Inc. (referred to as Allergan) acquired Esprit resulting in Esprit being a wholly-owned subsidiary of Allergan. Upon effectiveness of the Allergan Agreement, we received the right to receive a fixed percentage of net sales for the term of the Allergan Agreement, subject to increasing annual minimum royalties. Aggregate minimum royalties for the remainder of the Allergan Agreement amount to approximately $112 million, provided there is no product adverse event, as defined in the Allergan Agreement. Commencing January 1, 2010, or earlier in the case of generic competition, Allergan has the right to reduce, subject to quarterly and annual restrictions, royalty payments by $20 million in the aggregate. The Company may also receive a payment of $20 million related to a long-term commercialization milestone related to generic competition. Lastly, all third-party royalties paid by the Company as a result of existing licensing, manufacturing and supply agreements associated with sales of Sanctura® and Sanctura XR® will be reimbursed to the Company by Allergan up to six percent (6%) of net sales. Pursuant to the Allergan Agreement, on August 13, 2008, Allergan assumed responsibility to manufacture Sanctura XR® for its use. The Allergan Agreement expires on the later of the twelfth annual anniversary of the launch of Sanctura XR® or the last to expire patent covering Sanctura XR® in the United States. Either party may also terminate the Allergan Agreement in the event of a material breach by the other party. In August 2008, Indevus assigned its rights to receive a fixed percentage of net sales and $20 million related to a long-term commercialization milestone related to generic competition to the holders of the Non-recourse Notes (see Note 17).

In May 2008, together with Madaus AG, Indevus licensed to Allergan the exclusive right to develop, manufacture, and commercialize Sanctura XR® in Canada. As a result, the Company could receive milestone payments upon achievement of certain sales thresholds. In addition, third-party royalties owed by the Company on net sales in Canada will be reimbursed by Allergan. This agreement will expire after the later of the expiration of the last applicable patent or our third party royalty obligation, after which Allergan will have a fully-paid license.

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*Madaus*

In November 1999, Indevus entered into an agreement with Madaus to license the exclusive rights to develop and market certain products, including Sanctura® in the United States. In exchange for these rights, Indevus agreed to pay Madaus potential regulatory and sales milestone payments and royalties on net sales of the licensed products or, if sublicensed by Indevus, a portion of royalties received from its sublicensee on net sales of the licensed product by the sublicensee, in lieu of royalty payments. The agreement expires on the tenth annual anniversary of the 2004 launch of Sanctura XR® provided either party may also terminate this agreement in the event of a material breach by the other party. The term of the agreement continues for ten years from the first commercial sale of each licensed product, after which the license is fully paid for that licensed product.

In November 2006, Indevus entered into (i) a License and Supply Agreement and (ii) an amendment to its original license agreement with Madaus (collectively referred to as the Madaus Agreements). Under the Madaus Agreements, Indevus agreed to (a) purchase from Madaus all required trospium active pharmaceutical ingredient for production of Sanctura XR® through November 2007, (b) license to Madaus the rights to sell Sanctura XR® in all countries outside of the U.S. (referred to as the Madaus Territory) except Canada, Japan, Korea and China (referred to as the Joint Territory), (c) pay to Madaus a fee based on the number of capsules of Sanctura XR® sold in the U.S. through the earlier of August 23, 2014 or upon generic formulations achieving a predetermined market share, (d) supply Sanctura XR® to Madaus for a specified period of time, (e) provide development committee support for a defined period, and (f) provide future know-how to Madaus. In exchange, Madaus (a) waived all rights to manufacture Sanctura XR® , (b) agreed to purchase Sanctura XR® from Indevus at cost plus a fee based on the number of Sanctura XR® capsules sold in the Madaus Territory, and (c) agreed to make payments upon the achievement of certain commercial milestones and royalties based on future sales of Sanctura XR® in the Madaus Territory. The Company and Madaus will share the economics of development and commercialization in the countries in the Joint Territory. If either party decides not to pursue development and commercialization of Sanctura XR® in any country in the Joint Territory, the other party has the right to develop and commercialize Sanctura XR® in that country. The Company will also pay Madaus a portion of royalties the Company receives for Sanctura® and Sanctura XR® subject to a minimum of 4% of net sales, which is offsetable against any third party royalties owed by the Company. The term of the Madaus Agreements for Sanctura XR® extends until the expiration, on a country-by-country basis, of all royalty obligations owed to the Company from Madaus which ceases upon the last to expire applicable patent in the Madaus Territory. Either party may also terminate this agreement in the event of a material breach by the other party.

*Supernus*

In March 2003, Indevus entered into a Development and License Agreement (referred to as the Supernus Agreement) with Supernus Pharmaceuticals, Inc. (referred to as Supernus) pursuant to which Supernus agreed to develop Sanctura XR® and granted exclusive, worldwide rights under certain Supernus patents and know-how to Indevus. The Supernus agreement includes potential future development and commercialization milestone payments from the Company to Supernus, including royalties based on sales of Sanctura XR®, and potential future development and commercialization milestone payments for up to an aggregate of $2.4 million upon the launch of Sanctura XR® in certain geographic areas. In addition, the Supernus agreement includes potential future development and commercialization milestone payments for up to an aggregate of $4.5 million upon the launch of new formulations and over-the-counter products. The Company is responsible for all development costs and the commercialization of Sanctura XR® under the Supernus agreement. The Supernus agreement continues until the earlier of, in any particular country, (i) the last date on which the manufacture, use or sale of licensed product in such country would infringe a valid claim of a licensed patent in such country but for the license granted by the agreement; or (ii) twelve years from the date of first commercial sale of licensed product in such country. Either party may also terminate this agreement in the event of a material breach by the other party or by mutual consent.

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*The Population Council*

The Company markets its products utilizing the Hydron® Polymer Technology pursuant to an agreement between Indevus and the Population Council. Unless earlier terminated by either party in the event of a material breach by the other party, the term of the agreement is the shorter of twenty-five years from October 1997 or until the date on which The Population Council receives approximately $40 million in payments from the Company. The Company is required to pay to The Population Council 3% of its net sales of Vantas® and any polymer implant containing an LHRH analog. We are also obligated to pay royalties to the Population Council ranging from 0.5% of net sales to 4% of net sales under certain conditions. We are also obligated to pay the Population Council 30% of certain profits and payments in certain territories received by the Company from the licensing of Vantas® or any other polymer implant containing an LHRH analog and 5% for other implants.

*Orion Corporation*

In April 2008, Indevus entered into a License, Supply and Distribution Agreement (referred to as the Orion Agreement) with Orion Corporation (referred to as Orion) granting Orion the rights to market Vantas® in Europe and in certain other countries outside of Europe. Vantas® is currently approved for the treatment of advanced prostate cancer in Denmark, the United Kingdom and other European countries, and the Company is seeking additional European approval through the mutual recognition procedure. The Company could receive certain contingent payments from Orion based on approvals and sales thresholds. Additionally, the Company will supply Vantas® to Orion at a pre-determined transfer price subject to annual minimum purchase requirements. The Orion Agreement expires in April 2023, unless earlier terminated by either party in the event of a material breach by the other party. The Orion Agreement will automatically renew for one-year periods, subject to the right of either party to terminate the agreement at any time effective at the end of the initial fifteen-year term or any subsequent one-year renewal period thereafter with at least six months prior written notice to the other party.

*Products in Development*

*Grünenthal GMBH*

In February 2009, we entered into a Development, License and Supply Agreement (referred to as the Grünenthal Agreement) with Grünenthal GMBH (referred to as Grünenthal), granting us the exclusive right in North America to develop and market Grünenthal s investigational drug, axomadol. Currently in Phase II trials, axomadol is a patented new chemical entity being developed for the treatment of moderate to moderately-severe chronic pain and diabetic peripheral neuropathic pain. Under the terms of the Grünenthal Agreement, Endo paid Grünenthal approximately $9.4 million upfront and an additional $25.2 million in 2009 upon the achievement of certain milestones. We could be obligated to pay additional clinical, regulatory and approval milestone payments of up to approximately 19 million euros (approximately $27 million at December 31, 2009) and possibly development and commerce milestone payments of up to an additional $68 million. In addition, Grünenthal will receive payments from Endo based on a percentage of Endo s annual net sales of the product in the United States and Canada. The Grünenthal Agreement will expire in its entirety on the date of (i) the 15th anniversary of the first commercial sale of the product; or (ii) the expiration of the last issued patent claiming or covering the product, or (iii) the expiration of exclusivity granted by the FDA for the product, whichever occurs later. Among other standard and customary termination rights granted under the Grünenthal Agreement, we may terminate the Grünenthal Agreement at our sole discretion at any time upon ninety (90) days written prior notice to Grünenthal and payment of certain penalties.

*Bioniche Life Sciences Inc.*

In July 2009, the Company entered into a License, Development and Supply Agreement (referred to as the Bioniche Agreement) with Bioniche Life Sciences Inc. and Bioniche Urology Inc. (collectively referred to as Bioniche), whereby the Company licensed from Bioniche the exclusive rights to develop and market Bioniche s proprietary formulation of Mycobacterial Cell Wall-DNA Complex (MCC), known as Urocidin , in the U.S. with an option for global rights. We exercised our option for global rights in the first quarter of 2010. Urocidin

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is a patented formulation of MCC developed by Bioniche for the treatment of non-muscle-invasive bladder cancer that is currently undergoing Phase III clinical testing. Under the terms of the Bioniche Agreement, Endo paid Bioniche an up-front cash payment of $20.0 million in July 2009, which was recorded as research and development expense. In addition, Bioniche could potentially receive up to approximately $110 million in additional payments linked to the achievement of future clinical, regulatory, and commercial milestones related to Urocidin . Bioniche will manufacture Urocidin and receive a transfer price for supply based on a percentage of Endo s annual net sales of Urocidin . Endo may terminate the Bioniche Agreement upon 180 days prior written notice.

*Strakan International Limited*

In August 2009, we entered into a License and Supply Agreement with Strakan International Limited, a subsidiary of ProStrakan Group plc (referred to as ProStrakan), for the exclusive right to commercialize Fortesta in the U.S. (referred to as the ProStrakan Agreement). Fortesta , a patented two percent (2%) testosterone transdermal gel for testosterone replacement therapy in male hypogonadism, utilizes a metered dose delivery system designed to permit accurate dose adjustment to individual patient requirements. Under the terms of the ProStrakan Agreement, Endo paid ProStrakan an up-front cash payment of $10 million, which was recorded as research and development expense. In addition, ProStrakan could potentially receive up to approximately $200 million in additional payments linked to the achievement of future regulatory and commercial milestones related to Fortesta . ProStrakan will exclusively supply Fortesta to Endo at a supply price based on a percentage of annual net sales subject to a minimum floor price as defined in the ProStrakan Agreement. Endo may terminate the ProStrakan Agreement upon six months, prior written notice at no cost to the Company.

In October 2009, we received a Complete Response letter from the FDA regarding the NDA for Fortesta . The FDA issues Complete Response letters to communicate that their initial review of an NDA or abbreviated new drug application (referred to as ANDA) is complete and that the application cannot be approved in its present form. A Complete Response also informs applicants of changes that must be made before an application can be approved, with no implication regarding the ultimate approvability of the application. The Company will continue to work closely with the FDA to address their questions and we expect to file a complete response, mid-2010. The milestone payment to ProStrakan related to FDA approval of Fortesta is reduced the longer such approval takes, subject to certain limits.

*BayerSchering*

In July 2005, Indevus licensed exclusive U.S. rights from Schering AG, Germany, now BayerSchering Pharma AG (referred to as BayerSchering) to market a long-acting injectable testosterone preparation for the treatment of male hypogonadism that we refer to as Aveed™ (referred to as the BayerSchering Agreement). The Company is responsible for the development and commercialization of Aveed™ in the United States. BayerSchering is responsible for manufacturing and supplying the Company with finished product. As part of the BayerSchering Agreement, Indevus agreed to pay to BayerSchering up to $30 million in up-front, regulatory milestone, and commercialization milestone payments, including a $5.0 million payment due upon approval by the FDA to market Aveed™. Indevus also agreed to pay to BayerSchering 25% of net sales of Aveed™ to cover both the cost of finished product and royalties. The BayerSchering Agreement expires ten years from the first commercial sale of Aveed™. Either party may also terminate the BayerSchering Agreement in the event of a material breach by the other party.

In October 2006, Indevus entered into a supply agreement with BayerSchering pursuant to which BayerSchering agreed to manufacture and supply Indevus with all of its requirements for Aveed™ for a supply price based on net sales of Aveed™. The supply price is applied against the 25% of net sales owed to BayerSchering pursuant to the BayerSchering Agreement. The BayerSchering Agreement expires ten years after the first commercial sale of Aveed™.

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*Sanofi-Aventis*

In February 1994, Indevus licensed from Rhone-Poulenc Rorer, S.A., now Aventis Pharma S.A. (referred to as Sanofi-Aventis), exclusive, worldwide rights for the manufacture, use and sale of pagoclone under patent rights and know-how related to the drug, except that Indevus granted Sanofi-Aventis an option to sublicense, under certain conditions, rights to market pagoclone in France. Indevus paid Sanofi-Aventis a license fee and agreed to make milestone payments based on clinical and regulatory developments, and to pay royalties based on net sales through the expiration of the composition of matter patent. If sublicensed, the Company would pay to Sanofi-Aventis a portion of receipts from the sublicensee in lieu of payments. Under the terms of the agreement with Sanofi-Aventis, the Company is responsible for all costs of developing, manufacturing, and marketing pagoclone. This agreement expires with respect to each country upon the last to expire applicable patent. Additionally either party may also terminate this agreement in the event of a material breach by the other party. The Company could owe an additional $5.5 million if certain clinical and regulatory development milestones are achieved, as well as royalties on net sales or a percentage of royalties it receives if the product is sublicensed.

*Teva Pharmaceutical Industries Ltd.*

In September 2008, Indevus entered into a Development, License and Commercialization Agreement with Teva Pharmaceutical Industries Ltd. (referred to as Teva) for the exclusive, worldwide rights to pagoclone (referred to as the Teva Agreement). Under the terms of the Teva Agreement, the Company will conduct, and Teva will reimburse expenses for, a Phase IIb study for stuttering. Teva will be responsible for the conduct of all remaining development and commercialization, including the Phase III program.

In March 2009, Teva converted the Teva Agreement from an equal cost sharing arrangement to a royalty structure whereby Teva will be responsible for all development and commercial costs in the U.S. and the Company will receive royalties on net sales, in addition to milestone payments.

Under the Teva Agreement, the Company could receive up to $142.5 million in development and sales threshold milestone payments, including an estimated $11.0 million of contractual payments to be received during the Phase IIb study, of which the Company has received $10.0 million as of December 31, 2009. The term will extend on a country-by-country basis from the effective date to the later of twelve years from first commercial sale or the last valid claim in a country in the territory. Teva may terminate the Teva Agreement (i) by giving notice within a certain time frame from the completion of the Phase IIb study, and (ii) anytime with a specified advance notice, except no such termination will be effective until the completion of any ongoing Phase IIb study. If Teva terminates the Teva Agreement after a product is approved, the Company will pay Teva royalties on its revenues up to an aggregate of certain amounts expended by Teva on development and commercialization. Either party may terminate the Teva Agreement in the event of a material breach by the other party.

*Hydron Technologies, Inc.*

In November 1989, GP Strategies Corporation (referred to as GP Strategies), then known as National Patent Development Corporation, entered into an agreement (referred to as the Hydron Agreement) with Dento-Med Industries, Inc., now known as Hydron Technologies, Inc. In June 2000, Valera Pharmaceuticals, Inc. (referred to as Valera, now a wholly-owned subsidiary of the Company known as Endo Pharmaceuticals Valera Inc.) entered into a contribution agreement with GP Strategies, pursuant to which Valera acquired the assets of GP Strategies drug delivery business, including all intellectual property, and all of Valera s rights under the Hydron Agreement, and certain other agreements with The Population Council and Shire US, Inc.

Pursuant to the Hydron Agreement, the Company has the exclusive right to manufacture, sell and distribute any prescription drug or medical device and certain other products made with the Hydron® Polymer Technology. Hydron Technologies retained an exclusive, worldwide license to manufacture, market or use products composed of, or produced with the use of, the Hydron® Polymer Technology in certain consumer and oral health fields.

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Neither party is prohibited from manufacturing, exploiting, using or transferring the rights to any new non-prescription drug product containing the Hydron® Polymer Technology, subject to certain exceptions, for limited exclusivity periods. Subject to certain conditions and exceptions, the Company is obligated to supply certain types of Hydron® Polymer Technology if Hydron Technologies elects to purchase them from the Company. In the event the Company withdraws from the business of manufacturing the Hydron® Polymer Technology, the Company will assign all of its right and interest in the Hydron trademark to Hydron Technologies. The agreement continues indefinitely, unless terminated earlier by the parties. Each party may owe royalties up to 5% to the other party on certain products under certain conditions.

*Orexo AB*

In August 2004, we entered into an agreement with Orexo AB (referred to as the Orexo), granting us the exclusive rights to develop and market Orexo AB s patented sublingual muco-adhesive fentanyl product (referred to as Rapinyl ) in North America (referred to as the Orexo Agreement). Rapinyl is a sub-lingual, fast-dissolving tablet of fentanyl intended for the treatment of breakthrough cancer pain. Rapinyl is based on Orexo s unique patented technology for sublingual administration. The Orexo Agreement provided for us to make an up-front license fee payment of $10 million, which we capitalized as an intangible asset representing the fair value of the exclusive right to market products utilizing Orexo s unique patented technology for sublingual administration. We were amortizing this intangible asset over its estimated useful life of twenty (20) years.

During the second quarter of 2008, the Company completed an in-depth review of its research and development (referred to as R&D) activities. The review included an analysis of the Company s R&D priorities, focus and available resources for current and future projects as well as the commercial potential for each product. As a result of this review, in July 2008 the Company decided to discontinue development of Rapinyl and terminate the Orexo Agreement in accordance with its terms. As a result of this decision, the Company recorded a pre-tax impairment of other intangible assets in the amount of $8.1 million in the second quarter of 2008 to reduce the remaining balance of our Rapinyl intangible asset to zero and also recorded an impairment charge of approximately $3.1 million related to the impairment of property and equipment that has been included in research and development expenses.

Pursuant to the terms the Orexo Agreement, we are required to pay a $0.8 million termination fee to Orexo. In addition, we were required to continue all ongoing clinical trials related to Rapinyl for a maximum of six months from the date of our termination of the Orexo Agreement. On October 30, 2008, Endo entered into an early termination agreement effective October 31, 2008 pursuant to which we agreed to cease all involvement in the ongoing clinical trials of Rapinyl and paid Orexo a lump sum fee equal to $2.3 million, including the termination fee of $0.8 million. In exchange, Orexo has released Endo from certain claims under the Orexo Agreement. We are also required to transition the manufacturing process to Orexo or an agreed-upon third party, and supply manufactured product to Orexo or the agreed-upon third party during the transition period for up to a maximum of two years from the date of termination of the agreement. Orexo will pay us 125% of the cost for all manufactured product we provide during the transition period.

*EpiCept Corp.*

In December 2003, we entered into a license granting us exclusive, worldwide rights to certain patents of EpiCept Corp. (referred to as EpiCept) as well as exclusive, worldwide commercialization rights to EpiCept s LidoPAIN® BP product (referred to as EpiCept Agreement). The EpiCept Agreement provides for Endo to pay EpiCept milestones as well as royalties on the net sales of EpiCept s LidoPAIN® BP product. Under this Agreement, we made an upfront payment to EpiCept of $7.5 million which we capitalized as an intangible asset representing the fair value of the exclusive right and the patents. We are amortizing this intangible asset over its useful life of thirteen (13) years. EpiCept has also retained an option to co-promote the LidoPAIN® BP product. Milestone payments made by Endo under this agreement, including regulatory milestones and sales thresholds, could total up to $82.5 million. In addition, the EpiCept Agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. The

EpiCept Agreement generally lasts until the underlying patents expire. In January 2009, EpiCept announced that it was discontinuing all drug discovery activities including the development of LidoPAIN® BP. However, the Company intends to maintain its patent rights conveyed by the EpiCept Agreement.

*Other*

In December 2007, we entered into a license, development and supply agreement with an undisclosed third party collaborative partner for the exclusive clinical development and commercialization rights in Canada and the United States for a certain technology to be utilized in our various product development activities. Under the terms of this agreement the collaborative partner will be responsible for development efforts to conduct pharmaceutical formulation development and will manufacture any such product or products which obtain FDA approval. Endo will be responsible for conducting clinical development activities and for all development costs incurred to obtain regulatory approval. Pursuant to this agreement, we expensed upfront fees of $18.9 million as research and development during the year ended December 31, 2007. During the year ended December 31, 2008, we expensed $6.9 million of milestone payments. During the year ended December 31, 2009, we had no expenses for milestone payments pursuant to this agreement. Additional payments of approximately 71.0 million euros (approximately $102 million at December 31, 2009) may become due upon achievement of predetermined regulatory and commercial milestones. Endo will also make payments to the collaboration partner based on net sales of any such product or products commercialized under this agreement.

We have also entered into certain other collaboration and discovery agreements with third parties for the development of pain management and other products. These agreements require us to share in the development costs of such products and grant marketing rights to us for such products.

We have also licensed from universities and other similar firms rights to certain technologies or intellectual property generally in the field of pain management. We are generally required to make upfront payments as well as other payments upon successful completion of regulatory or sales milestones. In addition, these agreements generally require us to pay royalties on sales of the products arising from these agreements. These agreements generally permit Endo to terminate the agreement with no significant continuing obligation.

In July 2008, the Company made a $20 million investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer. In exchange for our $20 million payment, we received an equity interest in the privately-held company and the rights to negotiate an exclusive worldwide development and commercialization arrangement with respect to a certain technology for use in a specified indication. The Company s $20 million payment resulted in an ownership interest of less than 20% of the outstanding voting stock of the privately-held company. In addition, Endo and other equity holders have provided a line of credit totaling $25 million, of which Endo is committed to fund $3 million. No amounts have been funded under the line-of credit as of December 31, 2009. Based on the equity ownership structure, Endo does not have the ability to exert significant influence over the privately-held company. Pursuant to authoritative accounting guidance, our investment constitutes a variable interest in this privately-held company. We have determined that Endo is not the primary beneficiary and therefore have not consolidated the assets, liabilities, and results of operations of the privately-held company into our Consolidated Financial Statements. Accordingly, Endo is accounting for this investment under the cost method. As of December 31, 2009, our investment in the privately-held company was $20 million, representing our maximum exposure to loss.

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**NOTE 7. Property and Equipment**

Property and equipment is comprised of the following for the years ended December 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Machinery and equipment | $ 17,331 | $ 14,421 |
| Leasehold improvements | 22,567 | 17,459 |
| Computer equipment and software | 40,681 | 35,983 |
| Assets under capital leases | 1,222 | 1,542 |
| Furniture and fixtures | 8,094 | 7,824 |
| Assets under construction | 7,758 | 5,300 |
| | 97,653 | 82,529 |
| Less accumulated depreciation | (50,124) | (38,151) |
| Total | $ 47,529 | $ 44,378 |

Depreciation expense was $16.9 million, $13.0 million and $11.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

**NOTE 8. Goodwill and Other Intangibles**

For the years ended December 31, changes in the carrying amount of Goodwill consisted of the following (in thousands):

| | Carrying Amount |
|---|---|
| Balance at December 31, 2008 | $ 181,079 |
| Acquisition of Indevus (Note 5) | 121,455 |
| Balance at December 31, 2009 | $ 302,534 |

As of December 31, 2009, $204 million and $98 million was allocated to the Pain & Specialty Generics and UEO reporting units, respectively. As a result of the Indevus acquisition, Endo recorded goodwill of approximately $121.5 million, portions which were allocated to each reporting unit. In allocating the goodwill from the acquisition, Endo determined that the goodwill derived from the transaction was assignable to the Pain & Specialty Generics reporting unit due to the value associated with the forecasted synergies related to the acquisition.

On December 2 2009, the Company received a complete response letter from the FDA regarding its NDA for Aveed™ and determined this to be a triggering event requiring us to perform an interim goodwill impairment test on our UEO reporting unit. Therefore, we performed a goodwill impairment test on our UEO reporting unit as of December 2, 2009 after giving effect to the Aveed™ indefinite-lived intangible asset impairment. Our UEO reporting unit was also tested for impairment again as of January 1, 2010, our annual assessment date, along with our Pain & Specialty Generics reporting unit. The results of our analyses showed that the fair value of both of our reporting units substantially exceeded their respective carrying values and thus no goodwill impairment exists.

Based upon recent market conditions, and a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting units fair value. The income approach converts future amounts to a single present value amount (discounted cash flow model). Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flow (including long-term growth rates), discount rate, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in determining the fair value of our reporting units at the measurement date.

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Our other intangible assets consisted of the following at December 31, 2009 and December 31, 2008, respectively (in thousands):

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Indefinite-lived intangibles: | | |
| In process research and development | $ 100,900 | $ |
| Definite-lived intangibles: | | |
| Licenses | $ 625,242 | $ 257,757 |
| Less accumulated amortization | (116,233) | (52,702) |
| Patents | | 3,200 |
| Less accumulated amortization | | (3,200) |
| | 509,009 | 205,055 |
| Other intangibles, net | $ 609,909 | $ 205,055 |

Changes in the gross carrying amount of our other intangible assets for the year ended December 31, 2009, are as follows:

| (in thousands) | Gross carrying amount |
|---|---|
| *Balance at December 31, 2008* | $ 260,957 |
| Acquisition of Indevus (Note 5) | 532,900 |
| LecTec license | 4,485 |
| Aveed™ impairment | (65,000) |
| Pro2000 impairment | (4,000) |
| Disposal of patents | (3,200) |
| *Balance at December 31, 2009* | $ 726,142 |

On November 11, 2009, we reached a settlement with LecTec Corporation on outstanding patent litigation. Endo made a one-time, $23 million payment for the exclusive license to two patents for use in the field of prescription pain medicines and treatment. As part of this settlement, both Hind Healthcare Inc. and Teikoku Seiyaku Co., Ltd.were each contractually required to fund their share of this settlement. Accordingly, we recorded an intangible asset representing the portion of our net payment attributable to the license. The remaining $1.3 million was charged to expense, representing our estimate of the portion of our net payment attributable to the settlement.

In December of 2009, the Company s Phase III clinical trials for Pro2000 provided conclusive results that the drug was not effective. In December 2009, the Company concluded there was no further value or alternative future uses associated with this indefinite-lived asset. Accordingly, we recorded a $4 million impairment charge to write-off the Pro2000 intangible asset in its entirety. Additionally, as a result of the FDA s Complete Response letter related to our NDA for Aveed , the Company performed an impairment review for the Aveed intangible asset as of December 31, 2009 which resulted in an impairment of $65 million. See Note 3 for further details.

Amortization expense was $63.5 million, $33.5 million and $6.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, estimated amortization of intangibles for the five fiscal years subsequent to December 31, 2009 is as follows (in thousands):

| | |
|---|---|
| 2010 | $ 69,141 |
| 2011 | 69,141 |
| 2012 | 69,141 |
| 2013 | 58,836 |
| 2014 | 43,944 |

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**NOTE 9. Accrued Expenses**

Accrued expenses are comprised of the following for each of the years ended December 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Chargebacks | $ 51,904 | $ 35,982 |
| Returns and allowances | 48,274 | 38,982 |
| Rebates | 124,443 | 104,667 |
| Other sales deductions | 6,060 | 5,142 |
| Other | 55,925 | 41,232 |
| Total | $ 286,606 | $ 226,005 |

**NOTE 10. Other (Income) Expense, net**

The components of other (income) expense, net for each of the years ended December 31 are as follows (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Other-than-temporary impairment of auction-rate securities | | 26,417 | |
| Unrealized (gain) loss on trading securities | (15,222) | 4,225 | |
| Loss (gain) on Auction-Rate Securities Rights | 11,662 | (27,321) | |
| Other | 231 | (1,568) | (598) |
| Other (income) expense, net | $ (3,329) | $ 1,753 | $ (598) |

**NOTE 11. Income Taxes**

Income tax consists of the following for each of the years ended December 31 (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 116,372 | $ 124,862 | $ 100,542 |
| State | 17,036 | 8,639 | 23,439 |
| | 133,408 | 133,501 | 123,981 |
| Deferred: | | | |
| Federal | (18,621) | 2,582 | (1,553) |
| State | (5,884) | (743) | (17) |
| | (24,505) | 1,839 | (1,570) |
| Excess tax benefits of stock options exercised | (3,689) | (92) | 3,453 |
| Valuation allowance | (11,890) | 1,244 | (54) |
| Total income tax | $ 93,324 | $ 136,492 | $ 125,810 |

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A reconciliation of income tax at the federal statutory income tax rate to the total income tax provision for each of the years ended December 31 (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Federal income tax at the statutory rate | $ 125,881 | $ 137,144 | $ 123,637 |
| State income tax net of federal benefit | 4,383 | 8,965 | 11,493 |
| Research and development credit | (3,428) | (2,124) | (2,704) |
| Uncertain tax positions | 6,810 | (2,898) | 5,055 |
| Effect of permanent items: | | | |
| Changes in contingent consideration | (42,819) | | |
| Transaction-related expenses | 3,447 | | |
| Tax exempt interest income | (905) | (6,631) | (9,447) |
| Other | (45) | 2,036 | (2,224) |
| Total income tax | $ 93,324 | $ 136,492 | $ 125,810 |

The tax effects of temporary differences that comprise the current and non-current deferred income tax amounts shown on the balance sheets for the years ended December 31 are as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued expenses | $ 67,953 | $ 44,056 |
| Compensation related to stock options | 15,693 | 14,631 |
| Purchased in-process research and development | 2,943 | 4,203 |
| Net operating loss carryforward | 122,558 | 10,598 |
| Capital loss carryforward | 11,235 | 10,729 |
| Research and development credit carryforward | 11,604 | |
| Depreciation and amortization | 23,767 | |
| Uncertain tax positions | 17,795 | 15,858 |
| Other-than-temporary impairment of auction-rate securities | 6,135 | 11,721 |
| Interest expense original issuers discount | | 1,119 |
| Prepaid royalties | 12,354 | 16,557 |
| Other | 11,722 | 5,620 |
| Total gross deferred income tax assets | 303,759 | 135,092 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (223,379) | (49,032) |
| Convertible debt non cash interest expense | (10,469) | (12,467) |
| Auction-rate securities rights | (5,817) | (10,451) |
| Other | (5,601) | (1,941) |
| Total gross deferred income tax liabilities | (245,266) | (73,891) |
| Valuation allowance | (17,240) | (14,067) |
| Net deferred income tax asset | $ 41,253 | $ 47,134 |

As of December 31, 2009, the Company recorded a valuation allowance of $0.4 million related to the unrealized holding loss on available-for-sale auction-rate securities, the offset of which was recorded in accumulated other comprehensive loss, a component of shareholder s equity.

The Company had $33.2 million of capital losses that expired at December 31, 2009. Accordingly, the deferred tax asset and related valuation allowance were eliminated. The Company recorded an additional valuation allowance of $14.0 in 2009 primarily related to the uncertainty of our ability to utilize the capital loss carryforwards acquired from Indevus which $26.7 million will expire December 31, 2011.

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On January 1, 2007, the Company adopted the provisions for accounting for uncertain tax positions, which became effective for fiscal years beginning after December 15, 2006. The new standard created a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The provisions apply to all material tax positions in all taxing jurisdictions for all open tax years. The standard establishes a two-step process for evaluating tax positions. Step 1 Recognition, requires the Company to determine whether a tax position, based solely on its technical merits, has a likelihood of more than 50 percent ( more-likely-than-not ) that the tax position taken will be sustained upon examination. Step 2 Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2009 and 2008, interest and penalties included in income tax expense totaled $2.1 million and $1.3 million, respectively.

A reconciliation of the change in the uncertain tax benefits balance from January 1, 2007 to December 31, 2009 is as follow (in thousands):

| | Unrecognized Tax Benefit Federal, State, and Foreign Tax | |
|---|---|---|
| Balance at January 1, 2007 | $ | 5,461 |
| Gross additions for current year positions | | 4,363 |
| Gross additions for prior period positions | | 1,220 |
| Gross reductions for prior period positions | | (64) |
| Balance at December 31, 2007 | $ | 10,980 |
| Gross additions for current year positions | | 5,200 |
| Gross additions for prior period positions | | 17,091 |
| Gross reductions for prior period positions | | (11,758) |
| Decrease due to settlements | | (559) |
| Decrease due to lapse of statute of limitations | | (1,650) |
| Balance at December 31, 2008 | | 19,304 |
| Gross additions for current year positions | | 7,609 |
| Gross additions for prior period positions | | 217 |
| Gross reductions for prior period positions | | (27) |
| Decrease due to settlements | | |
| Decrease due to lapse of statute of limitations | | |
| Balance at December 31, 2009 | $ | 27,103 |
| Accrued interest and penalties | | 7,197 |
| Total uncertain tax liability | $ | 34,300 |
| Current portion (included in accrued expenses) | $ | 587 |
| Non-current portion (included in other liabilities) | $ | 33,713 |

The Company and its subsidiaries are routinely examined by various taxing authorities, which have proposed adjustments to tax for issues such as certain tax credits and the deductibility of certain expenses. While it is possible that one or more of these examinations may be resolved within the next twelve months, it is not anticipated that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months. In addition, the expiration of statutes of limitations for various jurisdictions is expected to reduce the unrecognized tax benefits balance by an insignificant amount.

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The Company files income tax returns in the U.S. Federal jurisdiction, and various state and foreign jurisdictions. The Company is subject to U.S. Federal, state and local, and non-U.S. income tax examinations by tax authorities. The Company s U.S. federal income tax returns for tax years 2003 through 2006 are currently under routine examination by the IRS. In general, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2003. The Company believes that it has adequately provided for uncertain tax positions relating to all open tax years by tax jurisdiction.

The total amount of gross unrecognized tax benefits as of December 31, 2009 is $34.3 million, including interest and penalties, of which $16.1 million, if recognized, would affect the Company s effective tax rate. The change in the total amount of unrecognized tax benefits did not have a material impact on the Company s results of operations for the year ended December 31, 2009 or our financial position as of December 31, 2009. Any future adjustments to our uncertain tax position liability will result in an impact to our income tax provision and effective tax rate.

It is expected that the amount of unrecognized tax benefits will change during the next twelve months; however, the Company does not anticipate any adjustments that would lead to a material impact on our results of operations or our financial position.

**NOTE 12. STOCKHOLDERS EQUITY**

**Common Stock**

At our 2008 Annual Meeting held on June 26, 2008, our stockholders approved an amendment to the Company s Amended and Restated Certificate of Incorporation which increased the total number of shares of common stock, $0.01 par value, that the Company is authorized to issue from 175,000,000 to 350,000,000.

Subject to certain limitations, we are permitted to pay dividends under the Credit Facility. See Note 17 for further details.

**Preferred Stock**

The Board of Directors may, without further action by the stockholders, issue a series of Preferred Stock and fix the rights and preferences of those shares, including the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption price or prices, liquidation preferences, the number of shares constituting any series and the designation of such series. As of December 31, 2009, no shares of Preferred Stock have been issued.

***Stock-Based Compensation***

**Endo Pharmaceuticals Holdings Inc. 2000, 2004 and 2007 Stock Incentive Plans**

On August 11, 2000, we established the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan reserves an aggregate of 4,000,000 shares of common stock of the Company for issuance to employees, officers, directors and consultants. The 2000 Stock Incentive Plan provides for the issuance of stock options, restricted stock, stock bonus awards, stock appreciation rights or performance awards. In May 2004, our stockholders approved the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2004 Stock Incentive Plan is 4,000,000 shares. The 2004 Plan provides for the grant of stock options, stock appreciation rights, shares of restricted stock, performance shares, performance units or other share-based awards that may be granted to executive officers and other employees of the Company, including officers and directors who are employees, to non-employee directors and to consultants to the Company. In May 2007, our stockholders approved the Endo Pharmaceuticals Holdings Inc. 2007 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2007 Stock Incentive Plan is seven million (7,000,000) shares (subject to adjustment for certain transactions), but in no event may the total number of shares of Company stock subject to awards awarded to any one participant during any tax year of the Company exceed seven hundred fifty thousand (750,000) shares (subject to adjustment for certain transactions). During 2009, 43,500 restricted stock units and 66,503 non-qualified stock options were granted to an executive officer of the Company as an inducement to commence employment with the Company. The restricted stock units and non-qualified stock options were granted outside of the 2007 Stock Incentive Plan but are subject to the terms and conditions of the 2007 Stock Incentive Plan and the applicable award agreements. Approximately 11.9 million shares were reserved for future issuance upon exercise of options granted or to be granted under the 2000, 2004 and 2007 Stock Incentive Plans. As of December 31, 2009, stock options, restricted stock awards and restricted stock units have been granted under the Stock Incentive Plans.

**Endo Pharma LLC 1997 Executive and Employee Stock Option Plans and Endo Pharma LLC 2000 Supplemental Executive and Employee Stock Option Plans**

On November 25, 1997, the Company established the 1997 Employee Stock Option Plan and the 1997 Executive Stock Option Plan (collectively referred to as the 1997 Stock Option Plans ). On July 17, 2000, the 1997 Stock Option Plans were amended and restated. The Endo Pharma LLC 1997 Stock Option Plans are these amended and restated 1997 Stock Options Plans and reserved an aggregate of 25,615,339 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 1997 Stock Option Plans expired on August 26, 2007. Upon exercise of these stock options, only currently outstanding shares of common stock of the Company held by Endo Pharma LLC were issued. Endo Pharma LLC is a limited liability company that is no longer affiliated with the Company and in which affiliates of Kelso & Company have a controlling interest. Exercise of these stock options did not result in the issuance of additional shares in the Company and did not dilute the ownership interests of our public stockholders.

Pursuant to the Company s merger with Algos Pharmaceutical Corporation (referred to as Algos) and related recapitalization of the Company on July 17, 2000, the Endo Pharma LLC 2000 Supplemental Stock Option Plans were established. The Endo Pharma LLC 2000 Supplemental Stock Option Plans reserved an aggregate of 10,672,314 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 2000 Supplemental Stock Option Plans expired on August 26, 2007. The Endo Pharma LLC 2000 Supplemental Stock Option Plans became effective on January 1, 2003, resulting in the issuance of 10,672,314 stock options to certain employees and members of management. No additional shares of Company common stock were issued as a result of the exercise of these stock options, because these stock options were exercisable only into shares of Company common stock that were held by Endo Pharma LLC. Accordingly, exercise of these stock options did not result in the issuance of additional shares in the Company and did not dilute the ownership interests of our public stockholders.

**Stock-Based Compensation**

The Company accounts for its stock-based compensation plans in accordance with the guidance for Share-Based Payments. Accordingly, all stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the income statement over the requisite service period.

Presented below is the allocation of stock-based compensation as recorded in our Consolidated Statements of Operations for the years ended December 31 (in thousands).

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Selling, general and administrative expenses | $ 17,211 | $ 15,492 | $ 12,397 |
| Research and development expenses | 2,382 | 1,442 | 1,531 |
| Total stock-based compensation expense | $ 19,593 | $ 16,934 | $ 13,928 |

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**Stock Options**

For all of the Company s stock-based compensation plans, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company s stock price over a period commensurate with the expected life of the share option as well as other factors. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected term of options granted based on our historical experience with our employees exercise of stock options and other factors.

A summary of the activity under 2000, 2004 and 2007 Stock Incentive Plans for the three-year period ended December 31, 2009 is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, January 1, 2007 | 3,910,768 | $ 21.19 | | |
| Granted | 1,201,663 | $ 30.59 | | |
| Exercised | (530,462) | $ 14.57 | | |
| Forfeited | (222,743) | $ 27.55 | | |
| Expired | (23,174) | $ 28.24 | | |
| Outstanding, December 31, 2007 | 4,336,052 | $ 24.24 | | |
| Granted | 1,371,253 | $ 24.78 | | |
| Exercised | (150,191) | $ 14.88 | | |
| Forfeited | (834,753) | $ 28.10 | | |
| Expired | (62,979) | $ 29.11 | | |
| Outstanding, December 31, 2008 | 4,659,382 | $ 23.95 | | |
| Granted | 2,216,544 | $ 19.30 | | |
| Exercised | (554,827) | $ 14.48 | | |
| Forfeited | (300,864) | $ 24.11 | | |
| Expired | (861,694) | $ 24.67 | | |
| Outstanding, December 31, 2009 | 5,158,541 | $ 22.84 | 7.17 | $ 5,839,126 |
| Vested and expected to vest, December 31, 2009 | 4,826,935 | $ 23.01 | 7.05 | $ 5,491,748 |
| Exercisable, December 31, 2009 | 2,003,703 | $ 23.98 | 4.95 | $ 3,410,090 |

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $3.6 million, $1.4 million, and $9.4 million, respectively. The weighted-average grant date fair value of the stock options granted during the years ended December 31, 2009, 2008 and 2007 was $7.47, $9.48 and $15.11 per option, respectively, determined using the following assumptions:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Average expected term (years) | 5.22 | 4.92 | 5.50 |
| Risk-free interest rate | 2.04% | 2.8% | 4.6% |
| Dividend yield | 0.00 | 0.00 | 0.00 |
| Expected volatility | 40% | 39% | 48% |

The weighted average remaining requisite service period of the non-vested stock options is 2.54 years. As of December 31, 2009, the total remaining unrecognized compensation cost related to non-vested stock options amounted to $24.2 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

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The following table summarizes information about stock options outstanding under our 2000, 2004 and 2007 Stock Incentive Plans at December 31, 2009:

**2000, 2004 and 2007 Stock Incentive Plans Options Outstanding**

| Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Exercisable Weighted Average Exercise Price | Range of Exercise Prices |
|---|---|---|---|---|---|
| 5,158,541 | 7.17 | $ 22.84 | 2,003,703 | $ 23.98 | $ 6.88-32.99 |

A summary of the activity under the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans for the three-year period ended December 31, 2009 is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, January 1, 2007 | 75,259 | $ 2.42 | | |
| Granted | | $ | | |
| Exercised | (75,259) | $ 2.42 | | |
| Forfeited | | $ | | |
| Outstanding, December 31, 2007 | | $ | | |
| Granted | | $ | | |
| Exercised | | $ | | |
| Forfeited | | $ | | |
| Outstanding, December 31, 2008 | | $ | | |
| Granted | | $ | | |
| Exercised | | $ | | |
| Forfeited | | $ | | |
| Outstanding, vested and exercisable, December 31, 2009 | | $ | | |

The total intrinsic value of options exercised during the year ended December 31, 2007 was $2.3 million.

As of December 31, 2008, there was no remaining unrecognized compensation cost related to non-vested stock options granted pursuant to the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans. Additionally, no options were available for grant under the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans at December 31, 2009.

**Restricted Stock Awards**

During the year ended December 31, 2007, the Company granted restricted stock awards to non-employee directors of the Company. We recognize expense for our restricted stock using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock is equal to the closing price of Endo shares on the date of grant.

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A summary of our restricted stock activity during the years ended December 31, 2009, 2008 and 2007 is presented below:

| | Number of Shares | Weighted Average Fair Value Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Non-vested, January 1, 2007 | | $ | |
| Granted | 13,572 | $ 29.84 | |
| Forfeited | | $ | |
| Vested | | $ | $ |
| Non-vested, December 31, 2007 | 13,572 | $ 29.84 | |
| Granted | | $ | |
| Forfeited | (1,131) | $ 29.84 | |
| Vested | (6,786) | $ 29.84 | $ 175,622 |
| Non-vested, December 31, 2008 | 5,655 | $ 29.84 | |
| Granted | | $ | |
| Forfeited | (1,131) | $ 29.84 | |
| Vested | (4,524) | $ 29.84 | $ 92,832 |
| Non-vested, December 31, 2009 | | $ | |

As of December 31, 2009, there was no unrecognized compensation cost related to non-vested restricted stock awards.

**Restricted Stock Units**

During the years ended December 31, 2009 and 2008, the Company granted restricted stock units to employees and non-employee directors of the Company as part of their annual stock compensation award. We recognize expense for our restricted stock units using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock units is equal to the closing price of Endo shares on the date of grant.

A summary of our restricted stock units activity during the years ended December 31, 2009 and 2008 are presented below:

| | Number of Shares | Aggregate Intrinsic Value |
|---|---|---|
| Outstanding, January 1, 2008 | | |
| Granted | 639,396 | |
| Forfeited | (91,043) | |
| Vested | | |
| Outstanding, December 31, 2008 | 548,353 | |
| Granted | 1,133,186 | |
| Forfeited | (86,286) | |
| Vested | (118,012) | |
| Outstanding, December 31, 2009 | 1,477,241 | $ 30,312,985 |

The weighted average remaining requisite service period of the non-vested restricted stock units is 2.79 years. The weighted-average grant date fair value of the restricted stock units granted during the year ended December 31, 2009 and 2008 was $19.43 and $25.09 per unit, respectively. As of December 31, 2009, the total remaining unrecognized compensation cost related to non-vested restricted stock units amounted to $24.7 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

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***Share Repurchase Program***

In April 2008, our Board of Directors approved a share repurchase program, authorizing the Company to repurchase in the aggregate up to $750 million of shares of its outstanding common stock. Purchases under this program may be made from time to time in open market purchases, privately-negotiated transactions, and accelerated stock repurchase transactions or otherwise, as determined by Endo.

This program does not obligate Endo to acquire any particular amount of common stock. The pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investment in the Company s business, repayment of future debt, if any, current stock price, market conditions and other factors. The share repurchase program may be suspended, modified or discontinued at any time. As a result of a two-year extension approved by the Board of Directors in February 2010, the share repurchase plan is set to expire in April 2012.

As described in Note 17, we entered into a privately-negotiated $325.0 million accelerated share repurchase agreement as part of our broader share repurchase program described above. Pursuant to the accelerated share repurchase agreement, we purchased approximately 11.9 million shares of our common stock on April 15, 2008. On August 14, 2008, Endo received approximately 1.4 million additional shares of our common stock based on the volume-weighted average price of our common stock during a specified averaging period set forth by the accelerated share repurchase agreement. In addition to the accelerated share repurchase, beginning in April 2008, we made open market purchases of our common stock as part of our broader share repurchase program. As of December 31, 2008, we purchased approximately 4.5 million shares of our common stock on the open market for a total purchase price of approximately $99.8 million. We did not purchase any shares of our common stock during the year ended December 31, 2009.

**NOTE 13. RELATED PARTY TRANSACTIONS**

***Tax Sharing Agreement.*** On July 14, 2000, Endo Pharma LLC was formed in connection with our acquisition of Algos Pharmaceutical Corporation (referred to as Algos) to ensure that the stock options granted pursuant to the Endo Pharma LLC Stock Option Plans diluted only the Endo common stock held by persons and entities that held such shares prior to our merger with Algos. Endo Pharma LLC is a limited liability company that is no longer affiliated with the Company but had historically held significant portions of our common stock, in which affiliates of Kelso & Company and certain former members of management have an interest. Upon the exercise of these stock options, only currently outstanding shares of our common stock held by Endo Pharma LLC were delivered. Because Endo Pharma LLC, and not us, had provided the shares upon the exercise of these options, we entered into a tax sharing agreement (as amended) with Endo Pharma LLC under which we were required to pay to Endo Pharma LLC the amount of the tax benefits usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC.

During the year ended December 31, 2007, the final 75,259 shares underlying stock options granted under the Endo Pharma LLC stock option plans were exercised. We were obligated, under our amended tax sharing agreement, to pay to Endo Pharma LLC an additional tax benefit amount of approximately $0.7 million. The estimated tax benefit amount attributable to these exercises and any additional tax benefits attributable to the exercise of stock options granted under the Endo Pharma LLC stock option plans in 2007 were paid during the twelve months ended December 31, 2008. This represented the final tax sharing payment due to Endo Pharma LLC.

**NOTE 14. COMMITMENTS and CONTINGENCIES**

**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. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively referred to as Novartis), Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Almac Pharma

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Services, Sharp Corporation, and Ventiv Commercial Services, LLC. 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.

*Novartis Consumer Health, Inc.*

On May 3, 2001, we entered into a long-term manufacturing and development agreement with Novartis Consumer Health, Inc. whereby Novartis Consumer Health, Inc. has agreed to manufacture certain of our commercial products and products in development. We are required to purchase, on an annual basis, a minimum amount of product from Novartis Consumer Health, Inc. The purchase price per product is equal to a predetermined amount per unit, subject to periodic adjustments. This agreement had a five-year term, with automatic five-year renewals thereafter. In August 2005, we extended this agreement until 2011. We are required to purchase a minimum of approximately $20 million per year in 2010 and approximately $21 million in 2011. Either party may terminate this agreement on three-years notice, effective at any time after the initial five-year term. Either party may also terminate this agreement on account of a material breach by the other. Amounts purchased pursuant to this agreement were $64.7 million, $55.4 million and $30.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Pursuant to the March 2008 Voltaren® Gel License and Supply Agreement (referred to as the Voltaren® Gel Agreement) with Novartis AG and Novartis Consumer Health, Inc. Endo has agreed to purchase from Novartis all of its requirements for Voltaren® Gel during the entire term of the Voltaren® Gel Agreement. The price of product purchased under the Voltaren® Gel Agreement is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials. Amounts purchased pursuant to the Voltaren® Gel Agreement were $13.1 million and $23.4 million for the years ended December 31, 2009 and 2008, respectively.

As part of the Voltaren® Gel Agreement, we also agreed to undertake advertising and promotion of Voltaren® Gel (referred to as A&P Expenditures), subject to certain thresholds set forth in the Voltaren® Gel Agreement. We agreed to spend a minimum of $15.0 million on A&P Expenditures during the first Voltaren® Gel Agreement Year which ended on June 30, 2009. During the second Voltaren® Gel Agreement Year beginning on July 1, 2009 and extending through June 30, 2010, we agreed to spend a minimum of $20 million on A&P Expenditures. In subsequent Agreement Years, the minimum A&P Expenditures set forth in the Voltaren® Gel Agreement are determined based on a percentage of net sales of Voltaren® Gel.

Amounts incurred by Endo for such A&P Expenditures were $15.6 million and $9.4 million for the years ended December 31, 2009 and 2008, respectively.

*Teikoku Seiyaku Co., Ltd.*

Under the terms of our agreement (referred to as the Teikoku Agreement) with Teikoku Seiyaku Co. Ltd. (referred to as Teikoku), a Japanese manufacturer, Teikoku manufactures Lidoderm® at its Japanese facility for commercial sale by us in the United States. We also have an option to extend the supply area to other territories. The agreement contains certain provisions requiring Teikoku to qualify an additional manufacturing site, at our request, should we meet certain defined purchasing levels for a defined period of time. On April 24, 2007, we amended the Teikoku agreement (referred to as the Amended Agreement). The material components of the Amended Agreement are as follows:

- We agreed to purchase a minimum number of patches per year through 2012, representing the noncancelable portion of the Amended Agreement.

- Teikoku agreed to fix the supply price of Lidoderm® for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the Amended Agreement. Since future price changes are unknown, we have used prices currently existing under the Amended Agreement, and

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estimated our minimum purchase requirement to be approximately $32 million per year through 2012. The minimum purchase requirement shall remain in effect subsequent to 2012, except that Endo has the right to terminate the Amended Agreement after 2012, if we fail to meet the annual minimum requirement.

Following cessation of our obligation to pay royalties to Hind Healthcare Inc. (referred to as Hind) under the Sole and Exclusive License Agreement dated as of November 23, 1998, as amended, between Hind and Endo, we will pay to Teikoku annual royalties based on our annual net sales of Lidoderm®.

The Amended Agreement will expire on December 31, 2021, unless terminated in accordance with its terms. Either party may terminate this Agreement, upon thirty (30) days written notice, in the event that Endo fails to purchase the annual minimum quantity for each year after 2012 (e.g., 2013 through 2021) upon thirty (30) days written notice. Notwithstanding the foregoing, after December 31, 2021, the Amended Agreement shall be automatically renewed on the first day of January each year unless (i) we and Teikoku agree to terminate the Amended Agreement upon mutual written agreement or (ii) either we or Teikoku terminates the Amended Agreement with 180-day written notice to the other party, which notice shall not in any event be effective prior to July 1, 2022.

Amounts purchased pursuant to this agreement were $142.3 million, $152.2 million, and $152.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

*Mallinckrodt Inc.*

Under the terms of our agreement with Mallinckrodt Inc. (referred to as Mallinckrodt), (referred to as the Mallinckrodt Agreement) Mallinckrodt manufactures and supplies to us narcotic active drug substances, in bulk form, and raw materials for inclusion in our controlled substance pharmaceutical products. There is no minimum annual purchase commitment under the Mallinckrodt agreement. However, we are required to purchase a fixed percentage of our annual requirements of each narcotic active drug substance from Mallinckrodt. The purchase price for these substances is equal to a fixed amount, adjusted on an annual basis. The initial term of this agreement is July 1, 1998 until June 30, 2013, with an automatic renewal provision for unlimited successive one-year periods. Either party may terminate the Mallinckrodt agreement in the event of a material breach by the other party. Amounts purchased pursuant to this agreement were $20.7 million, $15.8 million, and $16.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

*Almac Pharma Services*

Under the terms of our agreement (referred to as the Almac Agreement) with Almac Pharma Services (referred to as Almac), a European manufacturer, Almac manufactures Frova® at its Ireland facility for commercial sale by us in the United States. The Almac agreement with Almac will expire on January 1, 2011, unless terminated sooner in accordance with its terms and can be extended beyond January 1, 2011 upon mutual agreement by both parties. If no agreement as to any extension or termination is reached six months prior to the end of the term, then the agreement will automatically renew for a period of twelve months. Almac has agreed to fix the supply price of Frova® for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the agreement, subject to an annual maximum increase. Amounts purchased pursuant to the Almac Agreement were $0.9 million and $0.9 million for the years ended December 31, 2009 and 2008, respectively.

*Sharp Corporation*

Under the terms of our agreement (referred to as the Sharp Agreement) with Sharp Corporation (referred to as Sharp), a U.S. manufacturer, Sharp performs certain services for Endo including the packaging and labeling of Lidoderm® at its facility in Allentown, Pennsylvania, for commercial sale by us in the United States. The Sharp Agreement will expire on March 1, 2011, subject to renewal for additional one-year periods upon mutual

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agreement by both parties. Endo has the right to terminate the Sharp Agreement at any time upon ninety (90) days written notice. Amounts purchased pursuant to the Sharp agreement were $6.3 million, $5.3 million and $5.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

*Ventiv Commercial Services, LLC*

On May 15, 2008, we entered into a services agreement (referred to as the Ventiv Agreement) with Ventiv Commercial Services, LLC (referred to as Ventiv). Under the terms of the Ventiv Agreement, Ventiv will provide to Endo certain sales and marketing services through a contracted field force and other sales management positions, collectively referred to as the Ventiv Field Force. The Ventiv Field Force will promote primarily Voltaren® Gel and will be required to perform a minimum number of face-to-face one-on-one discussions with physicians and other healthcare practitioners for the purpose of promoting Voltaren® Gel and other Endo products within their respective approved indications during each year of the Ventiv Agreement, subject to certain provisions.

Under the terms of the Ventiv Agreement, we incurred a one-time implementation fee that we recognized in selling, general, and administrative expense in the second quarter of 2008. In addition, each month we are required to pay Ventiv a monthly fixed fee during the term of the Ventiv Agreement based on a pre-approved budget. Included in the fixed monthly fee are certain costs such as the Ventiv sales representative and district manager salaries, Ventiv field force travel, and office and other expenses captured on routine expense reports, as well as a fixed management fee. Ventiv will also be eligible to earn a performance-based bonus equal to the fixed management fee during each year of the Ventiv Agreement. This performance-based bonus is payable upon the achievement of certain conditions, including the number of Voltaren® Gel tubes sold and the number of Details achieved.

The Ventiv Agreement will expire on June 30, 2010. Among other standard and customary termination rights granted under the Ventiv Agreement, we may terminate the Ventiv Agreement at our sole discretion at any time upon 120 days written prior notice to Ventiv, at which time we may be required to pay Ventiv a termination fee of up to $1 million. In January 2009, we agreed to certain changes to the Ventiv Agreement allowing for modifications to certain provisions, including the modification to the termination rights such that Endo is now permitted to terminate the Ventiv Agreement at our sole discretion at any time upon 60 days written prior notice. The Ventiv Agreement can also be terminated by either party upon reasonable written notice, if either party has committed a material breach that has not been remedied within thirty (30) days from the giving of written notice.

In May 2009, we amended the Ventiv Agreement to change certain provisions including a reduction in the Ventiv Field Force from 275 to 80 sales representatives effective June 1, 2009.

*General*

In addition to the manufacturing and supply agreements described above, we have agreements with (1) UPS Supply Chain Solutions, Inc. for customer service support, warehouse and distribution services and certain financial functions that expires in 2010 and (2) various companies for clinical development services. Although we have no reason to believe that the parties to these agreements will not meet their obligations, failure by any of these third parties to honor their contractual obligations may have a materially adverse effect on our business, financial condition, results of operations and cash flows.

**Milestones and Royalties**

See Note 6 for a complete description of future milestone and royalty commitments pursuant to our acquisitions, license and collaboration agreements.

**Employment Agreements**

We have entered into employment agreements with certain members of management.

**Research Contracts**

We routinely contract with universities, medical centers, contract research organizations and other institutions for the conduct of research and clinical studies on our behalf. These agreements are generally for the duration of the contracted study and contain provisions that allow us to terminate prior to completion.

**Legal Proceedings**

While we cannot predict the outcome of our ongoing legal proceedings, we believe that the claims against us are without merit, and we intend to vigorously defend our position. An adverse outcome in any of these proceedings could have a material adverse effect on our current and future financial position, results of operations and cash flows.

*Withdrawal of Redux, Legal Proceedings, Insurance Claims, and Related Contingencies*

In September 1997, Indevus announced a market withdrawal of its first commercial prescription product, the anti-obesity medication Redux (dexfenfluramine hydrochloride capsules C-IV), which had been launched in June 1996 by its licensee, American Home Products Corporation, which became Wyeth, and was later acquired by Pfizer. The withdrawal of Redux was based on a preliminary analysis by the FDA of potential abnormal echocardiogram findings associated with certain patients taking Redux or the combination of fenfluramine with phentermine. Following the withdrawal of Redux, the Company was named, together with other pharmaceutical companies, as a defendant in several thousand product liability legal actions in federal and state courts relating to the use of Redux and other weight loss drugs. Less than 100 lawsuits are still pending against the Company. In May 2001, Indevus entered into the AHP Indemnity and Release Agreement with Wyeth pursuant to which Wyeth agreed to indemnify Indevus against certain classes of product liability cases filed against Indevus related to Redux and Indevus agreed to dismiss Redux related claims against Wyeth. Under the terms of the AHP Indemnity and Release Agreement, Wyeth has agreed to indemnify Indevus for claims brought by plaintiffs who initially opted out of Wyeth s national class action settlement of diet drug claims and claimants alleging primary pulmonary hypertension. In addition, Wyeth has agreed to fund all future legal costs of Indevus related to the defense of Redux-related product liability cases. Also, pursuant to the AHP Indemnity and Release Agreement, Wyeth agreed to fund additional insurance coverage to supplement the Company s existing product liability insurance. The Company believes its total insurance coverage, including the additional insurance coverage funded by Wyeth, is sufficient to address the potential remaining Redux product liability exposure. However, there can be no assurance Redux claims will not exceed the amount of insurance coverage available to the Company and Wyeth s indemnification obligations under the AHP Indemnity and Release Agreement. If such insurance coverage and Wyeth indemnification is not sufficient to satisfy Redux-related claims, the payment of amounts to satisfy such claims may have a material adverse effect on the Company s business, results of operations or financial condition. Prior to the effectiveness of the AHP Indemnity and Release Agreement, Redux-related defense costs of Indevus were paid by, or subject to reimbursement from, Indevus s product liability insurers. To date, there have been no Redux-related product liability settlements or judgments paid by Indevus or their insurers.

As of December 31, 2009, the Company had an outstanding insurance claim of approximately $3.0 million, relating to payments made by the Company to the group of law firms defending the Company in the Redux-related product liability litigation, for services rendered by such law firms through May 30, 2001. The full amount of the Company s current outstanding insurance claim is made pursuant to the Company s product liability policy issued to Indevus by Reliance Insurance Company (Reliance). In October 2001, the Commonwealth Court of Pennsylvania granted an Order of Liquidation to the Insurance Commissioner of Pennsylvania to begin liquidation proceedings against Reliance. It is uncertain when, if ever, the Company will collect any of its remaining $3.0 million of claims. If the Company incurs additional product liability defense and other costs subject to claims on the Reliance product liability policy up to the $5.0 million limit of the policy, the Company will have to pay such costs without expectation of reimbursement and will incur charges to operations for all or a portion of such payments.

*Indevus Tender Offer*

During January 2009, multiple lawsuits (the Actions ) were brought against Endo, Indevus, Endo s wholly-owned merger subsidiary, BTB Purchaser Inc. (the Purchaser ) and members of the Indevus board of directors arising out of the transaction between Endo and Indevus (the Transaction ). Three of those suits, respectively docketed as: (i) *Gober v. Endo Pharmaceuticals, et al*., C.A. No. 4276 (Del. Ch.) (the Gober Action ); (ii) *Mishket v. Cooper, et al*., C.A. No. 4299 (the Mishket Action ); and (iii) *Hell v. Indevus Pharmaceuticals, et al*., C.A. No. 4327 (the Hell Action ) were filed in the Delaware Court of Chancery. Two others, respectively docketed as *Schroeder v. Endo Pharmaceuticals, et al*., 09-0126 (the Schroeder Action ) and *Wexler v. Indevus Pharmaceuticals, et al*., 09-0166 (the Wexler Action ) were filed in the Superior Court of the Commonwealth of Massachusetts.

Each of the suits was purportedly brought individually and on behalf of all public stockholders of Indevus. The suits generally alleged similar claims, including claims that alleges that Indevus s director defendants breached their fiduciary duties to Indevus s stockholders in connection with the Offer and that each of the defendants aided and abetted such alleged breach of Indevus s director defendants fiduciary duties. In addition, the Hell Action also alleged that the Indevus Schedule 14D-9 Solicitation Statement failed to disclose material information about the Offer, that the defendant directors did not protect against purported conflicts of interest and that the terms of the Merger Agreement prevented stockholders of Indevus from receiving appropriate consideration for their Indevus shares. Based on the allegations, each of the plaintiffs sought similar relief in the Actions including declaration of their respective Action as a class action, injunctive relief enjoining preliminarily and permanently the Offer, rescinding, to the extent already implemented, the Offer or any of the terms thereof or awarding rescissory damages, directing that the defendants account to plaintiff and other members of the purported class for all damages caused by them and account for all profits and any special benefits obtained as a result of breaches of their fiduciary duties to the purported stockholder and other members of the purported class, awarding plaintiff the costs of their respective Action including a reasonable allowance for the expenses of plaintiffs attorneys and experts and granting plaintiff and other members of the purported class such further relief as the court deemed just and proper.

On February 4, 2009, the parties to the Gober Action, Mishket Action, Wexler Action, and Schroeder Action executed a Memorandum of Understanding (the Memorandum of Understanding ), which set forth the terms and conditions for settlement of each of those Actions. The Memorandum of Understanding did not include the plaintiff in the Hell Action. The parties agreed that, after arm s length discussions between and among the parties, Indevus would provide additional supplemental disclosures to its Schedule 14D-9 and that the Company Termination Fee, as defined in the Merger Agreement, would be reduced by 10% (from $20,000,000 to $18,000,000). In exchange, following confirmatory discovery, the parties would attempt in good faith to agree to a stipulation of settlement and, upon court approval in the Gober Action of that stipulation, the Plaintiffs would dismiss each of the other above-referenced actions with prejudice, and the Defendants would be released from any claims arising out of the Transaction. The Defendants agreed not to oppose any fee application by Plaintiffs counsel that did not exceed $700,000 in the aggregate. The Company paid this $700,000 in 2009.

On July 2, 2009, the Schroeder Action was voluntarily dismissed with prejudice as to Plaintiff Schroeder. On August 26, 2009, after a period of confirmatory discovery, a Stipulation of Settlement (the Stipulation) was filed with the Court of Chancery in the Gober Action. On August 28, 2009, the Court approved a proposed Scheduling Order for the settlement of the Gober Action, setting a hearing on the fairness of the proposed settlement on November 23, 2009. In accordance with the terms of the Scheduling Order, notice of the proposed settlement was mailed to shareholders on or before September 28, 2009.

On November 23, 2009, the Court certified the Gober Action as a class action and approved the settlement under the terms described in the Stipulation. There were no objections filed with the Court or communicated to any parties with respect to the settlement. Although the certification of the class and settlement of the Gober Action legally terminated the claims brought by the other plaintiffs in the Actions, as required under the terms of

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the Stipulation, plaintiffs in the Mishket and Wexler Actions dismissed their Actions with prejudice with respect to all defendants. On December 11, 2009, plaintiff in the Hell Action voluntarily dismissed his Action with prejudice with respect to all defendants.

Throughout the course of the Actions, Endo and Purchaser denied and continue to deny, that either of them committed or aided and abetted in the commission of any violation of law of any kind or engaged in any of the wrongful acts alleged in the above-referenced actions. Endo and Purchaser each expressly maintain that it diligently and scrupulously complied with its legal duties, and executed the Memorandum of Understanding and Stipulation of Settlement solely to eliminate the burden and expense of further litigation.

*Department of Health and Human Services Subpoena*

In January 2007, the Company received a subpoena issued by the United States Department of Health and Human Services, Office of Inspector General (referred to as OIG). The subpoena requests documents relating to Lidoderm® (lidocaine patch 5%), focused primarily on the sale, marketing and promotion of Lidoderm® . The Company is cooperating with the government. At this time, the Company cannot predict or determine the outcome of the above matter or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome.

*Pricing Litigation*

A number of cases brought by local and state government entities are pending that allege generally that our wholly-owned subsidiary, Endo Pharmaceuticals Inc. (referred to as EPI) and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. These cases generally seek damages, treble damages, disgorgement of profits, restitution and attorneys fees.

The federal court cases have been consolidated in the United States District Court for the District of Massachusetts under the Multidistrict Litigation Rules as In re: *Pharmaceutical Industry Average Wholesale Price Litigation, MDL 1456*. The following previously reported cases are pending in MDL 1456 and have been consolidated into one consolidated complaint: *City of New York v. Abbott Laboratories, Inc., et al.*; *County of Albany v. Abbott Laboratories, Inc., et al.*; *County of Allegany v. Abbott Laboratories, Inc., et al.*; *County of Broome v. Abbott Laboratories, Inc., et al.*; *County of Cattaraugus v. Abbott Laboratories, Inc., et al*; *County of Cayuga v. Abbott Laboratories, Inc., et al.*; *County of Chautauqua v. Abbott Laboratories, Inc., et al.*; *County of Chemung v. Abbott Laboratories, Inc., et al.*; *County of Chenango v. Abbott Laboratories, Inc., et al.*; *County of Columbia v. Abbott Laboratories, Inc., et al.*; *County of Cortland v. Abbott Laboratories, Inc., et al.*; *County of Dutchess v. Abbott Laboratories, Inc., et al.*; *County of Essex v. Abbott Laboratories, Inc., et al.*; *County of Fulton v. Abbott Laboratories, Inc., et al.*; *County of Genesee v. Abbott Laboratories, Inc., et al.*; *County of Greene v. Abbott Laboratories, Inc., et al.*; *County of Herkimer v. Abbott Laboratories, Inc., et al.*; *County of Jefferson v. Abbott Laboratories, Inc., et al.*; *County of Lewis v. Abbott Laboratories, Inc., et al.*; *County of Madison v. Abbott Laboratories, Inc., et al.*; *County of Monroe v. Abbott Laboratories, Inc., et al.*; *County of Niagara v. Abbott Laboratories, Inc., et al.*; *County of Oneida v. Abbott Laboratories, Inc., et al.*; *County of Onondaga v. Abbott Laboratories, Inc., et al.*; *County of Ontario v. Abbott Laboratories, Inc., et al.*; *County of Orleans v. Abbott Laboratories, Inc., et al.*; *County of Putnam v. Abbott Laboratories, Inc., et al.*; *County of Rensselaer v. Abbott Laboratories, Inc., et al.*; *County of Rockland v. Abbott Laboratories, Inc., et al.*; *County of St. Lawrence v. Abbott Laboratories, Inc., et al.*; *County of Saratoga v. Abbott Laboratories, Inc., et al.*; *County of Schuyler v. Abbott Laboratories, Inc., et al.*; *County of Seneca v. Abbott Laboratories, Inc., et al.*; *County of Steuben v. Abbott Laboratories, Inc., et al.*; *County of Suffolk v. Abbott Laboratories, Inc., et al.*; *County of Tompkins v. Abbott Laboratories, Inc., et al.*; *County of Ulster v. Abbott Laboratories, Inc., et al.*; *County of Warren v. Abbott Laboratories, Inc., et al.*; *County of Washington v. Abbott Laboratories, Inc., et al.*; *County of Wayne v. Abbott Laboratories, Inc., et al.*; *County of Westchester v. Abbott Laboratories, Inc., et al*; *County of Wyoming v. Abbott Laboratories, Inc., et al.*; and *County of Yates v. Abbott Laboratories, Inc., et al.*

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In addition, a previously reported case originally filed in the Southern District of New York, *County of Orange v. Abbott Laboratories, Inc., et al.*, has been transferred to the MDL and consolidated with the cases listed above.

On January 22, 2010, without admitting any liability or wrongdoing, EPI and the plaintiffs reached an agreement in principle to resolve the foregoing federal cases brought by New York City and the New York counties on terms that are not material to the company s financial condition.

Three previously reported cases, *County of Erie v. Abbott Laboratories, Inc., et al*., originally filed in the Supreme Court of the State of New York, Erie County, *County of Oswego v. Abbott Laboratories, Inc., et al.,* originally filed in the Supreme Court of the State of New York, Oswego County, and *County of Schenectady v. Abbott Laboratories, Inc., et al.*, originally filed in the Supreme Court of the State of New York, Schenectady County, have been coordinated by the New York Litigation Coordinating Panel in the Supreme Court of the State of New York, Erie County.

There is a previously reported case pending in the Circuit Court of Montgomery County, Alabama against EPI and numerous other pharmaceutical companies: *State of Alabama v. Abbott Laboratories, Inc., et al*.

There is a previously reported case pending in the Third Judicial District Court of Salt Lake County, Utah against EPI and numerous other pharmaceutical companies: *State of Utah v. Actavis US, Inc., et al.*, Civ. Action No. 070913719.

There is a previously reported case pending in the MDL against EPI and numerous other pharmaceutical companies: *State of Iowa v. Abbott Laboratories, Inc., et al.*, Civ. Action No. 4:07-cv-00461.

There is a previously reported case against EPI and numerous other pharmaceutical companies, *State of Mississippi v. Abbott Laboratories, Inc., et al.*, originally filed in the Chancery Court of Hinds County, Mississippi. The State of Mississippi offered to enter an agreed order of dismissal with respect to EPI, and EPI filed a notice of acceptance of that offer in Hinds County Chancery Court.

The Company intends to contest all of the above cases vigorously and to explore other options as appropriate in the best interests of the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company.

*Paragraph IV Certifications on Lidoderm®*

On January 15, 2010, the Company and the holders of the Lidoderm® NDA and relevant patent, Teikoku Seiyaku Co., Ltd., and Teikoku Pharma USA, Inc. received a Paragraph IV Certification Notice under 21 U.S.C. 355(j) from Watson Laboratories, Inc. advising of the filing of an Abbreviated New Drug Application (ANDA) for a generic version Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Certification Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm®, a topical patch to relieve the pain of post herpetic neuralgia launched in 1999. This patent is listed in the FDA s Orange Book and expires in October 2015. As a result of this Notice, on February 19, 2010, the Company, Teikoku Seiyaku Co., Ltd. and Teikoku Pharma USA, Inc. filed a lawsuit against Watson Laboratories, Inc, in the United States District Court of the District of Delaware. Because the suit was filed within the 45-day period under the FDC Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. Endo intends, and has been advised by Teikoku that they too intend, to vigorously defend Lidoderm s intellectual property rights and to pursue all available legal and regulatory avenues in defense of Lidoderm, including enforcement of the product s intellectual property rights and approved labeling. We cannot, however, predict or determine the timing or outcome of any of these litigations but will explore all options as appropriate in the best interests of the Company.

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*Paragraph IV Certifications on Opana® ER*

On December 14, 2007, the Company received a notice from IMPAX Laboratories , Inc. (referred to as IMPAX) advising of the FDA s apparent acceptance for substantive review, as of November 23, 2007, of IMPAX s amended ANDA for a generic version of Opana® ER (oxymorphone hydrochloride extended-release tablets CII). IMPAX stated in its letter that the FDA requested IMPAX to provide notification to us and Penwest of any Paragraph IV certifications submitted with its ANDA, as required under section 355(j) of the Federal Food, Drug and Cosmetics Act, or the FDC Act. Accordingly, IMPAX s letter included notification that it had filed Paragraph IV certifications with respect to Penwest s U.S. Patent Nos. 7,276,250, 5,958,456 and 5,662,933, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2022, 2013 and 2013, respectively. The Company s Opana® ER product had new dosage form exclusivity that prevented final approval of any ANDA by the FDA until the exclusivity expired on June 22, 2009. In addition, because IMPAX s application referred to patents owned by Penwest and contained a Paragraph IV certification under section 355(j) of the FDC Act, we believe IMPAX s notice triggered the 45-day period under the FDC Act in which we and Penwest could file a patent infringement action and trigger the automatic 30-month stay of approval. Subsequently, on January 25, 2008, the Company and Penwest filed a lawsuit against IMPAX in the United States District Court for the District of Delaware in connection with IMPAX s ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, IMPAX filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Additionally, the lawsuit previously filed by the Company and Penwest on November 15, 2007 against IMPAX remains pending.

On June 16, 2008, the Company received a notice from IMPAX that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg, 15 mg and 30 mg strengths of oxymorphone hydrochloride extended release tablets. The notice covers Penwest s U.S. Patent Nos. 7,276,250, 5,958,456 and 5,662,933. Subsequently, on July 25, 2008, the Company and Penwest filed a lawsuit against IMPAX in the United States District Court for the District of Delaware in connection with IMPAX s amended ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, IMPAX filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Additionally, the lawsuits previously filed by the Company and Penwest against IMPAX remain pending. All three of these pending suits against IMPAX were transferred to the United States District Court for the District of New Jersey.

In February 2008, we along with Penwest, received a notice from Actavis South Atlantic LLC (Actavis), advising of the filing by Actavis of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) for a generic version of Opana® ER (oxymorphone hydrochloride extended-release tablets CII). The Actavis Paragraph IV certification notice refers to Penwest s U.S. Patent Nos. 5,128,143, 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire or expired in 2008, 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER has a new dosage form (referred to as NDA) exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on June 22, 2009. Subsequently, on March 28, 2008, we and Penwest filed a lawsuit against Actavis in the U.S. District Court for the District of New Jersey in connection with Actavis s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. On May 5, 2008, Actavis filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable, as well as a claim of unfair competition against Endo and Penwest.

On or around June 2, 2008, the Company received a notice from Actavis that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg and 15 mg dosage strengths of oxymorphone hydrochloride extended release tablets. On or around July 2, 2008, the Company received a notice from Actavis that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 30 mg dosage strength. Both notices cover Penwest s U.S. Patent Nos. 5,128,143, 7,276,250, 5,958,456 and 5,662,933. On July 11, 2008, the Company and Penwest, filed suit against Actavis in the United States District Court for the District of New

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Jersey. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. On August 14, 2008, Actavis filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable, as well as a claim of unfair competition against Endo and Penwest.

On February 20, 2009, Endo and Penwest settled all of the Actavis litigation. Both sides dismissed their respective claims and counterclaim with prejudice. Under the terms of the settlement, Actavis agreed not to challenge the validity or enforceability of Penwest s patents relating to Opana® ER. Endo and Penwest agreed to grant Actavis a license permitting the production and sale of generic Opana® ER 7.5 and 15 mg tablets by the earlier of July 15, 2011, the last day Actavis would forfeit its 180-day exclusivity, and the date on which any third party commences commercial sales of a generic oxymorphone hydrochloride extended-release tablets, but not before November 28, 2010. Endo and Penwest also granted Actavis a license to produce and market other strengths of Opana® ER generic on the earlier of July 15, 2011 and the date on which any third party commences commercial sales of a generic form of the drug.

On July 14, 2008, the Company received a notice from Sandoz, Inc. (Sandoz), advising of the filing by Sandoz of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 5 mg, 10 mg, 20 mg and 40 mg dosage strengths. The Sandoz Paragraph IV certification notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER has a new dosage form (NDA) exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on June 22, 2009. Subsequently, on August 22, 2008, the Company and Penwest filed a lawsuit against Sandoz in the United States District Court for the District of Delaware in connection with Sandoz s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. In response, Sandoz filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable.

On November 20, 2008, the Company received a notice from Sandoz that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg, 15 mg and 30 mg dosage strengths of oxymorphone hydrochloride extended release tablets. The notice covers Penwest s U.S. Patent Nos. 5,128,143, 7,276,250, 5,958,456 and 5,662,933. On December 30, 2008, the Company and Penwest, filed suit against Sandoz in the United States District Court for the District of New Jersey. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. In response, Sandoz filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Both of these pending suits against Sandoz were transferred to the United States District Court for the District of New Jersey.

On September 12, 2008, the Company received a notice from Barr Laboratories, Inc. (referred to as Barr), advising of the filing by Barr of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. On September 15, 2008, the Company received a notice from Barr that it had filed an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 5 mg, 10 mg, and 20 mg dosage strengths. Both notices refer to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER had a new dosage form exclusivity that prevented final approval of any ANDA by the FDA until the exclusivity expired on June 22, 2009. Subsequently, on October 20, 2008, the Company and Penwest filed a lawsuit against Barr in the United States District Court for the District of Delaware in connection with Barr s ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, Barr filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. This suit was transferred to the United States District Court for the District of New Jersey. On June 2, 2009, the Company received a notice from Barr that it had filed an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 7.5 mg, 15 mg, and 30 mg dosage strengths. This notice also refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. On July 2, 2009, the Company and Penwest filed a lawsuit against Barr in the United States District Court for the District of New Jersey in connection with Barr s ANDA.

On December 29, 2009, the Company received a notice from Roxane Laboratories, Inc. ( Roxane ) advising of the filing by Roxane of an ANDA containing a Paragraph IV certification under 21 U.S.C. section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. The notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013, and 2023, respectively. Subsequently, on January 29, 2010, the Company and Penwest filed a lawsuit against Roxane in the U.S. District Court for the District of New Jersey in connection with Roxane s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation.

On January 20, 2010, the Company received a notice from Watson Laboratories, Inc. ( Watson ) advising of the filing by Watson of an ANDA containing a Paragraph IV certification under 21 U.S.C. section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. The notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013, and 2023, respectively.

We intend, and we have been advised by Penwest that they too intend, to pursue all available legal and regulatory avenues in defense of Opana® ER, including enforcement of our intellectual property rights and approved labeling. We cannot, however, predict or determine the timing or outcome of any of these litigations but will explore all options as appropriate in the best interests of the Company.

*Paragraph IV Certifications on Sanctura XR®*

On June 2, 2009, the Company s subsidiary, Endo Pharmaceuticals Solutions, Inc. (referred to as Endo Solutions), received a notice from Watson Laboratories, Inc. (referred to as Watson) advising that Watson had filed a certification with the FDA under 21 C.F.R. § 314.95(c)(1) in conjunction with ANDA 91-289 for approval to commercially manufacture and sell generic versions of Sanctura XR® trospium chloride extended release capsules. The Paragraph IV letter alleged that U.S. Patent No. 7,410,978, listed in the Orange Book for Sanctura XR is invalid, unenforceable, and/or will not be infringed by the commercial manufacture, use, or sale of Watson s generic product. This patent expires February 1, 2025 and is owned by Supernus Pharmaceuticals, Inc. and licensed to Endo Solutions. The Sanctura XR® product has new dosage form exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on August 3, 2010.

In response to Watson s notice letter, on July 13, 2009, Supernus Pharmaceuticals, Inc., Endo Solutions and Allergan filed a lawsuit against Watson in the United States District Court for the District of Delaware alleging infringement of U.S. Patent No. 7,410,978 by Watson s ANDA 91-289. Because the suit was filed within the 45-day period under the FDC Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. We intend, and have been advised by Supernus and Allergan that they too intend, to contest this case vigorously. We cannot, however, predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company.

*LecTec Corporation v Chattem, Inc., et al.*

On July 25, 2008, the LecTec Corporation filed a complaint in the United States District Court for the Eastern District of Texas against the Company s subsidiary, Endo Pharmaceuticals Inc. (referred to as EPI) and several other pharmaceutical companies alleging that each of the defendants sells products that infringe one or more claims of patents owned by LecTec. The Company s product Lidoderm® is identified in the complaint. The

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complaint alleges that Lidoderm® infringes U.S. Patents 5,536,263 and 5,741,510. On September 30, 2008, the Company filed an answer denying infringement and alleging that the patents are invalid. On February 10, 2009, the plaintiff filed a motion for preliminary injunction against EPI.

On November 11, 2009, we reached a settlement with LecTec Corporation pursuant to which EPI agreed to make a one-time, $23 million payment for the exclusive license to these two patents for use in the field of prescription pain medicines and treatment and LecTec agreed to dismiss this suit against EPI with prejudice. Pursuant to the Company s license and manufacturing agreements with Hind Healthcare Inc. and Teikoku Seiyaku Co., Ltd., Hind and Teikoku were each contractually obligated to and did fund their share of the settlement.

*Other Legal Proceedings*

In addition to the above proceedings, we are involved in, or have been involved in, arbitrations or various other legal proceedings that arise from the normal course of our business. We cannot predict the timing or outcome of these claims and other proceedings. Currently, we are not involved in any arbitration and/or other legal proceeding that we expect to have a material effect on our business, financial condition, results of operations and cash flows.

**Leases**

We lease automobiles and office and laboratory facilities under certain noncancelable operating leases that expire through 2018. These leases are renewable at our option. A summary of minimum future rental payments required under operating leases as of December 31, 2009 are as follows (in thousands):

| | Operating Leases |
|---|---|
| 2010 | $ 9,725 |
| 2011 | 6,245 |
| 2012 | 4,584 |
| 2013 | 4,700 |
| 2014 | 4,635 |
| Thereafter | 4,608 |
| Total minimum lease payments | $ 34,497 |

Expense incurred under operating leases was $12.2 million, $8.7 million and $6.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

**NOTE 15. Savings and Investment Plan and Deferred Compensation Plans**

On September 1, 1997, we established a defined contribution Savings and Investment Plan covering all employees. Employee contributions are made on a pre-tax basis under section 401(k) of the Internal Revenue Code (referred to as the Code). We match up to six percent of the participants contributions subject to limitations under section 401(k) of the Code. Participants are fully vested with respect to their own contributions. Participants are fully vested with respect to our contributions after one year of continuous service. Contributions by us amounted to $8.3 million, $7.2 million and $5.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In December 2007, the Board of Directors (referred to as the Board) of Endo Pharmaceuticals Holdings Inc. adopted the Endo Pharmaceuticals Holdings Inc. Executive Deferred Compensation Plan (referred to as the Deferred Compensation Plan) and the Endo Pharmaceuticals Holdings Inc. 401(k) Restoration Plan (referred to as the 401(k) Restoration Plan) both effective as of January 1, 2008. Both plans cover employees earning over

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the Internal Revenue Code plan compensation limit, which would include the chief executive officer, chief financial officer and other named executive officers. The Deferred Compensation Plan allows for deferral of up to 50% of the bonus and up to 100% of restricted stock units granted, with payout to occur as elected either in lump sum or installments. Under the 401(k) Restoration Plan the participant may defer the amount of base salary and bonus that would have been deferrable under the Company s Savings and Investment Plan (up to 50% of salary and bonus) if not for the qualified plan statutory limits on deferrals and contributions, and also provides for a company match on the first six percent of deferrals to the extent not provided for under the Savings and Investment Plan. Payment occurs after separation from service either in lump sum or installments as elected by the participant.

Also in December 2007, the Board adopted the Endo Pharmaceuticals Holdings Inc. Directors Deferred Compensation Plan, effective January 1, 2008. The purpose of the Plan is to promote the interests of the Company and the stockholders of the Company by providing non-employee Directors the opportunity to defer up to 100% of meeting fees, retainer fees, and restricted stock units, with payout to occur as elected either in lump sum or installments. Payment occurs after separation from service either in lump sum or installments as elected by the participant.

**NOTE 16. Net Income Per Share**

The following is a reconciliation of the numerator and denominator of basic and diluted net income per share for the years ended December 31 (in thousands, except per share data):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Numerator: | | | |
| Net income available to common stockholders | $ 266,336 | $ 255,336 | $ 227,440 |
| Denominator: | | | |
| For basic per share data weighted average shares | 117,112 | 123,248 | 133,903 |
| Effect of dilutive securities | 403 | 472 | 622 |
| For diluted per share data weighted average shares | 117,515 | 123,720 | 134,525 |
| Basic net income per share | $ 2.27 | $ 2.07 | $ 1.70 |
| Diluted net income per share | $ 2.27 | $ 2.06 | $ 1.69 |

Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted income per common share is computed based on the weighted average number of common shares outstanding and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period. Common stock equivalents are measured under the treasury stock method.

The Convertible Notes are considered to be Instrument X securities as defined by ASC topic 815; therefore, these notes would only be included in the dilutive earnings per share calculation using the treasury stock method when the average market price of our common stock is above the applicable conversion price of the Convertible Notes, or $29.20 per share. Under the treasury stock method, we would calculate the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and include that number in the total diluted shares figure 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 warrant agreements on diluted weighted average shares. As a result, the purchases of the convertible note hedge and warrant agreement are excluded because their impact would be anti-dilutive. The treasury stock method will be applied when the warrant is in-the-money with the proceeds from the

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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 under the warrants is 1.3 million.

The following reconciliation shows the shares excluded from the calculation of diluted net income per share as the inclusion of such shares would be anti-dilutive for the years ended December 31 (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Weighted average shares excluded: | | | |
| 1.75% Convertible senior subordinated notes due 2015 and warrants(1) | 14,294 | 14,294 | |
| Employee stock-based awards | 4,681 | 3,596 | 2,423 |
| | 18,975 | 17,890 | 2,423 |

(1) Amount represents the potential total dilution that could occur if our Convertible Notes and warrants were converted to shares of our common stock.

**NOTE 17. DEBT**

***Convertible Senior Subordinated Notes Due 2015***

In April 2008, we issued $379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (referred to as the Convertible Notes) in a private offering for resale to qualified institutional buyers.

We received proceeds of approximately $370.7 million from the issuance, net of the initial purchaser s discount and certain other costs of the offering. Interest is payable semi-annually in arrears on each April 15 and October 15 with the first interest payment being made on October 15, 2008. The Convertible Notes will mature on April 15, 2015, unless earlier converted or repurchased by us.

Holders of the 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 the Convertible Notes (referred to as the Indenture): (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of the 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 Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash.

Concurrently with the issuance of the Convertible Notes, we entered into a privately-negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Notes to $40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of $24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of $29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately $107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of $40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately $50.4 million in cash proceeds from the sale of these warrants.

As part of our broader share repurchase program described in Note 12, we also entered into a privately-negotiated accelerated share repurchase agreement with the same counterparty. We used approximately $314 million of the net proceeds from the Convertible Notes, together with approximately $11 million of cash on hand, to repurchase a variable number of shares of our common stock pursuant to the accelerated share repurchase agreement entered into as part of our broader share repurchase program. Pursuant to the accelerated share repurchase agreement, the counterparty delivered 11.9 million shares of our common stock to the Company on the day that the Convertible Note offering closed, April 15, 2008. On August 14, 2008, Endo received approximately 1.4 million additional shares of our common stock based on the volume-weighted average price of our common stock during a specified averaging period set forth by the accelerated share repurchase agreement.

The Company has reserved previously authorized shares of common stock for issuance pursuant to the aforementioned Convertible Notes transaction, the convertible note hedge transaction, and the warrant.

We accounted for the call options, warrants, and accelerated share repurchase agreement in accordance with the guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion. The call options, warrants, and accelerated share repurchase agreement meet the requirements to be accounted for as equity instruments. The cost of the call options and the proceeds related to the sale of the warrants are included in additional paid-in capital in our consolidated balance sheet as of December 31, 2008 and 2009. The common stock acquired through the accelerated share repurchase agreement has been included in treasury stock in our Consolidated Balance Sheets as of December 31, 2008 and 2009.

As discussed in Note 2, on January 1, 2009 the Company retrospectively adopted the provisions of the authoritative guidance regarding the accounting for convertible debt instruments. The guidance requires that issuers of convertible debt instruments that may be settled in cash or other assets on conversion to separately account for the liability and equity components of the instrument in a manner that will reflect the entity s nonconvertible debt borrowing rate on the instrument s issuance date when interest cost is recognized in subsequent periods.

As a result of our adoption, we separated the debt portion of our Convertible Notes from the equity portion at their fair value retrospective to the date of issuance and we are amortizing the resulting discount into interest expense over the life of the Convertible Notes.

In order to determine the fair value of the debt portion and equity portion of our Convertible Notes, we first attempted to use a market approach by identifying prices and other relevant information generated by market transactions at or near the issuance date of our Convertible Notes, that involved comparable companies issuing nonconvertible debt with similar embedded features (other than the conversion feature). We were unable to identify any such transactions. As a result, the Company determined that an expected present value technique, or income approach that maximizes the use of observable market inputs is the preferred approach to measure the fair value of the debt and equity components of our Convertible Notes. Specifically, the Company used an income approach known as the binomial lattice model.

To calculate the fair value of the debt and equity components of our Convertible Notes, the Company constructed a binomial lattice to model future changes in the equity value of the Company, and a convertible bond lattice for the Convertible Notes, which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and a stock price volatility of 36% that was based on historic volatility of the Company s common stock and other factors.

An implied credit spread of 6.12% was calculated based on the results of the convertible bond lattice described above. The fair value of the debt component was then calculated by discounting the coupon and principal payments of the Convertible Notes with a risk free interest rate of 2.97% and the implied credit spread of 6.12%, which collectively represent the Company s estimated nonconvertible debt borrowing rate of 9.09%. As a result of this analysis, the fair value of the debt component of our Convertible Notes was determined to be $237.3 million on the date of issuance.

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As a result of the retrospective adoption, we recorded an adjustment to our Consolidated Balance Sheet as of April 15, 2008 to separate the debt and equity components of our Convertible Notes. This adjustment resulted in a reclassification out of Convertible Senior Subordinated Notes Due 2015 into Additional Paid-In Capital of $142.2 million, which represents the fair value of the equity component of our Convertible Notes on the date of issuance.

In addition, we were required to reclassify the portion of the initial purchaser s discount and certain other costs of the offering that were attributable to the equity component of our Convertible Notes. The initial purchaser s discount and certain other costs of the offering were originally recorded as a contra-liability account applied to the face amount of the Convertible Notes and were being amortized to interest expense utilizing the effective interest method. Upon adoption, we recorded an adjustment out of the contra-liability account and into Additional Paid-In Capital of $3.3 million, which represents the portion of the original purchaser s discount and certain other costs of the offering that are relate to the equity component of our Convertible Notes.

The adoption resulted in the recognition of an additional $10.4 million of interest expense and a reduction to our income tax expense of $4.0 million for the year ended December 31, 2008. Accordingly, we recorded a $6.4 million adjustment to beginning retained earnings in our December 31, 2009 Consolidated Balance Sheet.

The carrying values of the debt and equity components of our Convertible Notes at December 31, 2009 are as follows (in thousands):

| | December 31, 2009 |
|---|---|
| Principal amount of Convertible Notes | $ 379,500 |
| Unamortized discount related to the debt component(1) | (119,221) |
| Net carrying amount of the debt component | $ 260,279 |
| Carrying amount of the equity component | $ 142,199 |

(1) Represents the unamortized portion of the original purchaser s discount and certain other costs of the offering as well as the unamortized portion of the discount created from the separation of the debt portion of our Convertible Notes from the equity portion. This discount will be amortized to interest expense over the term of the Convertible Notes.

We recognized $23.8 million of interest expense related to our Convertible Notes for the year ended December 31, 2009, $6.6 million of which related to the contractual interest payments and $17.2 million of which related to the amortization of the debt discount and certain other costs of the offering. During the year ended December 31, 2008, we recognized $16.0 million of interest expense related to our Convertible Notes, $4.7 million of which related to the contractual interest payments and $11.3 million of which related to the amortization of the debt discount and certain other costs of the offering.

As a result of applying the guidance retrospectively to all periods presented, we recognized the following incremental effects on individual line items on the Consolidated Balance Sheet (in thousands):

| | December 31, 2008 | | |
|---|---|---|---|
| | Before the Impact of Adoption | Incremental Impact of Adoption | As Adjusted |
| Deferred income taxes asset/(liability) (non-current) | $ 47,898 | $ (49,168) | $ (1,270) |
| Convertible senior subordinated notes due 2015 | 371,695 | (128,545) | 243,150 |
| Additional paid-in capital | 707,503 | 85,782 | 793,285 |
| Retained earnings | $ 845,360 | $ (6,405) | $ 838,955 |

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***Convertible Notes Due July 2009***

As a result of our acquisition of Indevus, the Company assumed Indevus s 6.25% Convertible Senior Notes due July 2009 (the Notes). Pursuant to the Indenture governing the Notes, within 30 days of the effective date of the Merger, holders of the Notes had the right to tender their Notes for the principal amount of the Notes plus any accrued and unpaid interest. During this 30-day period, approximately $3.6 million in aggregate principal amount of Notes were tendered and the Company paid this amount in April 2009.

The Notes matured on July 15, 2009. Accordingly, the Company paid the remaining $68.3 million in outstanding principal to satisfy the Notes in their entirety.

***Non-recourse Notes***

On August 26, 2008, Indevus closed a private placement to institutional investors of $105.0 million in aggregate principal amount of 16% non-convertible, non-recourse, secured promissory notes due 2024 (referred to as Non-recourse Notes). The Non-recourse Notes were issued by Ledgemont Royalty Sub LLC (referred to as Royalty Sub), which was a wholly-owned subsidiary of Indevus at the time of the Non-recourse Note issuance and subsequently became a wholly-owned subsidiary of the Company upon our acquisition of Indevus. As of the Acquisition Date, the Company recorded these notes at their fair value of approximately $115.2 million and began amortizing these notes to their face value of $105.0 million at maturity in 2024.

In connection with the issuance of the Non-recourse Notes, Indevus and Royalty Sub entered into a Purchase and Sale Agreement pursuant to which Indevus sold to Royalty Sub its rights to receive royalty payments from Allergan arising under the Allergan Agreement (as described in Note 6) for sales in the U.S. of Sanctura® and Sanctura XR® . To secure repayment of the Non-recourse Notes, Royalty Sub granted a continuing security interest to the trustee for the benefit of the noteholders in, among other things, the royalty payments made by Allergan under the Allergan Agreement discussed above, all of its rights under the Purchase and Sale Agreement and any accounts established in accordance with the Indenture (and all amounts from time to time credited to such accounts). The Non-recourse Notes have not been guaranteed by Indevus or the Company. Principal on the Non-recourse Notes is required to be paid in full by the final legal maturity date of November 5, 2024, unless repaid or redeemed earlier. In the event the Non-recourse Notes are repaid or redeemed prior to November 5, 2024, the noteholders will be entitled to a redemption premium (as described below). The interest rate applicable to the Non-recourse Notes is 16% per year and is payable quarterly in arrears and commenced on November 5, 2008.

Principal and interest on the Non-recourse Notes will be paid from the royalties from Allergan. Payments may also be made from the interest reserve account (described below) and certain other accounts established in accordance with the Indenture. In connection with the issuance of the Non-recourse Notes, a $10 million interest reserve account was established to fund potential interest payment shortfalls. Approximately $2 million of the interest reserve account remains and is classified as restricted cash in the Company s consolidated balance sheet as of December 31, 2009. Royalty Sub will receive directly all royalties payable to the Company until the Non-recourse Notes have been repaid in full.

In August 2009, the Company commenced a cash tender offer for any and all outstanding Non-recourse notes. The purpose of the tender offer was to acquire any and all Notes to reduce our consolidated interest expense. The tender offer included an early tender deadline, whereby holders of the Non-recourse notes could early tender and receive the total early consideration of $1,000 per $1,000 principal amount of the Non-recourse notes. Holders who tendered their Non-recourse notes after such time and at or prior to the expiration of the tender offer period were eligible to receive the tender offer consideration of $950 per $1,000 principal amount of Non-recourse notes, which was the total early consideration less the early tender payment. The tender offer expired on September 24, 2009, at 5:00 p.m., New York City time (referred to as the Expiration Time). As of the Expiration Time, $48 million Non-recourse notes had been validly tendered and not withdrawn. The Company accepted for payment and purchased Non-recourse notes at a purchase price of $1,000 per $1,000 principal

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amount, for a total amount of approximately $48 million (excluding accrued and unpaid interest up to, but not including, the payment date for the Notes, fees and other expenses in connection with the tender offer). The aggregate principal amount of Non-recourse notes purchased represents approximately 46% of the $105 million aggregate principal amount of Non-recourse notes that were outstanding prior to the Expiration Time. Accordingly, the Company recorded a $4.0 million gain on the extinguishment of debt, net of transaction costs. The gain was calculated as the difference between the aggregate amount paid to purchase the Non-recourse notes and their carrying amount.

If the royalty payments from Allergan and amounts in the interest reserve account are insufficient to pay all of the interest and principal, if any, due on a payment date, the shortfall will accrue interest at the interest rate applicable to the Non-recourse Notes (16%) compounded quarterly. If any interest payment shortfall is not paid in full by the succeeding payment date, an Event of Default under the Indenture will occur, unless the Company contributes cash to a capital account of Royalty Sub in an amount sufficient to satisfy any such shortfall. Pursuant to the Indenture, the Company has the right, but not the obligation, to contribute cash in an amount equal to the shortfall to the capital account for distribution by the trustee to the noteholders. The Company has the right to satisfy such an interest payment shortfall no more than six times over the life of the Non-recourse Notes and no more than three consecutive times. In the event that the Company is no longer permitted to fund the capital account to satisfy an interest payment shortfall, and the Company does not redeem the Non-recourse Notes (as described below), an Event of Default will occur and the noteholders may accelerate the obligations of Royalty Sub under the Non-recourse Notes and exercise their remedies thereunder, including assuming all rights to future royalty payments from Allergan. Based on current expectations, it is reasonably possible that we may exceed the maximum number of times we can fund the capital account to satisfy an interest payment shortfall as early as November 2010.

The Non-recourse Notes will be subject to redemption at the option of Royalty Sub. If the applicable redemption of the Non-recourse Notes occurs on or prior to August 5, 2010, the redemption price will be equal to the greater of (x) the outstanding principal balance of the Non-recourse Notes being redeemed or (y) the present value, discounted at the rate on U.S. Treasury obligations with a comparable maturity to the remaining weighted average life of the Non-recourse Notes plus 1.00%, of the principal payment amounts and interest at the rate applicable to the Non-recourse Notes on the outstanding principal balance of the Non-recourse Notes. If the applicable redemption of the Non-recourse Notes occurs after August 5, 2010, the redemption price will be equal to the percentage of the outstanding principal balance of the Non-recourse Notes being redeemed specified below for the period in which the redemption occurs:

| Payment Dates (between indicated dates) | Redemption Percentage |
|---|---|
| From November 5, 2010 to and including August 5, 2011 | 108% |
| From November 5, 2011 to and including August 5, 2012 | 104% |
| From November 5, 2012 and thereafter | 100% |

***Credit Facility***

In October 2009, we established a $300 million, three-year senior secured revolving credit facility (referred to as the Credit Facility) with JP Morgan Chase Bank, Barclay s Capital and certain other lenders. The Credit Facility will be available for letters of credit, working capital and general corporate purposes. The Credit Facility also permits up to $100 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders.

The obligations of the Company under the Credit Facility are guaranteed by certain of the Company s domestic subsidiaries and are secured by substantially all of the assets of the Company. The Credit Facility contains certain usual and customary covenants, including, but not limited to covenants to maintain a maximum leverage ratio and minimum interest coverage ratio as well as limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company s affiliates. Borrowings under the Credit Facility will be pegged to either (1) the London Interbank Offered Rate (referred to as LIBOR) or (2) an alternate base rate, plus a specified margin depending on the Company s leverage ratio from time to time. The alternate base rate is the greater of the prime rate, the federal funds rate plus 0.5%, or an adjusted LIBOR rate plus 1%. The Company will also pay a commitment fee of between 62.5 to 100 basis points, depending on the Company s leverage ratio, payable quarterly, on the average daily unused amount of the Credit Facility. As of the date of this filing, the Company has not drawn any amounts under the Credit Facility. Financing costs of $5.2 million paid to establish the credit facility have been deferred and are being amortized to interest expense over the life of the credit facility.

**NOTE 18. Subsequent Events**

***Long-Term Incentive Compensation***

In early 2010, long-term incentive compensation in the form of approximately 1.5 million stock options, 1.1 million restricted stock units and 0.2 million performance shares were granted to employees. Stock options will generally vest over four years and expire ten years from the date of the grant. Restricted stock units will vest over four years and the performance shares will vest at the end of the cumulative 3-year performance period. The exercise price of the options granted was equal to the closing price on the dates of grant. The grant date fair value of the stock options, restricted stock units, and performance shares granted was approximately $36 million.

**NOTE 19. Quarterly Financial Data (Unaudited)**

| | Quarter Ended | | | |
|---|---|---|---|---|
| | **March 31,** | **June 30,** | **September 30,** | **December 31,** |
| | (in thousands, except per share data) | | | |
| **2009(1)** | | | | |
| Total Revenues | $ 335,300 | $ 373,108 | $ 361,027 | $ 391,406 |
| Gross profit | $ 252,291 | $ 278,039 | $ 263,720 | $ 291,733 |
| Operating income | $ 77,466 | $ 64,916 | $ 84,314 | $ 163,328 |
| Net income | $ 39,037 | $ 30,029 | $ 49,422 | $ 147,848 |
| Net income per share (basic) | $ 0.33 | $ 0.26 | $ 0.42 | $ 1.26 |
| Net income per share (diluted) | $ 0.33 | $ 0.26 | $ 0.42 | $ 1.25 |
| Weighted average shares (basic) | 116,822 | 117,158 | 117,207 | 117,261 |
| Weighted average shares (diluted) | 117,209 | 117,350 | 117,643 | 117,859 |
| **2008(2)** | | | | |
| Total Revenues | $ 290,271 | $ 306,161 | $ 316,768 | $ 347,336 |
| Gross profit | $ 233,737 | $ 243,168 | $ 245,741 | $ 270,655 |
| Operating income | $ 85,153 | $ 82,064 | $ 107,327 | $ 112,930 |
| Net income | $ 59,528 | $ 57,128 | $ 65,994 | $ 72,686 |
| Net income per share (basic) | $ 0.44 | $ 0.46 | $ 0.55 | $ 0.62 |
| Net income per share (diluted) | $ 0.44 | $ 0.46 | $ 0.55 | $ 0.62 |
| Weighted average shares (basic) | 134,141 | 122,985 | 119,439 | 116,544 |
| Weighted average shares (diluted) | 134,652 | 123,531 | 119,954 | 116,894 |

Quarterly and year to date computations of per share amounts are made independently; therefore, the sum of the per share amounts for the quarters may not equal the per share amounts for the year.

(1) Operating income for the year ended December 31, 2009 was impacted by milestone payments to collaborative partners of $9.4 million, $21.0 million, $30.7 million and $16.0 million in the first, second, third and fourth quarters, respectively. Operating income for the year ended December 31, 2009 was also impacted by (1) the Indevus acquisition-related costs (income) of $26.4 million, $35.0 million, ($20.2) million and ($134.3) million during the first, second, third and fourth quarters, respectively (2) impairment

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charges of $69.0 million relating to Pro2000 and Aveed during the fourth quarter (3) inventory step-up of $1.6 million, $3.6 million, $5.9 million and $0.2 million during the first, second, third and fourth quarters, respectively (4) amortization expense relating to developed technology assets of $11.4 million, $15.6 million, $16.7 million and $19.2 million during the first, second, third and fourth quarters, respectively and (5) interest expense relating to our 1.75% Convertible Notes of $3.8 million, $3.2 million, $3.7 million, and $4.0 million during the first, second, third and fourth quarters, respectively.

(2) Operating income for the year ended December 31, 2008 was impacted by milestone payments to collaborative partners of $6.5 million in the first quarter, milestone reversals of $4.5 million in the second quarter and $6.9 million in the fourth quarter. Operating income for the year ended December 31, 2008 was also impacted by (1) the impairment of long-lived assets of $11.2 million in the second quarter and $1.5 million in the third quarter; (2) separation benefits of $3.3 million in the first quarter, $6.4 million in the second quarter, and $1.6 million in the third quarter; (3) contract termination costs of $5.1 million in the third quarter and (4) changes in the fair value of financial instruments recorded as a net charge to earnings of $3.3 million in the fourth quarter

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**Exhibit Index**

| Exhibit No. | Title |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Endo Pharmaceuticals Holdings Inc. ( Endo ) (incorporated herein by reference to Exhibit 10.32 of the Form 10-Q for the Quarter ended June 30, 2008 filed with the Commission on August 1, 2008) |
| 3.2 | Amended and Restated By-laws of Endo |
| 4.1 | Amended and Restated Executive Stockholders Agreement, dated as of July 7, 2003, by and among Endo, Endo Pharma LLC ( Endo LLC ), Kelso Investment Associates V, L.P. ( KIA V ), Kelso Equity Partners V, L.P. ( KEP V ) and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended June 30, 2003 filed with the Commission on August 14, 2003) |
| 4.1.2 | Amendment to Amended and Restated Executive Stockholders Agreement, dated as of June 28, 2004, by and among Endo, Endo LLC, KIA V, KEP V and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended September 30, 2004 filed with the Commission on November 5, 2004) the Commission on July 1, 2003) |
| 4.1.3 | Amendment 2 to the Amended and Restated Stockholders Agreement, dated September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Amending Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005) |
| 4.2 | Amended and Restated Employee Stockholders Agreement, dated as of June 5, 2003, by and among Endo, Endo LLC, KIA V, KEP V and the Employee Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.2 of Amendment No. 2 to the Form S-3 Registration Statement (Registration No. 333-105338) filed with the Commission on July 1, 2003) |
| 4.2.2 | Amendment to Amended and Restated Employee Stockholders Agreement, dated as of June 28, 2004, by and among Endo, Endo LLC, KIA V, KEP V and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended September 30, 2004 filed with the Commission on November 5, 2004) |
| 4.2.3 | Amendment 2 to the Amended and Restated Employee Stockholders Agreement, dated September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Amending Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.2.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005) |
| 4.3 | Employee Stockholders Consent and Release, effective September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Employee Stockholders (as defined therein) signatory thereto (incorporated herein by reference to Exhibit 4.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005) |
| 4.4 | Registration Rights Agreement, dated as of July 17, 2000, by and between Endo and Endo LLC (incorporated herein by reference to Exhibit 4.4 of the Form 10-Q for the Quarter ended June 30, 2000 filed with the Commission on August 15, 2000) |
| 4.5 | Amendment to Registration Rights Agreement, dated as of June 30, 2003, by and between Endo and Endo LLC (incorporated herein by reference to Exhibit 10.1 of Amendment No. 2 to the Form S-3 Registration Statement (Registration No. 333-105338) filed with the Commission on July 1, 2003) |
| 4.8 | Indenture dated as of August 6, 2007 between Indevus and The Bank of New York Trust Company, N.A, as trustee (incorporated herein by reference to Exhibit 4.1 of the Indevus Current Report on Form 8-K filed with the Commission on August 7, 2007) |

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| Exhibit No. | Title |
|---|---|
| 4.8.1 | Supplemental Indenture, dated as of March 23, 2009, by and between Indevus and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.) (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K, dated March 23, 2009) |
| 10.1 | Shelf Registration Agreement, dated September 21, 2005, by and between Endo, Endo LLC and certain Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on September 22, 2005) |
| 10.2 | Shelf Registration Agreement, dated April 30, 2004, between Endo and Endo Pharma LLC (incorporated herein by reference to Exhibit 10.2 of Amendment No. 1 to the Form S-3 Registration Statement (Registration No. 333-115032) filed with the Commission on June 10, 2004) |
| 10.3 | Amendment to Shelf Registration Agreement, dated June 10, 2004 between Endo and Endo LLC (incorporated herein by reference to Exhibit 10.3 of Amendment No. 1 to the Form S-3 Registration Statement (Registration No. 333-115032) filed with the Commission on June 10, 2004) |
| 10.4 | Agreement dated April 29, 2008 between Endo and D. E. Shaw Valence Portfolios, L.L.C. (on behalf of itself and its affiliates that are members of the 13D Group with respect to the Endo common stock) (incorporated herein by reference to Exhibit 99.1 of the Current Report on Form 8-K/A dated May 1, 2008) |
| 10.5 | [Intentionally Omitted.] |
| 10.6 | Amended and Restated Tax Sharing Agreement, dated as of April 30, 2004 by and among Endo, Endo Inc. and Endo LLC (incorporated herein by reference to Exhibit 10.6 of the Form 10-Q for the Quarter ended March 31, 2004 filed with the Commission on May 10, 2004) |
| 10.7 | Convertible Bond Hedge Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.7 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.8 | Issuer Warrant Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.8 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.9 | Issuer Share Repurchase Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.9 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.10 | Sole and Exclusive License Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals Inc. ( Endo Pharmaceuticals ) and Hind HealthCare, Inc. (incorporated herein by reference to Exhibit 10.10 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.11 | Endo Pharmaceuticals Holdings Inc. Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated December 19, 2007) |
| 10.12 | Endo Pharmaceuticals Holdings Inc. 401(k) Restoration Plan (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated December 19, 2007) |
| 10.13 | [Intentionally Omitted] |
| 10.14 | Supply and Manufacturing Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals and Teikoku Seiyaku Co., Ltd (incorporated herein by reference to Exhibit 10.14 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.14.1 | First Amendment, dated April 24, 2007, to the Supply and Manufacturing Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals and Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (incorporated herein by reference to Exhibit 10.14.1 of the Current Report on Form 8-K dated April 30, 2007) |

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| Exhibit No. | Title |
|---|---|
| 10.14.2* | Second Amendment, effective December 16, 2009, to the Supply and Manufacturing Agreement, dated as of November 23, 1998 and as amended as of April 24, 2007, by and between Endo Pharmaceuticals Inc. and Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (incorporated herein by reference to Exhibit 10.14.2 of the Current Report on Form 8-K dated January 11, 2010) |
| 10.15 | Supply Agreement, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt Inc. ( Mallinckrodt ) (incorporated herein by reference to Exhibit 10.15 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.16 | Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.16.1 | First Amendment, effective July 1, 2000, to the Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16.1 of the Current Report on Form 8-K dated April 14, 2006) |
| 10.16.2 | Second Amendment, dated April 10, 2006, to the Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16.2 of the Current Report on Form 8-K dated April 14, 2006) |
| 10.17 | [Intentionally Omitted.] |
| 10.18 | Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18 of the Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2002 filed with the Commission on May 14, 2002) |
| 10.18.1 | Amendment, dated January 7, 2007, to the Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18.1 of the Current report on Form 8-K dated January 11, 2007) |
| 10.18.2 | Amendment, dated July 14, 2008, to the Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18.2 of the Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2008 filed with the Commission on August 1, 2008) |
| 10.18.3 | Third Amendment to the Amended and Restated Strategic Alliance Agreement by and between Penwest Pharmaceuticals Co. and Endo Pharmaceuticals, dated as of March 31, 2009 (incorporated herein by reference to Exhibit 10.18.3 of the Current report on Form 8-K dated April 6, 2009) |
| 10.19 | Agreement, dated as of February 1, 2000, by and between Endo Pharmaceuticals and UPS Supply Chain Solutions, Inc. (f/d/b/a Livingston Healthcare Services Inc.) (incorporated herein by reference to Exhibit 10.19 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.20 | Medical Affairs Support Services Agreement, dated as of June 1, 1999, by and between Endo Pharmaceuticals and Kunitz and Associates, Inc. (incorporated herein by reference to Exhibit 10.20 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.21 | Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.21 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000) |
| 10.22 | Endo LLC Amended and Restated 1997 Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.22 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000) |

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| Exhibit No. | Title |
|---|---|
| 10.23 | Endo LLC Amended and Restated 1997 Executive Stock Option Plan (incorporated herein by reference to Exhibit 10.23 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000) |
| 10.24 | Endo LLC 2000 Amended and Restated Supplemental Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.24 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000) |
| 10.25 | Endo LLC 2000 Amended and Restated Supplemental Executive Stock Option Plan (incorporated herein by reference to Exhibit 10.25 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000) |
| 10.26 | Separation Agreement, dated as of September 8, 2008, between the Endo and Charles A. Rowland, Jr. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated September 8, 2008) |
| 10.27 | Executive Employment Agreement between Endo and Ivan Gergel, M.D., dated as of April 29, 2008 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated March 25, 2009) |
| 10.28 | Amended and Restated Employment Agreement, dated as of December 19, 2007, by and between Endo and Nancy J. Wysenski (incorporated herein by reference to Exhibit 10.29 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008) |
| 10.28.1 | Separation Agreement, dated as of August 25, 2009, by and between Endo and Nancy J. Wysenski (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated August 31, 2009) |
| 10.29 | Auction-Rate Securities Rights Agreement, dated November 10, 2008, by and between Endo Pharmaceuticals and UBS AG (incorporated herein by reference to Exhibit 10.29 to the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.30 | Employment Agreement, dated as of April 1, 2008, by and between Endo and David P. Holveck (incorporated herein by reference to Exhibit 10.30 of the Current Report on Form 8-K dated March 12, 2008) |
| 10.31 | License and Supply Agreement by and by and among Novartis, AG, Novartis Consumer Health, Inc. and Endo Pharmaceuticals dated as of March 4, 2008 (incorporated herein by reference to Exhibit 10.31 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.31.1 | Amendment No. 1 to the License and Supply Agreement by and by and among Novartis, AG, Novartis Consumer Health, Inc. and Endo Pharmaceuticals Inc. dated as of March 28, 2008 (incorporated herein by reference to Exhibit 10.31.1 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.32 | Sales and Marketing Services Agreement, dated as of May 15, 2008 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32 of the Form 10-Q for the Quarter ended June 30, 2008 filed with the Commission on August 1, 2008) |
| 10.32.1* | Amendment to the Sales and Marketing Services Agreement, dated as of January 29, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.1 to the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.32.2 | Amendment to the Sales Representative Service Agreement, dated as of April 1, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.2 of the Current Report on Form 8-K dated April 7, 2009) |

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| Exhibit No. | Title |
|---|---|
| 10.32.3 | Amendment to the Sales Representative Services Agreement, dated as of May 11, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.2 of the Current Report on Form 8-K dated May April 7, 2009) |
| 10.33 | [Intentionally Omitted] |
| 10.34 | Lease Agreement, dated as of May 5, 2000, by and between Endo Pharmaceuticals and Painters Crossing One Associates, L.P. (incorporated herein by reference to Exhibit 10.34 of the Registration Statement filed with the Commission on June 9, 2000) |
| 10.34.1 | Amendment to Lease Agreement, dated as of November 6, 2006, by and between Endo Pharmaceuticals and Painters Crossing One Associates, L.P. (incorporated herein by reference to Exhibit 10.34.1 of the Form 10-Q for the quarter ended September 30, 2006 filed with the Commission on November 9, 2006) |
| 10.35 | Amended and Restated Employment Agreement, dated as of December 19, 2007, by and between Endo and Caroline B. Manogue (incorporated herein by reference to Exhibit 10.29 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008) |
| 10.36 | [Intentionally Omitted] |
| 10.36.1 | Separation Agreement, dated as of January 28, 2008, Endo Pharmaceuticals Holdings Inc. and Peter A. Lankau (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 30, 2008) |
| 10.37 | Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.37 of the Form 10-Q for the Quarter ended June 30, 2004 filed with the Commission on August 9, 2004) |
| 10.38 | Endo Pharmaceuticals Holdings Inc. Amended and Restated 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit B of the Definitive Proxy Statement on Schedule 14A filed with the Commission on April 29, 2009) |
| 10.39 | Master Development and Toll Manufacturing Agreement, dated as of May 3, 2001, by and between Novartis Consumer Health, Inc. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.39 of the Form 10-Q for the Quarter Ended June 30, 2001 filed with the Commission on August 14, 2001) |
| 10.39.1 | First Amendment, effective February 1, 2003, to the Master Development and Toll Manufacturing Agreement between Endo Pharmaceuticals and Novartis Consumer Health, Inc. (incorporated herein by reference to Exhibit 10.39.1 of the Form 10-Q for the Quarter Ended June 30, 2005 filed with the Commission on August 8, 2005) |
| 10.39.2 | Second Amendment, effective as of December 1, 2004, to the Master Development and Toll Manufacturing Agreement between Endo Pharmaceuticals and Novartis Consumer Health, Inc. (incorporated herein by reference to Exhibit 10.39.2 of the Form 10-Q for the Quarter Ended June 30, 2005 filed with the Commission on August 8, 2005) |
| 10.40 | Lease Agreement between Painters Crossing Three Associates, L.P. and Endo Pharmaceuticals dated January 19, 2007 (incorporated herein by reference to Exhibit 10.40 of the Annual Report on Form 10-K for the Year Ended December 31, 2006 filed with the Commission on March 1, 2007) |
| 10.40.1 | First Amendment to Lease Agreement, dated as of March 3, 2008 by and between Partners Crossing Three Associates, L.P. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.40.1 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008) |
| 10.41 | Policy of Endo Pharmaceuticals Holdings Inc. Relating to Insider Trading in Company Securities and Confidentiality of Information (incorporated herein by reference to Exhibit 10.41 of the Form 10-Q for the Quarter ended March 31, 2005 filed with the Commission on May 10, 2005) |

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| Exhibit No. | Title |
|---|---|
| 10.42 | Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K, dated May 8, 2009). |
| 10.43 | Employment Agreement between Endo and Alan G. Levin (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K, dated May 8, 2009). |
| 10.44 | Lease Agreement, dated as of January 6, 2003, by and between Endo Pharmaceuticals and Dawson Holding Company (incorporated by reference to Exhibit 10.44 of the Annual Report on Form 10-K for the Year Ended December 31, 2002 filed with the Commission on March 27, 2003) |
| 10.45 | Lease Agreement, dated as of November 13, 2003, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.45 of the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on March 15, 2004) |
| 10.45.1 | Amendment to Lease Agreement, dated as of February 16, 2005, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.45.1 of the Current Report on Form 8-K dated February 18, 2005) |
| 10.45.2 | Amendment to Lease Agreement, dated as of November 6, 2006, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.34.1 of the Form 10-Q for the quarter ended September 30, 2006 filed with the Commission on November 9, 2006) |
| 10.46 | License Agreement, dated as of February 25, 2004, by and between Endo Pharmaceuticals and Noven Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.46 of Amendment No. 2 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on June 25, 2004) |
| 10.46.1 | Termination Agreement, dated as of February 24, 2006, by and between Noven Pharmaceuticals, Inc. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.46.1 of the Annual Report on Form 10-K for the Year Ended December 31, 2005 filed with the Commission on March 8, 2006) |
| 10.47 | Supply Agreement, dated as of February 25, 2004, by and between Endo Pharmaceuticals and Noven Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.47 of Amendment No. 2 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on June 25, 2004) |
| 10.48 | License and Co-Promotion Rights Agreement, dated as of July 14, 2004, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.48 of the Current Report on Form 8-K dated July 19, 2004) |
| 10.48.1 | Co-Promotion Agreement, dated as of July 1, 2005, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.1 of the Current Report on Form 8-K dated July 8, 2005) |
| 10.48.2 | Second Amendment, dated as of December 12, 2005, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.2 of the Current Report on Form 8-K dated December 29, 2005) |
| 10.48.3 | First Amendment, dated as of December 12, 2005, to the Co-Promotion Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.3 of the Current Report on Form 8-K dated December 29, 2005) |
| 10.48.4 | Third Amendment, dated as of July 23, 2007, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.4 of the Current Report on Form 8-K dated July 27, 2007) |
| 10.48.5 | Fourth Amendment, dated as of February 19, 2008, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.48.5 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008) |

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| Exhibit No. | Title |
|---|---|
| 10.48.6 | Agreement to Terminate the Co-Promotion Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited, effective February 19, 2008 (incorporated herein by reference to Exhibit 10.48.6 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008) |
| 10.49 | Loan Agreement, dated as of July 14, 2004, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.49 of the Current Report on Form 8-K dated July 19, 2004) |
| 10.49.1 | Agreement to Terminate the Loan Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited, effective February 19, 2008 (incorporated herein by reference to Exhibit 10.49.1 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008) |
| 10.50 | Form of Stock Option Grant Agreement under the 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.50 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.51 | Form of Restricted Stock Unit Grant Agreement under the 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.51 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.52 | Agreement and Plan of Merger dated January 5, 2009, by and between Endo, BTB Purchaser, and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 5, 2009) |
| 10.52.1 | Amendment, dated January 7, 2009 to the Agreement and Plan of Merger, by and between Endo, BTB Purchaser, and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 7, 2009) |
| 10.52.2 | Amendment No. 2, dated February 4, 2009, to the Agreement and Plan of Merger, by and among Endo, BTB Purchaser Inc. and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 of the Current Report on Form 8-K dated February 6, 2009) |
| 10.53 | Form of Stockholder Tender Agreement (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated January 5, 2009) |
| 10.54 | Nebido® (n/k/a Aveed™) Contingent Cash Consideration Agreement, dated February 23, 2009, by and between Endo and American Stock Transfer and Trust Company (incorporated herein by reference to Exhibit 10.54 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.55 | Octreotide Contingent Cash Consideration Agreement, dated February 23, 2009, by and between Endo and American Stock Transfer and Trust Company (incorporated herein by reference to Exhibit 10.55 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009) |
| 10.56 | Memorandum of Understanding, dated February 4, 2009, by and among (i) Wolf Popper LLP, counsel for Plaintiff Arthur Gober, CBM IRA Beneficiary Custodian, Beneficiary of Jerome Gober, (ii) Skadden, Arps, Slate, Meagher & Flom LLP, counsel for Defendants Endo and BTB Purchaser Inc., (iii) The Weiser Law Firm, P.C., counsel for Plaintiff Martin Wexler, (iv) Young Conaway Stargatt & Taylor, LLP, counsel for Defendants Indevus Pharmaceuticals, Inc., Glenn L. Cooper, Andrew Ferrara, James C. Gale, Michael E. Hanson, Stephen C. McCluski, Cheryl P. Morley and Malcolm Morville, (v) Levi & Korsinsky LLP, counsel for Plaintiff Malena C. Schroeder and (vi) Johnson Bottini LLP, counsel for Plaintiff H. Steven Mishket (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated February 6, 2009) |
| 10.57 | Amended and Restated License, Commercialization and Supply Agreement executed September 18, 2007 between Indevus and Esprit Pharma, Inc. (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated September 21, 2007) |

| Exhibit No. | Title |
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| 10.58 | Lease Agreement between National Patent Development Corporation and Cedar Brook Corporate Center, L.P. dated October 6, 1997 (incorporated herein by reference to Exhibit 10.9 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.59 | Amendment to Lease between Valera Pharmaceuticals, Inc. and Cedar Brook Corporate Center, L.P. dated January 7, 2004 (incorporated herein by reference to Exhibit 10.10 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.60 | Lease Agreement between Valera Pharmaceuticals, Inc. and Cedar Brook 7 Corporate Center, L.P. dated March 8, 2005 (incorporated herein by reference to Exhibit 10.11 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.61 | Agreement and Plan of merger, dated as of December 11, 2006, by and among Indevus, Hayden Merger Sub, Inc. and Valera Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 to the Indevus Current Report on Form 8-K, dated December 12, 2006) |
| 10.62 | License Agreement dated February 18, 1994 between Indevus and Rhone-Poulenc Rorer, S.A. (incorporated herein by reference to the Indevus Registration Statement on Form S-3 or Amendment I (File no. 33-75826)) |
| 10.63 | Lease dated February 5, 1997 between Indevus and Ledgemont Realty Trust (incorporated herein by reference to Exhibit 10.87 to the Indevus Form 10-Q for the period ended December 31, 1996 filed with the Commission on February 14, 1997) |
| 10.64 | License Agreement effective as of November 26, 1999 between Madaus AG and Indevus (incorporated herein by reference to Exhibit 10.113 to the Indevus Form 10-K for the fiscal year ended September 30, 1999, filed with the Commission on December 28, 1999) |
| 10.65 | Indemnity and Release Agreement between American Home Products Corporation and Indevus dated as of May 30, 2001 (incorporated herein by reference to Exhibit 1.120 to the Indevus Form 10-Q for the period ended June 30, 2001, filed with the Commission on August 14, 2001) |
| 10.66 | Supply Agreement between Indevus and Madaus AG dated December 16, 2003 (incorporated herein by reference to Exhibit 10.129 to the Indevus Form 10-Q for the period ended December 31, 2002, filed with the Commission on February 14, 2003) |
| 10.67 | Development and License Agreement between Indevus and Shire Laboratories Inc. dated March 11, 2003 (incorporated herein by reference to Exhibit 10.130 to the Indevus Form 10-Q for the period ended March 31, 2003, filed with the Commission on April 13, 2003) |
| 10.68 | License, Commercialization and Supply Agreement dated April 6, 2004 between Indevus and Odyssey Pharmaceuticals Inc. (incorporated herein by reference to Exhibit 99.2 to the Indevus Current Report on Form 8-K dated April 19, 2004) |
| 10.68.1 | Amendment No. 1 to License, Commercialization and Supply Agreement dated April 30, 2005 between Indevus and Odyssey Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.143 to the Indevus Form 10-Q for the period ended March 31, 2005, filed with the Commission on May 10, 2005) |
| 10.69 | Indenture of Lease dated December 20, 2004 between Indevus and Mortimer B. Zuckerman and Edward H. Linde, Trustees of Hayden Office Trust (incorporated herein by reference to Exhibit 10.142 to the Indevus Form 10-Q for the period ended December 31, 2004, filed with the Commission on February 9, 2005) |
| 10.70 | Amendment and Consent Agreement dated May 14, 2005 between Indevus, Odyssey Pharmaceuticals, Inc., and Saturn Pharmaceuticals, Inc (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated May 17, 2005) |
| 10.71 | License Agreement dated July 28, 2005 between Indevus and Schering Aktiengesellschaft (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated August 2, 2005) |

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| Exhibit No. | Title |
|---|---|
| 10.72 | Manufacturing and Supply Agreement by and between Indevus and Schering AG, Germany dated on or about October 20, 2006 (incorporated herein by reference to Exhibit 10.158 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006) |
| 10.73 | License and Supply Agreement by and between Indevus and Madaus GmbH dated on or about November 3, 2006 (incorporated herein by reference to Exhibit 10.159 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006) |
| 10.73.1 | Amendment and Agreement by and between Indevus and Madaus GmbH dated on or about November 3, 2006 (incorporated herein by reference to Exhibit 10.160 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006) |
| 10.74 | API Supply Agreement by and between Indevus and Helsinn Chemicals SA and Helsinn Advanced Synthesis SA dated on or about November 22, 2006 (incorporated herein by reference to Exhibit 10.162 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006) |
| 10.75 | Supprelin Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated April 17, 2007) |
| 10.75.1 | Supplemental Supprelin CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K dated March 23, 2009) |
| 10.76 | Stent Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.2 to the Indevus Current Report on Form 8-K dated April 17, 2007) |
| 10.76.1 | Supplemental Stent CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated March 23, 2009) |
| 10.77 | Octreotide Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.3 to the Indevus Current Report on Form 8-K dated April 17, 2007) |
| 10.77.1 | Supplemental Octreotide CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated March 23, 2009) |
| 10.78 | Supply Agreement by and between Valera Pharmaceuticals, Inc. and Plantex USA Inc. (incorporated herein by reference to Exhibit 10.1 to the Valera Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 9, 2006) |
| 10.79 | Form of License, Supply and Distribution Agreement by and between Indevus Pharmaceuticals, Inc. and Orion Corporation dated April 2, 2008 (incorporated herein by reference to Exhibit 10.208 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |
| 10.80 | Form of Purchase and Sale Agreement by and between Ledgemont Royalty Sub LLC and Indevus dated August 26, 2008 (incorporated herein by reference to Exhibit 10.215 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |
| 10.81 | Form of Note Purchase Agreement by and among Ledgemont Royalty Sub LLC, Indevus and the purchasers named therein dated August 26, 2008 (incorporated herein by reference to Exhibit 10.216 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |

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| Exhibit No. | Title |
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| 10.82 | Form of Indenture by and between Ledgemont Royalty Sub LLC and U.S. Bank National Association dated August 26, 2008 (incorporated herein by reference to Exhibit 10.217 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |
| 10.83 | Form of Pledge and Security Agreement made by Indevus to U.S. Bank National Association, as Trustee, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.218 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |
| 10.84 | Form of Development, License and Commercialization Agreement made by and between Indevus and Teva Pharmaceutical Industries Ltd., dated September 25, 2008 (incorporated herein by reference to Exhibit 10.219 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008) |
| 10.85 | First Amendment to Amended and Restated License, Commercialization and Supply Agreement between Indevus Pharmaceuticals, Inc. and Allergan USA, Inc. dated as of January 9, 2009 (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K, dated January 15, 2009) |
| 10.86 | Agreement between National Patent Development Corporation and Dento-Med Industries, Inc. dated November 30, 1989 (incorporated herein by reference to Exhibit 10.17 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.87 | Contribution Agreement between Hydro Med Sciences, Inc. and GP Strategies Corporation dated June 30, 2000 (incorporated herein by reference to Exhibit 10.12 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.88 | Termination of Agreement dated September 12, 1990 between National Patent Development Corporation and The Population Council, Inc. dated October 1, 1997 (incorporated herein by reference to Exhibit 10.6 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005). |
| 10.88.1 | Amendment to the Termination of the Joint Development Agreement between GP Strategies Corporation and The Population Council, Inc. dated November 29, 2001 (incorporated herein by reference to Exhibit 10.7 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005). |
| 10.88.2 | Amendment No. 2 to Termination Agreement between Valera Pharmaceuticals, Inc. and The Population Council, Inc. dated August 31, 2004 (incorporated herein by reference to Exhibit 10.8 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005) |
| 10.89 | Credit Agreement dated as of October 16, 2009 among Endo Pharmaceuticals Holdings Inc., the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, Barclays Capital as syndication agent, and J.P. Morgan Securities Inc. and Barclays Capital as Joint Bookrunners and Joint Lead Arrangers (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated October 22, 2009) |
| 10.90 | Pledge and Security Agreement dated as of October 16, 2009 by and among Endo Pharmaceuticals Holdings Inc., the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated October 22, 2009) |
| 21 | Subsidiaries of the Registrant |
| 23 | Consent of Independent Registered Public Accounting Firm |
| 24 | Power of Attorney |

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| Exhibit No. | Title |
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| 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 |

* Confidential portions of this exhibit (indicated by asterisks) have been redacted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities Exchange Act of 1934, as amended.