ENDO PHARMACEUTICALS HOLDINGS INC
Form 10-Q
August 09, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011.**

**OR**

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

**FOR THE TRANSITION PERIOD FROM TO .**

**Commission file number: 001-15989**

# ENDO PHARMACEUTICALS HOLDINGS INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Delaware** | **13-4022871** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |
| **100 Endo Boulevard Chadds Ford, Pennsylvania** | **19317** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(610) 558-9800**

**(Registrant s Telephone Number, Including Area Code)**

**Not applicable**

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

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

Indicate by check whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

| | |
|---|---|
| Common Stock, $0.01 par value | Shares outstanding as of July 27, 2011: 116,587,834 |

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**FORWARD-LOOKING STATEMENTS**

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q contain information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, including estimates of future revenues, future expenses, future net income and future net income per share, contained in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on February 28, 2011, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. Also, statements including words such as believes, expects, anticipates, intends, estimates, plan, will, may or similar expressions are forward-looking statements. We have based these forward-looking statements on our curre expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described under the caption Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and as otherwise enumerated herein or therein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained in our Annual Report on Form 10-K. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward-looking statements in our Annual Report on Form 10-K include those factors described herein under the caption Risk Factors and in documents incorporated by reference, including, among others:

our ability to successfully develop, commercialize and market new products;

timing and results of pre-clinical or clinical trials on new products;

our ability to obtain regulatory approval of any of our pipeline products;

government regulation of the pharmaceutical industry and the effect of healthcare reform on our business;

competition for the business of our branded and generic pharmaceuticals, our devices and services, and our acquisition of rights to intellectual property assets;

our ability to sustain our sales and profit on generic pharmaceutical products over time;

our ability to maintain our manufacturing facilities in compliance with regulatory requirements;

market acceptance of our future products;

our dependence on a small number of branded pharmaceuticals products with time-limited exclusivity rights;

our dependence on outside manufacturers for the manufacture of most of our branded pharmaceuticals products;

our dependence on third parties to supply raw materials and to provide services for certain core aspects of our business;

new regulatory action or lawsuits relating to our use of narcotics in most of our core products;

our exposure to product liability claims and product recalls and the possibility that we may not be able to adequately insure ourselves;

our ability to protect our proprietary technology;

the successful efforts of manufacturers of branded pharmaceuticals to use litigation and legislative and regulatory efforts to limit the use of generics and certain other products;

our ability to successfully implement our acquisition and in-licensing strategy;

regulatory or other limits on the availability of controlled substances that constitute the active ingredients of some of our products and products in development;

the availability of third-party reimbursement for our products;

the outcome of any pending or future litigation or claims by third parties or the government, and the performance of indemnitors with respect to claims for which we have the right to be indemnified;

our dependence on sales to a limited number of large pharmacy chains and wholesale drug distributors for a large portion of our total revenues;

significant litigation expenses to defend or assert patent infringement claims;

any interruption or failure by our suppliers, distributors and collaboration partners to meet their obligations pursuant to various agreements with us;

a determination by a regulatory agency that we are engaging or have engaged in inappropriate sales or marketing activities, including promoting the off-label use of our products;

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existing suppliers become unavailable or lose their regulatory status as an approved source, causing an inability to obtain required components, raw materials or products on a timely basis or at commercially reasonable prices;

the loss of branded product exclusivity periods and related intellectual property;

our ability to successfully execute our strategy;

disruption of our operations if our information systems fail or if we are unsuccessful in implementing necessary upgrades or new software;

our ability to maintain or expand our business if we are unable to retain or attract key personnel and continue to attract additional professional staff;

our ability to successfully integrate Generics International (US Parent), Inc., or Qualitest, and American Medical Systems Holdings, Inc. or AMS, and realize all anticipated benefits of our acquisitions, including the projected synergies of these acquisitions;

HealthTronics, Inc. s or HealthTronics and AMS s ability to establish or maintain relationships with physicians and hospitals;

HealthTronics ability to comply with special risks and requirements related to its medical products manufacturing business;

the risks associated with AMS s reliance on single- or sole-source suppliers for certain raw materials and certain components used in its products; and

the risks associated with our international operations.

We do not undertake any obligation to update our forward-looking statements after the date of this Report for any reason, even if new information becomes available or other events occur in the future. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q, 10-K, and 8-K reports filed with the Securities and Exchange Commission (SEC). Also note that we provide the preceding cautionary discussion of the risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 27A of the Securities Act and Section 21E of the Exchange Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the preceding to be a complete discussion of all potential risks or uncertainties.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 621,869 | $ 466,214 |
| Marketable securities | 71,003 | |
| Accounts receivable, net | 654,056 | 547,807 |
| Inventories, net | 303,658 | 178,805 |
| Prepaid expenses and other current assets | 34,191 | 22,841 |
| Income taxes receivable | 33,583 | 3,143 |
| Deferred income taxes | 175,274 | 140,724 |
| Total current assets | 1,893,634 | 1,359,534 |
| MARKETABLE SECURITIES | 21,205 | 23,509 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 271,833 | 215,295 |
| GOODWILL | 2,474,669 | 715,005 |
| OTHER INTANGIBLES, NET | 2,837,928 | 1,531,760 |
| OTHER ASSETS | 143,553 | 67,286 |
| TOTAL ASSETS | $ 7,642,822 | $ 3,912,389 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 273,962 | $ 241,114 |
| Accrued expenses | 557,061 | 469,721 |
| Current portion of long-term debt, net | 601,498 | 24,993 |
| Acquisition-related contingent consideration | 6,743 | |
| Total current liabilities | 1,439,264 | 735,828 |
| DEFERRED INCOME TAXES | 748,215 | 217,334 |
| ACQUISITION-RELATED CONTINGENT CONSIDERATION | 2,490 | 16,050 |
| LONG-TERM DEBT, LESS CURRENT PORTION, NET | 3,428,675 | 1,045,801 |
| OTHER LIABILITIES | 91,144 | 94,047 |
| COMMITMENTS AND CONTINGENCIES (NOTE 12) | | |
| 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; 137,935,436 and 136,309,917 shares issued; 116,757,314 and 116,057,895 shares outstanding at June 30, 2011 and December 31, 2010, respectively | 1,377 | 1,363 |
| Additional paid-in capital | 916,146 | 860,882 |
| Retained earnings | 1,474,667 | 1,364,297 |
| Accumulated other comprehensive loss | (1,543) | (1,161) |
| Treasury stock, 21,178,122 and 20,252,022 shares at June 30, 2011 and December 31, 2010, respectively | (518,491) | (483,790) |

| | | |
|---|---|---|
| Total Endo Pharmaceuticals Holdings Inc. stockholders equity | 1,872,156 | 1,741,591 |
| Noncontrolling interests | 60,878 | 61,738 |
| Total stockholders equity | 1,933,034 | 1,803,329 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | $ 7,642,822 | $ 3,912,389 |

See Notes to Condensed Consolidated Financial Statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| REVENUES: | | | | |
| Net pharmaceutical product sales | $ 527,563 | $ 394,121 | $ 1,033,347 | $ 754,470 |
| Device, service and other revenues | 80,048 | 2,403 | 134,290 | 6,466 |
| TOTAL REVENUES | 607,611 | 396,524 | 1,167,637 | 760,936 |
| COSTS AND EXPENSES: | | | | |
| Cost of revenues | 236,697 | 107,216 | 468,255 | 201,289 |
| Selling, general and administrative | 178,133 | 133,251 | 337,519 | 266,586 |
| Research and development | 40,840 | 44,656 | 82,970 | 73,824 |
| Acquisition-related items | 17,626 | 4,796 | 23,699 | 6,325 |
| Impairment of other intangible assets | | 13,000 | | 13,000 |
| OPERATING INCOME | 134,315 | 93,605 | 255,194 | 199,912 |
| INTEREST EXPENSE, NET | 25,560 | 9,984 | 44,350 | 19,788 |
| LOSS ON EXTINGUISHMENT OF DEBT, NET | 8,548 | | 8,548 | |
| OTHER (INCOME) EXPENSE, NET | (125) | (201) | 223 | (420) |
| INCOME BEFORE INCOME TAX | 100,332 | 83,822 | 202,073 | 180,544 |
| INCOME TAX | 32,780 | 32,362 | 66,226 | 68,729 |
| CONSOLIDATED NET INCOME | 67,552 | 51,460 | 135,847 | 111,815 |
| Less: Net income attributable to noncontrolling interests | 12,969 | | 25,477 | |
| NET INCOME ATTRIBUTABLE TO ENDO PHARMACEUTICALS HOLDINGS INC. | $ 54,583 | $ 51,460 | $ 110,370 | $ 111,815 |
| NET INCOME PER SHARE: | | | | |
| Basic | $ 0.47 | $ 0.44 | $ 0.95 | $ 0.96 |
| Diluted | $ 0.44 | $ 0.44 | $ 0.91 | $ 0.95 |
| WEIGHTED AVERAGE SHARES: | | | | |
| Basic | 116,663 | 116,060 | 116,509 | 116,704 |
| Diluted | 122,686 | 116,660 | 121,724 | 117,346 |

See Notes to Condensed Consolidated Financial Statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(In thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| OPERATING ACTIVITIES: | | |
| Consolidated net income | $ 135,847 | $ 111,815 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 97,739 | 42,955 |
| Stock-based compensation | 18,772 | 10,391 |
| Amortization of debt issuance costs and premium / discount | 14,345 | 11,564 |
| Selling, general and administrative expenses paid in shares of common stock | 129 | 110 |
| Deferred income taxes | 7,708 | 988 |
| (Gain) loss on disposal of property, plant and equipment | 211 | 18 |
| Change in fair value of acquisition-related contingent consideration | (7,230) | 1,120 |
| Loss on extinguishment of debt | 8,548 | |
| Loss on auction-rate securities rights | | 15,659 |
| Unrealized gain on trading securities | | (15,420) |
| Impairment of other indefinite lived intangibles | | 13,000 |
| Changes in assets and liabilities which provided (used) cash: | | |
| Accounts receivable | (31,093) | (30,860) |
| Inventories | (49,202) | (387) |
| Prepaid and other assets | (2,393) | (2,601) |
| Accounts payable | 11,954 | 3,072 |
| Accrued expenses | 38,027 | 27,542 |
| Other liabilities | (9,775) | (329) |
| Income taxes payable/receivable | (19,274) | (12,281) |
| Net cash provided by operating activities | 214,313 | 176,356 |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment, net | (23,905) | (6,166) |
| Proceeds from sale of property, plant and equipment, net | 581 | |
| Proceeds from sales of available-for-sale securities | | 161,775 |
| Acquisitions, net of cash acquired | (2,342,556) | |
| Other investments | | (824) |
| Payment on contingent consideration | (414) | |
| License fees | (2,300) | |
| Net cash (used in) provided by investing activities | (2,368,594) | 154,785 |
| FINANCING ACTIVITIES: | | |
| Capital lease obligations repayments | | (172) |
| Tax benefits of stock awards | 5,067 | 452 |
| Exercise of Endo Pharmaceuticals Holdings Inc. stock options | 20,328 | 2,452 |
| Proceeds from issuance of 2019 and 2022 Notes | 900,000 | |
| Purchase of common stock | (34,701) | (50,064) |
| Proceeds from issuance of Term Loans | 2,200,000 | |
| Principal payments on Term Loan | (400,000) | |
| Payment on AMS Convertible Notes | (273,165) | |

| | | |
|---|---|---|
| Deferred financing fees | (81,753) | |
| Distributions to noncontrolling interests | (25,813) | |
| Buy-out of noncontrolling interests, net of contributions | (524) | |
| Proceeds from other debt, net | 393 | |
| Net cash provided by (used in) financing activities | 2,309,832 | (47,332) |
| Effect of foreign exchange rate | 104 | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 155,655 | 283,809 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 466,214 | 708,462 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 621,869 | $ 992,271 |
| SUPPLEMENTAL INFORMATION: | | |
| Cash paid for interest | $ 24,768 | $ 9,012 |
| Cash paid for income taxes | $ 80,460 | $ 79,701 |
| SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Purchases of property, plant and equipment financed by capital leases | $ 127 | $ |
| Accrual for purchases of property, plant and equipment | $ 2,959 | $ 2,238 |

See Notes to Condensed Consolidated Financial Statements.

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**ENDO PHARMACEUTICALS HOLDINGS INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2011**

## NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying Condensed Consolidated Financial Statements of Endo Pharmaceuticals Holdings Inc. (the Company or we, our, us, or Endo) and its subsidiaries, which are unaudited, include all normal and recurring adjustments considered necessary to present fairly the Company s financial position as of June 30, 2011 and the results of our operations and our cash flows for the periods presented. Operating results for the three-month and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

On June 17, 2011, the Company acquired AMS, a worldwide developer and provider of technology solutions to physicians treating men s and women s pelvic health conditions. In November 2010, the Company acquired Qualitest, a United States based privately-held generics company. In September 2010, the Company acquired its partner on Opana® ER, Penwest, a drug delivery company focused on applying its drug delivery technologies and drug formulation expertise to the formulation of its collaborators product candidates under licensing collaborations. In July 2010, the Company acquired HealthTronics, a provider of healthcare services and manufacturer of medical devices, primarily for the urology community. The condensed consolidated results of operations presented herein reflect the operating results of AMS from and including June 18, 2011 and of Qualitest, Penwest, and HealthTronics from January 1, 2011. Additionally, all of the assets acquired and liabilities assumed in connection with the AMS, Qualitest, Penwest, and HealthTronics acquisitions are recorded at their respective fair values and are included in the accompanying Condensed Consolidated Financial Statements as of June 30, 2011.

## NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-29 on interim and annual disclosure of pro forma financial information related to business combinations. The new guidance clarifies the acquisition date that should be used for reporting the pro forma financial information in which comparative financial statements are presented. It is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The provisions of this ASU have been incorporated into this filing for our 2011 acquisitions.

In December 2010, the FASB issued ASU 2010-28 on accounting for goodwill. The guidance clarifies the impairment test for reporting units with zero or negative carrying amounts. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. The adoption is not expected to have a material impact on the Company s Consolidated Financial Statements.

In December 2010, the FASB issued ASU 2010-27 on accounting for the annual fee imposed by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. The new guidance specifies that the liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense. It is effective on a prospective basis for calendar years beginning after December 31, 2010. We expect this fee will be approximately $15 million in 2011, which will be charged as an operating expense ratably throughout 2011.

In May 2011, the FASB issued ASU 2011-04 on fair value disclosures. This guidance amends certain accounting and disclosure requirements related to fair value measurements. It is effective on a prospective basis for interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Company is currently evaluating ASU 2011-04 but we do not expect the impact of adoption to be material.

In June 2011, the FASB issued ASU 2011-05 on the presentation of comprehensive income, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Company s consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

**NOTE 3. FAIR VALUE MEASUREMENTS**

The financial instruments recorded in our Condensed 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

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contingent consideration, our debt obligations, and derivative instruments. 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 as of June 30, 2011 and December 31, 2010 (in thousands):

| | June 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Current assets: | | | | |
| Commercial paper | 71,003 | 71,003 | | |
| Long-term assets: | | | | |
| Auction-rate securities | 17,505 | 17,505 | 17,332 | 17,332 |
| Equity securities | 3,700 | 3,700 | 6,177 | 6,177 |
| Equity and cost method investments | 38,503 | n/a | 34,677 | n/a |
| | $ 130,711 | | $ 58,186 | |
| Current liabilities: | | | | |
| Acquisition-related contingent consideration short-term | 6,743 | 6,743 | | |
| Current portion of 1.75% Convertible Senior Subordinated Notes Due 2015 | 288,856 | 322,211 | | |
| Current portion of Term Loan Facility Due 2015 | | | 22,500 | 22,500 |
| Current portion of Term Loan A Facility Due 2016 | 56,250 | 56,250 | | |
| Current portion of Term Loan B Facility Due 2018 | 7,000 | 7,000 | | |
| 3.25% AMS Convertible Notes due 2036 | 94,960 | 94,960 | | |
| 4.00% AMS Convertible Notes due 2041 | 151,887 | 151,887 | | |
| Current portion of other long-term debt | 2,545 | 2,545 | 2,493 | 2,493 |
| Derivative instruments | 3,315 | 3,315 | | |
| Long-term liabilities: | | | | |
| Acquisition-related contingent consideration long-term | 2,490 | 2,490 | 16,050 | 16,050 |
| 1.75% Convertible Senior Subordinated Notes Due 2015, less current portion, net | | | 278,922 | 324,257 |
| Term Loan Facility Due 2015, less current portion | | | 377,500 | 380,038 |
| Term Loan A Facility Due 2016, less current portion | 1,443,750 | 1,434,600 | | |
| Term Loan B Facility Due 2018, less current portion | 693,000 | 696,430 | | |
| 7.00% Senior Notes Due 2019 | 500,000 | 507,935 | | |
| 7.00% Senior Notes Due 2020, net | 388,921 | 403,084 | 386,716 | 403,308 |
| 7.25% Senior Notes Due 2022 | 400,000 | 402,896 | | |
| Other long-term debt, less current portion | 3,004 | 3,004 | 2,663 | 2,663 |
| Minimum Voltaren® Gel royalties due to Novartis | 25,837 | 25,837 | 38,922 | 38,922 |
| | $ 4,068,558 | $ 4,121,187 | $ 1,125,766 | $ 1,190,231 |

Commercial paper has a maturity of eight months or less and is held with a highly rated financial institution. Commercial paper is carried at amortized cost, which is a reasonable approximation of fair value. Equity securities consist of publicly traded common stock, the value of 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, which is required to be measured at fair value on a recurring basis, consists primarily of contingent cash consideration related to the November 2010 acquisition of Qualitest. The fair value of our acquisition-related contingent consideration is determined using an income approach (present value technique), which is discussed in more detail below.

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 stock price volatility assumptions of

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32% at June 30, 2011 and 33% at December 31, 2010 that were based on historic volatility of the Company s common stock and other factors. The fair values of our Term Loan Facilities and 2019, 2020, and 2022 Notes were estimated using a discounted cash flow model based on the contractual repayment terms of the respective instruments and discount rates that reflect current market conditions. The 3.25% AMS Convertible Notes due 2036 (the 2036 Notes) and the 4.00% AMS Convertible Notes due 2041 (the 2041 Notes and, together with the 2036 Notes, the AMS Notes) were acquired from AMS on June 17, 2011 and, in accordance with the accounting guidance for business combinations, were required to be measured at fair value. In accordance with the indentures governing the AMS Notes, the AMS Notes were immediately convertible upon the closing of Endo s acquisition of AMS. Therefore, the carrying amount and fair value of the 2036 Notes of $95.0 million was determined based on the amount of principal outstanding of $61.0 million and the stated conversion premium of 1.5571. The carrying amount and fair value of the 2041 Notes of $151.9 million was determined based on the amount of principal outstanding of $89.7 million and the stated conversion premium of 1.6940. Substantially all of the AMS Notes not yet redeemed as of June 30, 2011 are expected to be redeemed during the third quarter of 2011.

The total fair value of various foreign exchange forward contracts as of June 30, 2011 includes liabilities of $3.3 million, reported in Accrued expenses. We measure our derivative instruments at fair value on a recurring basis using significant observable inputs. Refer to Note 16 for more information regarding our derivative instruments.

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 June 30, 2011 and December 31, 2010 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 June 30, 2011 and December 31, 2010.

The fair value of equity method and cost 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 equity or cost method investments at June 30, 2011.

As of June 30, 2011, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring 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 June 30, 2011 and December 31, 2010, 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 |

| | | | | |
|---|---|---|---|---|
| **As of June 30, 2011:** | | | | |
| **Assets:** | | | | |
| Money market funds | $ 111,247 | $ | $ | $ 111,247 |
| Equity securities | 3,700 | | | 3,700 |
| Commercial paper | | 71,003 | | 71,003 |
| Auction-rate securities | | | 17,505 | 17,505 |
| Total | $ 114,947 | $ 71,003 | $ 17,505 | $ 203,455 |
| **Liabilities:** | | | | |
| Derivative instruments | | 3,315 | | 3,315 |
| Acquisition-related contingent consideration short-term | | | 6,743 | 6,743 |
| Acquisition-related contingent consideration long-term | | | 2,490 | 2,490 |
| Total | $ | $ 3,315 | $ 9,233 | $ 12,548 |

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| | 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 |
| **As of December 31, 2010** | | | | |
| **Assets:** | | | | |
| Money market funds | 149,318 | | | 149,318 |
| Equity securities | 6,177 | | | 6,177 |
| Auction-rate securities | | | 17,332 | 17,332 |
| Total | $ 155,495 | $ | $ 17,332 | $ 172,827 |
| **Liabilities:** | | | | |
| Acquisition-related contingent consideration long-term | | | 16,050 | 16,050 |
| Total | $ | $ | $ 16,050 | $ 16,050 |

Commercial paper is carried at amortized cost, which is a reasonable approximation of fair value, and has therefore been classified as Level 2. We measure our derivative instruments at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy.

***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 became 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 June 30, 2011, the Company determined that the market for its auction-rate securities was still 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.

Our 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 AAA as of June 30, 2011 and December 31, 2010. The issuers have been making interest payments promptly.

***Overview of Auction-Rate Securities Rights***

In October 2008, UBS AG (UBS) made an offer (the UBS Offer) to the Company and other clients of UBS Securities LLC and UBS Financial Services Inc. (collectively, the UBS Entities), pursuant to which the Company received auction-rate securities rights (the Rights) to sell to UBS all auction-rate securities held by the Company as of February 13, 2008 in a UBS account (the Eligible Auction-Rate Securities). The Rights permitted 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.

On November 10, 2008, the Company accepted the UBS Offer, awarding 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.

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

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. Subsequent changes to the fair value of these trading securities resulted in $13.7 million and $15.4 million, respectively, of income during the three and six months ended June 30, 2010 recorded in Other (income) expense, net in the Condensed Consolidated Statements of Operations.

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As a result of our fair value election for the Rights, the fair value of the Rights was re-measured each reporting period with the corresponding changes in fair value reported in earnings. In June 2010, the Rights were exercised and all Eligible Auction-Rate Securities were sold at par. Accordingly, the Rights were written off in their entirety.

At June 30, 2011 and December 31, 2010, the fair value of the Rights was zero. Accordingly, the decrease in fair value for the three and six months ended June 30, 2010 of $13.8 million and $15.7 million, respectively, was recognized as a charge to earnings and included in Other (income) expense, net in the Condensed Consolidated Statements of Operations.

***Valuation of the Auction-Rate Securities***

The Company 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 initial life used for each remaining security, representing time to maturity, was eight years as of June 30, 2011 and December 31, 2010.

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 rate was 4.78% on June 30, 2011 and 5.10% at December 31, 2010. 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. The spread over the base rate applied to our securities was 185 basis points at June 30, 2011 and 218 basis points at December 31, 2010.

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 June 30, 2011, the fair value of our auction-rate securities, as determined by applying the above described discount rate adjustment technique, was approximately $17.5 million, representing a 7%, or $1.3 million discount from their original purchase price or par value. This compares to approximately $17.3 million, representing an 8%, or $1.5 million discount from their original purchase price or par value at December 31, 2010. 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 June 30, 2011 and December 31, 2010 were reduced by approximately $1.3 million and $1.5 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 of December 31, 2010 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 $0.2 million gain and a $0.4 million loss in Stockholders equity in Accumulated other comprehensive loss as of June 30, 2011 and December 31, 2010,

respectively. Securities not subject to the UBS Offer are analyzed each reporting period for other-than-temporary

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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***

Until the Rights were exercised and all UBS securities were sold on June 30, 2010, the Company valued the Rights using an income approach (present value technique) that maximized the use of observable market inputs. Specifically, the Company used the discount rate adjustment technique to determine an indication of fair value.

***Overview of Acquisition-Related Contingent Consideration***

At June 30, 2011 and December 31, 2010, the fair value of the contingent consideration is $9.2 million and $16.1 million, respectively. The material components of this obligation are discussed below.

*Indevus*

On February 23, 2009 (the Indevus Acquisition Date), the Company completed its initial tender offer for all outstanding shares of common stock of Indevus and completed its acquisition of 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 related to potential future regulatory and commercial milestones related to Aveed™ (the Aveed™ Contingent Cash Consideration Agreement) and the octreotide NDA for the treatment of acromegaly (the Octreotide Contingent Cash Consideration Agreement). Additionally, upon the acquisition of Indevus, the Company assumed a pre-existing contingent consideration obligation relating to Indevus acquisition of Valera Pharmaceuticals, Inc. (the Valera Contingent Consideration Agreement), which could entitle former Valera shareholders to receive consideration from the Company upon U.S. Food and Drug Administration (FDA) approval of the octreotide implant for the treatment for acromegaly.

*Qualitest*

On November 30, 2010 (the Qualitest Acquisition Date), Endo acquired Qualitest, which was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

***Valuation of the Acquisition-Related Contingent Consideration***

*Indevus*

The Indevus Contingent Consideration Agreements were measured and recognized at fair value upon the Indevus Acquisition Date and are required to be re-measured on a recurring basis, with changes to fair value recorded in Acquisition-related items in the accompanying Condensed Consolidated Statements of Operations. The fair values were determined using a probability-weighted discounted cash flow model, or income approach. This fair value measurement technique is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The valuation of each Indevus Contingent Consideration Agreement is described in further detail below:

*Aveed™ Contingent Consideration* The range of the undiscounted amounts the Company could pay under the Aveed™ Contingent Cash Consideration Agreement is between zero and approximately $175.0 million. Under this 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. Using this valuation technique, the fair value of the contractual obligation to pay the Aveed™ Contingent Consideration was determined to be zero at June 30, 2011, $7.1 million at December 31, 2010 and $133.1 million on the Indevus Acquisition Date.

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*Octreotide Contingent Consideration* The range of the undiscounted amounts the Company could pay under the Octreotide Contingent Cash Consideration Agreement is between zero and approximately $91.0 million. Under this agreement, the two scenarios that require consideration are (1) approval of octreotide 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. Using this valuation technique, the fair value of the contractual obligation to pay the Octreotide Contingent Consideration was determined to be zero at both June 30, 2011 and December 31, 2010 and $39.8 million on the Indevus Acquisition Date.

*Valera Contingent Consideration* The range of the undiscounted amounts the Company could pay under the Valera Contingent Cash Consideration Agreement is between zero and approximately $33.0 million. 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. Using this valuation technique, the fair value of the contractual obligation to pay the Valera Contingent Consideration was determined to be zero at both June 30, 2011 and December 31, 2010 and $13.7 million on the Indevus Acquisition Date.

At June 30, 2011, the aggregate fair value of the three Indevus Contingent Consideration Agreements decreased from $7.1 million at December 31, 2010 to zero at June 30, 2011. This decrease primarily reflects management s current assessment of the probability that it will not be obligated to make contingent consideration payments based on the anticipated timeline for the NDA filings and FDA approvals of Aveed™. The decrease in the liability was recorded as a gain and was included in Acquisition-related items in the accompanying Condensed Consolidated Statements of Operations.

*Qualitest*

On November 30, 2010 (the Qualitest Acquisition Date), Endo acquired Qualitest, who was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

The range of the undiscounted amounts the Company could pay under the Teva Agreement is between zero and $12.5 million. The Company is accounting for the Teva Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Qualitest. Accordingly, the fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points. 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. Using this valuation technique, the fair value of the contractual obligation to pay the Teva Contingent Consideration was determined to be $8.8 million at June 30, 2011 and $9.0 million at December 31, 2010 and the Qualitest Acquisition Date, respectively.

The decrease from December 31, 2010 to June 30, 2011 primarily reflects changes of our present value assumptions associated with our valuation model. The decrease in the liability was recorded as a gain and is included in Acquisition-related items in the accompanying Condensed Consolidated Statements of Operations.

The following tables present changes to the Company s financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2011 and 2010 (in thousands):

| | **Fair Value Measurements Using Significant Unobservable Inputs (Level 3)** |
|---|---|

| | | Auction-rate Securities |
|---|---|---|
| **Assets:** | | |
| Balance at April 1, 2011 | $ | 17,409 |
| Securities sold or redeemed | | |
| Transfers in and/or (out) of Level 3 | | |
| Changes in fair value recorded in earnings | | |
| Unrealized gains included in other comprehensive income | | 96 |
| Balance at June 30, 2011 | $ | 17,505 |

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| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Acquisition-related Contingent Consideration |
|---|---|
| **Liabilities:** | |
| Balance at April 1, 2011 | $ (16,192) |
| Amounts (acquired) sold / (issued) settled, net | 414 |
| Transfers in and/or (out) of Level 3 | |
| Changes in fair value recorded in earnings | 6,545 |
| Balance at June 30, 2011 | $ (9,233) |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | Auction-rate Securities | Auction-rate Securities Rights | Total |
| Balance at April 1, 2010 | $ 186,851 | $ 13,749 | $ 200,600 |
| Securities sold or redeemed | (182,850) | | (182,850) |
| Securities purchased or acquired | | | |
| Transfers in and/or (out) of Level 3 | | | |
| Changes in fair value recorded in earnings | 13,714 | (13,749) | (35) |
| Unrealized gain included in other comprehensive loss | (20) | | (20) |
| Balance at June 30, 2010 | $ 17,695 | $ | $ 17,695 |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Acquisition-related Contingent Consideration |
|---|---|
| **Liabilities:** | |
| Balance at April 1, 2010 | $ (59,360) |
| Amounts (acquired) sold / (issued) settled, net | |
| Transfers in and/or (out) of Level 3 | |
| Changes in fair value recorded in earnings | (230) |
| Balance at June 30, 2010 | $ (59,590) |

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The following tables present changes to the Company s financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2011 and 2010 (in thousands):

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction-rate Securities |
|---|---|
| **Assets:** | |
| Balance at January 1, 2011 | $ 17,332 |
| Securities sold or redeemed | |
| Transfers in and/or (out) of Level 3 | |
| Changes in fair value recorded in earnings | |
| Unrealized gains included in other comprehensive income | 173 |
| Balance at June 30, 2011 | $ 17,505 |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Acquisition-related Contingent Consideration |
|---|---|
| **Liabilities:** | |
| Balance at January 1, 2011 | $ (16,050) |
| Amounts (acquired) sold / (issued) settled, net | (413) |
| Transfers in and/or (out) of Level 3 | |
| Changes in fair value recorded in earnings | 7,230 |
| Balance at June 30, 2011 | $ (9,233) |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | Auction-rate Securities | Auction-rate Securities Rights | Total |
| Balance at January 1, 2010 | $ 207,334 | $ 15,659 | $ 222,993 |
| Securities sold or redeemed | (205,050) | | (205,050) |
| Securities purchased or acquired | | | |
| Transfers in and/or (out) of Level 3 | | | |
| Changes in fair value recorded in earnings | 15,420 | (15,659) | (239) |
| Unrealized gain included in other comprehensive loss | (9) | | (9) |
| Balance at June 30, 2010 | $ 17,695 | $ | $ 17,695 |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Acquisition-related Contingent Consideration |
|---|---|
| **Liabilities:** | |
| Balance at January 1, 2010 | $ (58,470) |
| Amounts (acquired) sold / (issued) settled, net | |
| Transfers in and/or (out) of Level 3 | |
| Changes in fair value recorded in earnings | (1,120) |
| Balance at June 30, 2010 | $ (59,590) |

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At June 30, 2011 and December 31, 2010, the respective fair values of the Company s trading securities were zero. The following is a summary of available-for-sale securities held by the Company as of June 30, 2011 and December 31, 2010 (in thousands):

| | | Available-for-sale | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| **June 30, 2011:** | | | | |
| Money market funds | $ 111,247 | $ | $ | $ 111,247 |
| *Total included in cash and cash equivalents* | $ 111,247 | $ | $ | $ 111,247 |
| Commercial paper | 71,003 | | | 71,003 |
| *Total other short-term available-for-sale securities* | $ 71,003 | $ | $ | $ 71,003 |
| Auction-rate securities | 18,800 | | (1,295) | 17,505 |
| Equity securities | 5,564 | | (1,864) | 3,700 |
| *Long-term available-for-sale securities* | $ 24,364 | $ | $ (3,159) | $ 21,205 |
| *Total available-for-sale securities* | $ 206,614 | $ | $ (3,159) | $ 203,455 |
| **December 31, 2010:** | | | | |
| Money market funds | $ 149,318 | $ | $ | $ 149,318 |
| *Total included in cash and cash equivalents* | $ 149,318 | $ | $ | $ 149,318 |
| Auction-rate securities | 18,800 | | (1,468) | 17,332 |
| Equity securities | 5,564 | 613 | | 6,177 |
| *Long-term available-for-sale securities* | $ 24,364 | $ 613 | $ (1,468) | $ 23,509 |
| *Total available-for-sale securities* | $ 173,682 | $ 613 | $ (1,468) | $ 172,827 |

As previously discussed, the Company has determined that the gross unrealized losses associated with the auction-rate securities are not other-than-temporary. The Company also reviewed the gross unrealized losses associated with our equity securities as of June 30, 2011 and determined that these losses were not other-than-temporary, primarily because the Company has both the ability and intent to hold the investments for a period of time we believe will be sufficient to recover such losses.

We did not sell any of our remaining auction-rate securities during the three or six months ended June 30, 2011. During the six-month period ended June 30, 2010, we sold $230.3 million of auction-rate securities at par value. During the three-month period ended June 30, 2010, we sold $197.9 million of auction-rate securities at par value. There were no realized holding gains and losses resulting from the sales of our auction rate securities during the periods ended June 30, 2011 and 2010. The cost of securities sold is based on the specific identification method.

The underlying assets of our auction-rate securities are student loans. Student loans are insured by the Federal Family Education Loan Program, or FFELP.

As of June 30, 2011, the yields on our long-term auction-rate securities ranged from 0.26% to 0.30%. 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 June 30, 2011, the weighted average yield for our long-term auction-rate securities was 0.28%. Total interest recognized on our auction-rate securities during the six months ended June 30, 2011 and 2010 was less than $0.1 million and $0.6 million, respectively. 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.

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| | June 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available-for-sale debt securities: | | | | |
| Due in less than 1 year | $ 71,003 | $ 71,003 | $ | $ |
| Due in 1 to 5 years | | | | |
| Due in 5 to 10 years | | | | |
| Due after 10 years | 18,800 | 17,505 | 18,800 | 17,332 |
| Equity securities | 5,564 | 3,700 | 5,564 | 6,177 |
| Total | $ 95,367 | $ 92,208 | $ 24,364 | $ 23,509 |

**NOTE 4. INVENTORIES**

Inventories are comprised of the following at June 30, 2011 and December 31, 2010, respectively (in thousands):

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Raw materials | $ 87,560 | $ 45,957 |
| Work-in-process | 63,033 | 34,208 |
| Finished goods | 153,065 | 98,640 |
| Total | $ 303,658 | $ 178,805 |

Inventory amounts in the table above are shown net of obsolescence. Our reserve for obsolescence is not material to the Condensed Consolidated Balance Sheets for any of the periods presented and therefore has not been separately disclosed.

**NOTE 5. ACQUISITIONS**

***AMS***

On June 17, 2011 (the AMS Acquisition Date), the Company completed its acquisition of all outstanding shares of common stock of AMS for approximately $2.4 billion in aggregate consideration, including $71.6 million related to existing AMS stock-based compensation awards and certain other amounts, at which time AMS became a wholly-owned subsidiary of the Company. AMS shares were purchased at a price of $30.00 per share.

AMS is a worldwide developer and provider of technology solutions to physicians treating men s and women s pelvic health conditions. The AMS business and applicable services include:

*Men s Health.*

AMS supplies surgical solutions for the treatment of male urinary incontinence, the involuntary release of urine from the body. The fully implantable AMS 800® system includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. Since 2000, AMS has also been selling the InVance® sling system, a less-invasive procedure for men with moderate incontinence, and in 2007, AMS released the AdVance® sling system for the treatment of mild to moderate stress urinary incontinence. AMS also offers the UroLume® endoprosthesis stent as a less invasive procedure for patients who may not be good surgical candidates, as well as for men suffering from bulbar urethral strictures.

AMS also supplies penile implants to treat erectile dysfunction, the inability to achieve or maintain an erection sufficient for sexual intercourse, with a series of semi-rigid malleable prostheses and a complete range of more naturally functioning inflatable prostheses, including the AMS 700® MS. AMS has refined its implants over the years with improvements to the AMS 700® series of inflatable prostheses, including the AMS 700 LGX® and the MS Pump®. Another key factor that distinguishes AMS s products is the use of the InhibiZone® antibiotic coating, which received FDA approval in July 2009 for our product claim that InhibiZone® reduces the rate of revision surgery due to surgical infections.

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*Women s Health.*

AMS offers a broad range of systems, led by Monarc® and MiniArc®, to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. Monarc® incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramin. AMS s MiniArc® Single-Incision Sling for stress incontinence was released in 2007 and requires just one incision to surgically place a small sling under the urethra, which minimizes tissue disruption and potential for blood loss, thereby allowing the procedure to be done with less anesthesia on an outpatient basis. In 2010, AMS launched the MiniArc Precise™, which is designed to enhance the ease and accuracy of placement of the MiniArc® device.

AMS also offers solutions for pelvic floor prolapse and other pelvic floor disorders, which may be caused by pregnancy, labor, and childbirth. In 2008, AMS introduced the Elevate® transvaginal pelvic floor repair system, with no external incisions. Using an anatomically designed needle and self-fixating tips, Elevate® allows for safe, simple and precise mesh placement through a single vaginal incision. The posterior system was launched in 2008 and the anterior system was launched in 2009.

*BPH Therapy.*

AMS s products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of benign prostatic hyperplasia (BPH) or bulbar urethral strictures. AMS offers men experiencing a physical obstruction of the prostatic urethra an alternative to a transurethral resection of the prostate (TURP), with the GreenLight™ photovaporization of the prostate. This laser therapy is designed to reduce the comorbidities associated with TURP. AMS s GreenLight™ XPS and MoXy™ Liquid Cooled Fiber provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and providing enhanced surgical control compared to other laser systems. AMS also offers the StoneLight® laser and SureFlex™ fiber optics for the treatment of urinary stones. StoneLight® is a lightweight and portable 15-watt holmium laser that offers the right amount of power to effectively fragment most urinary stones. The SureFlex™ fiber optic line is engineered to deliver more energy safely and effectively, even under maximum scope deflection, for high performance holmium laser lithotripsy.

AMS s TherMatrx® product is designed for those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired. It is a less-invasive tissue ablation technique that can be performed in a physician s office using microwave energy delivered to the prostate.

The acquisition of AMS provides Endo scale in its Devices and Services business segment, and the combination of AMS with Endo s existing platform will provide additional cost-effective solutions across the entire urology spectrum.

The operating results of AMS from and including June 18, 2011 are included in the accompanying Condensed Consolidated Statements of Operations. The Condensed Consolidated Balance Sheet as of June 30, 2011 reflects the acquisition of AMS.

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

| | June 17, 2011 |
|---|---|
| Cash and cash equivalents | $ 47,289 |
| Commercial paper | 71,000 |
| Accounts receivable | 73,868 |
| Other receivables | 791 |
| Inventories | 75,525 |
| Prepaid expenses and other current assets | 7,133 |
| Income taxes receivable | 11,179 |
| Deferred income taxes | 15,360 |
| Property and equipment | 57,372 |
| Other intangible assets | 1,390,000 |
| Other assets | 4,581 |
| Total identifiable assets | $ 1,754,098 |

| | | |
|---|---|---|
| Accounts payable | $ | 9,437 |

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| | June 17, 2011 |
|---|---|
| Accrued expenses | 45,648 |
| Deferred income taxes | 507,019 |
| Long-term debt | 520,012 |
| Other liabilities | 23,578 |
| Total liabilities assumed | $ 1,105,694 |
| Net identifiable assets acquired | $ 648,404 |
| Goodwill | $ 1,752,427 |
| Net assets acquired | $ 2,400,831 |

The above estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the AMS Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values but the Company is waiting for additional information necessary to finalize those amounts, particularly with respect to the estimated fair value of intangible assets, property and equipment, contingent assets and liabilities, and deferred income taxes. Thus, the provisional measurements of fair value reflected are subject to change. Such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the AMS Acquisition Date.

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

| | Valuation (in millions) | Amortization Period (in years) |
|---|---|---|
| **Customer Relationships:** | | |
| Men s Health | $ 97.0 | 17 |
| Women s Health | 49.0 | 15 |
| BPH | 26.0 | 13 |
| Total | $ 172.0 | 16 |
| **Developed Technology:** | | |
| Men s Health | $ 690.0 | 18 |
| Women s Health | 230.0 | 9 |
| BPH | 161.0 | 18 |
| Total | $ 1,081.0 | 16 |
| **In Process Research & Development:** | | |
| Oracle | $ 22.0 | n/a |
| Genesis | 14.0 | n/a |
| TOPAS | 8.0 | n/a |
| Other | 22.0 | n/a |
| Total | $ 66.0 | n/a |
| **Tradename:** | | |
| AMS | $ 59.0 | n/a |
| GreenLight | 12.0 | 15 |
| Total | $ 71.0 | n/a |

| | | |
|---|---|---|
| Total other intangible assets | $ 1,390.0 | n/a |

The fair value of the developed technology, in-process research and development and customer relationship assets were estimated using a discounted present value income approach. Under this method, an intangible asset s fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions.

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The fair value of the AMS and GreenLight tradenames were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the AMS or GreenLight tradename. Thus, we derived the hypothetical royalty income from the projected revenues of AMS and GreenLight products, respectively. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The $1,752.4 million of goodwill was assigned to our Devices and Services segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the entire urology spectrum, expected corporate synergies, the assembled workforce of AMS and other factors. Approximately $13.2 million of goodwill is expected to be deductible for income tax purposes.

Deferred tax assets of $15.4 million are related primarily to federal net operating loss and credit carryforwards of AMS and its subsidiaries. Deferred tax liabilities of $507.0 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized $21.1 million and $23.3 million of AMS acquisition-related costs that were expensed during the three and six months ended June 30, 2011, respectively. These costs are included in Acquisition-related items in the accompanying Condensed Consolidated Statements of Operations and are comprised of the following items (in thousands):

| | Acquisition-related Costs Three months ended June 30, 2011 | Acquisition-related Costs Six months ended June 30, 2011 |
|---|---|---|
| Bank fees | $ 16,070 | $ 16,070 |
| Legal, separation, integration, and other costs | 5,058 | 7,194 |
| Total | $ 21,128 | $ 23,264 |

The amounts of revenue and net income of AMS included in the Company s Condensed Consolidated Statements of Operations from and including June 18, 2011 to June 30, 2011 are as follows (in thousands, except per share data):

| | Revenue and Income included in the Condensed Consolidated Statements of Operations from and including June 18, 2011 to June 30, 2011 |
|---|---|
| Revenue | $ 26,812 |
| Net income attributable to Endo Pharmaceuticals Holdings Inc. | $ 2,094 |
| Basic net income per share | $ 0.02 |
| Diluted net income per share | $ 0.02 |

The following supplemental pro forma information presents the financial results as if the acquisition of AMS had occurred on January 1, 2010 for the three and six months ended June 30, 2011 and 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

| | Three months ended June 30, 2011 | Six months ended June 30, 2011 |
|---|---|---|

| **Pro forma consolidated results (in thousands, except per share data):** | | | | |
|---|---|---|---|---|
| Revenue | $ | 705,119 | $ | 1,406,013 |
| Net income attributable to Endo Pharmaceuticals Holdings Inc. | $ | 14,810 | $ | 89,740 |
| Basic net income per share | $ | 0.13 | $ | 0.77 |
| Diluted net income per share | $ | 0.12 | $ | 0.74 |

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| | Three months ended June 30, 2010 | Six months ended June 30, 2010 |
|---|---|---|
| **Pro forma consolidated results (in thousands, except per share data):** | | |
| Revenue | $ 532,939 | $ 1,032,585 |
| Net income attributable to Endo Pharmaceuticals Holdings Inc. | $ 26,925 | $ 56,385 |
| Basic net income per share | $ 0.23 | $ 0.48 |
| Diluted net income per share | $ 0.23 | $ 0.48 |

These amounts have been calculated after applying the Company s accounting policies and adjusting the results of AMS to reflect factually supportable adjustments that give effect to events that are directly attributable to the AMS Acquisition, including the borrowing under the 2011 Credit Facility, 2019 Notes, and 2022 Notes as well as the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, inventory, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

***Qualitest***

On November 30, 2010 (the Qualitest Acquisition Date), Endo completed its acquisition of all of the issued and outstanding capital stock of Generics International (US Parent), Inc. (Qualitest) from an affiliate of Apax Partners, L.P. for approximately $769.4 million. In addition, Endo paid $406.8 million to retire Qualitest s outstanding debt and related interest rate swap on November 30, 2010. In connection with the Qualitest acquisition, $108 million of the purchase price was placed into two separate escrow accounts. One of the escrow accounts is $8 million and will be used to fund any working capital adjustments, as defined in the Qualitest Stock Purchase Agreement. We expect this escrow to be settled in 2011. There is also a $100 million escrow account that will be used to fund all claims arising out of or related to the Qualitest acquisition.

In connection with the $100 million escrow account, to the extent that we are able to realize tax benefits for costs that are funded by the escrow account, we will be required to share these tax benefits with Apax.

Qualitest is a manufacturer and distributor of generic drugs and over-the-counter pharmaceuticals throughout the United States. Qualitest s product portfolio is comprised of 175 product families in various forms including tablets, capsules, creams, ointments, suppositories, and liquids. This acquisition has enabled us to gain critical mass in our generics business while strengthening our pain portfolio through a larger breadth of product offerings.

The operating results of Qualitest