Valeant Pharmaceuticals International, Inc.
Form 10-Q
November 05, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

OR

o 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: 001-14956

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Canada (State or other jurisdiction of incorporation or organization)	98-0448205 (I.R.S. Employer Identification No.)
4787 Levy Street, Montreal, Quebec (Address of principal executive offices)	H4R 2P9 (Zip Code)

(514) 744-6792
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Common shares, no par value — 304,823,911 shares issued and outstanding as of October 31, 2012.

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VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

Introductory Note

On September 28, 2010, Biovail Corporation ("Biovail") completed the acquisition of Valeant Pharmaceuticals International ("Valeant") with Valeant surviving as a wholly-owned subsidiary of Biovail (the "Merger"). In connection with the Merger, Biovail was renamed "Valeant Pharmaceuticals International, Inc." (the "Company").

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q (this "Form 10-Q") to the "Company", "we", "us", "our" or similar words or phrases are to Valeant Pharmaceuticals International, Inc. and its subsidiaries, taken together, after giving effect to completion of the Merger; references to "Biovail" are to Biovail Corporation prior to the completion of the Merger and "Valeant" are to Valeant Pharmaceuticals International.

In this Form 10-Q, references to "$" and "US$" are to United States ("U.S.") dollars, references to "C$" are to Canadian dollars, references to "€" are to Euros, references to "AUD$" are to Australian dollars, references to "R$" are to Brazilian real and references to "MXN$" are to Mexican peso.

Forward-Looking Statements

Caution regarding forward-looking information and statements and "Safe-Harbor" statements under the U.S. Private Securities Litigation Reform Act of 1995:

To the extent any statements made in this Form 10-Q contain information that is not historical, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and may be forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, "forward-looking statements").

These forward-looking statements relate to, among other things: the expected benefits of our acquisitions (including the Medicis acquisition) and other transactions, such as cost savings, operating synergies and growth potential of the Company; business plans and prospects, prospective products or product approvals, future performance or results of current and anticipated products; the impact of healthcare reform; exposure to foreign currency exchange rate changes and interest rate changes; the outcome of contingencies, such as certain litigation and regulatory proceedings; general market conditions; and our expectations regarding our financial performance, including revenues, expenses, gross margins, liquidity and income taxes.

Forward-looking statements can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "estimate", "plan", "continue", "will", "may", "could", "would", "target", "potential" and other similar expressions. In addition statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements may not be appropriate for other purposes. Although we have indicated above certain of these statements set out herein, all of the statements in this Form 10-Q that contain forward-looking statements are qualified by these cautionary statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, including, but not limited to, factors and assumptions regarding the items outlined above. Actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following:

- our ability to compete against companies that are larger and have greater financial, technical and human resources than we do, as well as other competitive factors, such as technological advances achieved, patents obtained and new products introduced by our competitors;
- the challenges and difficulties associated with managing the rapid growth of our Company and a large, complex business;
- our ability to identify, acquire and integrate acquisition targets and to secure and maintain third-party research, development, manufacturing, marketing or distribution arrangements;

- our ability to close transactions (including the Medicis acquisition) on a timely basis or at all;
- factors relating to the integration of the companies, businesses and products acquired by the Company, such as the time and resources required to integrate such companies, businesses and products, the difficulties associated with such integrations, and the achievement of the anticipated benefits from such integrations;
- our eligibility for benefits under tax treaties and the continued availability of low effective tax rates for the business profits of certain of our subsidiaries;
- our future cash flow, our ability to service and repay our existing debt and our ability to raise additional funds, if needed, in light of our current and projected levels of operations, acquisition activity and general economic conditions;
- our substantial debt and debt service obligations and their impact on our financial condition and results of operations;
- the uncertainties associated with the acquisition and launch of new products, including, but not limited to, the acceptance and demand for new pharmaceutical products, and the impact of competitive products and pricing;
- the difficulty in predicting: the expense, timing and outcome within our legal and regulatory environment, including, but not limited to, the U.S. Food and Drug Administration, the Canadian Therapeutic Products Directorate and European, Asian, Brazilian and Australian regulatory approvals; legal and regulatory proceedings and settlements thereof; the protection afforded by our patents and other intellectual and proprietary property; successful generic challenges to our products and infringement; or alleged infringement of the intellectual property of or by others;
- the success of preclinical and clinical trials for our drug development pipeline or delays in clinical trials that adversely impact the timely commercialization of our pipeline products, which could lead to material impairment charges;
- the results of management reviews of our research and development portfolio, conducted periodically and in connection with certain acquisitions, the decisions from which could result in terminations of specific projects which, in turn, could lead to material impairment charges;
- the results of continuing safety and efficacy studies by industry and government agencies;
- our ability to obtain components, raw materials or bulk or finished products supplied by third parties;
- the disruption of delivery of our products and the routine flow of manufactured goods;
- the seasonality of sales of certain of our products;
- the introduction of products that compete against our products that do not have patent or data exclusivity rights, which products represent a significant portion of our revenues;
- the risks associated with the international scope of our operations, including our presence in emerging markets and the challenges we face when entering new geographic markets;
- adverse global economic conditions and credit market uncertainty in European and other countries in which we do business;
- economic factors over which the Company has no control, including changes in inflation, interest rates, foreign currency rates, and the potential effect of such factors on revenues, expenses and resulting margins;
- our ability to retain, motivate and recruit executives and other key employees;
- the outcome of legal proceedings, investigations and regulatory proceedings;

- the risk that our products could cause, or be alleged to cause, personal injury, leading to withdrawals of products from the market;
- the impacts of the Patient Protection and Affordable Care Act and the Food and Drug Administration Safety and Innovation Act in the U.S. and other legislative and regulatory reforms in the countries in which we operate; and
- other risks detailed from time to time in our filings with the U.S. Securities and Exchange Commission (the "SEC") and the Canadian Securities Administrators (the “CSA”), as well as our ability to anticipate and manage the risks associated with the foregoing.

Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found under Item 1A. of Part II of this Form 10-Q and under Item 1A. “Risk Factors” of the Company’s Annual Report on Form 10-K Item 1A., and in the Company’s other filings with the SEC and CSA. We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These forward-looking statements speak only as of the date made. We undertake no obligation to update any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect actual outcomes.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(All dollar amounts expressed in thousands of U.S. dollars)
(Unaudited)

	As of September 30, 2012	As of December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$257,730	$164,111
Marketable securities	—	6,338
Accounts receivable, net	805,010	569,268
Inventories, net	418,252	355,212
Prepaid expenses and other current assets	72,214	41,884
Assets held for sale	9,925	72,239
Deferred tax assets, net	150,539	148,454
Total current assets	1,713,670	1,357,506
Property, plant and equipment, net	450,327	414,242
Intangible assets, net	8,035,717	7,657,798
Goodwill	3,799,613	3,598,786
Deferred tax assets, net	41,181	54,681
Restricted cash	8,231	—
Other long-term assets, net	97,469	58,700
Total assets	$14,146,208	$13,141,713
Liabilities		
Current liabilities:		
Accounts payable	$166,688	$157,620
Accrued liabilities and other current liabilities	634,722	527,583
Acquisition-related contingent consideration	112,274	100,263
Income taxes payable	10,208	10,335
Deferred revenue	18,142	12,783
Current portion of long-term debt	207,688	111,250
Deferred tax liabilities, net	8,786	4,438
Total current liabilities	1,158,508	924,272
Deferred revenue	36,727	38,153
Acquisition-related contingent consideration	392,961	319,821
Long-term debt	7,422,558	6,539,761
Liabilities for uncertain tax positions	99,544	91,098
Deferred tax liabilities, net	1,127,226	1,144,914
Other long-term liabilities	123,502	76,678
Total liabilities	10,361,026	9,134,697
Shareholders' Equity		
Common shares, no par value, unlimited shares authorized, 302,899,442 and	5,916,671	5,963,621

306,371,032 issued and outstanding at September 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	270,183	276,117
Accumulated deficit	(2,281,834)	(2,030,292)
Accumulated other comprehensive loss	(119,838)	(202,430)
Total shareholders' equity	3,785,182	4,007,016
Total liabilities and shareholders' equity	$14,146,208	$13,141,713
Commitments and contingencies (note 19)		

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

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(All dollar amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Product sales	$856,892	$570,423	$2,363,226	$1,600,879
Alliance and royalty	12,248	22,471	148,348	146,873
Service and other	15,000	7,690	48,759	27,245
	884,140	600,584	2,560,333	1,774,997
Expenses				
Cost of goods sold (exclusive of amortization of intangible assets shown separately below)	219,670	162,568	646,395	501,767
Cost of alliance and service revenues	10,582	3,078	105,460	40,418
Selling, general and administrative	188,660	134,801	551,386	423,964
Research and development	19,170	17,476	58,887	48,910
Amortization of intangible assets	218,187	138,027	629,400	365,016
Restructuring, integration and other costs	42,872	15,874	135,213	61,039
Acquired in-process research and development	145,300	—	149,868	4,000
Acquisition-related costs	4,605	9,498	25,977	12,874
Legal settlements	—	—	56,779	2,400
Acquisition-related contingent consideration	5,630	6,904	23,198	9,042
	854,676	488,226	2,382,563	1,469,430
Operating income	29,464	112,358	177,770	305,567
Interest income	1,156	1,052	3,299	2,941
Interest expense	(116,042)	(87,504)	(318,681)	(239,328)
Loss on extinguishment of debt	(2,322)	(10,315)	(2,455)	(33,325)
Foreign exchange and other	(1,603)	(3,590)	18,458	64
(Loss) gain on investments, net	—	(140)	2,024	22,787
(Loss) income before recovery of income taxes	(89,347)	11,861	(119,585)	58,706
Recovery of income taxes	(96,992)	(29,001)	(92,702)	(44,998)
Net income (loss)	$7,645	$40,862	$(26,883)	$103,704
Basic earnings (loss) per share	$0.03	$0.13	$(0.09)	$0.34
Diluted earnings (loss) per share	$0.02	$0.13	$(0.09)	$0.32
Weighted-average common shares (000s)				
Basic	304,075	302,702	305,550	303,285
Diluted	311,743	322,783	305,550	329,010

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

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(All dollar amounts expressed in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$7,645	$40,862	$(26,883)	$103,704
Other comprehensive income (loss)				
Foreign currency translation adjustment	106,731	(471,075)	83,823	(287,635)
Net unrealized holding gain (loss) on available-for-sale equity securities:				
Arising in period	—	(21)	—	21,146
Reclassification to net income (loss)	—	170	(1,634)	(21,146)
Net unrealized holding gain (loss) on available-for-sale debt securities:				
Arising in period	—	—	7	(96)
Reclassification to net income (loss)	—	—	197	—
Pension adjustment	400	(121)	199	777
Acquisition of noncontrolling interest	—	1,849	—	1,849
Other comprehensive income (loss)	107,131	(469,198)	82,592	(285,105)
Comprehensive income (loss)	$114,776	$(428,336)	$55,709	$(181,401)

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

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All dollar amounts expressed in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cash Flows From Operating Activities				
Net income (loss)	$7,645	$40,862	$(26,883)	$103,704
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	235,311	154,936	672,759	404,214
Amortization of debt discounts and debt issuance costs	8,979	12,685	14,335	19,033
Acquired in-process research and development	145,300	—	149,868	4,000
Acquisition accounting adjustment on inventory sold	6,009	2,768	49,401	48,939
Loss (Gain) on disposal of assets	229	—	10,780	(5,314)
Acquisition-related contingent consideration	5,630	6,904	23,198	9,042
Allowances for losses on accounts receivable and inventories	6,833	1,740	12,936	4,212
Deferred income taxes	(107,093)	(38,601)	(127,802)	(77,098)
Additions to accrued legal settlements	—	—	56,779	2,400
Payments of accrued legal settlements	(37,739)	—	(39,551)	(16,400)
Share-based compensation	18,547	17,587	52,855	73,038
Tax benefits from stock options exercised	(2,367)	(2,042)	(5,842)	(33,658)
Foreign exchange loss (gain)	356	3,611	(21,909)	(662)
Gain on sale of marketable securities	—	—	—	(21,316)
Payment of accreted interest on contingent consideration	(552)	—	(1,450)	—
Other	(5,545)	(9,170)	(15,109)	8,543
Changes in operating assets and liabilities:				
Accounts receivable	(182,646)	(43,087)	(189,249)	(93,832)
Inventories	(9,787)	(5,211)	(61,300)	(68)
Prepaid expenses and other current assets	(6,324)	(7,813)	(9,457)	(2,186)
Accounts payable, accrued liabilities and other liabilities	84,352	37,618	58,157	37,775
Income taxes payable	(311)	920	(13,857)	(13,673)
Net cash provided by operating activities	166,827	173,707	588,659	450,693
Cash Flows From Investing Activities				
Acquisition of businesses, net of cash acquired	(245,367)	(409,056)	(972,199)	(969,323)
Acquisition of intangible assets	(6,305)	(12,237)	(8,865)	(323,122)
Purchases of property, plant and equipment	(57,069)	(9,584)	(81,786)	(43,563)
Proceeds from sales and maturities of marketable securities	—	—	9,412	86,639
Purchases of marketable securities and other investments	—	(11,745)	(7,200)	(81,087)
Proceeds from sale of assets	10,717	—	76,967	36,000
Decrease (increase) in restricted cash	628	—	(8,245)	—
Net cash used in investing activities	(297,396)	(442,622)	(991,916)	(1,294,456)
Cash Flows From Financing Activities				
Issuance of long-term debt, net of discount	122,295	690,000	1,408,705	2,929,688
Repayments of long-term debt	(31,063)	(11,088)	(461,056)	(986,088)
Short-term debt borrowings	8,930	—	28,530	—

Short-term debt repayments	(4,820)	—	(26,402)	—
Repurchases of convertible debt	—	(202,587)	(3,975)	(541,600)
Repurchases of common shares	—	(74,556)	(280,724)	(574,120)
Proceeds from exercise of stock options	5,209	4,847	12,228	34,209
Tax benefits from stock options exercised	2,367	2,042	5,842	33,658
Payments of employee withholding tax upon vesting of share-based awards	(7,376)	(2,477)	(21,110)	(57,155)
Cash settlement of call options	—	(66,864)	—	(66,864)
Cash settlement of convertible debt	(62,086)	—	(62,086)	—
Acquisition of noncontrolling interest	—	(28,515)	—	(28,515)
Payments of contingent consideration	(18,826)	—	(79,844)	—
Payments of debt issuance costs	(22,562)	(11,777)	(25,104)	(31,590)
Net cash (used in) provided by financing activities	(7,932)	299,025	495,004	711,623
Effect of exchange rate changes on cash and cash equivalents	965	(14,496)	1,872	(7,570)
Net (decrease) increase in cash and cash equivalents	(137,536)	15,614	93,619	(139,710)
Cash and cash equivalents, beginning of period	395,266	238,945	164,111	394,269
Cash and cash equivalents, end of period	$257,730	$254,559	$257,730	$254,559
Non-Cash Investing and Financing Activities				
Acquisition of businesses, contingent consideration at fair value	$(17,257)	$—	$(143,285)	$(397,150)
Settlement of convertible debt, equity issued	—	—	—	(892,000)
Acquisition of businesses, debt assumed	—	—	(46,336)	—

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

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All tabular amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

On September 28, 2010 (the "Merger Date"), Biovail Corporation ("Biovail") completed the acquisition of Valeant Pharmaceuticals International ("Valeant") through a wholly-owned subsidiary pursuant to an Agreement and Plan of Merger, dated as of June 20, 2010, with Valeant surviving as a wholly-owned subsidiary of Biovail (the "Merger"). In connection with the Merger, Biovail was renamed "Valeant Pharmaceuticals International, Inc." (the "Company"). The Company is a multinational, specialty pharmaceutical company that develops, manufactures and markets a broad range of pharmaceutical products primarily in the areas of dermatology, neurology and branded generics.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements (the "unaudited consolidated financial statements") have been prepared by the Company in United States ("U.S.") dollars and in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting, which do not conform in all respects to the requirements of U.S. GAAP for annual financial statements. Accordingly, these condensed notes to the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"). The unaudited consolidated financial statements have been prepared using accounting policies that are consistent with the policies used in preparing the Company's audited consolidated financial statements for the year ended December 31, 2011. There have been no changes to the Company's significant accounting policies since December 31, 2011, except as described below under "Adoption of New Accounting Standards". The unaudited consolidated financial statements reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position and results of operations for the interim periods presented.

Reclassifications and Revisions

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

The Company has revised the 2011 consolidated statement of cash flows for the presentation of the proceeds from the out-license of an intangible asset to conform to the current year presentation. The Company decreased Net cash used in investing activities with an offsetting decrease in Net cash provided by operating activities by $36.0 million for the nine-month period ended September 30, 2011. This revision did not have a material impact to the Company's previously reported consolidated statement of cash flows. This change had no effect on the Company's previously reported consolidated balance sheets, consolidated statements of income (loss) and consolidated statements of comprehensive income (loss).

Use of Estimates

In preparing the unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the unaudited consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's results of operations and financial position could be materially impacted.

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

Adoption of New Accounting Standards

Effective January 1, 2012, the Company has adopted on a prospective basis the provisions of the following new accounting standards:

- Guidance that results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The amendments change some fair value measurement principles and disclosure requirements under U.S. GAAP. The adoption of this guidance did not have a significant impact on the Company's financial position or results of operations.
- Guidance requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance does not change the components of other comprehensive income or the calculation of earnings per share. The effective date for amendments to the presentation of reclassifications out of accumulated other comprehensive income has been deferred. As this guidance relates to presentation only, the adoption of this guidance did not impact the Company's financial position or results of operations.
- Guidance intended to simplify goodwill impairment testing, by allowing an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The adoption of this guidance did not have a significant impact on the Company's financial position or results of operations.

In July 2012, the Financial Accounting Standards Board ("FASB") issued guidance intended to simplify indefinite-lived intangible impairment testing, by allowing an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of an asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have a significant impact on the Company's financial position or results of operations.

3. BUSINESS COMBINATIONS

The Company has focused its business on core geographies and therapeutic classes through selective acquisitions, dispositions and strategic partnerships with other pharmaceutical companies.

(a) Business combinations in 2012 include the following:

OraPharma

Description of the Transaction

On June 18, 2012, the Company acquired OraPharma Topco Holdings, Inc. ("OraPharma"), a specialty oral health company located in the U.S. that develops and commercializes products that improve and maintain oral health. The Company made an up-front payment of $289.3 million, and the Company may pay a series of contingent consideration payments of up to $114.0 million based on certain milestones, including certain revenue targets. The fair value of the contingent consideration was determined to be $99.2 million as of the acquisition date, for a total fair value of consideration transferred of $388.5 million. As of September 30, 2012, the assumptions used for determining fair value of the contingent consideration have not changed significantly from those used at the acquisition date. The Company also repaid at the closing $37.9 million of assumed debt.

OraPharma's lead product is Arestin®, a locally administered antibiotic for the treatment of periodontitis that utilizes an advanced controlled-release delivery system and is indicated for use in conjunction with scaling and root planing for the treatment of adult periodontitis.

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. The following recognized amounts are provisional and subject to change:

- amounts for intangible assets, property, plant and equipment and inventories, pending finalization of the valuation;
- amounts for income tax assets and liabilities, pending finalization of estimates and assumptions in respect of certain tax aspects of the transaction; and
- amount of goodwill pending the completion of the valuation of the assets acquired and liabilities assumed.

The Company will finalize these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognized at the acquisition date. These changes could be significant. The Company will finalize these amounts no later than one year from the acquisition date.

	Amounts Recognized as of Acquisition Dates[a]	Measurement Period Adjustments[b]	Amounts Recognized (as adjusted)
Cash	$14,119	$—	$14,119
Accounts receivable[c]	10,348	—	10,348
Inventories	3,222	(685)	2,537
Other current assets	4,063	22	4,085
Property and equipment	8,181	—	8,181
Identifiable intangible assets, excluding acquired IPR&D[d]	466,408	(64,095)	402,313
Acquired IPR&D[e]	15,464	13,151	28,615
Other non-current assets	1,862	—	1,862
Current liabilities	(9,675)	(395)	(10,070)
Long-term debt, including current portion[f]	(37,868)	—	(37,868)
Deferred income taxes, net	(173,907)	18,386	(155,521)
Other non-current liabilities	(158)	—	(158)
Total identifiable net assets	302,059	(33,616)	268,443
Goodwill[g]	86,802	33,255	120,057
Total fair value of consideration transferred	$388,861	$(361)	$388,500

(a) As previously reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

(b) The measurement period adjustments primarily reflect: (i) changes in the estimated fair value of the Arestin® product brand; (ii) the reclassification of intangible assets from product brands to acquired in-process research and development ("IPR&D"); (iii) a decrease in the total fair value of consideration transferred due to a working capital adjustment; and (iv) the tax impact of pre-tax measurement period adjustments. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. These adjustments did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(c) Both the fair value and gross contractual amount of trade accounts receivable acquired were $10.3 million, as the Company expects that the amount to be uncollectible is negligible.

(d) The following table summarizes the provisional amounts and useful lives assigned to identifiable intangible assets:

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VALEANT PHARMACEUTICALS INTERNATIONAL, INC.
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	Weighted-Average Useful Lives (Years)	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized (as adjusted)
Product brand	12	$446,958	$(62,450)	$384,508
Corporate brand	15	19,450	(1,645)	17,805
Total identifiable intangible assets acquired	12	$466,408	$(64,095)	$402,313

(e) The IPR&D assets primarily relate to the development of Arestin ER, which is indicated for oral hygiene use and Arestin Peri-Implantitis, which is indicated for anti-inflammatory and anti-bacterial use.

(f) Effective June 18, 2012, the Company terminated the credit facility agreement, repaid the assumed debt outstanding and cancelled the undrawn credit facilities.

(g) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the provisional values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:

- cost savings, operating synergies and other benefits expected to result from combining the operations of OraPharma with those of the Company;
- the value of the continuing operations of OraPharma's existing business (that is, the higher rate of return on the assembled net assets versus if the Company had acquired all of the net assets separately); and
- intangible assets that do not qualify for separate recognition (for instance, OraPharma's assembled workforce).

The provisional amount of goodwill has been allocated to the Company's U.S. Dermatology segment as indicated in note 10.

Acquisition-Related Costs

The Company has incurred to date $3.7 million of transaction costs directly related to the OraPharma acquisition, which includes expenditures for advisory, legal, valuation, accounting and other similar services. These costs have been expensed as acquisition-related costs.

Revenue and Net Loss of OraPharma

The revenues of OraPharma for the period from the acquisition date to September 30, 2012 were $28.3 million, and the net loss was $3.5 million. The net loss includes the effects of the acquisition accounting adjustments and acquisition-related costs.

Other Business Combinations

Description of the Transactions

In the nine-month period ended September 30, 2012, the Company completed other business combinations, which included the following businesses, as well as other smaller acquisitions, for an aggregate purchase price of $744.4 million. The aggregate purchase price included contingent consideration obligations with an aggregate acquisition date fair value of $44.2 million.

- On September 28, 2012, the Company acquired certain assets from Johnson & Johnson Consumer Companies, Inc. ("J&J North America") for a purchase price of $109.6 million, relating to the U.S. and Canadian rights to the over-the-counter ("OTC") consumer brands Ambi®, Caladryl®, Corn Huskers®, Cortaid®, Purpose® and Shower to Shower®.
- On September 24, 2012, the Company acquired certain assets from QLT Inc. and QLT Ophthalmics, Inc. (collectively, "QLT") relating to Visudyne®, which is used to treat abnormal growth of leaky blood vessels in the eye caused by wet age-related macular degeneration. The consideration paid included up-front payments of $62.5 million for the assets related to the rights to the product in the U.S. and $50.0 million for the assets

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related to the rights to the product outside the U.S. The Company may pay a series of contingent payments of up to $20.0 million relating to non-U.S. royalties and development milestones for QLT's laser program in the U.S. In addition, the Company will pay royalties on sales of potential new indications for Visudyne® in the U.S. The fair value of the contingent consideration was determined to be $7.9 million as of the acquisition date. As of September 30, 2012, the assumptions used for determining fair value of the contingent consideration have not changed significantly from those used at the acquisition date.

- On May 23, 2012, the Company acquired certain assets from University Medical Pharmaceuticals Corp. ("University Medical"), a specialty pharmaceutical company located in the U.S. focused on skincare products, including the rights to University Medical's main brand AcneFree™, a retail OTC acne treatment. The consideration includes up-front payments of $65.0 million, and the Company may pay a series of contingent consideration payments of up to $40.0 million if certain net sales milestones are achieved. The fair value of the contingent consideration was determined to be $1.5 million as of the acquisition date. As of September 30, 2012, the assumptions used for determining fair value of the contingent consideration have not changed significantly from those used at the acquisition date.
- On May 2, 2012, the Company acquired certain assets from Atlantis Pharma ("Atlantis"), a branded generics pharmaceutical company located in Mexico, for up-front payments of $65.5 million (MXN$847.3 million), and the Company placed an additional $8.9 million (MXN$114.7 million) into an escrow account. The amounts in escrow will be paid to the sellers only if certain regulatory milestones are achieved and therefore such amounts were treated as contingent consideration. The fair value of the contingent consideration was determined to be $7.6 million as of the acquisition date. As of September 30, 2012, the assumptions used for determining fair value of the contingent consideration have not changed significantly from those used at the acquisition date. Since the acquisition date, certain amounts have been released from escrow to the sellers, reducing the escrow balance to $8.2 million as of September 30, 2012. The escrow balance is classified as Restricted cash in the Company's consolidated balance sheets. Atlantis has a broad product portfolio, including products in gastro, analgesics and anti-inflammatory therapeutic categories.
- On March 13, 2012, the Company acquired certain assets from Gerot Lannach, a branded generics pharmaceutical company based in Austria. The Company made an up-front payment of $164.0 million (€125.0 million), and the Company may pay a series of contingent consideration payments of up to $19.7 million (€15.0 million) if certain net sales milestones are achieved. The fair value of the contingent consideration was determined to be $16.8 million as of the acquisition date. As of September 30, 2012, the assumptions used for determining fair value of the contingent consideration have not changed significantly from those used at the acquisition date. As part of the transaction, the Company also entered into a ten-year exclusive supply agreement with Gerot Lannach for the acquired products. Approximately 90% of sales relating to the acquired assets are in Russia, with sales also made in certain Commonwealth of Independent States (CIS) countries including Kazakhstan and Uzbekistan. Gerot Lannach's largest product is acetylsalicylic acid, a low dose aspirin.
- On February 1, 2012, the Company acquired Probiotica Laboratorios Ltda. ("Probiotica"), which markets OTC sports nutrition products and other food supplements in Brazil, for a purchase price of $90.5 million (R$158.0 million).
- During the nine months ended September 30, 2012, the Company completed other smaller acquisitions which are not material individually or in the aggregate. These acquisitions are included in the aggregated amounts presented below.

Assets Acquired and Liabilities Assumed

These transactions have been accounted for as business combinations under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed related to the other business combinations, in the aggregate, as of the acquisition dates. The following recognized amounts with respect to the J&J North America, QLT, University Medical, Probiotica, and certain other smaller acquisitions are provisional and subject to change:

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- amounts for intangible assets, property, plant and equipment and inventories, pending finalization of the valuation;
- amounts for non-current liabilities, and corresponding indemnification assets, pending finalization of the assessment of contingent liabilities;
- amounts for income tax assets and liabilities, pending finalization of estimates and assumptions in respect of certain tax aspects of the transaction; and
- amount of goodwill pending the completion of the valuation of the assets acquired and liabilities assumed.

The Company will finalize these amounts as it obtains the information necessary to complete the measurement processes. Any changes resulting from facts and circumstances that existed as of the acquisition dates may result in retrospective adjustments to the provisional amounts recognized at the acquisition dates. These changes could be significant. The Company will finalize these amounts no later than one year from the respective acquisition dates.

	Amounts Recognized as of Acquisition Dates	Measurement Period Adjustments[a]	Amounts Recognized (as adjusted)
Cash and cash equivalents	$6,459	$(258)	$6,201
Accounts receivable[b]	28,281	(17)	28,264
Assets held for sale[c]	15,566	—	15,566
Inventories	59,884	(121)	59,763
Other current assets	2,523	—	2,523
Property, plant and equipment	7,209	—	7,209
Identifiable intangible assets, excluding acquired IPR&D[d]	601,412	2,852	604,264
Acquired IPR&D	1,234	—	1,234
Indemnification assets[e]	27,901	—	27,901
Current liabilities	(30,815)	(350)	(31,165)
Liability for uncertain tax position	(6,682)	6,682	—
Other non-current liabilities[e]	(27,901)	—	(27,901)
Deferred income taxes, net	(9,198)	373	(8,825)
Total identifiable net assets	675,873	9,161	685,034
Goodwill[f]	68,612	(9,239)	59,373
Total fair value of consideration transferred	$744,485	$(78)	$744,407

The measurement period adjustments relate to the Probiotica acquisition and primarily reflect: (i) the elimination of the liability for uncertain tax positions; (ii) the changes in the estimated fair value of the corporate brand intangible asset; and (iii) a decrease in the total fair value of consideration transferred due to a working capital adjustment.

(a) The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. These adjustments did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(b) The fair value of trade accounts receivable acquired was $28.3 million, with the gross contractual amount being $29.6 million, of which the Company expects that $1.3 million will be uncollectible.

(c) Assets held for sale relate to a product brand acquired in the Atlantis acquisition. Subsequent to that acquisition, the plan of sale changed, and the Company no longer intends to sell the asset. Consequently, the product brand is not classified as an asset held for sale as of September 30, 2012.

(d) The following table summarizes the provisional amounts and useful lives assigned to identifiable intangible assets:

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	Weighted-Average Useful Lives (Years)	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized (as adjusted)
Product brands	9	$393,427	$—	$393,427
Corporate brands	12	31,503	3,725	35,228
Product rights	10	109,274	(873)	108,401
Royalty agreement	9	36,277	—	36,277
Partner relationships	5	30,931	—	30,931
Total identifiable intangible assets acquired	10	$601,412	$2,852	$604,264

(e) Other non-current liabilities, and the corresponding indemnification assets, primarily relate to certain asserted and unasserted claims against Probiotica, which include potential tax-related obligations that existed at the acquisition date. The Company is indemnified by the sellers in accordance with indemnification provisions under its contractual arrangements. Indemnification assets and contingent liabilities were recorded at the same amount and classified in the same manner, as components of the purchase price, representing our best estimates of these amounts at the acquisition date, in accordance with guidance for loss contingencies and uncertain tax positions. Under the Company's contractual arrangement with Probiotica, there is no limitation on the amount or value of indemnity claims that can be made by the Company; however there is a time restriction of either two or five years, depending on the nature of the claim. Approximately $12.9 million (R$22.5 million) of the purchase price for the Probiotica transaction from the date of acquisition has been placed in escrow in accordance with the indemnification provisions. The escrow account will be maintained for two years, with 50% being released to the sellers after the first year, and the remaining balance released after the second year. The Company expects the total amount of such indemnification assets to be collectible from the sellers. The Company is continuing to gather and assess information with respect to the non-current liabilities and indemnification assets.

(f) The goodwill relates primarily to the Probiotica acquisition. Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the provisional values assigned to the assets acquired and liabilities assumed. The Company expects that the goodwill will be deductible for tax purposes. The goodwill recorded from the J&J North America, QLT, University Medical, Atlantis and Gerot Lannach acquisitions represents primarily the cost savings, operating synergies and other benefits expected to result from combining the operations with those of the Company. Probiotica's goodwill recorded represents the following:

- the Company's expectation to develop and market new product brands and product lines in the future;
- the value associated with the Company's ability to develop relationships with new customers;
- the value of the continuing operations of Probiotica's existing business (that is, the higher rate of return on the assembled net assets versus if the Company had acquired all of the net assets separately); and
- intangible assets that do not qualify for separate recognition (for instance, Probiotica's assembled workforce).

The provisional amount of the goodwill from the J&J North America, QLT and University Medical acquisitions has been allocated to the Company's U.S. Dermatology segment. The provisional amount of the goodwill from the Probiotica acquisition, and the amounts of goodwill from the Atlantis and Gerot Lannach acquisitions, have been allocated to the Company's Emerging Markets segment.

Acquisition-Related Costs

The Company has incurred to date $9.0 million, in the aggregate, of transaction costs directly related to the other business combinations, which includes expenditures for advisory, legal, valuation, accounting and other similar services. These costs have been expensed as acquisition-related costs.

Revenue and Net Loss of Other Business Combinations

The revenues of the other business combinations for the period from the respective acquisition dates to September 30, 2012 were $106.6 million, in the aggregate, and the net loss was $10.5 million, in the aggregate. The net loss includes the effects of the acquisition accounting adjustments and acquisition-related costs.

(b) Business combinations in 2011 include the following:

iNova

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Description of the Transaction

On December 21, 2011, the Company acquired iNova from Archer Capital, Ironbridge Capital and other minority management shareholders. The Company made up-front payments of $656.7 million (AUD$657.9 million) and the Company may pay a series of potential milestones of up to $59.9 million (AUD$60 million) based on the success of pipeline activities, product registrations and overall revenue. The fair value of the contingent consideration was determined to be $44.5 million as of the acquisition date, for a total fair value of consideration transferred of $701.2 million. As of September 30, 2012, the assumptions used for determining the fair value of the acquisition-related contingent consideration have not changed significantly from those used at the acquisition date.

iNova sells and distributes a range of prescription and OTC products in Australia, New Zealand, Asia and South Africa, including leading therapeutic weight management brands such as Duromine®/Metermine®, as well as leading OTC brands in the cold and cough area, such as Difflam®, Duro-Tuss® and Rikodeine®.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	Amounts Recognized as of Acquisition Date[a]	Measurement Period Adjustments[b]	Amounts Recognized (as adjusted)
Cash and cash equivalents	$8,792	$—	$8,792
Accounts receivable[c]	30,525	—	30,525
Inventories	43,387	(1,400)	41,987
Property, plant and equipment[d]	15,257	(749)	14,508
Identifiable intangible assets[e]	423,950	(2,188)	421,762
Deferred income taxes, net	—	15,893	15,893
Current liabilities	(32,500)	(1,713)	(34,213)
Total identifiable net assets	489,411	9,843	499,254
Goodwill[f]	211,770	(9,843)	201,927
Total fair value of consideration transferred	$701,181	$—	$701,181

(a) As previously reported in the 2011 Form 10-K.

(b) The measurement period adjustments primarily reflect: (i) resolution of certain tax aspects of the transaction and the tax impact of pre-tax measurement period adjustments; (ii) changes in the estimated fair value of an intangible asset and the related inventory; (iii) additional information obtained with respect to the fair value of an acquired manufacturing facility; and (iv) additional information obtained with respect to the valuation of compensation-related liabilities. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. These adjustments did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(c) The fair value of trade accounts receivable acquired was $30.5 million, with the gross contractual amount being $31.5 million, of which the Company expects that $1.0 million will be uncollectible.

(d) Property, plant and equipment includes a manufacturing facility, included in the Canada and Australia segment, which was subsequently sold during the third quarter of 2012 for $10.2 million, which equaled its carrying amount.

(e) The following table summarizes the amounts and useful lives assigned to identifiable intangible assets:

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	Weighted-Average Useful Lives (Years)	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized (as adjusted)
Product brands	8	$418,252	$(2,188)	$416,064
Corporate brands	4	5,698	—	5,698
Total identifiable intangible assets acquired	8	$423,950	$(2,188)	$421,762

(f) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:

- cost savings, operating synergies and other benefits expected to result from combining the operations of iNova with those of the Company;
- the value of the continuing operations of iNova's existing business (that is, the higher rate of return on the assembled net assets versus if the Company had acquired all of the net assets separately); and
- intangible assets that do not qualify for separate recognition (for instance, iNova's assembled workforce).

The goodwill has been allocated to the Company's Canada and Australia segment ($119.5 million) and the Company's Emerging Markets segment ($82.4 million).

Dermik

Description of the Transaction

On December 16, 2011, the Company acquired Dermik, a dermatological unit of Sanofi in the U.S. and Canada, as well as the worldwide rights to Sculptra® and Sculptra® Aesthetic, for a total cash purchase price of approximately $421.6 million. The acquisition includes Dermik's inventories and manufacturing facility located in Laval, Quebec. In connection with the acquisition of Dermik, the Company was required by the Federal Trade Commission ("FTC") to divest 1% clindamycin and 5% benzoyl peroxide gel, a generic version of BenzaClin®, and 5% fluorouracil cream, an authorized generic of Efudex®. For further details, see note 4 titled "ACQUISITIONS AND DISPOSITIONS". Dermik is a leading global medical dermatology business focused on the manufacturing, marketing and sale of therapeutic and aesthetic dermatology products.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	Amounts Recognized as of Acquisition Date[a]	Measurement Period Adjustments[b]	Amounts Recognized (as adjusted)
Inventories	$32,360	$(3,792)	$28,568
Property, plant and equipment	39,581	—	39,581
Identifiable intangible assets[c]	341,680	1,969	343,649
Deferred tax liability	(1,262)	—	(1,262)
Total identifiable net assets	412,359	(1,823)	410,536
Goodwill[d]	8,141	2,935	11,076
Total fair value of consideration transferred	$420,500	$1,112	$421,612

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(a) As previously reported in the 2011 Form 10-K.

(b) The measurement period adjustments primarily reflect: (i) changes in estimated inventory reserves, (ii) revisions to certain assumptions impacting the fair value of intangible assets; and (iii) an increase in the total fair value of consideration transferred pursuant to a working capital adjustment provision under the purchase agreement. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. These adjustments did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(c) The following table summarizes the amounts and useful lives assigned to identifiable intangible assets:

	Weighted-Average Useful Lives (Years)	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized (as adjusted)
Product brands	9	$292,472	$1,816	$294,288
Product rights	5	33,857	227	34,084
Manufacturing agreement	5	15,351	(74)	15,277
Total identifiable intangible assets acquired	9	$341,680	$1,969	$343,649

(d) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The Company expects that $6.4 million of the goodwill will be deductible for tax purposes. The goodwill recorded represents primarily the value of Dermik's assembled workforce. The goodwill has been allocated to the Company's U.S. Dermatology segment.

Ortho Dermatologics

Description of the Transaction

On December 12, 2011, the Company acquired assets of the Ortho Dermatologics division of Janssen Pharmaceuticals, Inc., for a total cash purchase price of approximately $345.2 million. The assets acquired included prescription brands Retin-A Micro®, Ertaczo®, Renova® and Biafine®.

Ortho Dermatologics is a leader in the field of dermatology and has developed several products to treat skin disorders and dermatologic conditions.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	Amounts Recognized as of Acquisition Date[a]	Measurement Period Adjustments[b]	Amounts Recognized (as adjusted)
Inventories	$6,169	$—	$6,169
Property, plant and equipment	206	—	206
Identifiable intangible assets, excluding acquired IPR&D[c]	333,599	—	333,599
Acquired IPR&D[d]	4,318	—	4,318
Deferred tax liability	(1,690)	—	(1,690)
Total identifiable net assets	342,602	—	342,602
Goodwill[e]	3,507	(915)	2,592
Total fair value of consideration transferred	$346,109	$(915)	$345,194

(a) As previously reported in the 2011 Form 10-K.

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(b) The measurement period adjustment reflects a decrease in the total fair value of consideration transferred pursuant to a working capital adjustment provision under the purchase agreement. The measurement period adjustment was made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. This adjustment did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(c) The identifiable intangible assets acquired relate to product brands intangible assets with an estimated weighted-average useful life of approximately nine years.

(d) The acquired IPR&D asset relates to the development of the MC5 program, a topical treatment for acne vulgaris. In the second quarter of 2012, the Company terminated the MC5 program and recognized a charge of $4.3 million to write off the related IPR&D asset. This charge was recognized as Acquired in-process research and development in the Company's consolidated statements of income (loss).

(e) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents primarily the cost savings, operating synergies and other benefits expected to result from combining the operations of Ortho Dermatologics with those of the Company. The goodwill has been allocated to the Company's U.S. Dermatology segment.

Afexa

Description of the Transaction

On October 17, 2011, the Company acquired 73.8% (80,929,921 common shares) of the outstanding common shares of Afexa Life Sciences Inc. ("Afexa") for cash consideration of $67.7 million. The acquisition date fair value of the 26.2% noncontrolling interest in Afexa of $23.8 million was estimated using quoted market prices on such date, for a total fair value of consideration transferred of $91.5 million.

At a special meeting of Afexa shareholders held on December 12, 2011, a subsequent acquisition transaction was approved resulting in the privatization of Afexa and the remaining shareholders receiving C$0.85 per share. Consequently, as of December 31, 2011, the Company owned 100% of Afexa.

Afexa markets several consumer brands, such as Cold-FX®, an OTC cold and flu treatment, and Coldsore-FX®, a topical OTC cold sore treatment.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	Amounts Recognized as of Acquisition Date[a]	Measurement Period Adjustments[b]	Amounts Recognized (as adjusted)
Cash	$1,558	$—	$1,558
Accounts receivable[c]	9,436	(1,524)	7,912
Inventories	22,489	—	22,489
Other current assets	5,406	—	5,406
Property and equipment	8,766	—	8,766
Identifiable intangible assets[d]	80,580	(5,850)	74,730
Current liabilities	(18,104)	—	(18,104)
Deferred income taxes, net	(20,533)	1,462	(19,071)
Other non-current liabilities	(1,138)	—	(1,138)
Total identifiable net assets	88,460	(5,912)	82,548

Goodwill[(e)]	3,070	5,912	8,982
Total fair value of consideration transferred	$91,530	$—	$91,530

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(a) As previously reported in the 2011 Form 10-K.

(b) The measurement period adjustments primarily reflect: (i) changes in the estimated fair value of certain intangible assets; (ii) changes in estimated sales reserves; and (iii) the tax impact of pre-tax measurement period adjustments. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date, and did not result from intervening events subsequent to the acquisition date. These adjustments did not have a significant impact on the Company's previously reported consolidated financial statements and, therefore, the Company has not retrospectively adjusted those financial statements.

(c) Both the fair value and gross contractual amount of trade accounts receivable acquired were $7.9 million, as the Company expects that the amount to be uncollectible is negligible.

(d) The following table summarizes the amounts and useful lives assigned to identifiable intangible assets:

	Weighted-Average Useful Lives (Years)	Amounts Recognized as of Acquisition Date	Measurement Period Adjustments	Amounts Recognized (as adjusted)
Product brands	11	$65,194	$(5,850)	$59,344
Patented technology	7	15,386	—	15,386
Total identifiable intangible assets acquired	10	$80,580	$(5,850)	$74,730

(e) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:

- cost savings, operating synergies and other benefits expected to result from combining the operations of Afexa with those of the Company; and
- intangible assets that do not qualify for separate recognition (for instance, Afexa's assembled workforce).

The goodwill has been allocated to the Company's Canada and Australia segment.

Sanitas

Description of the Transaction

On August 19, 2011 (the "Sanitas Acquisition Date"), the Company acquired 87.2% of the outstanding shares of AB Sanitas ("Sanitas") for cash consideration of $392.3 million. Prior to the Sanitas Acquisition Date, the Company acquired 1,502,432 shares of Sanitas, which represented approximately 4.8% of the outstanding shares. As a result, as of the Sanitas Acquisition Date, the Company held a controlling financial interest in Sanitas of 92%, or 28,625,025 shares. The acquisition date fair value of the 8% noncontrolling interest in Sanitas of $34.8 million, and the acquisition date fair value of the previously-held 4.8% equity interest of $21.1 million, were estimated using quoted market prices on such date.

On September 2, 2011, the Company announced a mandatory non-competitive tender offer (the "Tender Offer") to purchase the remaining outstanding ordinary shares of Sanitas from all public shareholders at €10.06 per share. The Tender Offer closed on September 15, 2011, on which date the Company purchased an additional 1,968,631 shares (6.4% of the outstanding shares of Sanitas) for approximately $27.4 million. As a result of this purchase, the Company owned 30,593,656 shares or approximately 98.4% of Sanitas as of September 15, 2011.

On September 22, 2011, the Company received approval from the Securities Commission of the Republic of Lithuania to conduct the mandatory tender offer through squeeze out procedures (the "Squeeze Out") at a price per one ordinary share of Sanitas equal to €10.06, which required that all minority shareholders sell to the Company the ordinary shares of Sanitas owned by them (512,264 ordinary shares, or 1.6% of Sanitas).

As the Company maintained a controlling financial interest in Sanitas during the Tender Offer, the additional ownership interest of 6.4% acquired in Sanitas was accounted for as an equity transaction between owners. The noncontrolling interest in Sanitas of approximately 1.6% to be acquired through the Squeeze Out procedures was

classified as a liability

in the Company's consolidated balance sheet as it was mandatorily redeemable. As of September 30, 2012, the amount due to Sanitas shareholders of $2.4 million was included in Accrued liabilities and other current liabilities.

Sanitas has a broad branded generics product portfolio consisting of 390 products in nine countries throughout Central and Eastern Europe, primarily Poland, Russia and Lithuania. Sanitas has in-house development capabilities in dermatology, hospital injectables and ophthalmology, and a pipeline of internally developed and acquired dossiers.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The Company has not recognized any additional measurement period adjustments to the amounts previously reported in the 2011 Form 10-K. The amount of goodwill of $204.8 million has been allocated to the Company's Emerging Markets segment.

PharmaSwiss

Description of the Transaction

On March 10, 2011, the Company acquired all of the issued and outstanding stock of PharmaSwiss S.A. ("PharmaSwiss"), a privately-owned branded generics and OTC pharmaceutical company based in Zug, Switzerland. As of the acquisition date, the total consideration transferred to effect the acquisition of PharmaSwiss comprised of cash paid of $491.2 million (€353.1 million) and the rights to contingent consideration payments of up to $41.7 million (€30.0 million) if certain net sales milestones of PharmaSwiss were achieved for the 2011 calendar year. The fair value of the contingent payments was determined to be $27.5 million as of the acquisition date. In May 2012, the Company made a contingent consideration payment of $12.4 million (€10.0 million) based on the net sales results for the 2011 calendar year. There are no remaining contingent consideration payments under this arrangement.

In connection with the transaction, in February 2011, the Company entered into foreign currency forward-exchange contracts to buy €130.0 million, which were settled on March 9, 2011. The Company recorded a $5.1 million gain on the settlement of these contracts, which was partially offset by a foreign exchange loss of $2.4 million recognized on the remaining €220.0 million bought to finance the transaction. The net foreign exchange gain of $2.7 million was recognized in Foreign exchange and other in the consolidated statement of income (loss) in the three-month period ended March 31, 2011.

PharmaSwiss is an existing partner to several large pharmaceutical and biotech companies offering regional expertise in such functions as regulatory, compliance, sales, marketing and distribution, in addition to developing its own product portfolio. Through its business operations, PharmaSwiss offers a broad product portfolio in seven therapeutic areas and operations in 19 countries throughout Central and Eastern Europe, including Serbia, Hungary, the Czech Republic and Poland, as well as in Greece and Israel.

Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The Company has not recognized any additional measurement period adjustments to the amounts previously reported in the 2011 Form 10-K. The amount of goodwill of $159.7 million has been allocated to the Company's Emerging Markets segment.

Pro Forma Impact of Business Combinations

The following table presents unaudited pro forma consolidated results of operations for the three-month and nine-month periods ended September 30, 2012 and 2011, as if the J&J North America, QLT, OraPharma, University Medical, Atlantis, Gerot Lannach and Probiotica acquisitions had occurred as of January 1, 2011 and the PharmaSwiss, Sanitas, Ortho Dermatologics, iNova and Afexa acquisitions had occurred as of January 1, 2010. The unaudited pro forma information does not include the license agreement entered into in June 2011 to acquire the rights to Elidel® and Xerese®, as the impact is immaterial to these pro forma results and it was impracticable to obtain the necessary historical

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information as discrete financial statements for these product lines were not prepared. In addition, the unaudited pro forma information does not include the Dermik acquisition, as it was impracticable to obtain the necessary historical information as discrete financial statements were not prepared.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$901,630	$805,663	$2,687,041	$2,433,477
Net income	13,159	18,292	9,783	70,838
Basic earnings per share	$0.04	$0.06	$0.03	$0.23
Diluted earnings per share	$0.04	$0.06	$0.03	$0.22

The unaudited pro forma consolidated results of operations were prepared using the acquisition method of accounting and are based on the historical financial information of the Company, J&J North America, QLT, OraPharma, University Medical, Atlantis, Gerot Lannach, Probiotica, PharmaSwiss, Sanitas, Ortho Dermatologics, iNova and Afexa. Except to the extent realized in the three-month and nine-month periods ended September 30, 2012, the unaudited pro forma information does not reflect any cost savings, operating synergies and other benefits that the Company may achieve as a result of these acquisitions, or the costs necessary to achieve these cost savings, operating synergies and other benefits. In addition, except to the extent recognized in the three-month and nine-month periods ended September 30, 2012, the unaudited pro forma information does not reflect the costs to integrate the operations of the Company with those of J&J North America, QLT, OraPharma, University Medical, Atlantis, Gerot Lannach, Probiotica, PharmaSwiss, Sanitas, Ortho Dermatologics, iNova and Afexa.

The unaudited pro forma information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had the J&J North America, QLT, OraPharma, University Medical, Atlantis, Gerot Lannach and Probiotica acquisitions and the PharmaSwiss, Sanitas, Ortho Dermatologics, iNova and Afexa acquisitions been completed on January 1, 2011 and January 1, 2010, respectively. In addition, the unaudited pro forma information does not purport to project the future results of operations of the Company. The unaudited pro forma information reflects primarily adjustments consistent with the unaudited pro forma information related to the following unaudited pro forma adjustments related to these acquisitions:

- elimination of J&J North America's, QLT's, OraPharma's, University Medical's, Atlantis', Gerot Lannach's, Probiotica's, PharmaSwiss', Sanitas', Ortho Dermatologics', iNova's and Afexa's historical intangible asset amortization expense;
- additional amortization expense related to the provisional fair value of identifiable intangible assets acquired;
- additional depreciation expense related to fair value adjustment to property, plant and equipment acquired;
- additional interest expense associated with the financing obtained by the Company in connection with the various acquisitions;
- the exclusion from pro forma earnings in the nine-month period ended September 30, 2012 of the acquisition accounting adjustments on QLT's, iNova's, Ortho Dermatologics', Afexa's, Probiotica's, OraPharma's, University Medical's, and Atlantis' inventories that were sold subsequent to the acquisition date of $31.1 million, in the aggregate, and the exclusion of $16.7 million of acquisition-related costs, in the aggregate, incurred primarily for the J&J North America, QLT, OraPharma, University Medical, Atlantis, Gerot Lannach, and Probiotica acquisitions in the nine-month period ended September 30, 2012, and the inclusion of those amounts in pro forma earnings for the applicable comparative periods; and
- the exclusion from pro forma earnings in the three-month period ended September 30, 2012 of the acquisition accounting adjustments on QLT's, iNova's, Ortho Dermatologics', Afexa's, Probiotica's, OraPharma's, University Medical's, and Atlantis' inventories that were sold subsequent to the acquisition date of $2.9 million, and the inclusion of those amounts in pro forma earnings for the applicable comparative periods.

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The pro forma earnings also exclude amortization of inventory step-up that arose from the Merger that was recognized in the nine-month period ended September 30, 2011. Such amounts were included in the applicable comparative period for purposes of pro forma financial information.

In addition, all of the above adjustments were adjusted for the applicable tax impact.

4. ACQUISITIONS AND DISPOSITIONS

Divestitures of IDP-111 and 5-FU

In connection with the acquisition of Dermik, the Company was required by the FTC to divest 1% clindamycin and 5% benzoyl peroxide gel ("IDP-111"), a generic version of BenzaClin®, and 5% fluorouracil cream ("5-FU"), an authorized generic of Efudex®.

On February 3, 2012, the Company sold the IDP-111 and 5-FU products. In the fourth quarter of 2011, the Company recognized $7.9 million and $19.8 million of impairment charges related to the write-down of the carrying values of the IDP-111 and 5-FU intangible assets, respectively, to their estimated fair values, less costs to sell. The adjusted carrying values of $54.4 million and $14.8 million for IDP-111 and 5-FU, respectively, were classified as Assets held for sale on the consolidated balance sheet as of December 31, 2011 and were included within the U.S. Dermatology reporting segment. IDP-111 and 5-FU were considered non-core products with respect to the Company's business strategy, which contemplates, on an ongoing basis, the selective purchase and sale of products and assets with a focus on core geographies and therapeutic classes. The Company, therefore, considers the sale or the out-license of non-core products to be part of its ongoing major and central operations. Accordingly, proceeds on the sale of non-core products are recognized as alliance revenue, with the associated costs, including the carrying amount of related assets, recorded as cost of alliance revenue. In connection with the sale of the IDP-111 and 5-FU, the Company recognized $66.3 million of cash proceeds as alliance revenue in the first quarter of 2012 and expensed the carrying amounts of the IDP-111 and 5-FU assets of $69.2 million, in the aggregate, as cost of alliance revenue. The cash proceeds from this transaction are classified within investing activities in the consolidated statements of cash flows.

Cloderm®

On March 31, 2011, the Company out-licensed the product rights to Cloderm® Cream, 0.1%, in the U.S. to Promius Pharma LLC, an affiliate of Dr. Reddy's Laboratories, in exchange for a $36.0 million up-front payment, which was received in early April 2011, and future royalty payments. The Cloderm® product rights intangible asset was recorded at a fair value of $31.8 million as of the Merger Date, and had a remaining unamortized carrying value of $30.7 million at March 31, 2011. Cloderm® was considered a non-core product with respect to the Company's business strategy. Accordingly, the Company recognized the up-front payment as alliance revenue in the first quarter of 2011 and expensed the carrying amount of the Cloderm® intangible assets as cost of alliance revenue. The cash proceeds from this transaction are classified within investing activities in the consolidated statements of cash flows. The Company recognizes the royalty payments as alliance revenue as they are earned.

Zovirax®

On February 22, 2011 and March 25, 2011, the Company acquired the U.S. and Canadian rights, respectively, to non-ophthalmic topical formulations of Zovirax® from GlaxoSmithKline ("GSK"). Pursuant to the terms of the asset purchase agreements, the Company paid GSK an aggregate amount of $300.0 million in cash for both the U.S. and Canadian rights. The Company had been marketing Zovirax® in the U.S. since January 1, 2002, under a 20-year exclusive distribution agreement with GSK, which distribution agreement terminated following the closing of the U.S. transaction. The Company has entered into new supply agreements and new trademark license agreements with GSK with respect to the U.S. and Canadian territories.

This acquisition was accounted for as a purchase of identifiable intangible assets. Accordingly, the purchase price (including costs of acquisition) was allocated to the product brand intangible asset, with an estimated weighted-average useful life of 11 years. In addition, the Company reclassified the $91.4 million unamortized carrying amount of the original exclusive distribution agreement from product rights to the product brand intangible

asset, to be amortized

over the same 11-year estimated useful life.

5. COLLABORATION AGREEMENT

In October 2008, Valeant closed the worldwide License and Collaboration Agreement (the "Collaboration Agreement") with GSK to develop and commercialize a first-in-class neuronal potassium channel opener for treatment of adult epilepsy patients with refractory partial onset seizures and its backup compounds, with a generic name of ezogabine in the U.S. and retigabine in all other countries. Pursuant to the terms of the Collaboration Agreement, Valeant granted co-development rights and worldwide commercialization rights to GSK.

In March 2011, the European Commission granted marketing authorization for Trobalt® (retigabine) as an adjunctive treatment of partial onset seizures, with or without secondary generalization in adults aged 18 years and above with epilepsy. In June 2011, the U.S. Food and Drug Administration ("FDA") approved the New Drug Application for Potiga™ (ezogabine) tablets as adjunctive treatment of partial-onset seizures in patients aged 18 years and older; however, the FDA recommended that ezogabine be scheduled as a controlled substance under the Controlled Substances Act prior to the marketing or launch of Potiga™. In December 2011, ezogabine/retigabine received scheduling as a controlled substance, which triggered the commencement of amortization.

In connection with the first sale of Potiga™ in the U.S. (which occurred in April 2012), GSK paid the Company a $45.0 million milestone payment, and the Company will share up to 50% of the net profits from the sale of Potiga™. In addition, in connection with the first sale of Trobalt® by GSK in the European Union (which occurred in May 2011), GSK paid the Company a $40.0 million milestone payment and will pay up to a 20% royalty on net sales of the product. As substantive uncertainty existed at the inception of the Collaboration Agreement as to whether the milestones would be achieved because of the uncertainty involved with obtaining regulatory approval, no amounts were previously recognized for these potential milestone payments. The milestone payments (1) relate solely to past performance of the Company, (2) are reasonable relative to the other deliverables and payment terms within the Collaboration Agreement, and (3) are commensurate with the Company's efforts in collaboration with GSK to achieve the milestone events and the increase in value of ezogabine/retigabine. Accordingly, the milestones are considered substantive, and the milestone payments are being recognized by the Company as alliance and royalty revenue upon achievement. In the second quarter of 2012 and 2011, the Company recorded $45.0 million and $40.0 million of milestone payments from GSK in connection with the launches of Potiga™ and Trobalt®, respectively.

6. RESTRUCTURING, INTEGRATION AND OTHER COSTS

The Company has completed measures to integrate the operations of Biovail and Valeant, capture operating synergies and generate cost savings across the Company. In connection with these cost-rationalization and integration initiatives, the Company has incurred costs including: employee termination costs (including related share-based payments) payable to approximately 500 employees of Biovail and Valeant who were terminated as a result of the Merger; IPR&D termination costs related to the transfer to other parties of product-development programs that did not align with the Company's research and development model; costs to consolidate or close facilities and relocate employees, asset impairments charges to write down property, plant and equipment to fair value; and contract termination and lease cancellation costs.

The following table summarizes the major components of costs incurred in connection with these initiatives through September 30, 2012:

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	Employee Termination Costs		IPR&D Termination Costs	Contract Termination, Facility Closure and Other Costs	Total
	Severance and Related Benefits	Share-Based Compensation			
Balance, January 1, 2010	$—	$—	$—	$—	$—
Costs incurred and charged to expense	58,727	49,482	13,750	12,862	134,821
Cash payments	(33,938)	—	(13,750)	(8,755)	(56,443)
Non-cash adjustments	—	(49,482)	—	(2,437)	(51,919)
Balance, December 31, 2010	24,789	—	—	1,670	26,459
Costs incurred and charged to expense	14,548	3,455	—	28,938	46,941
Cash payments	(38,168)	(2,033)	—	(15,381)	(55,582)
Non-cash adjustments	989	(741)	—	(4,913)	(4,665)
Balance, December 31, 2011	2,158	681	—	10,314	13,153
Costs incurred and charged to expense	1,586	—	—	12,334	13,920
Cash payments	(3,288)	—	—	(22,572)	(25,860)
Non-cash adjustments	442	(681)	—	378	139
Balance, March 31, 2012	898	—	—	454	1,352
Costs incurred and charged to expense	—	—	—	—	—
Cash payments	(409)	—	—	(14)	(423)
Non-cash adjustments	(6)	—	—	(193)	(199)
Balance, June 30, 2012	483	—	—	247	730
Costs incurred and charged to expense	—	—	—	252	252
Cash payments	(80)	—	—	(81)	(161)
Non-cash adjustments	(134)	—	—	15	(119)
Balance, September 30, 2012	$269	$—	$—	$433	$702

Facility closure costs incurred in the nine-month period ended September 30, 2012 primarily included an incremental $10.2 million charge for the remaining operating lease obligations related to our vacated Mississauga, Ontario corporate office facility.

In addition to costs associated with the Company's Merger-related initiatives, in the nine-month period ended September 30, 2012, the Company incurred an additional $121.0 million of other restructuring, integration-related and other costs, including (i) $46.6 million of integration consulting, duplicate labor, transition service, and other, (ii) $44.8 million of severance costs, (iii) $14.9 million of facility closure costs and (iv) $14.7 million of other costs, including non-personnel manufacturing integration costs. The Company also made payments of $107.7 million during the nine-month period ended September 30, 2012. These costs were primarily related to the acquisitions of Dermik, iNova, Sanitas, Ortho Dermatologics, OraPharma, Afexa, PharmaSwiss, and a U.S. restructuring focused primarily on a reduction in the prescription dermatology field force, the global consolidation of the Company's manufacturing facilities, and systems integration initiatives.

7. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents the components of the Company's financial assets and liabilities measured at fair value as of September 30, 2012 and December 31, 2011:

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	As of September 30, 2012				As of December 31, 2011			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:								
Money market funds	$8,047	$8,047	$—	$ —	$27,711	$27,711	$—	$ —
Available-for-sale equity securities	—	—	—	—	3,364	3,364	—	—
Available-for-sale debt securities:								
Corporate bonds	—	—	—	—	2,974	2,974	—	—
Total financial assets	$8,047	$8,047	$—	$ —	$34,049	$34,049	$—	$ —
Cash equivalents	$8,047	$8,047	$—	$ —	$27,711	$27,711	$—	$ —
Marketable securities	—	—	—	—	6,338	6,338	—	—
Total financial assets	$8,047	$8,047	$—	$ —	$34,049	$34,049	$—	$ —
Liabilities:								
Acquisition-related contingent consideration	$(505,235)	$—	$—	$ (505,235)	$(420,084)	$—	$—	$ (420,084)

Fair value measurements are estimated based on valuation techniques and inputs categorized as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using discounted cash flow methodologies, pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

There were no transfers between Level 1 and Level 2 during the nine-month period ended September 30, 2012.

Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The fair value measurement of contingent consideration obligations arising from business combinations is determined using unobservable (Level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; (ii) the probability of the achievement of the factor(s) on which the contingency is based; and (iii) the risk-adjusted discount rate used to present value the probability-weighted cash flows. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement.

The following table presents a reconciliation of contingent consideration obligations measured on a recurring basis using significant unobservable inputs (Level 3) for the nine-month period ended September 30, 2012:

	Balance,	Issuances[a]	Payments[b]	Net	Foreign	Transfers	Transfers	Balance,

	January 1, 2012			unrealized Loss [c]	Exchange[d]	Into Level 3	Out of Level 3	September 30, 2012
Acquisition-related contingent consideration	$(420,084)	$(143,285)	$ 81,294	$(23,198)	$ 38	$—	$—	$(505,235)

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(a) Relates primarily to the OraPharma, Gerot Lannach, QLT, Atlantis and University Medical acquisitions as described above in note 3.

(b) Relates primarily to payments of acquisition-related contingent consideration related to the Elidel®/Xerese® license agreement entered into in June 2011 and the PharmaSwiss acquisition.

(c) Recognized as Acquisition-related contingent consideration in the consolidated statements of income (loss). The balance is primarily driven by fair value adjustments to reflect accretion for the time value of money of $19.5 million related to the Elidel®/Xerese® license agreement and $6.2 million related to the iNova acquisition described above in note 3. These charges were partially offset by a gain of $4.4 million related to a shift in timing which impacted the revenue assumptions associated with potential milestone payments for the A007 (Lacrisert®) development program.

(d) Included in Foreign exchange and other in the consolidated statements of income (loss).

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

There were no significant assets or liabilities that were re-measured at fair value on a non-recurring basis subsequent to initial recognition in the nine-month period ended September 30, 2012.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the estimated fair values of the Company's financial instruments as of September 30, 2012 and December 31, 2011:

	As of September 30, 2012		As of December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash equivalents	$8,047	$8,047	$27,711	$27,711
Marketable securities	—	—	6,338	6,338
Long-term debt (as described in note 11)[(a)]	(7,630,246)	(8,125,088)	(6,651,011)	(6,732,568)

(a) Fair value measurement of long-term debt was estimated using the quoted market prices for the same or similar issues and other pertinent information available to management.

The following table summarizes the Company's marketable securities by major security type as of September 30, 2012 and December 31, 2011:

	As of September 30, 2012				As of December 31, 2011			
	Cost Basis	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost Basis	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Corporate bonds	$—	$—	$—	$—	$2,983	$2,974	$—	$(9)
Equity securities	—	—	—	—	1,730	3,364	1,634	—
	$—	$—	$—	$—	$4,713	$6,338	$1,634	$(9)

Gross gains and losses realized on the sale of marketable debt securities were not material in the three-month and nine-month periods ended September 30, 2012 and 2011.

9. INVENTORIES

The components of inventories as of September 30, 2012 and December 31, 2011 were as follows:

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	As of September 30, 2012	As of December 31, 2011
Raw materials	$103,241	$63,368
Work in process	51,120	64,108
Finished goods	311,232	250,555
	465,593	378,031
Less allowance for obsolescence	(47,341)	(22,819)
	$418,252	$355,212

The increase in raw materials and the allowance for obsolescence is primarily driven by the 2012 acquisitions of businesses, including the QLT transaction where a significant amount of active pharmaceutical ingredient was acquired, as well as investments in inventory to support growth of the business and manufacturing integration initiatives. For further details regarding the 2012 acquisitions, see note 3 titled “BUSINESS COMBINATIONS”.

10. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

The major components of intangible assets as of September 30, 2012 and December 31, 2011 were as follows:

	As of September 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:						
Product brands	$6,847,178	$(1,202,745)	$5,644,433	$6,442,371	$(737,876)	$5,704,495
Corporate brands	249,163	(21,499)	227,664	181,349	(10,630)	170,719
Product rights	1,911,290	(447,124)	1,464,166	1,302,748	(306,936)	995,812
Partner relationships	161,558	(34,650)	126,908	135,095	(15,633)	119,462
Out-licensed technology and other	199,149	(53,030)	146,119	174,873	(38,915)	135,958
Total finite-lived intangible assets	9,368,338	(1,759,048)	7,609,290	8,236,436	(1,109,990)	7,126,446
Indefinite-lived intangible assets:						
Acquired IPR&D[(a)]	426,427	—	426,427	531,352	—	531,352
	$9,794,765	$(1,759,048)	$8,035,717	$8,767,788	$(1,109,990)	$7,657,798

(a) In the third quarter of 2012, the Company wrote off an IPR&D asset of $133.4 million relating to the IDP-107 program (U.S. Dermatology segment), which was acquired in September 2010 as part of the Merger. Through discussion with various internal and external Key Opinion Leaders, the Company completed its analysis of the Phase 2 study results for IDP-107 during the third quarter of 2012. This led to the Company’s decision in the third quarter of 2012 to terminate the program and fully impair the asset. As attempts to identify a partner for the program were not successful, the Company does not believe the program has value to a market participant. In addition, in the second quarter of 2012, the Company wrote off $4.3 million relating to the termination of the MC5 program (U.S. Dermatology segment) acquired as part of the Ortho Dermatologics acquisition in 2011 described in note 3. The write offs of the IPR&D assets were recorded in Acquired in-process research and development expense in the consolidated statements of income (loss).

In addition, a $12.0 million payment in the third quarter of 2012 to terminate a research and development commitment with a third party was included in Acquired in-process research and development expense in the consolidated

statements of income (loss).

The increase in intangible assets primarily reflects the acquisition of OraPharma, Gerot Lannach, QLT, J&J North America, University Medical, Atlantis and Probiotica identifiable intangible assets (as described in note 3).

Amortization expense related to intangible assets was recorded as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Alliance and royalty revenue	$—	$268	$—	$804
Cost of goods sold	—	2,026	2,557	6,077
Amortization expense	218,187	138,027	629,400	365,016
	$218,187	$140,321	$631,957	$371,897

The increase in amortization expense in the three-month and nine-month periods ended September 30, 2012 primarily reflected the amortization of ezogabine/retigabine which was reclassified from IPR&D to a finite-lived intangible asset in December 2011 and the amortization of the acquired identifiable intangible assets from the acquisitions of iNova, Dermik, Ortho Dermatologics, Sanitas and OraPharma, as well as the license agreement for Elidel®/Xerese®.

Estimated aggregate amortization expense for each of the five succeeding years ending December 31 is as follows:

	2012	2013	2014	2015	2016
Amortization expense	$849,226	$878,959	$869,407	$859,341	$827,126

Goodwill

The changes in the carrying amount of goodwill in the nine-month period ended September 30, 2012 were as follows:

	U.S. Dermatology	U.S. Neurology and Other	Canada and Australia	Emerging Markets	Total
Balance, January 1, 2012[a]	$491,651	$1,542,203	$498,198	$1,066,734	$3,598,786
Additions[b]	129,608	—	2,145	47,740	179,493
Adjustments[c]	2,020	—	(3,931)	—	(1,911)
Foreign exchange and other	(174)	—	13,890	9,529	23,245
Balance, September 30, 2012	$623,105	$1,542,203	$510,302	$1,124,003	$3,799,613

(a) Effective in the first quarter of 2012, the Company has four reportable segments: U.S. Dermatology, U.S. Neurology and Other, Canada and Australia and Emerging Markets. Accordingly, the Company has restated prior period segment information to conform to the current period presentation. For further details, see note 20 titled "SEGMENT INFORMATION".

(b) Primarily relates to the OraPharma, Probiotica and Gerot Lannach acquisitions (as described in note 3).

(c) Primarily reflects the impact of measurement period adjustments related to the iNova, Dermik and Afexa acquisitions (as described in note 3).

As described in note 3, the allocation of the goodwill balance associated with the J&J North America, QLT, OraPharma, University Medical and Probiotica acquisitions is provisional and subject to the completion of the valuation of the assets acquired and liabilities assumed.

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

A summary of the Company's consolidated short-term borrowings and long-term debt as of September 30, 2012 and December 31, 2011 is outlined in the table below:

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	Maturity Date	As of September 30, 2012	As of December 31, 2011
Short-term borrowings			
Brazil Uncommitted Line of Credit[a]	November 2012	$9,641	$—
Long-term debt			
New Revolving Credit Facility[b]	April 2016	$25,000	$220,000
Term Loan A Facility[b]	April 2016	2,108,964	2,185,520
New Term Loan B Facility[b]	February 2019	1,265,854	—
Senior Notes:			
6.50%	July 2016	915,500	915,500
6.75%	October 2017	498,216	497,949
6.875%	December 2018	939,052	938,376
7.00%	October 2020	686,552	686,228
6.75%	August 2021	650,000	650,000
7.25%	July 2022	541,108	540,427
5.375% Convertible Notes	August 2014	—	17,011
		7,630,246	6,651,011
Less current portion		(207,688)	(111,250)
Total long-term debt		$7,422,558	$6,539,761

(a) Short-term borrowings under uncommitted line of credit have been included in Accrued liabilities and other current liabilities in the consolidated balance sheets.

(b) On February 13, 2012, the Company and certain of its subsidiaries, as guarantors, amended and restated the credit agreement to provide for revolving and term loan facilities of up to $3.1 billion and amend certain provisions. On June 14, 2012, the Company entered into a joinder agreement to the Third Amended and Restated Credit and Guaranty Agreement (the "Credit Agreement") to increase the senior secured term loan B facility by $600.0 million to $1.2 billion and amend certain provisions. In addition, on July 9, 2012, the Company entered into a joinder agreement to the Credit Agreement to increase the senior secured term loan B facility by an additional $100.0 million to $1.3 billion. Further, on September 11, 2012, the Company entered into a joinder agreement to the Credit Agreement to increase the amount of the commitments under the revolving credit facility by $175.0 million to $450.0 million.

The total fair value of the Company's long-term debt, with carrying values of approximately $7.6 billion and $6.7 billion at September 30, 2012 and December 31, 2011, was $8.1 billion and $6.7 billion, respectively. The fair value of the Company's long-term debt is estimated using the quoted market prices for the same or similar issues and other pertinent information available to management as of the end of the respective periods.

Brazil Uncommitted Line of Credit

On September 25, 2012, the Company's subsidiary in Brazil entered into an uncommitted unsecured line of credit with a financial institution for total availability of R$21.9 million ($10.8 million at September 30, 2012). This uncommitted line of credit expires on November 26, 2012, is renewable and bears an interest rate of the Interbank Deposit Certificate Rate plus 0.23% per month. As of September 30, 2012, the Company had $9.6 million of borrowings under this line of credit, with $1.2 million of remaining availability. The effective interest rate on the drawn borrowings was approximately 0.9% per month.

Senior Secured Credit Facilities

On February 13, 2012, the Company and certain of its subsidiaries as guarantors entered into the Credit Agreement with a syndicate of financial institutions and investors. As of that date, the Credit Agreement provided for a $275.0 million revolving credit facility, including a sublimit for the issuance of standby and commercial letters of credit and a sublimit for swing line loans (the "Revolving Credit Facility"), a $2.225 billion senior secured term loan A facility (the "Term Loan A Facility") and a $600.0 million senior secured term loan B facility (the "Term Loan B Facility").

The Revolving Credit Facility matures on April 20, 2016 and does not amortize. The Term Loan A Facility matures on April 20, 2016 and began amortizing quarterly on March 31, 2012 at an initial annual rate of 5.0%. The amortization schedule under the Term Loan A Facility will increase to 10.0% annually commencing March 31, 2013 and 20.0% annually commencing March 31, 2014, payable in quarterly installments. The Term Loan B Facility matures on February 13, 2019 and began amortizing quarterly on June 30, 2012 at an annual rate of 1.0%.

On June 14, 2012, the Company and certain of its subsidiaries as guarantors, entered into a joinder agreement to increase the Term Loan B Facility by $600.0 million to $1.2 billion of incremental term loans. In addition, on July 9, 2012, the Company and certain of its subsidiaries as guarantors, entered into a joinder agreement to increase the Term Loan B Facility by an additional $100.0 million to $1.3 billion of incremental term loans (the Term Loan B Facility as so amended, the "New Term Loan B Facility"). The incremental term loans mature on February 13, 2019 and began amortizing quarterly on September 30, 2012 at an annual rate of 1.0% and have terms that are consistent with the Company's Term Loan B Facility.

On September 11, 2012, the Company and certain of its subsidiaries as guarantors, entered into a joinder agreement to increase the amount of commitments under the Revolving Credit Facility by $175.0 million to $450.0 million (the Revolving Credit Facility as so amended, the "New Revolving Credit Facility" and together with the New Term Loan B Facility and the Term Loan A Facility, the "Senior Secured Credit Facilities").

As of September 30, 2012, $2,109.0 million in term loans was outstanding under the Term Loan A Facility, $1,265.9 million in term loans was outstanding under the New Term Loan B Facility and $25.0 million in revolving loans was outstanding under the New Revolving Credit Facility.

The loans under the Senior Secured Credit Facilities may be made to, and the letters of credit under the New Revolving Credit Facility may be issued on behalf of, the Company. All borrowings under the Senior Secured Credit Facilities are subject to the satisfaction of customary conditions, including the absence of a default or an event of default and the accuracy in all material respects of representations and warranties.

Borrowings under the New Revolving Credit Facility and the Term Loan A Facility bear interest at a rate per annum equal to, at the Company's option either (a) a base rate determined by reference to the higher of (1) the rate of interest quoted in the print edition of The Wall Street Journal, Money Rates Section, as the Prime Rate (currently defined as the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks) and (2) the federal funds effective rate plus $^1/_2$ of 1% or (b) a LIBO rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under the New Revolving Credit Facility and the Term Loan A Facility was 1.75% with respect to base rate borrowings and 2.75% with respect to LIBO rate borrowings. Interest rates for the New Revolving Credit Facility and the Term Loan A Facility are subject to increase or decrease quarterly based on leverage ratios. As of September 30, 2012, the effective rate of interest on the Company's borrowings under the New Revolving Credit Facility and the Term Loan A Facility was 3.45% and 3.37% per annum, respectively.

As of September 30, 2012, the applicable margin for borrowings under the New Term Loan B Facility was 2.75% with respect to base rate borrowings and 3.75% with respect to LIBO rate borrowings, subject to 1.0% LIBO rate floor. As of September 30, 2012, the effective rate of interest on the Company's borrowings under the New Term Loan B Facility was 4.42% per annum.

In addition to paying interest on outstanding principal under the Senior Secured Credit Facilities, the Company is required to pay commitment fees of 0.50% per annum in respect of the unutilized commitments under the New Revolving Credit Facility, payable quarterly in arrears. The Company also is required to pay letter of credit fees on the maximum amount available to be drawn under all outstanding letters of credit in an amount equal to the applicable margin on LIBO rate borrowings under the New Revolving Credit Facility on a per annum basis, payable quarterly in arrears, as well as customary fronting fees for the issuance of letters of credit and agency fees.

Subject to certain exceptions and customary baskets set forth in the Credit Agreement, the Company is required to make mandatory prepayments of the loans under the Senior Secured Credit Facilities under certain circumstances, including from (a) 100% of net cash proceeds from asset sales outside the ordinary course of business (subject to

reinvestment rights), (b) 100% of the net cash proceeds of insurance and condemnation proceeds for property or asset losses (subject to reinvestment rights and net proceeds threshold), (c) 50% of the net cash proceeds from the issuance of equity securities subject to decrease based on leverage ratios, (d) 100% of the net cash proceeds from the incurrence of debt (other than permitted debt as defined in the Credit Agreement) and (e) 50% of Consolidated Excess Cash Flow (as defined in the Credit Agreement) subject to decrease based on leverage ratios.

The Company is permitted to voluntarily reduce the unutilized portion of the revolving commitment amount and repay outstanding loans under the New Revolving Credit Facility at any time without premium or penalty, other than customary "breakage" costs with respect to LIBO rate loans. Except for repayments of outstanding loans under the New Term Loan B Facility in connection with certain refinancings on or prior to (i) February 13, 2013 with respect to the initial tranche B term loans and (ii) June 14, 2013, with respect to the incremental tranche B term loans, the Company is permitted to voluntarily repay outstanding loans under the Term Loan A Facility and the New Term Loan B Facility at any time without premium or penalty, other than customary "breakage" costs with respect to LIBO rate loans. Repayments of outstanding loans under the New Term Loan B Facility in connection with certain refinancings on or prior to (i) February 13, 2013 with respect to the initial tranche B term loans and (ii) June 14, 2013 with respect to the incremental tranche B term loans, require a prepayment premium of 1.0% of such loans prepaid.

The Company's obligations and the obligations of the guarantors under the Senior Secured Credit Facilities and certain hedging arrangements and cash management arrangements entered into with lenders under the Senior Secured Credit Facilities (or affiliates thereof) are secured by first-priority security interests in substantially all tangible and intangible assets of Valeant and the guarantors, including 100% of the capital stock of Valeant and each domestic subsidiary of Valeant, 65% of the capital stock of each foreign subsidiary of Valeant that is directly owned by Valeant or a guarantor that is a subsidiary of Valeant, and 100% of the capital stock of each other material subsidiary of the Company (other than Valeant's subsidiaries), in each case subject to certain exclusions set forth in the credit documentation governing the Senior Secured Credit Facilities.

The Senior Secured Credit Facilities contain a number of covenants that, among other things and subject to certain exceptions, restrict the Company's ability and the ability of its subsidiaries to: incur additional indebtedness; create liens; enter into agreements and other arrangements that include negative pledge clauses; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness; create restrictions on the payment of dividends or other distributions by subsidiaries; make investments, loans, advances and acquisitions; merge, amalgamate or sell assets, including equity interests of the subsidiaries; enter into sale and leaseback transactions; engage in transactions with affiliates; enter into new lines of business; and enter into amendments of or waivers under subordinated indebtedness, organizational documents and certain other material agreements.

The Credit Agreement requires that the Company maintain a secured leverage ratio not to exceed 2.50 to 1.00 as of the last day of each fiscal quarter beginning with the fiscal quarter ending March 31, 2012. The Credit Agreement requires that the Company maintain an interest coverage ratio of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. The Credit Agreement also contains certain customary affirmative covenants and events of default. If an event of default, as specified in the Credit Agreement, shall occur and be continuing, the Company may be required to repay all amounts outstanding under the Senior Secured Credit Facilities. As of September 30, 2012, the Company was in compliance with all covenants associated with the Senior Secured Credit Facilities.

5.375% Convertible Notes

On June 29, 2012, the Company distributed a notice of redemption to holders of the Company's 5.375% senior convertible notes due 2014 (the "5.375% Convertible Notes") to redeem all of the outstanding 5.375% Convertible Notes on August 2, 2012 (the "Redemption Date"), at a redemption price of 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest to, but excluding, the Redemption Date. On August 1, 2012, all of the outstanding 5.375% Convertible Notes were converted by holders, and on September 5, 2012, they were settled 100% in cash in the aggregate amount of $62.1 million.

Immediately prior to settlement, the carrying amount of the liability component of the 5.375% Convertible Notes was $16.0 million and the estimated fair value of the liability component was $18.3 million. The difference of $2.3 million between the carrying amount and the estimated fair value of the liability component was recognized as a loss on

extinguishment of debt in the three-month period ended September 30, 2012. The difference of $43.8 million between the estimated fair value of the liability component of $18.3 million and the aggregate purchase price of $62.1 million resulted in charges to additional paid-in capital and accumulated deficit of $0.2 million and $43.6 million, respectively.

4.0% Convertible Notes

On April 20, 2011, the Company distributed a notice of redemption to holders of Valeant's 4.0% convertible subordinated notes due 2013 (the "4.0% Convertible Notes"), pursuant to which all of the outstanding 4.0% Convertible Notes were redeemed on May 20, 2011 (the "Redemption Date"), at a redemption price of 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest to, but excluding, the Redemption Date. The 4.0% Convertible Notes called for redemption were converted into 17,782,764 common shares of the Company, at a conversion rate of 79.0667 common shares per $1,000 principal amount of notes, which represented a conversion price of approximately $12.65 per share.

Immediately prior to settlement, the carrying amount of the liability component of the 4.0% Convertible Notes was $221.3 million and the estimated fair value of the liability component was $226.0 million. The difference of $4.7 million between the carrying amount and the estimated fair value of the liability component was recognized as a loss on extinguishment of debt in the three-month period ended June 30, 2011. The difference of $666.0 million between the estimated fair value of the liability component of $226.0 million and the aggregate fair value of the common shares issued to effect the settlement of $892.0 million resulted in charges to additional paid-in capital and accumulated deficit of $226.0 million and $440.0 million, respectively.

With respect to Valeant's call option agreements in respect of the shares underlying the conversion of $200.0 million principal amount of the 4.0% Convertible Notes, these agreements consisted of purchased call options on 15,813,338 common shares, which matured on May 20, 2011, and written call options on the identical number of shares, which matured on August 18, 2011. As of the Merger Date, these call options were to be settled in common shares of the Company. In June 2011, 11,479,365 common shares were received on the net-share settlement of the purchased call options, which common shares were subsequently cancelled.

In September 2011, Valeant amended the written call options agreement so that Valeant could elect to settle all or some of the written call options in cash. In the three-month period ended September 30, 2011, Valeant paid $66.9 million in cash and issued 7,518,595 of its common shares on a net-share basis to settle the written call options.

Commitment Letter

In connection with the pending acquisition of Medicis Pharmaceutical Corporation ("Medicis"), the Company and its subsidiary, Valeant, entered into a commitment letter, dated as of September 2, 2012, with JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC to provide up to $2.75 billion through a bridge loan facility. On September 11, 2012, the Company and Valeant entered into an amended and restated commitment letter with JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and other financial institutions. Subsequently, the Company obtained $2.75 billion in financing through a syndication of the incremental term B loans under the Company's existing Senior Secured Credit Facilities of $1.0 billion (the "Incremental Term Loan B") and the issuance by VPI Escrow Corp., a newly formed wholly owned Delaware subsidiary of Valeant, of the 6.375% senior notes due 2020 (the "2020 Senior Notes") in the aggregate principal amount of $1.75 billion. Consequently, the commitment under the commitment letter to provide the bridge loan facility is not expected to be utilized, but is still in place and will terminate upon the earlier of (i) the closing of the acquisition of Medicis, (ii) the abandonment or termination of an Agreement and Plan of Merger with Medicis, and (iii) March 4, 2013. The proceeds from the issuance of the Incremental Term Loan B and the 2020 Senior Notes will be utilized to fund (i) the transactions contemplated by an Agreement and Plan of Merger with Medicis, (ii) Medicis' obligation to pay the conversion consideration with respect to, or repurchase of, the Medicis convertible senior notes, and (iii) transaction costs and expenses. For further details, see note 21 "SUBSEQUENT EVENTS AND PENDING ACQUISITIONS".

12. SECURITIES REPURCHASE PROGRAM

On November 4, 2010, the Company announced that its board of directors had approved a securities repurchase program,

pursuant to which the Company could make purchases of its common shares, convertible notes and/or senior notes, from time to time, up to an aggregate maximum value of $1.5 billion, subject to any restrictions in the Company's financing agreements and applicable law. On August 29, 2011, the Company announced that its board of directors had approved an increase of $300.0 million under its securities repurchase program (the "Securities Repurchase Program"). As a result, under the Securities Repurchase Program, the Company was able to repurchase up to $1.8 billion of its convertible notes, senior notes, common shares and/or other notes or shares that may be issued prior to the completion of the program. The Securities Repurchase Program terminated on November 7, 2011.

On November 3, 2011, the Company announced that its board of directors had approved a new securities repurchase program (the "New Securities Repurchase Program"). Under the New Securities Repurchase Program, which commenced on November 8, 2011, the Company may make purchases of up to $1.5 billion of its convertible notes, senior notes, common shares and/or other future debt or shares, subject to any restrictions in the Company's financing agreements and applicable law. The New Securities Repurchase Program will terminate on November 7, 2012 or at such time as the Company completes its purchases. The amount of securities to be purchased and the timing of purchases under the New Securities Repurchase Program may be subject to various factors, which may include the price of the securities, general market conditions, corporate and regulatory requirements, alternate investment opportunities and restrictions under our financing agreements and applicable law. The securities to be repurchased will be funded using the Company's cash resources.

Repurchase of 5.375% Convertible Notes

In the nine-month period ended September 30, 2012, under the New Securities Repurchase Program, the Company repurchased $1.1 million principal amount of the 5.375% Convertible Notes for a purchase price of $4.0 million. The carrying amount of the 5.375% Convertible Notes purchased was $1.0 million (net of related unamortized deferred financing costs) and the estimated fair value of the 5.375% Convertible Notes exclusive of the conversion feature was $1.1 million. The difference of $0.1 million between the net carrying amount and the estimated fair value was recognized as a loss on extinguishment of debt. The difference of $2.9 million between the estimated fair value of $1.1 million and the purchase price of $4.0 million resulted in charges to additional paid-in capital and accumulated deficit of $0.2 million and $2.7 million, respectively. The portion of the purchase price attributable to accreted interest on the debt discount amounted to $0.1 million, and is included as an operating activity in the consolidated statements of cash flows. The remaining portion of the payment of $3.9 million is presented in the consolidated statement of cash flows as an outflow from financing activities.

In the nine-month period ended September 30, 2011, under the Securities Repurchase Program, the Company repurchased $177.2 million aggregate principal amount of the 5.375% Convertible Notes for an aggregate purchase price of $549.9 million. The carrying amount of the 5.375% Convertible Notes purchased was $153.2 million (net of $4.9 million of related unamortized deferred financing costs) and the estimated fair value of the 5.375% Convertible Notes exclusive of the conversion feature was $181.4 million. The difference of $28.2 million between the net carrying amount and the estimated fair value was recognized as a loss on extinguishment of debt. The difference of $368.5 million between the estimated fair value of $181.4 million and the purchase price of $549.9 million resulted in charges to additional paid-in capital and accumulated deficit of $28.7 million and $339.8 million, respectively. The portion of the purchase price attributable to accreted interest on the debt discount amounted to $8.3 million, and is included as an operating activity in the consolidated statements of cash flows. The remaining portion of the payment of $541.6 million is presented in the consolidated statement of cash flows as an outflow from financing activities.

Share Repurchases

In the nine-month period ended September 30, 2012, under the New Securities Repurchase Program, the Company repurchased 5,257,454 of its common shares for an aggregate purchase price of $280.7 million. The excess of the purchase price over the carrying value of the common shares repurchased of $178.4 million was charged to the accumulated deficit. These common shares were subsequently cancelled.

In March 2011, under the Securities Repurchase Program, the Company repurchased 7,366,419 of its common shares from ValueAct Capital Master Fund, L.P. (“ValueAct”) for an aggregate purchase price of $274.8 million. These common shares were subsequently cancelled. As of September 30, 2012, the Company had recorded an estimated $24.2 million

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receivable from ValueAct in relation to withholding taxes on the repurchase. In May 2011, a subsidiary of the Company purchased 4,498,180 of the Company's common shares from ValueAct for an aggregate purchase price of $224.8 million. In June 2011, the Company purchased these common shares from its subsidiary and the common shares were subsequently cancelled. G. Mason Morfit is a partner and a member of the Management Committee of ValueAct Capital. Mr. Morfit joined the Company's board of directors on September 28, 2010, effective with the Merger, and prior thereto served as a member of Valeant's board of directors since 2007. ValueAct Capital is the general partner and the manager of ValueAct. In addition to the ValueAct repurchases, in the three-month period ended September 30, 2011, under the Securities Repurchase Program, the Company repurchased 1,800,000 of its common shares for an aggregate purchase price of $74.5 million. These common shares were subsequently cancelled. The excess of the purchase price over the carrying value of the common shares repurchased, including ValueAct, of $335.9 million in the nine-month period ended September 30, 2011 was charged to the accumulated deficit.

Total Repurchases

As of September 30, 2012, the Company had repurchased approximately $442.5 million, in the aggregate, of its convertible notes, senior notes and common shares under the New Securities Repurchase Program.

13. SHARE-BASED COMPENSATION

The following table summarizes the components and classification of share-based compensation expense related to stock options and restricted share units ("RSUs") for the three-month and nine-month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock options[1]	$4,901	$9,218	$16,977	$35,943
RSUs	13,646	8,369	35,878	37,095
Stock-based compensation expense	$18,547	$17,587	$52,855	$73,038
Cost of goods sold[1]	$—	$278	$—	$980
Research and development expenses[1]	167	278	607	980
Selling, general and administrative expenses[1][2]	18,380	16,581	52,248	70,479
Restructuring and other costs	—	450	—	599
Stock-based compensation expense	$18,547	$17,587	$52,855	$73,038

(1) On March 9, 2011, the Company's compensation committee of the board of directors approved an equitable adjustment to all stock options outstanding as of that date for employees and directors as of such date, in connection with the post-Merger special dividend of $1.00 per common share declared on November 4, 2010 and paid on December 22, 2010. As the Company's stock option awards do not automatically adjust for dividend payments, this adjustment was treated as a modification of the terms and conditions of the outstanding options. The incremental fair value of the modified awards was determined to be $15.4 million, of which $9.2 million related to vested options, which was expensed in the first quarter of 2011 as follows: cost of goods sold ($0.2 million), selling, general and administrative expenses ($8.8 million) and research and development expenses ($0.2 million). The remaining $6.2 million is being recognized over the remaining requisite service period of the unvested options.

(2) During the third quarter of 2012, the Company recorded an incremental charge of $4.8 million to selling, general and administrative expenses as some of the Company's performance-based RSU grants triggered a partial payout as a result of achieving certain share price appreciation conditions.

In the nine-month periods ended September 30, 2012 and 2011, the Company granted approximately 435,000 stock options with a weighted-average exercise price of $53.41 per option and approximately 934,000 stock options with a

weighted-average exercise price of $47.75 per option, respectively. The weighted-average fair values of all stock options granted to employees in the nine-month periods ended September 30, 2012 and 2011 were $19.10 and $12.03, respectively.

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In the nine-month periods ended September 30, 2012 and 2011, the Company granted approximately 220,000 time-based RSUs with a weighted-average grant date fair value of $50.44 per RSU and approximately 228,000 time-based RSUs with a weighted-average grant date fair value of $50.02 per RSU, respectively.
In the nine-month period ended September 30, 2012 and 2011, the Company granted approximately 201,000 performance-based RSUs with a weighted-average grant date fair value of $70.52 per RSU and approximately 219,000 performance-based RSUs with a weighted-average grant date fair value of $56.31 per RSU, respectively.
As of September 30, 2012, the total remaining unrecognized compensation expense related to non-vested stock options, time-based RSUs and performance-based RSUs amounted to $91.5 million, in the aggregate, which will be amortized over a weighted-average period of 2.2 years.
14. SHAREHOLDERS' EQUITY

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	Valeant Pharmaceuticals International, Inc. Shareholders							
	Common Shares							
	Shares (000s)	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Valeant Pharmaceuticals International, Inc. Shareholders' equity	Noncontrolling Interest	Total Equity
Balance, January 1, 2011	302,449	$5,251,730	$495,041	$(934,511)	$ 98,836	$ 4,911,096	$ —	$4,911,096
Settlement of 4% Convertible Notes	17,783	892,000	(225,971)	(440,046)	—	225,983	—	225,983
Repurchase of equity component of 5.375% Convertible Notes	—	—	(28,660)	(339,813)	—	(368,473)	—	(368,473)
Common shares issued under share-based compensation plans	4,056	129,169	(118,028)	—	—	11,141	—	11,141
Settlement of call options	(3,961)	(53,192)	27,920	(41,592)	—	(66,864)	—	(66,864)
Repurchase of common shares	(13,665)	(238,214)	—	(335,906)	—	(574,120)	—	(574,120)
Share-based compensation	—	—	73,038	—	—	73,038	—	73,038
Employee withholding taxes related to share-based awards	—	—	11,083	(68,238)	—	(57,155)	—	(57,155)
Tax benefits from stock options exercised	—	—	32,769	—	—	32,769	—	32,769
Reclassification of deferred share units	—	—	9,271	—	—	9,271	—	9,271
Noncontrolling interest from business combinations	—	—	—	—	—	—	34,783	34,783
Acquisition of noncontrolling	—	—	(1,186)	—	—	(1,186)	(32,797)	(33,983)

interest	306,662	5,981,493	275,277	(2,160,106)	98,836	4,195,500	1,986	4,197,486
Comprehensive loss:								
Net income	—	—	—	103,704	—	103,704	—	103,704
Other comprehensive loss	—	—	—	—	(285,105)	(285,105)	(1,986)	(287,091)
Total comprehensive loss						(181,401)	(1,986)	(183,387)
Balance, September 30, 2011	306,662	$5,981,493	$275,277	$(2,056,402)	$ (186,269)	$4,014,099	$ —	$4,014,099
Balance, January 1, 2012	306,371	$5,963,621	$276,117	$(2,030,292)	$ (202,430)	$4,007,016	$ —	$4,007,016
Settlement of 5.375% Convertible Notes	—	—	(175)	(43,593)				