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

**FORM 10-Q**

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

**For the Quarterly Period Ended September 30, 2017**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-14956**

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**British Columbia, Canada**  
(State or other jurisdiction of  
incorporation or organization)

**98-0448205**  
(I.R.S. Employer Identification No.)

**2150 St. Elzéar Blvd. West, Laval, Québec**  
(Address of principal executive offices)

**H7L 4A8**  
(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  No

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

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

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

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

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

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 — 348,591,928 shares outstanding as of November 2, 2017.

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**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017**

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**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017**

### **Introductory Note**

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (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. In this Form 10-Q, references to “\$” or “USD” are to United States (“U.S.”) dollars, references to “€” are to euros and references to CAD are to Canadian dollars. Unless otherwise indicated, the statistical and financial data contained in this Form 10-Q are presented as of September 30, 2017.

### **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: our business strategy, business plans and prospects, forecasts and changes thereto, product pipeline, prospective products or product approvals, product development and distribution plans, the timing of product launches, the timing of development activities, anticipated or future research and development expenditures, future performance or results of current and anticipated products, our liquidity and our ability to satisfy our debt maturities as they become due, our ability to reduce debt levels, our anticipated cash requirements, the impact of our distribution, fulfillment and other third party arrangements, proposed pricing actions, the anticipated timing of completion of our pending divestitures, anticipated use of proceeds for certain of our divestitures, exposure to foreign currency exchange rate changes and interest rate changes, the outcome of contingencies, such as litigation, subpoenas, investigations, reviews, audits and regulatory proceedings, general market conditions, our expectations regarding our financial performance, including revenues, expenses, gross margins and income taxes, our ability to meet the financial and other covenants contained in our Third Amended and Restated Credit and Guaranty Agreement, as amended (the “Credit Agreement”) and senior note indentures, potential cost savings programs we may initiate and the impact of such programs, and our impairment assessments, including the assumptions used therein and the results thereof.*

*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”, “should”, “target”, “potential”, “opportunity”, “tentative”, “positioning”, “designed”, “create”, “predict”, “project”, “forecast”, “seek”, “ongoing”, “increase”, or “upside” and variations or other similar expressions. In addition, any statements that refer to expectations, intentions, 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. These statements are based upon the current expectations and beliefs of management. 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:*

- *the expense, timing and outcome of legal and governmental proceedings, investigations and information requests relating to, among other matters, our distribution, marketing, pricing, disclosure and accounting practices (including with respect to our former relationship with Philidor Rx Services, LLC (“Philidor”)), including pending investigations by the U.S. Attorney’s Office for the District of Massachusetts, the U.S. Attorney’s Office for the Southern District of New York and the State of North Carolina Department of Justice, the pending investigations by the U.S. Securities and Exchange Commission (the “SEC”) of the Company, the request for documents and information received by the Company from the Autorité des marchés financiers (the “AMF”) (the Company’s principal securities regulator in Canada), the pending investigation by the California Department of Insurance, a number of pending putative securities class action litigations in the U.S. (including related opt-out actions, including the recently filed securities and RICO claims by Lord Abbett)*

*and Canada and purported class actions under the federal RICO statute and other claims, investigations or proceedings that may be initiated or that may be asserted;*

- *the impact of the changes in and reorganizations to our business structure, including changes to our operating and reportable segments;*
- *the effectiveness of the measures implemented to remediate the material weaknesses in our internal control over financial reporting that were identified by the Company, our deficient control environment and the contributing factors leading to the misstatement of our previously issued results and the impact such measures may have on the Company and our businesses;*
- *potential additional litigation and regulatory investigations (and any costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom), negative publicity and reputational harm on our Company, products and business that may result from the recent public scrutiny of our distribution, marketing, pricing, disclosure and accounting practices and from our former relationship with Philidor, including any claims, proceedings, investigations and liabilities we may face as a result of any alleged wrongdoing by Philidor and/or its management and/or employees;*
- *the current scrutiny of our business practices including with respect to pricing (including the investigations by the U.S. Attorney's Offices for the District of Massachusetts and the Southern District of New York, and the State of North Carolina Department of Justice) and any pricing controls or price adjustments that may be sought or imposed on our products as a result thereof;*
- *pricing decisions that we have implemented, or may in the future elect to implement, whether as a result of recent scrutiny or otherwise, such as the decision of the Company to take no further price increases on our Nitropress® and Isuprel® products and to implement an enhanced rebate program for such products, our decision on the price of our Siliq™ product, the Patient Access and Pricing Committee's commitment that the average annual price increase for our prescription pharmaceutical products will be set at no greater than single digits and below the 5-year weighted average of the increases within the branded biopharmaceutical industry or any future pricing actions we may take following review by our Patient Access and Pricing Committee (which is responsible for the pricing of our drugs);*
- *legislative or policy efforts, including those that may be introduced and passed by the U.S. Congress, designed to reduce patient out-of-pocket costs for medicines, which could result in new mandatory rebates and discounts or other pricing restrictions, controls or regulations (including mandatory price reductions);*
- *ongoing oversight and review of our products and facilities by regulatory and governmental agencies, including periodic audits by the U.S. Food and Drug Administration (the "FDA") and the results thereof;*
- *any default under the terms of our senior notes indentures or Credit Agreement and our ability, if any, to cure or obtain waivers of such default;*
- *any delay in the filing of any future financial statements or other filings and any default under the terms of our senior notes indentures or Credit Agreement as a result of such delays;*
- *our substantial debt (and potential additional future indebtedness) and current and future debt service obligations, our ability to reduce our outstanding debt levels in accordance with our stated intention and the resulting impact on our financial condition, cash flows and results of operations;*
- *our ability to meet the financial and other covenants contained in our Credit Agreement, indentures and other current or future debt agreements and the limitations, restrictions and prohibitions such covenants impose or may impose on the way we conduct our business, prohibitions on incurring additional debt if certain financial covenants are not met, limitations on the amount of additional debt we are able to incur where not prohibited, and restrictions on our ability to make certain investments and other restricted payments;*
- *any further downgrade by rating agencies in our credit ratings, which may impact, among other things, our ability to raise debt and the cost of capital for additional debt issuances;*
- *any reductions in, or changes in the assumptions used in, our forecasts for fiscal year 2017 or beyond, which could lead to, among other things, (i) a failure to meet the financial and/or other covenants contained in our Credit Agreement and/or indentures, and/or (ii) impairment in the goodwill associated with certain of our reporting units (including our Salix reporting unit) or impairment charges related to certain of our products or other intangible assets, which impairments could be material;*

- *changes in the assumptions used in connection with our impairment analyses or assessments, which would lead to a change in such impairment analyses and assessments and which could result in an impairment in the goodwill associated with any of our reporting units or impairment charges related to certain of our products or other intangible assets;*
- *the pending and additional divestitures of certain of our assets or businesses and our ability to successfully complete any such divestitures on commercially reasonable terms and on a timely basis, or at all, and the impact of any such pending or future divestitures on our Company, including the reduction in the size or scope of our business or market share, loss of revenue, any loss on sale, including any resultant write-downs of goodwill, or any adverse tax consequences suffered as a result of any such divestitures;*
- *our shift in focus to much lower business development activity through acquisitions for the foreseeable future as we focus on reducing our outstanding debt levels and as a result of the restrictions imposed by our Credit Agreement that restrict us from, among other things, making acquisitions over an aggregate threshold (subject to certain exceptions) and from incurring debt to finance such acquisitions, until we achieve a specified leverage ratio;*
- *the uncertainties associated with the acquisition and launch of new products (such as our Siliq™ product), including, but not limited to, our ability to provide the time, resources, expertise and costs required for the commercial launch of new products, the acceptance and demand for new pharmaceutical products, and the impact of competitive products and pricing, which could lead to material impairment charges;*
- *our ability to retain, motivate and recruit executives and other key employees, including subsequent to retention payments being paid out and as a result of the reputational challenges we face and may continue to face;*
- *our ability to implement effective succession planning for our executives and key employees;*
- *the challenges and difficulties associated with managing a large complex business, which has, in the past, grown rapidly;*
- *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;*
- *our ability to effectively operate, stabilize and grow our businesses in light of the challenges that the Company currently faces, including with respect to its substantial debt, pending investigations and legal proceedings, scrutiny of our pricing, distribution and other practices, reputational harm and limitations on the way we conduct business imposed by the covenants in our Credit Agreement, indentures and the agreements governing our other indebtedness;*
- *the success of our fulfillment arrangements with Walgreen Co. ("Walgreens"), including market acceptance of, or market reaction to, such arrangements (including by customers, doctors, patients, pharmacy benefit managers ("PBMs"), third party payors and governmental agencies), the continued compliance of such arrangements with applicable laws, and our ability to successfully negotiate any improvements to our arrangements with Walgreens;*
- *the extent to which our products are reimbursed by government authorities, PBMs and other third party payors; the impact our distribution, pricing and other practices (including as it relates to our former relationship with Philidor, any alleged wrongdoing by Philidor and our current relationship with Walgreens) may have on the decisions of such government authorities, PBMs and other third party payors to reimburse our products; and the impact of obtaining or maintaining such reimbursement on the price and sales of our products;*
- *the inclusion of our products on formularies or our ability to achieve favorable formulary status, as well as the impact on the price and sales of our products in connection therewith;*
- *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, including the impact on such matters of the proposals published by the Organization for Economic Co-operation and Development ("OECD") respecting base erosion and profit shifting ("BEPS") and various corporate tax reform proposals being considered in the U.S.;*
- *our recent shift in business strategy as we are seeking to sell a variety of assets, some of which may be material and/or transformative;*
- *the actions of our third party partners or service providers of research, development, manufacturing, marketing, distribution or other services, including their compliance with applicable laws and contracts, which actions may be beyond our control or influence, and the impact of such actions on our Company, including the impact to the Company of our former relationship with Philidor and any alleged legal or contractual non-compliance by Philidor;*

- *the risks associated with the international scope of our operations, including our presence in emerging markets and the challenges we face when entering and operating in new and different geographic markets (including the challenges created by new and different regulatory regimes in such countries and the need to comply with applicable anti-bribery and economic sanctions laws and regulations);*
- *adverse global economic conditions and credit markets and foreign currency exchange uncertainty and volatility in the countries in which we do business (such as the current or recent instability in Brazil, Russia, Ukraine, Argentina, Egypt, certain other countries in Africa and the Middle East, the devaluation of the Egyptian pound, and the adverse economic impact and related uncertainty caused by the United Kingdom's decision to leave the European Union (Brexit));*
- *our ability to obtain, maintain and license sufficient intellectual property rights over our products and enforce and defend against challenges to such intellectual property;*
- *the introduction of generic, biosimilar or other competitors of our branded products and other products, including the introduction of products that compete against our products that do not have patent or data exclusivity rights;*
- *if permitted under our Credit Agreement, and to the extent we elect to resume business development activities through acquisitions, our ability to identify, finance, acquire, close and integrate acquisition targets successfully and on a timely basis;*
- *factors relating to the acquisition and integration of the companies, businesses and products that have been acquired by the Company and that may in the future be acquired by the Company (if permitted under our Credit Agreement and to the extent we elect to resume business development activities through acquisitions), such as the time and resources required to integrate such companies, businesses and products, the difficulties associated with such integrations (including potential disruptions in sales activities and potential challenges with information technology systems integrations), the difficulties and challenges associated with entering into new business areas and new geographic markets, the difficulties, challenges and costs associated with managing and integrating new facilities, equipment and other assets, the risks associated with the acquired companies, businesses and products and our ability to achieve the anticipated benefits and synergies from such acquisitions and integrations, including as a result of cost-rationalization and integration initiatives. Factors impacting the achievement of anticipated benefits and synergies may include greater than expected operating costs, the difficulty in eliminating certain duplicative costs, facilities and functions, and the outcome of many operational and strategic decisions;*
- *the expense, timing and outcome of pending or future legal and governmental proceedings, arbitrations, investigations, subpoenas, tax and other regulatory audits, reviews and regulatory proceedings against us or relating to us and settlements thereof;*
- *our ability to obtain components, raw materials or finished products supplied by third parties (some of which may be single-sourced) and other manufacturing and related supply difficulties, interruptions and delays;*
- *the disruption of delivery of our products and the routine flow of manufactured goods;*
- *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;*
- *interest rate risks associated with our floating rate debt borrowings;*
- *our ability to effectively distribute our products and the effectiveness and success of our distribution arrangements, including the impact of our arrangements with Walgreens;*
- *our ability to secure and maintain third party research, development, manufacturing, marketing or distribution arrangements;*
- *the risk that our products could cause, or be alleged to cause, personal injury and adverse effects, leading to potential lawsuits, product liability claims and damages and/or recalls or withdrawals of products from the market;*
- *the mandatory or voluntary recall or withdrawal of our products from the market and the costs associated therewith;*
- *the availability of, and our ability to obtain and maintain, adequate insurance coverage and/or our ability to cover or insure against the total amount of the claims and liabilities we face, whether through third party insurance or self-insurance;*
- *the difficulty in predicting the expense, timing and outcome within our legal and regulatory environment, including with respect to approvals by the FDA, Health Canada and similar agencies in other countries, 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 others;*

- the results of continuing safety and efficacy studies by industry and government agencies;*
- 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, as well as other factors impacting the commercial success of our products (such as our Siliq™ product), which could lead to material impairment charges;*
- the results of management reviews of our research and development portfolio (including following the receipt of clinical results or feedback from the FDA or other regulatory authorities), which could result in terminations of specific projects which, in turn, could lead to material impairment charges;*
- the seasonality of sales of certain of our products;*
- declines in the pricing and sales volume of certain of our products that are distributed or marketed by third parties, over which we have no or limited control;*
- compliance by the Company or our third party partners and service providers (over whom we may have limited influence), or the failure of our Company or these third parties to comply, with health care “fraud and abuse” laws and other extensive regulation of our marketing, promotional and business practices (including with respect to pricing), worldwide anti-bribery laws (including the U.S. Foreign Corrupt Practices Act), worldwide economic sanctions and/or export laws, worldwide environmental laws and regulation and privacy and security regulations;*
- the impacts of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the “Health Care Reform Act”) and potential repeal or amendment thereof and other legislative and regulatory healthcare reforms in the countries in which we operate, including with respect to recent government inquiries on pricing;*
- the impact of any changes in or reforms to the legislation, laws, rules, regulation and guidance that apply to the Company and its business and products or the enactment of any new or proposed legislation, laws, rules, regulations or guidance that will impact or apply to the Company or its businesses or products;*
- the impact of changes in federal laws and policy under consideration by the new administration and Congress, including the effect that such changes will have on fiscal and tax policies, the potential repeal of all or portions of the Health Care Reform Act, international trade agreements and policies and policy efforts designed to reduce patient out-of-pocket costs for medicines (which could result in new mandatory rebates and discounts or other pricing restrictions);*
- illegal distribution or sale of counterfeit versions of our products;*
- interruptions, breakdowns or breaches in our information technology systems; and*
- risks in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 1, 2017, and risks detailed from time to time in our other filings with 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 in our Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 1, 2017, under Item 1A. “Risk Factors” and in the Company’s other filings with the SEC and CSA. 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 or revise any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect actual outcomes, except as required by law. We caution that, as it is not possible to predict or identify all relevant factors that may impact forward-looking statements, the foregoing list of important factors that may affect future results is not exhaustive and should not be considered a complete statement of all potential risks and uncertainties.*

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions, except share amounts)  
(Unaudited)

	September 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 964	\$ 542
Restricted cash	928	—
Trade receivables, net	2,229	2,517
Inventories, net	1,071	1,061
Current assets held for sale	16	261
Prepaid expenses and other current assets	736	696
Total current assets	<u>5,944</u>	<u>5,077</u>
Property, plant and equipment, net	1,398	1,312
Intangible assets, net	16,023	18,884
Goodwill	15,573	15,794
Deferred tax assets, net	166	146
Non-current assets held for sale	718	2,132
Other non-current assets	152	184
Total assets	<u>\$ 39,974</u>	<u>\$ 43,529</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 407	\$ 324
Accrued and other current liabilities	3,396	3,227
Current liabilities held for sale	—	57
Current portion of long-term debt and other	925	1
Total current liabilities	<u>4,728</u>	<u>3,609</u>
Acquisition-related contingent consideration	345	840
Non-current portion of long-term debt	26,216	29,845
Pension and other benefit liabilities	198	195
Liabilities for uncertain tax positions	265	184
Deferred tax liabilities, net	2,237	5,434
Non-current liabilities held for sale	461	57
Other non-current liabilities	102	107
Total liabilities	<u>34,552</u>	<u>40,271</u>
Commitments and contingencies (Note 18)		
<b>Equity</b>		
Common shares, no par value, unlimited shares authorized, 348,582,556 and 347,821,606 issued and outstanding at September 30, 2017 and December 31, 2016, respectively	10,086	10,038
Additional paid-in capital	368	351
Accumulated deficit	(3,239)	(5,129)
Accumulated other comprehensive loss	(1,888)	(2,108)
Total Valeant Pharmaceuticals International, Inc. shareholders' equity	<u>5,327</u>	<u>3,152</u>
Noncontrolling interest	95	106
Total equity	<u>5,422</u>	<u>3,258</u>
Total liabilities and equity	<u>\$ 39,974</u>	<u>\$ 43,529</u>

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

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Product sales	\$ 2,186	\$ 2,443	\$ 6,462	\$ 7,168
Other revenues	33	36	99	103
	<u>2,219</u>	<u>2,479</u>	<u>6,561</u>	<u>7,271</u>
<b>Expenses</b>				
Cost of goods sold (excluding amortization and impairments of intangible assets)	650	649	1,869	1,917
Cost of other revenues	9	9	32	29
Selling, general and administrative	623	661	1,943	2,145
Research and development	81	101	271	328
Amortization of intangible assets	657	664	1,915	2,015
Goodwill impairments	312	1,049	312	1,049
Asset impairments	406	148	629	394
Restructuring and integration costs	6	20	42	78
Acquired in-process research and development costs	—	31	5	34
Acquisition-related contingent consideration	(238)	9	(297)	18
Other (income) expense, net	(325)	1	(584)	(20)
	<u>2,181</u>	<u>3,342</u>	<u>6,137</u>	<u>7,987</u>
Operating income (loss)	38	(863)	424	(716)
Interest income	3	3	9	6
Interest expense	(459)	(470)	(1,392)	(1,369)
Loss on extinguishment of debt	(1)	—	(65)	—
Foreign exchange and other	19	(2)	87	4
Loss before recovery of income taxes	(400)	(1,332)	(937)	(2,075)
Recovery of income taxes	(1,700)	(113)	(2,829)	(179)
Net income (loss)	1,300	(1,219)	1,892	(1,896)
Less: Net (loss) income attributable to noncontrolling interest	(1)	(1)	1	(2)
<b>Net income (loss) attributable to Valeant Pharmaceuticals International, Inc.</b>	<u>\$ 1,301</u>	<u>\$ (1,218)</u>	<u>\$ 1,891</u>	<u>\$ (1,894)</u>
<b>Earnings (loss) per share attributable to Valeant Pharmaceuticals International, Inc.:</b>				
Basic	<u>\$ 3.71</u>	<u>\$ (3.49)</u>	<u>\$ 5.40</u>	<u>\$ (5.47)</u>
Diluted	<u>\$ 3.69</u>	<u>\$ (3.49)</u>	<u>\$ 5.38</u>	<u>\$ (5.47)</u>
<b>Weighted-average common shares</b>				
Basic	350.4	349.5	350.1	346.5
Diluted	352.3	349.5	351.4	346.5

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

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in millions)  
(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net income (loss)</b>	\$ 1,300	\$ (1,219)	\$ 1,892	\$ (1,896)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustment	81	(4)	227	(37)
Pension and postretirement benefit plan adjustments, net of income taxes	(3)	(1)	(4)	(2)
Other comprehensive income (loss)	78	(5)	223	(39)
<b>Comprehensive income (loss)</b>	1,378	(1,224)	2,115	(1,935)
<b>Less: Comprehensive loss attributable to noncontrolling interest</b>	(1)	—	(3)	(3)
<b>Comprehensive income (loss) attributable to Valeant Pharmaceuticals International, Inc.</b>	<u>\$ 1,379</u>	<u>\$ (1,224)</u>	<u>\$ 2,118</u>	<u>\$ (1,932)</u>

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

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ 1,892	\$ (1,896)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	2,039	2,159
Amortization and write-off of debt discounts and debt issuance costs	100	89
Asset impairments	629	394
Acquisition accounting adjustment on inventory sold	—	38
Gain on disposals of assets and businesses, net	(695)	(11)
Acquisition-related contingent consideration	(297)	18
Allowances for losses on trade receivable and inventories	71	96
Deferred income taxes	(2,985)	(310)
Additions (reductions) to accrued legal settlements	112	(32)
Insurance proceeds for legal settlement	60	—
Payments of accrued legal settlements	(221)	(68)
Goodwill impairment	312	1,049
Loss on deconsolidation	—	18
Share-based compensation	70	134
Foreign exchange gain	(83)	(15)
Loss on extinguishment of debt	65	—
Payment of contingent consideration adjustments, including accretion	(3)	(27)
Other	(24)	(12)
Changes in operating assets and liabilities:		
Trade receivables	338	(31)
Inventories	1	(166)
Prepaid expenses and other current assets	32	118
Accounts payable, accrued and other liabilities	299	30
Net cash provided by operating activities	<u>1,712</u>	<u>1,575</u>
<b>Cash Flows From Investing Activities</b>		
Acquisition of businesses, net of cash acquired	—	(19)
Acquisition of intangible assets and other assets	(146)	(48)
Purchases of property, plant and equipment	(118)	(181)
Reduction of cash due to deconsolidation	—	(30)
Purchases of marketable securities	(4)	(1)
Proceeds from sale of marketable securities	2	17
Proceeds from sale of assets and businesses, net of costs to sell	3,063	131
Net cash provided by (used in) investing activities	<u>2,797</u>	<u>(131)</u>
<b>Cash Flows From Financing Activities</b>		
Issuance of long-term debt, net of discount	6,231	1,220
Repayments of long-term debt	(9,249)	(1,917)
Borrowings of short-term debt	—	3
Repayments of short-term debt	(8)	(3)
Proceeds from exercise of stock options	—	33
Payment of employee withholding tax upon vesting of share-based awards	(4)	(9)
Payments of contingent consideration	(34)	(94)
Payments of deferred consideration	—	(517)
Payments of financing costs	(39)	(96)
Other	(18)	(8)
Net cash used in financing activities	<u>(3,121)</u>	<u>(1,388)</u>
Effect of exchange rate changes on cash and cash equivalents	39	6
Net increase in cash and cash equivalents and restricted cash	1,427	62
Cash and cash equivalents and restricted cash, beginning of period	542	597
<b>Cash and cash equivalents and restricted cash, end of period</b>	<u>\$ 1,969</u>	<u>\$ 659</u>
Cash and cash equivalents, end of period	\$ 964	\$ 659
Restricted cash, end of period	928	—
Restricted cash included in Other non-current assets, end of period	77	—
<b>Cash and cash equivalents and restricted cash, end of period</b>	<u>\$ 1,969</u>	<u>\$ 659</u>

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

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. DESCRIPTION OF BUSINESS**

Valeant Pharmaceuticals International, Inc. (the “Company”) is a multinational, specialty pharmaceutical and medical device company, continued under the laws of the Province of British Columbia, that develops, manufactures, and markets a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter (“OTC”) products, and medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment, and aesthetics devices) which are marketed directly or indirectly in over 100 countries.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Use of Estimates**

The accompanying unaudited consolidated financial statements have been prepared by the Company in United States dollars and in accordance with United States 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 notes to the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements 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, 2016, filed with the U.S. Securities and Exchange Commission (the “SEC”) and the Canadian Securities Administrators (the “CSA”). 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, 2016. The unaudited consolidated financial statements reflect all normal and recurring adjustments necessary for a fair presentation of the Company’s financial position and results of operations for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

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 date 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.

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.

**Principles of Consolidation**

The unaudited consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Reclassifications**

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

To enhance the comparability of its asset impairments, the Company has made reclassifications to the consolidated statement of operations for the three and nine months ended September 30, 2016 to include all asset impairments in the single line Asset impairments. Charges for asset impairments were originally reported in multiple lines within the consolidated statements of operations for the three and nine months ended September 30, 2016; Amortization and impairments of finite-lived intangible assets and Acquired in-process research and development impairments and other charges. The effects of the reclassifications on the statements of operations for the periods presented are as follows:

<i>(in millions)</i>	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	As Initially Reported	Reclassification	As Reclassified	As Initially Reported	Reclassification	As Reclassified
Amortization of intangible assets	\$ 807	\$ (143)	\$ 664	\$ 2,389	\$ (374)	\$ 2,015
Asset impairments	—	148	148	—	394	394
Acquired in-process research and development costs	36	(5)	31	54	(20)	34
	<u>\$ 843</u>	<u>\$ —</u>	<u>\$ 843</u>	<u>\$ 2,443</u>	<u>\$ —</u>	<u>\$ 2,443</u>

During the third quarter of 2016, the Company changed its reportable segments to: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. Effective for the first quarter of 2017, revenues and profits from the Company's operations in Canada, previously included in the Branded Rx segment in prior periods, are now included in the Bausch + Lomb/International segment. Prior period presentations of segment revenues, segment profits and segment assets have been recast to conform to the current segment reporting structure. See Note 19, "SEGMENT INFORMATION" for additional information.

### Adoption of New Accounting Guidance

In October 2016, the Financial Accounting Standards Board (the "FASB") amended the guidance as to how a reporting entity that is the single decision maker of a variable interest entity ("VIE") should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amended guidance was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this amended guidance as of January 1, 2017 which did not have a material impact on the presentation of the Company's results of operations, cash flows or financial position.

In November 2016, the FASB issued guidance which requires entities to include restricted cash in cash and cash equivalent balances on the statement of cash flows and disclose a reconciliation between the balances on the statement of cash flows and the balance sheet. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The Company early adopted this guidance during the interim period ended June 30, 2017 on a retrospective basis. The impact of the change was not material to the Company's cash flows for the prior period presented.

### Recently Issued Accounting Standards, Not Adopted as of September 30, 2017

In May 2014, the FASB issued guidance on recognizing revenue from contracts with customers. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity will: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In addition to these provisions, the new standard provides implementation guidance on several other topics, including the accounting for certain revenue-related costs, as well as enhanced disclosure requirements. The new guidance requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued an amendment to clarify the implementation guidance around considerations whether an entity is a principal or an agent, impacting whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued an amendment to clarify guidance on identifying performance obligations and the implementation guidance on licensing. The guidance is effective for annual reporting periods beginning after December 15, 2017. Early application is permitted but not before the annual reporting period, including adoption in an interim period, beginning January 1, 2017. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company continues to make progress on its project plan for adopting this guidance, which includes a detailed assessment program and a training program for its personnel. Pursuant to the project plan, the Company conducted a high level impact assessment and has substantially completed an in-depth evaluation of the adoption impact, which involved the review of selected revenue arrangements. Based on the assessment completed to date, the Company did not identify any area that may result in a significant adoption impact. The Company will continue to monitor the revenue transactions in the fourth quarter of 2017 to finalize the adoption assessment. The Company is also in the process of assessing the impact to its existing controls and disclosure. The Company preliminarily concluded that it will adopt the new guidance using the modified approach, under which the new guidance will be adopted retrospectively

with the cumulative effect of initial application of the guidance recognized on the date of initial application (which is January 1, 2018).

In February 2016, the FASB issued guidance on leases. This guidance will increase transparency and comparability among organizations that lease buildings, equipment, and other assets by recognizing the assets and liabilities that arise from lease transactions. Current off-balance sheet leasing activities will be required to be reflected on balance sheets so that investors and other users of financial statements can more readily and accurately understand the rights and obligations associated with these transactions. Consistent with the current lease standard, the new guidance addresses two types of leases: finance leases and operating leases. Finance leases will be accounted for in substantially the same manner as capital leases are accounted for under current U.S. GAAP. Operating leases will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with operating leases under existing U.S. GAAP. However, as it relates to the balance sheet, lessees will recognize lease liabilities based upon the present value of remaining lease payments and corresponding lease assets for operating leases with limited exception. The new guidance will also require lessees and lessors to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities. The new guidance is effective for annual reporting periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the impact of adoption of this guidance on its financial position, results of operations and disclosures.

In June 2016, the FASB issued guidance on the impairment of financial instruments requiring an impairment model based on expected losses rather than incurred losses. Under this guidance, an entity recognizes as an allowance its estimate of expected credit losses. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Company is evaluating the impact of adoption of this guidance on its financial position, results of operations and cash flows.

In August 2016, the FASB issued guidance which adds or clarifies the classification of certain cash receipts and payments in the statement of cash flows (including debt repayment or debt extinguishment costs, contingent consideration payment after a business combination, and distributions received from equity method investees). The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on cash flows.

In October 2016, the FASB issued guidance which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The Company believes the impact of adoption will result in a material increase in deferred tax assets and equity and continues to evaluate the impact of these increases on its financial position, results of operations, cash flows and disclosures.

In January 2017, the FASB issued guidance which clarifies the definition of a business with the objective of assisting with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company will apply the new definition to future transactions when adopted.

In January 2017, the FASB issued guidance which simplifies the subsequent measurement of goodwill by eliminating the "Step 2" from the goodwill impairment test. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The Company will continue to evaluate the potential impact of this guidance when adopted, which could have a significant impact on its financial position, results of operations, and disclosures, particularly in respect of the Salix reporting unit in which its carrying value exceeded its fair value as of the date of the annual goodwill impairment test in 2016. See Note 8, "INTANGIBLE ASSETS AND GOODWILL".

In May 2017, the FASB issued guidance identifying the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The guidance is effective for annual periods beginning after December 15, 2017. The Company has not modified any outstanding awards, and therefore, does not have modification accounting. The adoption of this guidance will not impact its financial position, results of operations, cash flows and disclosures.

### 3. ACQUISITIONS

There were no business combinations during the nine months ended September 30, 2017 and one business combination in 2016 that was not material. The measurement period for all acquisitions has closed.

#### *Licensing Agreement*

On February 21, 2017, EyeGate Pharmaceuticals, Inc. (“EyeGate”) granted a subsidiary of the Company the exclusive worldwide licensing rights to manufacture and sell the EyeGate® II Delivery System and EGP-437 combination product candidate for the treatment of post-operative pain and inflammation in ocular surgery patients. EyeGate will be responsible for the continued development of this product candidate in the U.S. for the treatment of post-operative pain and inflammation in ocular surgery patients, and all associated costs. The Company has the right to further develop the product in the field outside of the U.S. at its cost. In connection with the licensing agreement, the Company paid an initial license fee of \$4 million during the three months ended March 31, 2017 and is obligated to make future payments of (i) up to \$34 million upon the achievement of certain development and regulatory milestones, (ii) up to \$65 million upon the achievement of certain sales-based milestones and (iii) royalties. Based on early stage of development of the asset, and lack of acquired significant inputs, the Company concluded this was an asset acquisition.

### 4. DIVESTITURES

The Company has divested certain businesses and assets and has identified others for potential divestiture, which, in each case, was not aligned with its core business objectives.

#### *CeraVe®, AcneFree™ and AMBI® skincare brands*

On March 3, 2017, the Company completed the sale of its interests in the CeraVe®, AcneFree™ and AMBI® skincare brands for \$1,300 million in cash (the “Skincare Sale”). The CeraVe®, AcneFree™ and AMBI® skincare business was part of the Bausch + Lomb/International segment and was reclassified as held for sale as of December 31, 2016. Included in Other (income) expense, net is the Gain on the Skincare Sale of \$316 million, as adjusted, for the nine months ended September 30, 2017.

#### *Dendreon Pharmaceuticals LLC*

On June 28, 2017, the Company completed the sale of all outstanding equity interests in Dendreon Pharmaceuticals LLC (formerly Dendreon Pharmaceuticals, Inc.) (“Dendreon”) for an initial sales price of \$820 million in cash (the “Dendreon Sale”), subject to certain working capital provisions. Dendreon was part of the Branded Rx segment and was reclassified as held for sale as of December 31, 2016. During the three months ended June 30, 2017, the Company initially reported a Gain on the Dendreon Sale of \$73 million. During the three months ended September 30, 2017, a working capital adjustment was provided and the sales price was adjusted to \$845 million. Accordingly, the initially reported Gain on the Dendreon Sale has been adjusted to \$98 million and is included in Other (income) expense, net for the nine months ended September 30, 2017.

#### *iNova Pharmaceuticals*

On September 29, 2017, the Company completed the sale of its Australian-based iNova Pharmaceuticals (“iNova”) business for \$938 million in cash (the “iNova Sale”), as adjusted, subject to certain working capital provisions. iNova markets a diversified portfolio of weight management, pain management, cardiology and cough and cold prescription and over-the-counter products in more than 15 countries, with leading market positions in Australia and South Africa, as well as an established platform in Asia. The Company will continue to operate in these geographies through the Bausch + Lomb franchise. The iNova business was part of the Bausch + Lomb/International segment and was reclassified as held for sale as of December 31, 2016. Included in Other (income) expense, net is a \$306 million gain on sale related to this transaction.

## ASSETS AND LIABILITIES HELD FOR SALE

### *Obagi Medical Products, Inc.*

On July 17, 2017, the Company announced that certain of its affiliates had entered into a definitive agreement to sell its Obagi Medical Products, Inc. (“Obagi”) business for \$190 million in cash (the “Obagi Sale”), subject to certain working capital provisions. Obagi is a global specialty skin care pharmaceutical business with products focused on premature skin aging, skin damage, hyperpigmentation, acne and sun damage which are primarily available through dermatologists, plastic surgeons and other skin care professionals. The Obagi business was part of the U.S. Diversified Products segment and was reclassified as held for sale as of March 31, 2017. The carrying value of the Obagi business, including associated goodwill, was adjusted to its estimated fair value less costs to sell and an impairment of \$103 million was recognized in Asset impairments during the nine months ended September 30, 2017. Obagi net assets included in held for sale as of September 30, 2017 are \$187 million. The Obagi Sale is expected to close in 2017, subject to customary closing conditions.

### *Sprout Pharmaceuticals, Inc.*

On November 6, 2017, the Company announced it had entered into a definitive agreement to sell Sprout Pharmaceuticals, Inc. (“Sprout”) to a buyer affiliated with certain former shareholders of Sprout (the “Sprout Sale”), in exchange for a 6% royalty on global sales of Addyi® (flibanserin 100 mg) beginning May 2019. In connection with the completion of the Sprout Sale, the terms of the October 2015 merger agreement relating to the Company's acquisition of Sprout will be amended to terminate the Company's ongoing obligation to make future royalty payments associated with the Addyi® product, as well as certain related provisions (including the obligation to make certain marketing and other expenditures). In connection with the completion of the Sprout Sale, the current litigation against the Company, initiated on behalf of the former shareholders of Sprout, which disputes the Company's compliance with certain contractual terms of that same merger agreement with respect to the use of certain diligent efforts to develop and commercialize the Addyi® product (including a disputed contractual term with respect to the spend of no less than \$200 million in certain expenditures), will be dismissed with prejudice. Upon completion of the Sprout Sale, the Company will issue the buyer a five-year \$25 million loan for initial operating expenses. Addyi®, a once-daily, non-hormonal tablet approved for the treatment of acquired, generalized hypoactive sexual desire disorder in premenopausal women, is the only approved and commercialized product of Sprout. The Sprout Sale is expected to close in 2017, subject to certain closing conditions, including the approval of the requisite portion of the former shareholders of Sprout to the amendments to the original merger agreement. The Company classified the assets and liabilities of the Sprout business as held for sale at September 30, 2017 and were previously included in the Branded Rx segment. The carrying value of the Sprout business, including associated goodwill, was adjusted to its estimated fair value less costs to sell and a \$352 million impairment was recognized in Asset impairments at September 30, 2017. The net assets of Sprout classified as held for sale as of September 30, 2017 are \$71 million.

At September 30, 2017, included in assets and liabilities held for sale are the assets and liabilities of Obagi, Sprout, and other smaller businesses. At December 31, 2016, included in assets and liabilities held for sale are a number of small businesses formerly included in the Bausch + Lomb/International segment.

Assets held for sale were as follows:

<i>(in millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Current assets held for sale:		
Cash	\$ —	\$ 1
Trade receivables	—	86
Inventories	14	147
Other	2	27
Current assets held for sale	<u>\$ 16</u>	<u>\$ 261</u>
Non-current assets held for sale:		
Intangible assets, net	\$ 717	\$ 680
Goodwill	—	1,355
Other	1	97
Non-current assets held for sale	<u>\$ 718</u>	<u>\$ 2,132</u>

Liabilities held for sale as of September 30, 2017 of \$461 million consists of non-current deferred tax liabilities of \$293 million and the non-current contingent consideration of \$168 million. Current and Non-current liabilities held for sale as of December 31, 2016 of \$57 million and \$57 million, respectively, consists of deferred tax liabilities and other liabilities.

## 5. RESTRUCTURING AND INTEGRATION COSTS

On April 1, 2015, the Company acquired Salix Pharmaceuticals, Ltd. (“Salix”), pursuant to an Agreement and Plan of Merger dated February 20, 2015, as amended on March 16, 2015 (the “Salix Merger Agreement”), with Salix surviving as a wholly owned subsidiary of Valeant Pharmaceuticals International (“Valeant”), a subsidiary of the Company (the “Salix Acquisition”).

In connection with the Salix Acquisition and other acquisitions, the Company implemented cost-rationalization and integration initiatives to capture operating synergies and generate cost savings. These measures included: (i) workforce reductions company-wide and other organizational changes, (ii) closing of duplicative facilities and other site rationalization actions company-wide, including research and development facilities, sales offices and corporate facilities, (iii) leveraging research and development spend and (iv) procurement savings.

### **Salix Acquisition-Related Cost-Rationalization and Integration Initiatives**

Cost-rationalization and integration initiatives relating to the Salix Acquisition were substantially completed by mid-2016. Total costs incurred primarily include: employee termination costs payable to approximately 475 employees of the Company and Salix who have been terminated as a result of the Salix Acquisition; costs to consolidate or close facilities and relocate employees; and contract termination and lease cancellation costs. Since the acquisition date, total costs of \$273 million have been incurred through September 30, 2017, including: (i) \$153 million of integration expenses, (ii) \$105 million of restructuring expenses and (iii) \$15 million of acquisition-related costs.

#### Salix Integration Costs

Salix integration costs were \$0 and \$17 million, and payments were \$1 million and \$21 million for the nine months ended September 30, 2017 and 2016, respectively. The remaining liability associated with these activities as of September 30, 2017 was \$6 million.

#### Salix Restructuring Costs

Salix restructuring costs incurred were \$6 million and \$7 million, and payments were \$13 million and \$29 million for the nine months ended September 30, 2017 and 2016, respectively. The remaining liability associated with these activities as of September 30, 2017 was \$2 million.

### **Other Restructuring and Integration-Related Costs (Excluding Salix)**

During the nine months ended September 30, 2017, in addition to the Salix restructuring and integration costs, the Company incurred \$36 million of other restructuring and integration-related costs. These costs included: (i) \$17 million of integration consulting, transition service, and other costs, (ii) \$11 million of facility closure costs and (iii) \$8 million of severance costs. The Company made payments of \$58 million for the nine months ended September 30, 2017 (in addition to the payments related to Salix). The remaining liability associated with these activities as of September 30, 2017 was \$32 million.

During the nine months ended September 30, 2016, in addition to the Salix restructuring and integration costs, the Company incurred \$54 million of other restructuring and integration-related costs. These costs included: (i) \$37 million of integration consulting, duplicate labor, transition service, and other costs, (ii) \$8 million of facility closure costs, (iii) \$8 million of severance costs and (iv) \$1 million of other costs. These costs primarily related to restructuring and integration costs for other smaller acquisitions. The Company made payments of \$52 million for the nine months ended September 30, 2016 (in addition to the payments related to Salix).

The Company continues to evaluate opportunities to improve its operating results and may initiate additional cost savings programs to streamline its operations and eliminate redundant processes and expenses. The expenses associated with the implementation of these cost savings programs could be material and may include, but are not limited to, expenses associated with: (i) reducing headcount, (ii) eliminating real estate costs associated with unused or under-utilized facilities and (iii) implementing contribution margin improvement and other cost reduction initiatives.

## 6. FAIR VALUE MEASUREMENTS

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.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents the components and classification of the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016:

<i>(in millions)</i>	September 30, 2017				December 31, 2016			
	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)
<b>Assets:</b>								
Cash equivalents	\$ 481	\$ 450	\$ 31	\$ —	\$ 242	\$ 179	\$ 63	\$ —
Restricted cash	\$ 928	\$ 928	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other non-current assets	\$ 77	\$ 77	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>								
Acquisition-related contingent consideration	\$ (390)	\$ —	\$ —	\$ (390)	\$ (892)	\$ —	\$ —	\$ (892)

Cash equivalents include highly liquid investments with an original maturity of three months or less at acquisition, primarily including money market funds, reflected in the balance sheet at carrying value, which approximates fair value due to their short-term nature.

Restricted cash includes \$923 million of proceeds from the iNova Sale. Under the terms of the Third Amended and Restated Credit and Guaranty Agreement (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), the Company is required to use the net proceeds of asset sales above a certain threshold to repay its debt obligations. On October 5, 2017, the Company used this restricted cash to repay a portion of its Series F Tranche B Term Loan Facility. The carrying value of Restricted cash reflected in the balance sheet are cash balances.

Other non-current assets includes restricted cash of \$77 million deposited with a bank as collateral to secure a bank guarantee for the benefit of the Australian Government in connection with the notice of assessment received on August 8, 2017 from the Australian Taxation Office, as discussed in Note 16, "INCOME TAXES". The Company disagrees with the assessment and continues to believe that its tax positions are appropriate and supported by the facts, circumstances and applicable laws. The Company intends to defend its tax position in this matter vigorously. The carrying value of the restricted cash reported within Other non-current assets reflected in the balance sheet are cash balances.

There were no transfers between Level 1, Level 2, or Level 3 during the nine months ended September 30, 2017.

### Assets and 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 via a probability-weighted discounted cash flow analysis or Monte Carlo Simulation, using unobservable (Level 3) inputs. These inputs may 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; (iii) the risk-adjusted discount rate used to present value the probability-weighted cash flows; and (iv) volatility of projected performance (Monte Carlo Simulation). 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 months ended September 30, 2017:

(in millions)

Balance, January 1, 2017	\$	892
Adjustments to Acquisition-related contingent consideration:		
Accretion for the time value of money	\$	48
Fair value adjustments to the expected future royalty payments for Addyi®		(312)
Fair value adjustments due to changes in estimates of other future payments		(33)
Acquisition-related contingent consideration		(297)
Reclassified to liabilities held for sale		(168)
Payments		(37)
Balance, September 30, 2017		390
Current portion		45
Non-current portion	\$	345

During the nine months ended September 30, 2017 and prior to identifying the Sprout business as held for sale, the Company recorded fair value adjustments to contingent consideration to reflect management's revised estimates of the future sales of Addyi®.

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

The following fair value hierarchy table presents the assets measured at fair value on a non-recurring basis:

(in millions)	September 30, 2017				December 31, 2016			
	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:								
Non-current assets held for sale	\$ 706	\$ —	\$ —	\$ 706	\$ 38	\$ —	\$ —	\$ 38

Non-current assets held for sale of \$718 million included in the consolidated balance sheet as of September 30, 2017, includes held for sale assets of \$706 million which were remeasured to estimated fair values less costs to sell. The Company recognized impairment charges of \$456 million, in the aggregate, in Asset impairments for the nine months ended September 30, 2017 in the consolidated statement of operations. The estimated fair values of these assets less costs to sell were determined using a discounted cash flow analysis which utilized Level 3 unobservable inputs. The remaining balance of Non-current assets held for sale as of September 30, 2017 reflect the historical carrying value of those assets which do not exceed fair value less costs to sell.

#### Long-term Debt

The fair value of long-term debt as of September 30, 2017 and December 31, 2016, was \$26,476 million and \$26,297 million, respectively, and was estimated using the quoted market prices for the same or similar debt issuances (Level 2).

## 7. INVENTORIES

The components of inventories, net of allowances for obsolescence were as follows:

<i>(in millions)</i>	September 30, 2017	December 31, 2016
Raw materials	\$ 281	\$ 256
Work in process	140	125
Finished goods	650	680
	<u>\$ 1,071</u>	<u>\$ 1,061</u>

## 8. INTANGIBLE ASSETS AND GOODWILL

### Intangible Assets

The major components of intangible assets were as follows:

<i>(in millions)</i>	September 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization, Including Impairments	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization, Including Impairments	Net Carrying Amount
Finite-lived intangible assets:						
Product brands	\$ 20,768	\$ (8,512)	\$ 12,256	\$ 20,725	\$ (6,883)	\$ 13,842
Corporate brands	934	(161)	773	999	(146)	853
Product rights/patents	3,273	(2,290)	983	4,240	(2,118)	2,122
Partner relationships	172	(154)	18	152	(128)	24
Technology and other	212	(143)	69	252	(160)	92
Total finite-lived intangible assets	<u>25,359</u>	<u>(11,260)</u>	<u>14,099</u>	<u>26,368</u>	<u>(9,435)</u>	<u>16,933</u>
Acquired IPR&D not in service	226	—	226	253	—	253
B&L Trademark	1,698	—	1,698	1,698	—	1,698
	<u>\$ 27,283</u>	<u>\$ (11,260)</u>	<u>\$ 16,023</u>	<u>\$ 28,319</u>	<u>\$ (9,435)</u>	<u>\$ 18,884</u>

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment charges associated with these assets are included in Asset impairments in the consolidated statement of operations. The Company continues to monitor the recoverability of its finite-lived intangible assets and tests the intangible assets for impairment if indicators of impairment are present.

Asset impairments for the nine months ended September 30, 2017 include: (i) an impairment of \$352 million related to the Sprout business classified as held for sale, (ii) impairments of \$115 million to other assets classified as held for sale, (iii) impairments of \$86 million, in aggregate, to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core business, (iv) impairments of \$73 million reflecting decreases in forecasted sales for other product lines, and (v) impairments of \$3 million related to acquired IPR&D. The impairments to assets reclassified as held for sale were measured as the difference of the carrying value of these assets as compared to the estimated fair values of these assets less costs to sell determined using a discounted cash flow analysis which utilized Level 3 unobservable inputs. The other impairments and adjustments to finite-lived intangible assets were measured as the difference of the historical carrying value of these finite-lived assets as compared to the estimated fair value as determined using a discounted cash flow analysis using Level 3 unobservable inputs.

In connection with an ongoing litigation matter between the Company and potential generic competitors to the branded drug Uceris® Tablet, the Company performed an impairment test of its Uceris® Tablet related intangible assets. As the undiscounted expected cash flows from the Uceris® Tablet exceed the carrying value of the Uceris® Tablet related intangible assets, no impairment exists as of September 30, 2017. However, if market conditions or legal outcomes differ from the Company's assumptions, or if the Company is unable to execute its strategies, it may be necessary to record an impairment charge equal to the difference between the fair value and carrying value of the Uceris® Tablet related intangible assets. As of September 30, 2017, the carrying value of Uceris® Tablet related intangible assets was \$619 million.

Estimated amortization expense, for the remainder of 2017 and each of the five succeeding years ending December 31 and thereafter is as follows:

(in millions)

October through December 2017	\$ 584
2018	2,275
2019	2,059
2020	1,966
2021	1,781
2022	1,641
Thereafter	3,793
Total	<u>\$ 14,099</u>

### Goodwill

The changes in the carrying amounts of goodwill during the nine months ended September 30, 2017 and the year ended December 31, 2016 were as follows:

(in millions)

	Developed Markets	Emerging Markets	Bausch + Lomb/ International	Branded Rx	U.S. Diversified Products	Total
<b>Balance, January 1, 2016</b>	\$ 16,141	\$ 2,412	\$ —	\$ —	\$ —	\$ 18,553
Acquisitions	1	—	—	—	—	1
Divestiture of a portfolio of neurology medical device products	(36)	—	—	—	—	(36)
Goodwill related to Ruconest® reclassified to assets held for sale	(37)	—	—	—	—	(37)
Foreign exchange and other	47	(12)	—	—	—	35
Impairment to goodwill of the former U.S. reporting unit	(905)	—	—	—	—	(905)
Realignment of segment goodwill	(15,211)	(2,400)	6,708	7,873	3,030	—
Impairment to goodwill of the Salix reporting unit	—	—	—	(172)	—	(172)
Divestitures	—	—	(5)	—	—	(5)
Goodwill reclassified to assets held for sale	—	—	(947)	(431)	—	(1,378)
Foreign exchange and other	—	—	(257)	(5)	—	(262)
<b>Balance, December 31, 2016</b>	—	—	5,499	7,265	3,030	15,794
Realignment of segment goodwill	—	—	264	(264)	—	—
<b>Balance, January 1, 2017</b>	—	—	5,763	7,001	3,030	15,794
Goodwill reclassified to assets held for sale	—	—	(31)	(63)	(76)	(170)
Impairment	—	—	—	(312)	—	(312)
Foreign exchange and other	—	—	262	(1)	—	261
<b>Balance, September 30, 2017</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,994</u>	<u>\$ 6,625</u>	<u>\$ 2,954</u>	<u>\$ 15,573</u>

Goodwill is not amortized but is tested for impairment at least annually at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants. The Company estimates the fair values of all reporting units using a discounted cash flow model which utilizes Level 3 unobservable inputs.

The discounted cash flow model relies on assumptions regarding revenue growth rates, gross profit, projected working capital needs, selling, general and administrative expenses, research and development expenses, capital expenditures, income tax rates, discount rates and terminal growth rates. To estimate fair value, the Company discounts the expected cash flows of each reporting unit. The discount rate the Company uses represents the estimated weighted average cost of capital, which reflects

the overall level of inherent risk involved in its reporting unit operations and the rate of return a market participant would expect to earn. To estimate cash flows beyond the final year of its model, the Company estimates a terminal value by applying an in perpetuity growth assumption and discount factor to determine the reporting unit's terminal value.

The Company forecasts cash flows for each of its reporting units and takes into consideration economic conditions and trends, estimated future operating results, management's and a market participant's view of growth rates and product lives, and anticipates future economic conditions. Revenue growth rates inherent in these forecasts were based on input from internal and external market research that compare factors such as growth in global economies, recent industry trends and product life-cycles. Macroeconomic factors such as changes in economies, changes in the competitive landscape including the unexpected loss of exclusivity to the Company's product portfolio, changes in government legislation, product life-cycles, industry consolidations and other changes beyond the Company's control could have a positive or negative impact on achieving its targets. Accordingly, if market conditions deteriorate, or if the Company is unable to execute its strategies, it may be necessary to record impairment charges in the future.

## 2016

Prior to the change in operating segments in the third quarter of 2016, the Company operated in two operating and reportable segments: Developed Markets and Emerging Markets. The Developed Markets segment consisted of four geographic reporting units: (i) U.S., (ii) Canada and Australia, (iii) Western Europe and (iv) Japan. The Emerging Markets segment consisted of three geographic reporting units: (i) Central and Eastern Europe, Middle East and Africa, (ii) Latin America and (iii) Asia.

### *March 31, 2016*

Given challenges facing the Company, particularly in its dermatology and gastrointestinal businesses, management performed a review of its then-current forecast under the direction of the new Chief Executive Officer ("CEO"). As a result of that review, management lowered its forecast which resulted in a triggering event requiring the Company to test goodwill for impairment as of March 31, 2016. Although management lowered its forecast, which lowered the estimated fair values of certain business units, including the former U.S. reporting unit, the step one testing determined there was no impairment of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. In order to evaluate the sensitivity of its fair value calculations on the goodwill impairment test, the Company applied a hypothetical 15% decrease in the fair value of each reporting unit as of March 31, 2016. For each reporting unit, this hypothetical 15% decrease in fair value would not have triggered additional impairment testing as the hypothetical fair value exceeded the carrying value of the respective reporting unit.

### *Realignment of Segment Structure*

Commencing in the third quarter of 2016, the Company operates in three operating segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. This 2016 segment structure realignment resulted in the Bausch + Lomb/International segment consisting of the following reporting units: (i) U.S. Bausch + Lomb and (ii) International; the Branded Rx segment consisting of the following reporting units: (i) Salix, (ii) Dermatology, (iii) Canada and (iv) Branded Rx Other; and the U.S. Diversified Products segment consisting of the following reporting units: (i) Neurology and other and (ii) Generics. As a result of these changes, goodwill was reassigned to each of the aforementioned reporting units using a relative fair value approach. Goodwill previously reported in the former U.S. reporting unit, after adjustment of impairment as described below, was reassigned, using a relative fair value approach, to the U.S. Bausch + Lomb, Salix, Dermatology, Branded Rx Other, Neurology and other, and Generics reporting units. Similarly, goodwill previously reported in the former Canada and Australia reporting unit was reassigned to the Canada and the International reporting units using a relative fair value approach. Goodwill previously reported in the remaining former reporting units was reassigned to the International reporting unit.

In the third quarter of 2016, goodwill impairment testing was performed under the former reporting unit structure immediately prior to the change and under the current reporting unit structure immediately subsequent to the change. Using the forecast and assumptions at the time, the Company estimated the fair value of each reporting unit using a discounted cash flow analysis. As a result of its test, the Company determined that goodwill associated with the former U.S. reporting unit and the goodwill associated with the Salix reporting unit under the current reporting unit structure were impaired. Consequently, in the aggregate, goodwill impairment charges of \$1,077 million were recognized as follows:

- Under the former reporting unit structure, the fair value of each reporting unit exceeded its carrying value by more than 15%, except for the former U.S. reporting unit whose carrying value exceeded its fair value by 2%. As a result, the Company proceeded to perform step two of the goodwill impairment test for the former U.S. reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value. However, as the estimate of fair value is

complex and requires significant amounts of time and judgment, the Company could not complete step two of the testing prior to the release of its financial statements for the period ended September 30, 2016. Under these circumstances, accounting guidance requires that a company recognize an estimated impairment charge if management determines that it is probable that an impairment loss has occurred and such impairment can be reasonably estimated. Using its best estimate, the Company recorded an initial goodwill impairment charge of \$838 million as of September 30, 2016. In the fourth quarter of 2016, step two testing was completed and the Company concluded that the excess of the carrying value of the former U.S. reporting unit's unadjusted goodwill over its implied value as of September 30, 2016 was \$905 million and recognized an incremental goodwill impairment charge of \$67 million for the fourth quarter of 2016. The goodwill impairment was primarily driven by changes to the Company's forecasted performance which resulted in a lower fair value of the U.S. businesses, mainly the Salix business.

- Under the current reporting unit structure, the carrying value of the Salix reporting unit exceeded its fair value, as updates to the unit's forecast resulted in a lower estimated fair value for the business. As a result, the Company proceeded to perform step two of the goodwill impairment test for the Salix reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value. However, the Company could not complete step two of the testing prior to the release of its financial statements for the period ended September 30, 2016. Using its best estimate, the Company recorded an initial goodwill impairment charge of \$211 million as of September 30, 2016. In the fourth quarter of 2016, step two testing was completed and the Company concluded that the excess of the carrying value of the Salix reporting unit's unadjusted goodwill over its implied value as of September 30, 2016 was \$172 million and recognized a credit to the initial goodwill impairment charge of \$39 million for the fourth quarter of 2016. As of the date of testing, after all adjustments, the Salix reporting unit had a carrying value of \$14,066 million, an estimated fair value of \$10,409 million and goodwill with a carrying value of \$5,128 million.

In order to evaluate the sensitivity of its fair value calculations on the goodwill impairment test, the Company compared the carrying value of each reporting unit to its fair value as of August 31, 2016, the date of testing. The fair value of each reporting unit exceeded its carrying value by more than 15%, except for the Salix reporting unit as discussed above and the U.S. Branded Rx reporting unit. As of the date of testing, goodwill of the U.S. Branded Rx reporting unit was \$897 million and the estimated fair value of the unit exceeded its carrying value by approximately 5%.

#### *Annual Goodwill Impairment Test*

The Company conducted its annual goodwill impairment test as of October 1, 2016 and determined that the carrying value of the Salix reporting unit exceeded its fair value and, as a result, the Company proceeded to perform step two of the goodwill impairment test for the Salix reporting unit. After completing step two of the impairment testing, the Company determined that the carrying value of the unit's goodwill did not exceed its implied fair value and, therefore, no impairment was identified to the goodwill of the Salix reporting unit. As of the date of testing, the Salix reporting unit had a carrying value of \$14,087 million, an estimated fair value of \$10,319 million and goodwill with a carrying value of \$5,128 million. The Company's remaining reporting units passed step one of the goodwill impairment test as the estimated fair value of each reporting unit exceeded its carrying value at the date of testing and, therefore, impairment to goodwill was \$0. The Company determined that no events occurred or circumstances changed during the period of October 1, 2016 through December 31, 2016 that would indicate that the fair value of a reporting unit may be below its carrying amount, except for the Salix reporting unit. During the period of October 1, 2016 through December 31, 2016, there were no changes in the facts and circumstances which would suggest that goodwill of the Salix reporting unit was further impaired.

In order to evaluate the sensitivity of its fair value calculations on the goodwill impairment test, the Company compared the carrying value of each reporting unit to its fair value as of October 1, 2016, the date of testing. The fair value of each reporting unit exceeded its carrying value by more than 15%, except for the Salix reporting unit, as discussed above and the U.S. Branded Rx reporting unit. As of the date of testing, goodwill of the U.S. Branded Rx reporting unit was \$897 million and the estimated fair value of the unit exceeded its carrying value by approximately 8%.

#### 2017

As detailed in Note 2, "SIGNIFICANT ACCOUNTING POLICIES", the revenues and profits from the Company's operations in Canada were reclassified. In connection with this change, the prior-period presentation of segment goodwill has been recast to conform to the current reporting structure, of which \$264 million of goodwill as of December 31, 2016 was reclassified from the Branded Rx segment to the Bausch + Lomb/International segment. No facts or circumstances were identified in connection with this change in alignment that would suggest an impairment exists.

As detailed in Note 4, "DIVESTITURES", as of September 30, 2017 the Sprout business was classified as held for sale. As the Sprout business represented only a portion of a Branded Rx reporting unit, the Company assessed the remaining reporting unit for impairment and determined the carrying value of the remaining reporting unit exceeded its fair value. After completing step two of the impairment testing, the Company determined and recorded a goodwill impairment charge of \$312 million during the three months ended September 30, 2017. Together with the \$1,077 million impairment charges from 2016, accumulated goodwill impairment charges to date are \$1,389 million.

No additional events occurred or circumstances changed during the nine months ended September 30, 2017 that would indicate that the fair value of any other reporting unit may be below its carrying value, except for the Salix reporting unit. As the facts and circumstances had not materially changed since the October 1, 2016 impairment test, management concluded that the carrying value of the Salix reporting unit continues to be in excess of its fair value. Therefore, during the three months ended March 31, 2017, June 30, 2017 and September 30, 2017, the Company performed qualitative assessments of the Salix reporting unit goodwill to determine if testing was warranted.

As part of its qualitative assessments, management compared the reporting unit's operating results to its original forecasts. Although Salix reporting unit revenue during the three months ended March 31, 2017, June 30, 2017 and September 30, 2017 declined as compared to the three months ended December 31, 2016, each decrease was within management's expectations. Further, the latest forecast for the Salix reporting unit is not materially different than the forecast used in management's October 1, 2016 testing and the difference in the forecasts would not change the conclusion of the Company's goodwill impairment testing as of October 1, 2016. As part of these qualitative assessments, the Company also considered the sensitivity of its conclusions as they relate to changes in the estimates and assumptions used in the latest forecast available for each period. Based on its qualitative assessments, management believes that the carrying value of the Salix reporting unit goodwill does not exceed its implied fair value and that testing the Salix reporting unit goodwill for impairment was not required based on the current facts and circumstances.

If market conditions deteriorate, or if the Company is unable to execute its strategies, it may be necessary to record impairment charges in the future.

## 9. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities were as follows:

<i>(in millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Product rebates	\$ 1,039	\$ 897
Product returns	815	708
Interest	385	337
Employee compensation and benefit costs	258	198
Income taxes payable	163	213
Legal liabilities assumed in the Salix Acquisition	52	281
Other	684	593
	<u>\$ 3,396</u>	<u>\$ 3,227</u>

## 10. FINANCING ARRANGEMENTS

Principal amounts of debt obligations and principal amounts of debt obligations net of discounts and issuance costs consists of the following:

<i>(in millions)</i>	Maturity	September 30, 2017		December 31, 2016	
		Principal Amount	Net of Discounts and Issuance Costs	Principal Amount	Net of Discounts and Issuance Costs
<b>Senior Secured Credit Facilities:</b>					
Revolving Credit Facility	April 2018	\$ —	\$ —	\$ 875	\$ 875
Revolving Credit Facility	April 2020	425	425	—	—
Series A-3 Tranche A Term Loan Facility	October 2018	—	—	1,032	1,016
Series A-4 Tranche A Term Loan Facility	April 2020	—	—	668	658
Series D-2 Tranche B Term Loan Facility	February 2019	—	—	1,068	1,048
Series C-2 Tranche B Term Loan Facility	December 2019	—	—	823	805
Series E-1 Tranche B Term Loan Facility	August 2020	—	—	2,456	2,429
Series F Tranche B Term Loan Facility	April 2022	5,800	5,685	3,892	3,815
<b>Senior Secured Notes:</b>					
6.50% Secured Notes	March 2022	1,250	1,235	—	—
7.00% Secured Notes	March 2024	2,000	1,975	—	—
<b>Senior Unsecured Notes:</b>					
6.75%	August 2018	—	—	1,600	1,593
5.375%	March 2020	2,000	1,988	2,000	1,985
7.00%	October 2020	690	689	690	689
6.375%	October 2020	2,250	2,235	2,250	2,231
7.50%	July 2021	1,625	1,615	1,625	1,613
6.75%	August 2021	650	647	650	647
5.625%	December 2021	900	895	900	894
7.25%	July 2022	550	544	550	543
5.50%	March 2023	1,000	993	1,000	992
5.875%	May 2023	3,250	3,223	3,250	3,220
4.50% euro-denominated debt	May 2023	1,772	1,757	1,578	1,563
6.125%	April 2025	3,250	3,221	3,250	3,218
Other	Various	14	14	12	12
<b>Total long-term debt</b>		<b>\$ 27,426</b>	<b>27,141</b>	<b>\$ 30,169</b>	<b>29,846</b>
Less: Current portion of long-term debt and other			925		1
<b>Non-current portion of long-term debt</b>			<b>\$ 26,216</b>		<b>\$ 29,845</b>

### Covenant Compliance

The Senior Secured Credit Facilities and the indentures governing the Company's Senior Secured Notes and Senior Unsecured Notes contain customary affirmative and negative covenants and specified events of default. These affirmative and negative covenants include, among other things, and subject to certain qualifications and exceptions, covenants that restrict the Company's ability and the ability of its subsidiaries to: incur or guarantee additional indebtedness; create or permit liens on assets; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness; make certain investments and other restricted payments; engage in mergers, acquisitions, consolidations and amalgamations; transfer and sell certain assets; and engage in transactions with affiliates. The Revolving Credit Facility also contains specified financial maintenance covenants (consisting of a secured leverage ratio and an interest coverage ratio).

During the nine months ended September 30, 2017, the Company completed several actions which included using the proceeds from divestitures and cash flows from operations to repay debt, amending financial maintenance covenants, extending a

significant portion of the Revolving Credit Facility, and refinancing debt with near term maturities. These actions, described below, have reduced the Company's debt balance and positively affected the Company's ability to comply with its financial maintenance covenants. As of September 30, 2017, the Company was in compliance with all financial maintenance covenants related to its outstanding debt. The Company, based on its current forecast for the next twelve months from the date of issuance of these financial statements and the amendments executed, expects to remain in compliance with these financial maintenance covenants and meet its debt service obligations over that same period.

The Company continues to take steps to improve its operating results to ensure continual compliance with its financial maintenance covenants and take other actions to reduce its debt levels to align with the Company's long term strategy. The Company may consider taking other actions, including divesting other businesses and refinancing debt as deemed appropriate, to provide additional coverage in complying with the financial maintenance covenants and meeting its debt service obligations.

### **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 lenders. As of January 1, 2016, the Credit Agreement provided for: (i) a \$1,500 million Revolving Credit Facility maturing on April 20, 2018, which included a sublimit for the issuance of standby and commercial letters of credit and a sublimit for swing line loans and (ii) a series of term loans maturing during the years 2016 through 2022.

On April 11, 2016, the Company entered into Amendment No. 12 and Waiver to the Credit Agreement ("Amendment No. 12"), which addressed the Company's delay in delivering its Annual Report for the year ended December 31, 2015 on Form 10-K (the "2015 Annual Report"). Amendment No. 12 extended the deadlines to deliver the Company's 2015 Annual Report and its Quarterly Report for the period ended March 31, 2016 on Form 10-Q (such requirements, the "Financial Reporting Requirements") and waived, among other things, any cross-default under the Credit Agreement to the Company's other indebtedness as a result of the delays. These Financial Reporting Requirements were subsequently satisfied as extended. In addition to these waivers, Amendment No. 12 (i) modified certain financial maintenance covenants, (ii) amended certain financial definitions and (iii) imposed a number of restrictions on the Company and its subsidiaries' ability to incur additional debt, make additional acquisitions, make investments, distribute capital and make other capital allocations until such time that the Financial Reporting Requirements were satisfied and the Company attains specific leverage ratios. Amendment No. 12 also increased each of the applicable interest rate margins under the Credit Agreement by 1.00% until delivery of the Company's financial statements for the quarter ending June 30, 2017. Thereafter, the interest rate applicable to the loans will be determined on the basis of a pricing grid tied to the Company's secured leverage ratio. Amendment No. 12 was accounted for as a debt modification, and as a result, payments to the lenders were recognized as additional debt discounts and were being amortized over the remaining term of each term loan.

On August 23, 2016, the Company entered into Amendment No. 13 to the Credit Agreement ("Amendment No. 13") which (i) reduced the minimum interest coverage maintenance covenant under the Credit Agreement, (ii) permitted the issuance of secured notes with shorter maturities and the incurrence of other indebtedness, in each case to repay term loans under the Credit Agreement and (iii) provided additional flexibility to sell assets, provided the proceeds of such asset sales are used to prepay loans under the Credit Agreement. Amendment No. 13 also increased each of the applicable interest rate margins under the Credit Agreement by 0.50% until delivery of the Company's financial statements for the quarter ending June 30, 2017. Thereafter, the interest rate applicable to the loans will be determined on the basis of a pricing grid tied to the Company's secured leverage ratio. Amendment No. 13 was accounted for as a debt modification, and as a result, payments to the lenders were recognized as additional debt discounts and were being amortized over the remaining term of each term loan.

On March 3, 2017, the Company used proceeds from the Skincare Sale to repay \$1,086 million of outstanding debt under its Senior Secured Credit Facilities.

On March 21, 2017, the Company entered into Amendment No. 14 to the Credit Agreement ("Amendment No. 14") which (i) provided additional financing from an incremental term loan under the Company's Series F Tranche B Term Loan Facility of \$3,060 million (the "Series F-3 Tranche B Term Loan"), (ii) amended the financial covenants contained in the Credit Agreement, (iii) increased the amortization rate for the Series F Tranche B Term Loan Facility from 0.25% per quarter (1% per annum) to 1.25% per quarter (5% per annum), with quarterly payments starting March 31, 2017, (iv) amended certain financial definitions, including the definition of Consolidated Adjusted EBITDA, and (v) provided additional ability for the Company to, among other things, incur indebtedness and liens, consummate acquisitions and make other investments, including relaxing certain limitations imposed by prior amendments. The proceeds from the additional financing, combined with the proceeds from the issuance of the Senior Secured Notes described below and cash on hand, were used to (i) repay all outstanding

balances under the Company's Series A-3 Tranche A Term Loan Facility, Series A-4 Tranche A Term Loan Facility, Series D-2 Tranche B Term Loan Facility, Series C-2 Tranche B Term Loan Facility, and Series E-1 Tranche B Term Loan Facility (collectively the "Refinanced Debt"), (ii) repurchase \$1,100 million in principal amount of 6.75% Senior Unsecured Notes due August 2018 (the "August 2018 Senior Unsecured Notes"), (iii) repay \$350 million of amounts outstanding under the Company's Revolving Credit Facility and (iv) pay related fees and expenses (collectively, the "March 2017 Refinancing Transactions").

Amendments to the covenants made as part of Amendment No. 14 include: (i) removed the financial maintenance covenants with respect to the Series F Tranche B Term Loan Facility, (ii) reduced the interest coverage ratio maintenance covenant to 1.50:1.00 with respect to the Revolving Credit Facility beginning in the quarter ending March 31, 2017 through the quarter ending March 31, 2019 (stepping up to 1.75:1.00 thereafter) and (iii) increased the secured leverage ratio maintenance covenant to 3.00:1.00 with respect to the Revolving Credit Facility beginning in the quarter ending March 31, 2017 through the quarter ending March 31, 2019 (stepping down to 2.75:1.00 thereafter). These financial maintenance covenants apply only with respect to the Revolving Credit Facility and can be waived or amended without the consent of the term loan lenders under the Credit Agreement.

Modifications to Consolidated Adjusted EBITDA from Amendment No. 14 included, among other things: (i) modifications to permit the Company to add back extraordinary, unusual or non-recurring expenses or charges (including certain costs of, and payments of, litigation expenses, actual or prospective legal settlements, fines, judgments or orders, subject to a cap of \$500 million in any twelve month period, of which no more than \$250 million may pertain to any costs, payments, expenses, settlements, fines, judgments or orders, in each case, arising out of any actual or potential claim, investigation, litigation or other proceeding that the Company did not publicly disclose on or prior to the effectiveness of Amendment No. 14, and subject to other customary limitations), and (ii) modifications to allow the Company to add back expenses, charges or losses actually reimbursed or for which the Company reasonably expects to be reimbursed by third parties within 365 days, subject to customary limitations.

Amendment No. 14 was accounted for as a modification of debt to the extent the Refinanced Debt was replaced with the incremental Series F-3 Tranche B Term Loan issued to the same creditor and an extinguishment of debt to the extent the Refinanced Debt was replaced with Series F-3 Tranche B Term Loan issued to a different creditor. The Refinanced Debt replaced with the proceeds of the newly issued senior secured notes was accounted for as an extinguishment of debt. For amounts accounted for as an extinguishment of debt, the Company incurred a Loss on extinguishment of debt of \$27 million representing the difference between the amount paid to settle the extinguished debt and the extinguished debt's carrying value (the stated principal amount net of unamortized discount and debt issuance costs). Payments made to the lenders of \$38 million associated with the issuance of the new Series F-3 Tranche B Term Loan were capitalized and are being amortized as interest expense over the remaining term of the Series F Tranche B Term Loan Facility. Third party expenses of \$3 million associated with the modification of debt were expensed as incurred and included in Interest expense.

On March 28, 2017, the Company entered into Amendment No. 15 to the Credit Agreement ("Amendment No. 15") which provided for the extension of the maturity date of \$1,190 million of revolving credit commitments under the Revolving Credit Facility from April 20, 2018 to the earlier of (i) April 20, 2020 and (ii) the date that is 91 calendar days prior to the scheduled maturity of any series or tranche of term loans under the Credit Agreement, certain Senior Secured Notes or Senior Unsecured Notes and any other indebtedness for borrowed money in excess of \$750 million. Unless otherwise terminated prior thereto, the remaining \$310 million of revolving credit commitments under the Revolving Credit Facility will continue to mature on April 20, 2018. Amendment No. 15 was accounted for in part as a debt modification, whereby the fees paid to lenders agreeing to extend their commitment through April 20, 2020 and the fees paid to lenders providing additional commitments were recognized as additional debt issuance costs and are being amortized over the remaining term of the Revolving Credit Facility. Amendment No. 15 was accounted for in part as an extinguishment of debt and the Company incurred a Loss on extinguishment of debt of \$1 million representing the unamortized debt issuance costs associated with the commitments canceled by lenders in the amendment.

In April 2017, using the remaining proceeds from the Skincare Sale and the proceeds from the divestiture of a manufacturing facility in Brazil, the Company repaid \$220 million of its Series F Tranche B Term Loan Facility. On July 3, 2017, using the net proceeds from the Dendreon Sale, the Company repaid \$811 million of its Series F Tranche B Term Loan Facility. On September 29, 2017, using cash on hand, the Company repaid \$100 million of amounts outstanding under its Revolving Credit Facility.

Borrowings under the Senior Secured Credit Facilities bear interest at a rate per annum equal to, at the Company's option from time to time, either (i) a base rate determined by reference to the higher of (a) the prime rate (as defined in the Credit Agreement) and (b) the federal funds effective rate plus 1/2 of 1% or (ii) 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. These applicable margins are subject to increase or decrease quarterly based on the secured leverage ratio beginning with the quarter ended June 30, 2017. Based on its calculation of the Company's secured leverage ratio, management does not anticipate any such increase or decrease to the current applicable margins for the next applicable period.

The applicable interest rate margins for borrowings under the Revolving Credit Facility are 2.75% with respect to base rate borrowings and 3.75% with respect to LIBO rate borrowings. As of September 30, 2017, the stated rate of interest on the Revolving Credit Facility was 4.99% per annum. In addition, the Company is required to pay commitment fees of 0.50% per annum in respect to the commitments not utilized, 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, customary fronting fees for the issuance of letters of credit and agency fees.

The applicable interest rate margins for the Series F Tranche B Term Loan Facility are 3.75% with respect to base rate borrowings and 4.75% with respect to LIBO rate borrowings, subject to a 0.75% LIBO rate floor. As of September 30, 2017, the stated rate of interest on the Company's borrowings under the Series F Tranche B Term Loan Facility was 5.99% per annum.

## **Senior Secured Notes**

### *March 2017 Refinancing Transactions*

As part of the March 2017 Refinancing Transactions, the Company issued \$1,250 million aggregate principal amount of 6.50% senior secured notes due March 15, 2022 (the "March 2022 Senior Secured Notes") and \$2,000 million aggregate principal amount of 7.00% senior secured notes due March 15, 2024 (the "March 2024 Senior Secured Notes"), in a private placement, the proceeds of which, when combined with the proceeds from the Series F-3 Tranche B Term Loan and cash on hand, were used to (i) repay the Refinanced Debt, (ii) repurchase \$1,100 million in principal amount of August 2018 Senior Unsecured Notes, (iii) repay \$350 million of amounts outstanding under the Company's Revolving Credit Facility and (iv) pay related fees and expenses. Interest on these notes is payable semi-annually in arrears on each March 15 and September 15.

The Senior Secured Notes are guaranteed by each of the Company's subsidiaries that is a guarantor under the Credit Agreement and existing Senior Unsecured Notes (together, the "Note Guarantors"). The Senior Secured Notes and the guarantees related thereto are senior obligations and are secured, subject to permitted liens and certain other exceptions, by the same first priority liens that secure the Company's obligations under the Credit Agreement under the terms of the indenture governing the Senior Secured Notes.

The Senior Secured Notes and the guarantees rank equally in right of payment with all of the Company's and Note Guarantors' respective existing and future unsubordinated indebtedness and senior to the Company's and Note Guarantors' respective future subordinated indebtedness. The Senior Secured Notes and the guarantees related thereto are effectively *pari passu* with the Company's and the Note Guarantors' respective existing and future indebtedness secured by a first priority lien on the collateral securing the Senior Secured Notes and effectively senior to the Company's and the Note Guarantors' respective existing and future indebtedness that is unsecured, including the existing Senior Unsecured Notes, or that is secured by junior liens, in each case to the extent of the value of the collateral. In addition, the Senior Secured Notes are structurally subordinated to (i) all liabilities of any of the Company's subsidiaries that do not guarantee the Senior Secured Notes and (ii) any of the Company's debt that is secured by assets that are not collateral.

The March 2022 Senior Secured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 15, 2019, at the redemption prices set forth in the indenture. The Company may redeem some or all of the March 2022 Senior Secured Notes prior to March 15, 2019 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to March 15, 2019, the Company may redeem up to 40% of the aggregate principal amount of the March 2022 Senior Secured Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

The March 2024 Senior Secured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 15, 2020, at the redemption prices set forth in the indenture. The Company may redeem some or all of the March

2024 Senior Secured Notes prior to March 15, 2020 at a price equal to 100% of the principal amount thereof plus a “make-whole” premium. Prior to March 15, 2020, the Company may redeem up to 40% of the aggregate principal amount of the March 2024 Senior Secured Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

Upon the occurrence of a change in control (as defined in the indentures governing the Senior Secured Notes), unless the Company has exercised its right to redeem all of the notes of a series as described above, holders of the Senior Secured Notes may require the Company to repurchase such holder’s notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

### **Senior Unsecured Notes**

The Senior Unsecured Notes issued by the Company are the Company’s senior unsecured obligations and are jointly and severally guaranteed on a senior unsecured basis by each of its subsidiaries that is a guarantor under the Senior Secured Credit Facilities. The Senior Unsecured Notes issued by the Company’s subsidiary Valeant are senior unsecured obligations of Valeant and are jointly and severally guaranteed on a senior unsecured basis by the Company and each of its subsidiaries (other than Valeant) that is a guarantor under the Senior Secured Credit Facilities. Future subsidiaries of the Company and Valeant, if any, may be required to guarantee the Senior Unsecured Notes.

If the Company experiences a change in control, the Company may be required to make an offer to repurchase each series of Senior Unsecured Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount of the Senior Unsecured Notes repurchased, plus accrued and unpaid interest.

As part of the March 2017 Refinancing Transactions, the Company completed a tender offer to repurchase \$1,100 million in aggregate principal amount of the August 2018 Senior Unsecured Notes for total consideration of approximately \$1,132 million plus accrued and unpaid interest through March 20, 2017. Loss on extinguishment of debt during the three months ended March 31, 2017 associated with the repurchase of the August 2018 Senior Unsecured Notes was \$36 million representing the difference between the amount paid to settle the debt and the debt’s carrying value.

On August 15, 2017, the Company repurchased the remaining \$500 million of outstanding August 2018 Senior Unsecured Notes using cash on hand, plus accrued and unpaid interest. Loss on extinguishment of debt during the three months ended September 30, 2017 associated with the repurchase of the August 2018 Senior Unsecured Notes was \$1 million representing the difference between the amount paid to settle the debt and the debt’s carrying value.

### **Weighted Average Stated Rate of Interest**

The weighted average stated rate of interest as of September 30, 2017 and December 31, 2016 was 6.09% and 5.75%, respectively.

## Maturities

Maturities and mandatory amortization payments of debt obligations for the period October through December 2017, the five succeeding years ending December 31 and thereafter are as follows:

*(in millions)*

October through December 2017	\$ 923
2018	2
2019	—
2020	5,365
2021	3,175
2022	6,677
Thereafter	11,284
Total gross maturities	27,426
Unamortized discounts	(285)
Total long-term debt	<u>\$ 27,141</u>

During the nine months ended September 30, 2017, the Company made aggregate repayments of long-term debt of \$9,249 million, which consisted of (i) \$7,199 million of repayments of term loans under its Senior Secured Credit Facilities, (ii) \$1,600 million of repurchased August 2018 Senior Unsecured Notes, and (iii) \$450 million of Revolving Credit Facility amounts outstanding. During the nine months ended September 30, 2017, the Company incurred \$6,310 million of long-term debt, consisting of \$3,060 million of Series F-3 Tranche B Term Loan and \$3,250 million of Senior Secured Notes.

On October 5, 2017, using the net proceeds from the iNova Sale, the Company repaid \$923 million of its Series F Tranche B Term Loan Facility. This repayment satisfied the \$923 million due during the period October through December 2017 in the table above. On October 17, 2017, the Company issued \$1,000 million aggregate principal amount of 5.50% senior secured notes due November 1, 2025 (the "5.50% 2025 Notes"), in a private placement, the proceeds of which were used to (i) repurchase \$569 million in principal amount of 6.375% senior notes due 2020 (the "6.375% 2020 Notes") and (ii) repurchase \$431 million in principal amount of 7.00% senior notes due 2020 (the "7.00% 2020 Notes") (collectively the "2020 Notes"). The related fees and expenses were paid using cash on hand. The repayments of the 2020 Notes and issuance of the 5.50% 2025 Notes are not reflected in the table above. On November 2, 2017, using cash on hand, the Company repaid \$125 million of its Series F Tranche B Term Loan Facility, satisfying an equivalent amount due in the year 2022 reflected in the table above. See Note 20, "SUBSEQUENT EVENTS" for additional details regarding the private placement of the 5.50% 2025 Notes and repurchase of the 2020 Notes.

## 11. PENSION AND POSTRETIREMENT EMPLOYEE BENEFIT PLANS

The Company sponsors defined benefit plans and a participatory defined benefit postretirement medical and life insurance plan, which covers certain U.S. employees and employees in certain other countries. The following table provides the components of net periodic (benefit) cost for the Company's defined benefit pension plans and postretirement benefit plan for the three and nine months ended September 30, 2017 and 2016:

<i>(in millions)</i>	Pension Benefit Plans				Postretirement Benefit Plan	
	U.S. Plan		Non-U.S. Plans			
	Three Months Ended September 30,					
	2017	2016	2017	2016	2017	2016
Service cost	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ 1
Interest cost	2	2	1	1	1	—
Expected return on plan assets	(4)	(3)	(2)	(2)	—	—
Amortization of prior service credit	—	—	—	—	—	(1)
Amortization of net loss	—	—	—	—	—	—
Net periodic (benefit) cost	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>

<i>(in millions)</i>	Pension Benefit Plans				Postretirement Benefit Plan	
	U.S. Plan		Non-U.S. Plans			
	Nine Months Ended September 30,					
	2017	2016	2017	2016	2017	2016
Service cost	\$ 2	\$ 2	\$ 2	\$ 2	\$ —	\$ 1
Interest cost	6	6	3	4	2	1
Expected return on plan assets	(10)	(10)	(4)	(5)	—	—
Amortization of prior service credit	—	—	(1)	—	(2)	(2)
Amortization of net loss	—	—	1	—	—	—
Net periodic (benefit) cost	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>

During the nine months ended September 30, 2017, the Company contributed \$5 million, \$5 million, and \$2 million to the U.S. pension benefit plans, the non-U.S. pension benefit plans, and the postretirement benefit plan, respectively. The Company expects to contribute \$5 million, \$6 million, and \$6 million in 2017 to the U.S. pension benefit plans, the non-U.S. pension benefit plans, and the postretirement benefit plan, respectively, inclusive of amounts contributed during the nine months ended September 30, 2017.

## 12. SHARE-BASED COMPENSATION

In May 2014, the shareholders approved the Company's 2014 Omnibus Incentive Plan (the "2014 Plan") which replaced the Company's 2011 Omnibus Incentive Plan (the "2011 Plan") for future equity awards granted by the Company. The Company transferred the common shares available under the 2011 Plan to the 2014 Plan. The maximum number of common shares that may be issued to participants under the 2014 Plan is equal to 18,000,000 common shares, plus the number of common shares under the 2011 Plan reserved but unissued and not underlying outstanding awards and the number of common shares becoming available for reuse after awards are terminated, forfeited, cancelled, exchanged or surrendered under the 2011 Plan and the Company's 2007 Equity Compensation Plan. The Company registered, in the aggregate, 20,000,000 common shares of common stock for issuance under the 2014 Plan. Approximately 7,205,000 shares were available for future grants as of September 30, 2017. The Company uses reserved and unissued common shares to satisfy its obligations under its share-based compensation plans.

During the three months ended March 31, 2017, the Company introduced a new long-term incentive program with the objective to re-align the share-based awards granted to senior management with the Company's focus on improving its tangible capital usage and allocation while maintaining focus on improving total shareholder return over the long-term. The share-based awards granted under this long-term incentive program consist of time-based stock options, time-based restricted share units ("RSUs") and performance-based RSUs. Performance-based RSUs are comprised of awards that vest upon achievement of certain share price appreciation conditions that are based on total shareholder return ("TSR") and awards that vest upon attainment of certain performance targets that are based on the Company's return on tangible capital ("ROTC").

The fair value of the ROTC performance-based RSUs is estimated based on the trading price of the Company's common shares on the date of grant. Expense recognized for the ROTC performance-based RSUs in each reporting period reflects the Company's latest estimate of the number of ROTC performance-based RSUs that are expected to vest. If the ROTC performance-based RSUs do not ultimately vest due to the ROTC targets not being met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

The accounting policy with respect to time-based stock options, time-based RSUs and TSR performance-based RSUs is described in the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The following table summarizes the components and classification of share-based compensation expense related to stock options and RSUs for the three and nine months ended September 30, 2017 and 2016:

<i>(in millions)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Stock options	\$ 4	\$ 4	\$ 14	\$ 11
RSUs	15	33	56	123
	<u>\$ 19</u>	<u>\$ 37</u>	<u>\$ 70</u>	<u>\$ 134</u>
Research and development expenses	\$ 2	\$ 2	\$ 6	\$ 5
Selling, general and administrative expenses	17	35	64	129
	<u>\$ 19</u>	<u>\$ 37</u>	<u>\$ 70</u>	<u>\$ 134</u>

During the nine months ended September 30, 2017 and 2016, the Company granted approximately 1,545,000 stock options with a weighted-average exercise price of \$14.28 per option and approximately 2,414,000 stock options with a weighted-average exercise price of \$26.04 per option, respectively. The weighted-average fair values of all stock options granted to employees during the nine months ended September 30, 2017 and 2016 were \$5.97 and \$14.76, respectively.

During the nine months ended September 30, 2017 and 2016, the Company granted approximately 3,557,000 time-based RSUs with a weighted-average grant date fair value of \$11.78 per RSU and approximately 1,675,000 time-based RSUs with a weighted-average grant date fair value of \$30.94 per RSU, respectively.

During the nine months ended September 30, 2017, the Company granted approximately 416,000 performance-based RSUs, consisting of approximately 208,000 units of TSR performance-based RSUs with an average grant date fair value of \$16.34 per RSU and approximately 208,000 units of ROTC performance-based RSUs with a weighted-average grant date fair value of \$15.76 per RSU. During the nine months ended September 30, 2016, the Company granted approximately 1,401,000 performance-based RSUs with a weighted-average grant date fair value of \$37.33 per RSU.

In March 2016, the Company announced that its Board of Directors had initiated a search to identify a candidate for a new CEO to succeed the Company's then current CEO, who would continue to serve in that role until his replacement was appointed. On May 2, 2016, the Company's new CEO assumed the role, succeeding the Company's former CEO. Pursuant to the terms of his employment agreement dated January 2015, the former CEO was entitled to certain share-based awards and payments upon termination. Under his January 2015 employment agreement, the former CEO received performance-based RSUs that vest when certain market conditions (namely total shareholder return) are met at the defined dates, provided continuing employment through those dates. Under the termination provisions of his employment agreement, upon termination of the former CEO, the defined dates for meeting the market conditions of the performance-based RSUs were eliminated and, as a result, vesting was based solely on the attainment of the applicable level of total shareholder return through the date of

termination and the resulting number of common shares, if any, to be awarded to the former CEO was determined on a pro-rata basis for service provided under the original performance period, with credit given for an additional year of service. As the total shareholder return at the time of the former CEO's termination did not meet the performance threshold, no common shares were issued and no value was ultimately received by the former CEO pursuant to this performance-based RSU award. However, an incremental share-based compensation expense of \$28 million was recognized during the six months ended June 30, 2016, which represents the additional year of service credit consistent with the grant date fair value calculated using a Monte Carlo Simulation Model in the first quarter of 2015, notwithstanding the fact that no value was ultimately received by the former CEO. In addition to the acceleration of his performance-based RSUs, the former CEO was also entitled to a cash severance payment of \$9 million and a pro-rata annual cash bonus of approximately \$2 million pursuant to his employment agreement. The cash severance payments, the pro-rata cash bonus and the associated payroll taxes were also recognized as expense in the first quarter of 2016.

As of September 30, 2017, the remaining unrecognized compensation expense related to all outstanding non-vested stock options, time-based RSUs and performance-based RSUs amounted to \$129 million, which will be amortized over a weighted-average period of 2.11 years.

### 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss were as follows:

<i>(in millions)</i>	September 30, 2017	December 31, 2016
Foreign currency translation adjustments	\$ (1,850)	\$ (2,074)
Pension and postretirement benefit plan adjustments, net of tax	(38)	(34)
	<u>\$ (1,888)</u>	<u>\$ (2,108)</u>

Income taxes are not provided for foreign currency translation adjustments arising on the translation of the Company's operations having a functional currency other than the U.S. dollar, except to the extent of translation adjustments related to the Company's retained earnings for foreign jurisdictions in which the Company is not considered to be permanently reinvested.

### 14. RESEARCH AND DEVELOPMENT

Included in Research and development are costs related to product development and quality assurance programs. Quality assurance are the costs incurred to meet evolving customer and regulatory standards. Research and development costs are as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Product related research and development	\$ 73	\$ 91	\$ 245	\$ 301
Quality assurance	8	10	26	27
	<u>\$ 81</u>	<u>\$ 101</u>	<u>\$ 271</u>	<u>\$ 328</u>

## 15. OTHER (INCOME) EXPENSE, NET

Other (income) expense, net for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gain on the iNova Sale (Note 4)	\$ (306)	\$ —	\$ (306)	\$ —
Gain on the Skincare Sale (Note 4)	3	—	(316)	—
Gain on the Dendreon Sale (Note 4)	(25)	—	(98)	—
Net loss (gain) on other sales of assets	—	—	25	(9)
Deconsolidation of Philidor	—	—	—	19
Litigation and other matters	3	1	112	(32)
Other, net	—	—	(1)	2
	<u>\$ (325)</u>	<u>\$ 1</u>	<u>\$ (584)</u>	<u>\$ (20)</u>

During the three months ended September 30, 2017, the initially reported Gain on the Dendreon Sale was increased by \$25 million to reflect working capital adjustments to the initial sales price during the three months ended September 30, 2017. See Note 4, "DIVESTITURES" for details related to the Gain on the Dendreon Sale.

Litigation and other matters includes amounts provided for certain matters discussed in Note 18, "LEGAL PROCEEDINGS". During the nine months ended September 30, 2016, included in Litigation and other matters is a favorable adjustment of \$39 million for the settlement related to the investigation into Salix's pre-acquisition sales and promotional practices for the Xifaxan®, Relistor® and Apriso® products during the three months ended June 30, 2016.

## 16. INCOME TAXES

For interim financial statement purposes, U.S. GAAP income tax expense/benefit related to ordinary income is determined by applying an estimated annual effective income tax rate against the Company's ordinary income. Income tax expense/benefit related to items not characterized as ordinary income is recognized as a discrete item when incurred. The estimation of the Company's annual effective income tax rate requires the use of management forecasts and other estimates, a projection of jurisdictional taxable income and losses, application of statutory income tax rates, and an evaluation of valuation allowances. The Company's estimated annual effective income tax rate may be revised, if necessary, in each interim period during the year.

To facilitate divestitures, streamline operations, simplify its legal entity structure, and due to a decrease in its market value, during the three months ended December 31, 2016, the Company began a series of internal restructuring transactions that were completed during the three months ended September 30, 2017 and resulted in a total tax benefit of \$1,397 million and \$2,626 million for the three months and nine months ended September 30, 2017, respectively.

Recovery of income taxes during the three months ended September 30, 2017 was \$1,700 million and primarily included: (i) \$1,397 million of tax benefit from internal restructuring efforts, (ii) \$179 million of income tax benefit for the Company's ordinary loss during the three months ended September 30, 2017, and (iii) a \$108 million tax benefit related to an intangible impairment during the three months ended September 30, 2017. In the three months ended September 30, 2017, the impact of the internal restructuring transactions included: (i) the Company's top U.S. subsidiary (Biovail Americas Corp.) ("BAC") recognizing a net tax benefit of \$472 million on the capital loss resulting from its liquidation during the three months ended September 30, 2017, offset by the reversal of BAC's previously recorded outside basis difference in its subsidiary; and (ii) the Company recording a deferred tax benefit of \$925 million during the three months ended September 30, 2017 as a result of utilizing BAC's capital loss to offset capital gains from the Company's U.S. divestitures and restructurings incurred between 2014 and 2017. These gains were previously offset by the Company's NOL's.

Recovery of income taxes during the nine months ended September 30, 2017 was \$2,829 million and included: (i) \$334 million of income tax benefit for the Company's ordinary loss during the nine months ended September 30, 2017, (ii) \$2,626 million of tax benefit from internal restructuring efforts, consisting of the reversal of a \$1,947 million deferred tax liability for previously recorded outside basis differences and a \$679 million increase in deferred tax assets for NOL's available after the carryback of a capital loss and utilization against current year income, (iii) a tax charge of \$224 million resulting from the Company's

divestitures during the nine months ended September 30, 2017, and (iv) a \$108 million tax benefit related to an intangible impairment during the three months ended September 30, 2017.

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was \$2,225 million and \$1,857 million as of September 30, 2017 and December 31, 2016, respectively. The increase was primarily due to continued losses in Canada. The Company will continue to assess the need for a valuation allowance on a go-forward basis.

The income tax benefit for the nine months ended September 30, 2016 was \$179 million, and included: (i) \$179 million related to the expected tax benefit in tax jurisdictions outside of Canada and (ii) an income tax provision of an immaterial amount related to Canadian income taxes. During the nine months ended September 30, 2016, the Company's effective tax rate was different from the Company's statutory Canadian tax rate due to tax expense generated from the Company's annualized mix of earnings by jurisdiction, the discrete treatment of an adjustment to the accrual established for legal expenses and a significant impairment of an intangible asset, a tax benefit of \$32 million on return to provision adjustments associated with the Company's U.S. tax return, the recording of valuation allowances on entities for which no tax benefit of losses is expected and a benefit for the release of uncertain tax positions based upon statute lapses and audit settlements.

As of September 30, 2017 and December 31, 2016, the Company had \$500 million and \$423 million of unrecognized tax benefits, which included \$44 million and \$39 million, respectively, relating to interest and penalties. Of the total unrecognized tax benefits as of September 30, 2017, \$257 million would reduce the Company's effective tax rate, if recognized. The Company anticipates that an immaterial amount of unrecognized tax benefits may be resolved within the next 12 months.

The Company continues to be under examination by the Canada Revenue Agency ("CRA"). The Company's position with regard to proposed audit adjustments has not changed as of September 30, 2017 and the total proposed adjustment continues to result in a loss of tax attributes which are subject to a full valuation allowance.

The Company's U.S. consolidated federal income tax return for the 2013 and 2014 tax years continues to be under examination by the Internal Revenue Service. The Company's U.S. affiliates remain under examination for various state tax audits in the U.S. for years 2002 to 2015.

The Company's subsidiaries in Australia are under audit by the Australian Tax Office for various years beginning in 2010. On August 8, 2017, the Australian Taxation Office issued a notice of assessment for the tax years 2011 through 2017 in the aggregate amount of \$117 million, which includes penalties and interest. The Company disagrees with the assessment and continues to believe that its tax positions are appropriate and supported by the facts, circumstances and applicable laws. The Company intends to defend its tax position in this matter vigorously. To this end the Company has filed a holding objection against the assessment by the Australian Taxation Office and intends to file an objection in December of 2017. Additionally, the Company secured a bank guarantee to cover any potential cash outlays regarding this assessment.

Certain affiliates of the Company in regions outside of Canada, the U.S. and Australia are currently under examination by relevant taxing authorities, and all necessary accruals have been recorded, including uncertain tax benefits. At this time, the Company does not expect that proposed adjustments, if any, would be material to the Company's consolidated financial statements.

## 17. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share attributable to Valeant Pharmaceuticals International, Inc. for the three and nine months ended September 30, 2017 and 2016 were calculated as follows:

<i>(in millions, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to Valeant Pharmaceuticals International, Inc.	\$ 1,301	\$ (1,218)	\$ 1,891	\$ (1,894)
Basic weighted-average number of common shares outstanding	350.4	349.5	350.1	346.5
Diluted effect of stock options, RSUs and other	1.9	—	1.3	—
Diluted weighted-average number of common shares outstanding	352.3	349.5	351.4	346.5
Earnings (loss) per share attributable to Valeant Pharmaceuticals International, Inc.:				
Basic	\$ 3.71	\$ (3.49)	\$ 5.40	\$ (5.47)
Diluted	\$ 3.69	\$ (3.49)	\$ 5.38	\$ (5.47)

During the three months and nine months ended September 30, 2016, all potential common shares issuable for stock options and RSUs were excluded from the calculation of diluted loss per share, as the effect of including them would have been anti-dilutive. The dilutive effect of potential common shares issuable for stock options and RSUs on the weighted-average number of common shares outstanding would have been as follows:

<i>(in millions)</i>	Three months ended September 30, 2016	Nine months ended September 30, 2016
Basic weighted-average number of common shares outstanding	349.5	346.5
Diluted effect of stock options, RSUs and other	0.8	3.4
Diluted weighted-average number of common shares outstanding	350.3	349.9

During the three and nine months ended September 30, 2017, stock options, time-based RSUs and performance-based RSUs to purchase approximately 7,601,000 common shares of the Company, for both periods, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive under the treasury stock method, compared with 8,300,000 common shares in both of the corresponding periods of 2016.

## 18. LEGAL PROCEEDINGS

From time to time, the Company becomes involved in various legal and administrative proceedings, which include product liability, intellectual property, commercial, antitrust, governmental and regulatory investigations, related private litigation and ordinary course employment-related issues. From time to time, the Company also initiates actions or files counterclaims. The Company could be subject to counterclaims or other suits in response to actions it may initiate. The Company believes that the prosecution of these actions and counterclaims is important to preserve and protect the Company, its reputation and its assets. Certain of these proceedings and actions are described below.

On a quarterly basis, the Company evaluates developments in legal proceedings, potential settlements and other matters that could increase or decrease the amount of the liability accrued. As of September 30, 2017, the Company's consolidated balance sheet includes accrued current loss contingencies of \$133 million and non-current loss contingencies of \$20 million related to matters which are both probable and reasonably estimable. For all other matters, unless otherwise indicated, the Company cannot reasonably predict the outcome of these legal proceedings, nor can it estimate the amount of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings could have a material adverse effect on the Company's business, financial condition and results of operations, and could cause the market value of its common shares and/or debt securities to decline.

## **Governmental and Regulatory Inquiries**

### *Letter from the U.S. Department of Justice Civil Division and the U.S. Attorney's Office for the Eastern District of Pennsylvania*

The Company has received a letter dated September 10, 2015 from the U.S. Department of Justice Civil Division and the U.S. Attorney's Office for the Eastern District of Pennsylvania stating that they are investigating potential violations of the False Claims Act arising out of Biovail Pharmaceuticals, Inc.'s treatment of certain service fees under agreements with wholesalers when calculating and reporting Average Manufacturer Prices in connection with the Medicaid Drug Rebate Program. The letter requests that the Company voluntarily produce documents and information relating to the investigation. The Company produced certain documents and clarifying information in response to the government's request and is cooperating with the government's investigation. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of these investigations.

On October 12, 2017, a *qui tam* complaint asserting claims under the federal and certain state False Claims Acts was unsealed in the Eastern District of Pennsylvania, after the United States and the states on whose behalf claims were asserted declined to intervene in the case. The complaint names Biovail Pharmaceuticals and three other pharmaceutical manufacturers as defendants. The complaint alleges that Biovail Pharmaceuticals and other manufacturers failed to accurately account for service fees in its calculation of Average Manufacturer Prices reported to the federal government, and as a result underpaid Medicaid rebates.

### *Investigation by the U.S. Attorney's Office for the District of Massachusetts*

In October 2015, the Company received a subpoena from the U.S. Attorney's Office for the District of Massachusetts, and, in June 2016, the Company received a follow up subpoena. The materials requested, pursuant to the subpoenas and follow-up requests, include documents and witness interviews with respect to the Company's patient assistance programs and contributions to patient assistance organizations that provide financial assistance to Medicare patients taking products sold by the Company, and the Company's pricing of its products. The Company is cooperating with this investigation. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

### *Investigation by the U.S. Attorney's Office for the Southern District of New York*

In October 2015, the Company received a subpoena from the U.S. Attorney's Office for the Southern District of New York. The materials requested, pursuant to the subpoena and follow-up requests, include documents and witness interviews with respect to the Company's patient assistance programs; its former relationship with Philidor and other pharmacies; the Company's accounting treatment for sales by specialty pharmacies; information provided to the Centers for Medicare and Medicaid Services; the Company's pricing (including discounts and rebates), marketing and distribution of its products; the Company's compliance program; and employee compensation. The Company is cooperating with this investigation. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

### *SEC Investigation*

Beginning in November 2015, the Company has received from the staff of the Los Angeles Regional Office of the SEC subpoenas for documents, as well as various document, testimony and interview requests, related to its investigation of the Company, including requests concerning the Company's former relationship with Philidor, its accounting practices and policies, its public disclosures and other matters. The Company is cooperating with the SEC in this matter. The Company cannot predict the outcome or the duration of the SEC investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of the SEC investigation.

### *Investigation by the State of North Carolina Department of Justice*

In the beginning of March 2016, the Company received an investigative demand from the State of North Carolina Department of Justice. The materials requested relate to the Company's Nitropress®, Isuprel® and Cuprimine® products, including documents relating to the production, marketing, distribution, sale and pricing of, and patient assistance programs covering, such products, as well as issues relating to the Company's pricing decisions for certain of its other products. The Company is cooperating with this investigation. The Company cannot predict the outcome or the duration of this investigation or any other

legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

#### *Request for Information from the AMF*

On April 12, 2016, the Company received a request letter from the Autorité des marchés financiers (the “AMF”) requesting documents concerning the work of the Company’s ad hoc committee of independent directors (the “Ad Hoc Committee”) (established to review certain allegations regarding the Company’s former relationship with Philidor and related matters), the Company’s former relationship with Philidor, the Company’s accounting practices and policies and other matters. The Company is cooperating with the AMF in this matter. The Company has not received any notice of investigation from the AMF, and the Company cannot predict whether any investigation will be commenced by the AMF or, if commenced, whether any enforcement action against the Company would result from any such investigation.

#### *Investigation by the California Department of Insurance*

On or about September 16, 2016, the Company received an investigative subpoena from the California Department of Insurance. The materials requested include documents concerning the Company’s former relationship with Philidor and certain California-based pharmacies, the marketing and distribution of its products in California, the billing of insurers for its products being used by California residents, and other matters. The Company is cooperating with this investigation. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

#### *Investigation by the State of Texas*

On May 27, 2014, the State of Texas served Bausch & Lomb Incorporated (“B&L Inc.”) with a Civil Investigative Demand concerning various price reporting matters relating to the State’s Medicaid program and the amounts the State paid in reimbursement for B&L products for the period from 1995 to the date of the Civil Investigative Demand. The Company and B&L Inc. have cooperated fully with the State’s investigation and have produced all of the documents requested by the State. In April 2016, the State sent B&L Inc. a demand letter claiming damages in the amount of \$20 million. The Company and B&L Inc. have evaluated the letter and disagree with the allegations and methodologies set forth in the letter. The Company and B&L Inc. have responded to the State and are awaiting further response from the State.

#### *California Department of Insurance Investigation*

On May 4, 2016, B&L International, Inc. (“B&L International”) received from the Office of the California Insurance Commissioner an administrative subpoena to produce books, records and documents. On September 1, 2016, a revised and corrected subpoena, issued to B&L Inc., was received naming that entity in place of B&L International and seeking additional books records and documents. The requested books, records and documents are being requested in connection with an investigation by the California Department of Insurance and relate to, among other things, consulting agreements and financial arrangements between Bausch & Lomb Holdings Incorporated and its subsidiaries (“B&L”) and healthcare professionals in California, the provision of ocular equipment, including the Victus® femtosecond laser platform, by B&L to healthcare professionals in California and prescribing data for prescriptions written by healthcare professionals in California for certain of B&L’s products, including the Crystalens®, Lotemax®, Besivance® and Prolensa®. B&L Inc. and the Company are cooperating with the investigation. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

### **Securities and Other Class Actions**

#### *Allergan Shareholder Class Actions*

On December 16, 2014, Anthony Basile, an alleged shareholder of Allergan filed a lawsuit on behalf of a putative class of Allergan shareholders against the Company, Valeant, AGMS, Pershing Square, PS Management, GP, LLC, PS Fund 1 and William A. Ackman in the U.S. District Court for the Central District of California (Basile v. Valeant Pharmaceuticals International, Inc., et al., Case No. 14-cv-02004-DOC). On June 26, 2015, lead plaintiffs the State Teachers Retirement System of Ohio, the Iowa Public Employees Retirement System and Patrick T. Johnson filed an amended complaint against the Company, Valeant, J. Michael Pearson, Pershing Square, PS Management, GP, LLC, PS Fund 1 and William A. Ackman. The amended complaint alleges claims on behalf of a putative class of sellers of Allergan securities between February 25, 2014 and April 21, 2014, against all defendants contending that various purchases of Allergan securities by PS Fund were made

while in possession of material, non-public information concerning a potential tender offer by the Company for Allergan stock, and asserting violations of Section 14(e) of the Exchange Act and rules promulgated by the SEC thereunder and Section 20A of the Exchange Act. The amended complaint also alleges violations of Section 20(a) of the Exchange Act against Pershing Square, various Pershing Square affiliates, William A. Ackman and J. Michael Pearson. The amended complaint seeks, among other relief, money damages, equitable relief, and attorneys' fees and costs. On August 7, 2015, the defendants moved to dismiss the amended complaint in its entirety, and, on November 9, 2015, the Court denied that motion. On March 15, 2017, the Court entered an order certifying a plaintiff class comprised of persons who sold Allergan common stock contemporaneously with purchases of Allergan common stock made or caused by defendants during the period February 25, 2014 through April 21, 2014. On March 28, 2017, defendants filed a motion with the U.S. Court of Appeals for the Ninth Circuit requesting permission to appeal from the class certification order and on June 12, 2017, the Ninth Circuit denied that request. On July 10, 2017, the plaintiffs moved for partial summary judgment, and the defendants cross-moved for summary judgment. Those motions remain pending. Trial has been scheduled to start on January 30, 2018 in this matter. The Company intends to vigorously defend these matters.

On June 28, 2017, Timber Hill LLC, a Connecticut limited liability company that allegedly traded in Allergan derivative instruments, filed a lawsuit on behalf of a putative class of derivative traders against the Company, Valeant, AGMS, Michael Pearson, Pershing Square, PS Management, GP, LLC, PS Fund 1 and William A. Ackman in the U.S. District Court for the Central District of California (Timber Hill LLC v. Pershing Square Capital Management, L.P., et al., Case No. 17-cv-04776-DOC). The complaint alleges claims on behalf of a putative class of investors who sold Allergan call options, purchased Allergan put options and/or sold Allergan equity forward contracts between February 25, 2014 and April 21, 2014, against all defendants contending that various purchases of Allergan securities by PS Fund were made while in possession of material, non-public information concerning a potential tender offer by the Company for Allergan stock, and asserting violations of Section 14(e) of the Exchange Act and rules promulgated by the SEC thereunder and Section 20A of the Exchange Act. The complaint also alleges violations of Section 20(a) of the Exchange Act against Pershing Square, various Pershing Square affiliates, William A. Ackman and Michael Pearson. The complaint seeks, among other relief, money damages, equitable relief, and attorneys' fees and costs. On July 25, 2017, the Court decided not to consolidate this lawsuit with the Basile action described above. Trial has been scheduled for October 2018 in this matter.

On February 10, 2017, the Company, Valeant (together, the "Valeant Co Parties") and J. Michael Pearson (together with the Valeant Co Parties, the "Valeant Parties") and Pershing Square Capital Management, L.P., Pershing Square Holdings, Ltd., Pershing Square International, Ltd., Pershing Square, L.P., Pershing Square II, L.P., PS Management GP, LLC, PS Fund 1, LLC, Pershing Square GP, LLC (together, "Pershing Square"), and William A. Ackman ("Ackman" and, together with Pershing Square, the "Pershing Square Parties") entered into a litigation management agreement (the "Litigation Management Agreement"), pursuant to which the parties agreed to certain provisions with respect to the management of this litigation, including all cases currently consolidated with the Basile action described above and any opt-out litigation or individual actions brought by members of the putative class in the consolidated Basile action asserting the same or similar allegations or claims (collectively, the "Allergan Litigation"), including the following:

- In respect of any settlement relating to the Allergan Litigation that receives the mutual consent of both the Valeant Parties and the Pershing Square Parties, the payments in connection with such settlement will be paid 60% by the Valeant Co Parties and 40% by the Pershing Square Parties. The agreement does not provide for any allocation of costs in a settlement that is not consented to by both parties;
- The first \$10 million in legal fees and litigation expenses incurred by the Valeant Parties and the Pershing Square Parties after the date of the Litigation Management Agreement in connection with the Allergan Litigation will be paid 50% by the Valeant Co Parties and 50% by the Pershing Square Parties; and
- The Litigation Management Agreement had an original termination date of November 1, 2017 if a stipulation of settlement with regards to the current consolidated Basile action has not been executed by that date. The parties agreed to extend the Litigation Management Agreement on October 30, 2017 by two months, to December 31, 2017.

In addition to the agreements set out above with respect to the Allergan Litigation, the Litigation Management Agreement includes an undertaking by the Pershing Square Parties to forbear from commencing any action or actions that arise out of, or relate to, the claims alleged or facts asserted in the Allergan Litigation or to the purchase or acquisition of, or transactions with respect to, the Company's securities against any of the Valeant Parties from February 3, 2017 until the date that is thirty days after the termination of the Litigation Management Agreement. Any statute of limitations applicable to such actions or tolled claims is suspended during this period. If the Litigation Management Agreement is terminated pursuant to its terms, the parties will meet and discuss whether any tolled claims should be submitted to confidential arbitration or mediation.

Furthermore, in connection with the entrance into the Litigation Management Agreement, on February 10, 2017, the Valeant Parties and the Pershing Square Parties entered into a mutual release of claims (the “Mutual Release”). The Mutual Release will go into effect upon the later of satisfaction of the payment obligations that each party would have in connection with any settlement of the current consolidated Basile action pursuant to the Litigation Management Agreement described above and the date of entry of final judgment, and will not occur if the Litigation Management Agreement is terminated. If the Mutual Release becomes effective, each party will release the other parties and their respective attorneys, accountants, financial advisors, lenders and securities underwriters (in their capacities as such and to the extent they provide a mutual release) from any and all claims relating to or arising out of (a) any purchase of any security of Valeant, (b) any one or more of the claims asserted in and/or the facts alleged in (i) the Allergan Litigation, (ii) a putative class action on behalf of purchasers of Valeant securities captioned *In re Valeant Pharmaceuticals International Inc. Securities Litigation*, Case 3:15-cv-07658- MAS-LHG, currently pending in the United States District Court for the District of New Jersey (the “U.S. Class Action”), (iii) certain enumerated individual actions and/or (iv) certain enumerated actions in Canada, or (c) the Valeant business. In addition, each party covenants not to sue the other parties with respect to any claims covered by the Mutual Release upon the effectiveness of the Mutual Release. Each party also covenants not to sue the other parties’ attorneys, accountants, financial advisors, lenders and securities underwriters (in their capacities as such) with respect to any of the claims covered by the Mutual Release from the date of the signing of the Mutual Release, except to the extent that (i) a claim has been asserted against such party by any such attorney, accountant, financial advisor, lender and/or securities underwriter or (ii) the Litigation Management Agreement has been terminated in accordance with its terms.

#### *Valeant U.S. Securities Litigation*

From October 22, 2015 to October 30, 2015, four putative securities class actions were filed in the U.S. District Court for the District of New Jersey against the Company and certain current or former officers and directors. Those four actions, captioned *Potter v. Valeant Pharmaceuticals International, Inc. et al.* (Case No. 15-cv-7658), *Chen v. Valeant Pharmaceuticals International, Inc. et al.* (Case No. 15-cv-7679), *Yang v. Valeant Pharmaceuticals International, Inc. et al.* (Case No. 15-cv-7746), and *Fein v. Valeant Pharmaceuticals International, Inc. et al.* (Case No. 15-cv-7809), all asserted securities fraud claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) on behalf of putative classes of persons who purchased or otherwise acquired the Company’s stock during various time periods between February 28, 2014 and October 21, 2015. The allegations relate to, among other things, allegedly false and misleading statements and/or failures to disclose information about the Company’s business and prospects, including relating to drug pricing, the Company’s use of specialty pharmacies, and the Company’s relationship with Philidor.

On May 31, 2016, the Court entered an order consolidating the four actions under the caption *In re Valeant Pharmaceuticals International, Inc. Securities Litigation*, Case No. 3:15-cv-07658, and appointing a lead plaintiff and lead plaintiff’s counsel. On June 24, 2016, the lead plaintiff filed a consolidated complaint naming additional defendants and asserting additional claims based on allegations of false and misleading statements and/or omissions similar to those in the initial complaints. Specifically, the consolidated complaint asserts claims under Sections 10(b) and 20(a) of the Exchange Act against the Company, and certain current or former officers and directors, as well as claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the “Securities Act”) against the Company, certain current or former officers and directors, and certain other parties. The lead plaintiff seeks to bring these claims on behalf of a putative class of persons who purchased the Company’s equity securities and senior notes in the United States between January 4, 2013 and March 15, 2016, including all those who purchased the Company’s securities in the United States in the Company’s debt and stock offerings between July 2013 to March 2015. On September 13, 2016, the Company and the other defendants moved to dismiss the consolidated complaint. Briefing on the Company’s motion was completed on January 13, 2017. On April 28, 2017, the Court dismissed certain claims arising out of the Company’s private placement offerings and otherwise denied the motions to dismiss. Defendants’ answers to the consolidated complaint were filed on June 12, 2017.

In addition to the consolidated putative class action, fifteen groups of individual investors in the Company’s stock and debt securities at this point have chosen to opt out of the consolidated putative class action and filed securities actions in the U.S. District Court for the District of New Jersey against the Company and certain current or former officers and directors and other such proceedings may be initiated or asserted as this is not uncommon in such matters. These actions are captioned: *T. Rowe Price Growth Stock Fund, Inc. v. Valeant Pharmaceuticals International, Inc.* (Case No. 16-cv-5034); *Equity Trustees Limited as Responsible Entity for T. Rowe Price Global Equity Fund v. Valeant Pharmaceuticals International Inc.* (Case No. 16-cv-6127); *Principal Funds, Inc. v. Valeant Pharmaceuticals International, Inc.* (Case No. 16-cv-6128); *BloombergSen Partners Fund LP v. Valeant Pharmaceuticals International, Inc.* (Case No. 16-cv-7212); *Discovery Global Citizens Master Fund, Ltd. v. Valeant Pharmaceuticals International, Inc.* (Case No. 16-cv-7321); *MSD Torchlight Partners, L.P. v. Valeant*

Pharmaceuticals International, Inc. (Case No. 16-cv-7324); BlueMountain Foinaven Master Fund, L.P. v. Valeant Pharmaceuticals International, Inc. (Case No. 16-cv-7328); Incline Global Master LP v. Valeant Pharmaceuticals International, Inc. (Case No. 16-cv-7494); VALIC Company I v. Valeant Pharmaceuticals International, Inc. (Case No. 16-cv-7496); Janus Aspen Series v. Valeant Pharmaceuticals International, Inc. (Case No. 16-cv-7497) (“Janus Aspen”); Okumus Opportunistic Value Fund, LTD v. Valeant Pharmaceuticals International, Inc., et al. (Case No. 17-cv-06513) (“Okumus”); Lord Abbett Investment Trust- Lord Abbett Short Duration Income Fund, et al., v. Valeant Pharmaceuticals International, Inc., et al. (Case No. 17-cv-6365) (“Lord Abbett”); Pentwater Equity Opportunities Master Fund LTD v. Valeant Pharmaceuticals International, Inc., et al. (Case No. 17-cv-07552) (“Pentwater”), Public Employees’ Retirement System of Mississippi v. Valeant Pharmaceuticals International Inc., et al., (Case No. 3:17-cv-07625) (“Mississippi”), and The Boeing Company Employee Retirement Plans Master Trust and the Boeing Company Employee Savings Plans Master Trust v. Valeant Pharmaceuticals International Inc., et al., (Case No. 3:17-cv-07636) (“Boeing”). These individual shareholder actions assert claims under Sections 10(b), 18, and 20(a) of the Exchange Act, Sections 11, 12(a)(2), and 15 of the Securities Act, common law fraud, and negligent misrepresentation under state law, based on alleged purchases of Valeant stock, options, and/or debt at various times between January 4, 2013 and August 10, 2016. Plaintiffs in the Lord Abbett, Boeing, and Mississippi cases additionally assert claims under the New Jersey Racketeer Influenced and Corrupt Organizations Act. The allegations in the complaints are similar to those made by plaintiffs in the putative class action.

Plaintiffs in the Janus Aspen action amended the complaint on April 28, 2017. Defendants filed motions for partial dismissal in ten individual actions on June 16, 2017. Briefing of those motions was completed on August 25, 2017.

On October 19, 2017, the Court entered an order requesting briefs from the parties regarding whether the Court should stay the putative securities class action and the fifteen individual securities law actions until after the resolution of criminal proceedings against Andrew Davenport and Gary Tanner. The Court's order immediately stayed all deadlines, briefing schedules, and discovery in securities actions pending completion of the briefing and the Court's decision. The Court directed the parties to file briefs either supporting or opposing the stay, with such briefs to be concluded by November 8, 2017.

The Company believes the individual complaints and the consolidated putative class action are without merit and intends to defend itself vigorously.

#### *Canadian Securities Class Actions*

In 2015, six putative class actions were filed and served against the Company in Canada in the provinces of British Columbia, Ontario and Quebec. These actions are captioned: (a) Alladina v. Valeant, et al. (Case No. S-1594B6) (Supreme Court of British Columbia) (filed November 17, 2015); (b) Kowalyshyn v. Valeant, et al. (CV-15-540593-00CP) (Ontario Superior Court) (filed November 16, 2015); (c) Kowalyshyn et al. v. Valeant, et al. (CV-15-541082-00CP) (Ontario Superior Court) (filed November 23, 2015); (d) O'Brien v. Valeant et al. (CV-15-543678-00CP) (Ontario Superior Court) (filed December 30, 2015); (e) Catucci v. Valeant, et al. (Court File No. 540-17-011743159) (Quebec Superior Court) (filed October 26, 2015); and (f) Rousseau-Godbout v. Valeant, et al. (Court File No. 500-06-000770-152) (Quebec Superior Court) (filed October 27, 2015). The Alladina, Kowalyshyn, O'Brien, Catucci and Rousseau-Godbout actions also name, among others, certain current or former directors and officers of the Company. The Rosseau-Godbout action was subsequently stayed by the Quebec Superior Court by consent order.

Each of the five remaining actions alleges violations of Canadian provincial securities legislation on behalf of putative classes of persons who purchased or otherwise acquired securities of the Company for periods commencing as early as January 1, 2013 and ending as late as November 16, 2015. The alleged violations relate to, among other things, alleged misrepresentations and/or failures to disclose material information about the Company's business and prospects, relating to drug pricing, the Company's policies and accounting practices, the Company's use of specialty pharmacies and, in particular, the Company's relationship with Philidor. The Alladina, Kowalyshyn and O'Brien actions also assert common law claims for negligent misrepresentation, and the Alladina claim additionally asserts common law negligence, conspiracy, and claims under the British Columbia Business Corporations Act, including the statutory oppression remedies in that legislation. The Catucci action asserts claims under the Quebec Civil Code, alleging the Company breached its duty of care under the civil standard of liability contemplated by the Code.

The Company is aware of two additional putative class actions that have been filed with the applicable court but which have not yet been served on the Company. These actions are captioned: (i) Okeley v. Valeant, et al. (Case No. S-159991) (Supreme Court of British Columbia) (filed December 2, 2015); and (ii) Sukenaga v Valeant et al. (CV-15-540567-00CP) (Ontario Superior Court) (filed November 16, 2015), and the factual allegations made in these actions are substantially similar to those outlined above. The Company has been advised that the plaintiffs in these actions do not intend to pursue the actions.

The Company expects that certain of these actions will be consolidated or stayed prior to proceeding to motions for leave and certification and that no more than one action will proceed in any jurisdiction. In particular, on June 10, 2016, the Ontario Superior Court of Justice rendered its decision on carriage motions (motions held to determine who will have carriage of the class action) heard on April 8, 2016, provisionally staying the O'Brien action, in favor of the Kowalyshyn action. On September 15, 2016, in response to an arrangement between the plaintiffs in the Kowalyshyn action and the O'Brien action, the court ordered both that the Kowalyshyn action be consolidated with the O'Brien action and that the consolidated action be stayed in favor of the Catucci action pending either the further order of the Ontario court or the determination of the motion for leave in the Catucci action.

In the Catucci action, motions for leave under the Quebec Securities Act and for authorization as a class proceeding were heard the week of April 24, 2017, with the motion judge reserving her decision. Prior to that hearing, the parties resolved applications by the defendants concerning jurisdiction and class composition, with the plaintiffs agreeing to revise the definition of the proposed class to exclude claims in respect of Valeant securities purchased in the United States. On August 29, 2017, the judge released her reasons for judgment granting the plaintiffs leave to proceed with their claims under the Quebec Securities Act and authorizing the class proceeding. On October 12, 2017, Valeant and the other defendants filed applications for leave to appeal from certain aspects of the decision authorizing the class proceeding. The applications for leave to appeal are scheduled to be heard November 22, 2017. On October 26, 2017, the plaintiffs issued their Judicial Application Originating Class Proceedings.

The Company believes that it has viable defenses in each of these actions. In each case, the Company intends to defend itself vigorously.

#### *RICO Class Actions*

Between May 27, 2016 and September 16, 2016, three virtually identical actions were filed in the U.S. District Court for the District of New Jersey against the Company and various third parties, alleging claims under the federal Racketeer Influenced Corrupt Organizations Act ("RICO") on behalf of a putative class of certain third party payors that paid claims submitted by Philidor for certain Valeant branded drugs between January 2, 2013 and November 9, 2015 (Airconditioning and Refrigeration Industry Health and Welfare Trust Fund et al. v. Valeant Pharmaceuticals International, Inc. et al., No. 3:16-cv-03087, Plumbers Local Union No. 1 Welfare Fund v. Valeant Pharmaceuticals International Inc. et al., No. 3:16-cv-3885 and N.Y. Hotel Trades Council et al v. Valeant Pharmaceuticals International, Inc. et al., No. 3:16-cv-05663). On November 30, 2016, the Court entered an order consolidating the three actions under the caption *In re Valeant Pharmaceuticals International, Inc. Third-Party Payor Litigation*, No. 3:16-cv-03087. A consolidated class action complaint was filed on December 14, 2016. The consolidated complaint alleges, among other things, that the Defendants committed predicate acts of mail and wire fraud by submitting or causing to be submitted prescription reimbursement requests that misstated or omitted facts regarding (1) the identity and licensing status of the dispensing pharmacy; (2) the resubmission of previously denied claims; (3) patient co-pay waivers; (4) the availability of generic alternatives; and (5) the insured's consent to renew the prescription. The complaint further alleges that these acts constitute a pattern of racketeering or a racketeering conspiracy in violation of the RICO statute and caused plaintiffs and the putative class unspecified damages, which may be trebled under the RICO statute. The Company moved to dismiss the consolidated complaint on February 13, 2017. Briefing of the motion was completed on May 17, 2017. On March 14, 2017, other defendants filed a motion to stay the RICO class action pending the resolution of criminal proceedings against Andrew Davenport and Gary Tanner. The Company did not oppose the motion to stay. On August 9, 2017, the Court granted the motion to stay and entered an order staying all proceedings in the case and accordingly terminating other pending motions.

The Company believes these claims are without merit and intends to defend itself vigorously.

#### **Antitrust**

##### *Solodyn® Antitrust Class Actions*

Beginning in July 2013, a number of civil antitrust class action suits were filed against Medicis Pharmaceutical Corporation ("Medicis"), Valeant Pharmaceuticals International, Inc. ("VPII") and various manufacturers of generic forms of Solodyn®, alleging that the defendants engaged in an anticompetitive scheme to exclude competition from the market for minocycline hydrochloride extended release tablets, a prescription drug for the treatment of acne marketed by Medicis under the brand name, Solodyn®. The plaintiffs in such suits alleged violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, and of various state antitrust and consumer protection laws, and further alleged that the defendants have been unjustly enriched through their alleged conduct. The plaintiffs sought declaratory and injunctive relief and, where applicable, treble, multiple,

punitive and/or other damages, including attorneys' fees. By order dated February 25, 2014, the Judicial Panel for Multidistrict Litigation ("JPML") centralized the suits in the District of Massachusetts, under the caption *In re Solodyn (Minocycline Hydrochloride) Antitrust Litigation*, Case No. 1:14-md-02503-DJC, before U.S. District Judge Denise Casper. After the Direct Purchaser Class Plaintiffs and the End-Payor Class Plaintiffs each filed a consolidated amended class action complaint on September 12, 2014, the defendants jointly moved to dismiss those complaints. On August 14, 2015, the Court granted the Defendants' motion to dismiss with respect to claims brought under Sherman Act, Section 2 and various state laws but denied the motion to dismiss with respect to claims brought under Sherman Act, Section 1 and other state laws. VPII was dismissed from the case, but the litigation continues against Medicis and the generic manufacturers as to the remaining claims. A subsequent effort to re-plead claims under Sherman Act, Section 2 was denied on September 20, 2016.

On March 26, 2015, and on April 6, 2015, while the motion to dismiss the class action complaints was pending, two additional non-class action complaints were filed against Medicis by certain retail pharmacy and grocery chains ("Individual Plaintiffs") making similar allegations and seeking similar relief to that sought by Direct Purchaser Class Plaintiffs. Those suits have been centralized with the class action suits in the District of Massachusetts. Following the Court's August 14, 2015 decision on the motion to dismiss, the Individual Plaintiffs each filed amended complaints on October 1, 2015, and Medicis answered on December 7, 2015. A third non-class action was filed by another retail pharmacy against Medicis on January 26, 2016, and Medicis answered on March 28, 2016.

Plaintiffs have reached a settlement with two of three generic manufacturer defendants, and, on April 14, 2017, the Court granted the Direct Purchaser Plaintiffs' and End-Payor Plaintiffs' motions for preliminary approval of those settlements. For the remaining parties, fact discovery and expert discovery have closed. The Court granted Direct Purchaser Plaintiffs' and End-Payor Plaintiffs' motions for class certification for the purposes of damages, but denied End-Payor Plaintiffs' motion for class certification for the purposes of injunctive and declaratory relief. Defendants have petitioned to appeal the certification of the End-Payor Class. Plaintiffs and defendants have each filed motions for summary judgment. The summary judgment motions are pending and trial is set for March 12, 2018. The Company intends to vigorously defend all of these actions.

#### *Contact Lens Antitrust Class Actions*

Beginning in March 2015, a number of civil antitrust class action suits were filed by purchasers of contact lenses against B&L Inc., three other contact lens manufacturers, and a contact lens distributor, alleging that the defendants engaged in an anticompetitive scheme to eliminate price competition on certain contact lens lines through the use of unilateral pricing policies. The plaintiffs in such suits alleged violations of Section 1 of the Sherman Act, 15 U.S.C. § 1, and of various state antitrust and consumer protection laws, and further alleged that the defendants have been unjustly enriched through their alleged conduct. The plaintiffs sought declaratory and injunctive relief and, where applicable, treble, punitive and/or other damages, including attorneys' fees. By order dated June 8, 2015, the JPML centralized the suits in the Middle District of Florida, under the caption *In re Disposable Contact Lens Antitrust Litigation*, Case No. 3:15-md-02626-HES-JRK, before U.S. District Judge Harvey E. Schlesinger. After the Class Plaintiffs filed a corrected consolidated class action complaint on December 16, 2015, the defendants jointly moved to dismiss those complaints. On June 16, 2016, the Court granted the Defendants' motion to dismiss with respect to claims brought under the Maryland Consumer Protection Act, but denied the motion to dismiss with respect to claims brought under Sherman Act, Section 1 and other state laws. The actions are currently in discovery. On March 3, 2017, the Class Plaintiffs filed their motion for class certification. On June 15, 2017, defendants filed a motion to oppose the plaintiffs' class certification motion, as well as motions to exclude plaintiffs' expert reports. Defendants likewise have requested an evidentiary hearing on the motions. The Company intends to vigorously defend all of these actions.

### **Intellectual Property**

#### *Patent Litigation/Paragraph IV Matters*

The Company (and/or certain of its affiliates) is also party to certain patent infringement proceedings in the United States and Canada, including as arising from claims filed by the Company (or that the Company anticipates filing within the required time periods) in connection with Notices of Paragraph IV Certification (in the United States) and Notices of Allegation (in Canada) received from third party generic manufacturers respecting their pending applications for generic versions of certain products sold by or on behalf of the Company, including Onexton®, Relistor®, Apriso®, Uceris®, Carac® and Cardizem® in the United States and Wellbutrin® XL and Glumetza® in Canada, or other similar suits. These matters are proceeding in the ordinary course.

In addition, on or about February 16, 2016, the Company received a Notice of Paragraph IV Certification dated February 11, 2016, from Actavis Laboratories FL, Inc. ("Actavis"), in which Actavis asserted that the following U.S. patents, each of which

is listed in the FDA's Orange Book for Salix Pharmaceuticals, Inc.'s ("Salix Inc.") Xifaxan® tablets, 550 mg, are either invalid, unenforceable and/or will not be infringed by the commercial manufacture, use or sale of Actavis' generic rifaximin tablets, 550 mg, for which an Abbreviated New Drug Application ("ANDA") has been filed by Actavis: U.S. Patent No. 8,309,569 (the "'569 patent'"), U.S. Patent No. 8,642,573 (the "'573 patent'"), U.S. Patent No. 8,829,017 (the "'017 patent'"), U.S. Patent No. 8,946,252 (the "'252 patent'"), U.S. Patent No. 8,969,398 (the "'398 patent'"), U.S. Patent No. 7,045,620 (the "'620 patent'"), U.S. Patent No. 7,612,199 (the "'199 patent'"), U.S. Patent No. 7,902,206 (the "'206 patent'"), U.S. Patent No. 7,906,542 (the "'542 patent'"), U.S. Patent No. 7,915,275 (the "'275 patent'"), U.S. Patent No. 8,158,644 (the "'644 patent'"), U.S. Patent No. 8,158,781 (the "'781 patent'"), U.S. Patent No. 8,193,196 (the "'196 patent'"), U.S. Patent No. 8,518,949 (the "'949 patent'"), U.S. Patent No. 8,741,904 (the "'904 patent'"), U.S. Patent No. 8,835,452 (the "'452 patent'"), U.S. Patent No. 8,853,231 (the "'231 patent'"), U.S. Patent No. 6,861,053 (the "'053 patent'"), U.S. Patent No. 7,452,857 (the "'857 patent'"), U.S. Patent No. 7,605,240 (the "'240 patent'"), U.S. Patent No. 7,718,608 (the "'608 patent'") and U.S. Patent No. 7,935,799 (the "'799 patent'") (collectively, the "Xifaxan® Patents"). Salix Inc. holds the NDA for Xifaxan® and its affiliate, Salix Pharmaceuticals, Ltd. ("Salix Ltd."), is the owner of the '569 patent, the '573 patent, the '017 patent, the '252 patent and the '398 patent. Alfa Wassermann S.p.A. ("Alfa Wassermann") is the owner of the '620 patent, the '199 patent, the '206 patent, the '542 patent, the '275 patent, the '644 patent, the '781 patent, the '196 patent, the '949 patent, the '904 patent, the '452 patent and the '231 patent, each of which has been exclusively licensed to Salix Inc. and its affiliate, Valeant Pharmaceuticals Luxembourg S.à r.l. ("Valeant Luxembourg") to market Xifaxan® tablets, 550 mg. Cedars-Sinai Medical Center ("Cedars-Sinai") is the owner of the '053 patent, the '857 patent, the '240 patent, the '608 patent and the '799 patent, each of which has been exclusively licensed to Salix Inc. and its affiliate, Valeant Luxembourg, to market Xifaxan® tablets, 550 mg. On March 23, 2016, Salix Inc. and its affiliates, Salix Ltd. and Valeant Luxembourg, Alfa Wassermann and Cedars-Sinai (the "Plaintiffs") filed suit against Actavis in the U.S. District Court for the District of Delaware (Case No. 1:16-cv-00188), pursuant to the Hatch-Waxman Act, alleging infringement by Actavis of one or more claims of each of the Xifaxan® Patents, thereby triggering a 30-month stay of the approval of Actavis' ANDA for rifaximin tablets, 550 mg. On May 24, 2016, Actavis filed its answer in this matter. On June 14, 2016, the Plaintiffs filed an amended complaint adding US patent 9,271,968 (the "'968 patent'") to this suit. Alfa Wassermann is the owner of the '968 patent, which has been exclusively licensed to Salix Inc. and its affiliate, Valeant Luxembourg to market Xifaxan® tablets, 550 mg. On December 6, 2016, the Plaintiffs filed an amended complaint adding US patent 9,421,195 (the "'195 patent'") to this suit. Salix is the owner of the '195 patent. A seven-day trial was scheduled to commence on January 29, 2018, but has been indefinitely removed.

On May 17, 2017, the Company and Actavis announced that, at Actavis' request, the parties had agreed to stay this litigation and extend the 30-month stay regarding Actavis' ANDA for its generic version of Xifaxan® (rifaximin) 550 mg tablets. This action is stayed through April 30, 2018 and Actavis has not yet taken any steps to lift the stay. All scheduled litigation activities, including the January 2018 trial date, have been indefinitely removed from the Court docket. Further, the parties agreed and the Court ordered that Actavis' 30-month regulatory stay shall be extended from August 12, 2018 until no earlier than February 12, 2019 and potentially longer if the litigation stay lasts for more than six months. The Company remains confident in the strength of the Xifaxan® Patents and believes it will prevail in this matter should it move forward. The Company also continues to believe the allegations raised in Actavis' notice are without merit and will defend its intellectual property vigorously.

## **Product Liability**

### *Shower to Shower Products Liability Litigation*

The Company has been named in over one hundred lawsuits involving the Shower to Shower body powder product acquired in September 2012 from Johnson & Johnson. The Company has been successful in obtaining a number of dismissals as to the Company and/or its subsidiary, Valeant Pharmaceuticals North America LLC ("VPNA"), in some of these cases. The Company continues to seek dismissals in these cases and to pursue agreements from plaintiffs to not oppose the Company's motions for summary judgment.

These lawsuits include one case originally filed on December 30, 2016 in the *In re Johnson & Johnson Talcum Powder Litigation*, Multidistrict Litigation 2738, pending in the United States District Court for the District of New Jersey. The Company and VPNA were first named in a lawsuit filed directly into the MDL alleging that the use of the Shower to Shower product caused the plaintiff to develop ovarian cancer. On March 24, 2017, the plaintiff agreed to a dismissal of all claims against the Company and VPNA without prejudice, and neither the Company nor VPNA have been named in any further lawsuits in the MDL.

These lawsuits also include a number of matters filed in the Superior Court of Delaware alleging that the use of Shower to Shower caused the plaintiffs to develop ovarian cancer. The Company has been voluntarily dismissed from nearly all of these cases, and only claims against VPNA remain. These lawsuits also include allegations against Johnson & Johnson, directed primarily to its marketing of and warnings for the Shower to Shower product prior to the Company's acquisition of the product in September 2012. The allegations in these cases specifically directed to VPNA include failure to warn, design defect, negligence, gross negligence, breach of express and implied warranties, civil conspiracy concert in action, negligent misrepresentation, wrongful death, and punitive damages. Plaintiffs seek compensatory damages including medical expenses, pain and suffering, mental anguish anxiety and discomfort, physical impairment, loss of enjoyment of life. Plaintiffs also seek pre- and post-judgment interest, exemplary and punitive damages, treble damages, and attorneys' fees.

These lawsuits also include a number of cases filed in certain state courts in the United States (including the California Superior Courts, the Superior Courts of Delaware, the New Jersey Superior Courts, the District Court of Louisiana, the Supreme Court of New York (Niagara County), the District Court of Oklahoma City, the Tennessee Chancery Court (Hamilton County) and the South Carolina Court of Common Pleas (Richland County)) alleging use of Shower to Shower and other products resulted in the plaintiffs developing mesothelioma. The Company has been successful in obtaining voluntarily dismissals in some of these cases or the plaintiffs have not opposed summary judgment. The allegations in these cases generally include design defect, manufacturing defect, failure to warn, negligence, and punitive damages, and in some cases breach of express and implied warranties, misrepresentation, and loss of consortium. The plaintiffs seek compensatory damages for loss of services, economic loss, pain and suffering, and, in some cases, lost wages or earning capacity and loss of consortium, in addition to punitive damages, interest, litigation costs, and attorneys' fees.

Finally, two proposed class actions have been filed in Canada against the Company and various Johnson & Johnson entities (one in the Supreme Court of British Columbia and one in the Superior Court of Quebec). The Company also acquired the rights to the Shower to Shower product in Canada from Johnson & Johnson in September 2012. In the British Columbia matter, the plaintiff seeks to certify a proposed class action on behalf of persons in British Columbia and Canada who have purchased or used Johnson's Baby Powder or Shower to Shower, including their estates, executors and personal representatives, and is alleging that the use of this product increases certain health risks. In the Quebec matter, the plaintiff seeks to certify a proposed class action on behalf of persons in Québec who have used Johnson's Baby Powder or Shower to Shower, as well as their family members, assigns and heirs, and is alleging negligence in failing to properly test, failing to warn of health risks, and failing to remove the products from the market in a timely manner. The plaintiffs in these actions are seeking awards of general, special, compensatory and punitive damages. The likelihood of the authorization or certification of these claims as class actions cannot be assessed at this time.

The Company intends to defend itself vigorously in each of the remaining actions that are not voluntarily dismissed or subject to a grant of summary judgment. The Company believes that its potential liability (including its attorneys' fees and costs) arising out the Shower to Shower lawsuits filed against the Company is subject to certain indemnification obligations of Johnson & Johnson owed to the Company. The Company has provided Johnson & Johnson with notice that the lawsuits filed against the Company relating to Shower to Shower are, in whole or in part, subject to indemnification by Johnson & Johnson.

## **General Civil Actions**

### *Afexa Class Action*

On March 9, 2012, a Notice of Civil Claim was filed in the Supreme Court of British Columbia which seeks an order certifying a proposed class proceeding against the Company and a predecessor, Afexa Life Sciences Inc. ("Afexa") (Case No. NEW-S-S-140954). The proposed claim asserts that Afexa and the Company made false representations respecting Cold-FX® to residents of British Columbia who purchased the product during the applicable period and that the proposed class has suffered damages as a result. On November 8, 2013, the Plaintiff served an amended notice of civil claim which sought to re-characterize the representation claims and broaden them from what was originally claimed. On December 8, 2014, the Company filed a motion to strike certain elements of the Plaintiff's claim for failure to state a cause of action. In response, the Plaintiff proposed further amendments to its claim. The hearing on the motion to strike and the Plaintiff's amended claim was held on February 4, 2015. The Court allowed certain amendments, while it struck others. The hearing to certify the class was held on April 4-8, 2016 and, on November 16, 2016, the Court issued a decision dismissing the plaintiff's application for certification of this action as a class proceeding. On December 15, 2016, the plaintiff filed a notice of appeal in the British Columbia Court of Appeal appealing the decision to dismiss the application for certification. The plaintiff filed its appeal factum on March 15, 2017 and the Company filed its appeal factum on April 19, 2017. The appeal hearing was held on September 19, 2017 and a decision is pending. The Company denies the allegations being made and is continuing to vigorously defend this matter.

### *Mississippi Attorney General Consumer Protection Action*

The Company and VPNA are named in an action brought by James Hood, Attorney General of Mississippi, in the Chancery Court of the First Judicial District of Hinds County, Mississippi (Hood ex rel. State of Mississippi, Civil Action No. G2014-1207013, filed on August 22, 2014), alleging consumer protection claims against both Johnson & Johnson, the Company and VPNA related to the Shower to Shower body powder product and its alleged causal link to ovarian cancer. As indicated above, the Company acquired the Shower to Shower body powder product in September 2012 from Johnson & Johnson. The State seeks compensatory damages, punitive damages, injunctive relief requiring warnings for talc-containing products, removal from the market of products that fail to warn, and to prevent the continued violation of the Mississippi Consumer Protection Act (“MCPA”). The State also seeks disgorgement of profits from the sale of the product and civil penalties. In October 2017, Plaintiffs dismissed certain claims under the MCPA related to advertising/marketing that did not appear on the label and/or packaging of Shower to Shower. The State has not made specific allegations as to the Company or VPNA. The Company intends to defend itself vigorously in this action, which the Company believes will also fall, in whole or in part, within the indemnification obligations of Johnson & Johnson owed to the Company, as indicated above.

### *Uceris® Arbitration*

On or about December 5, 2016, Cosmo Technologies Ltd. and Cosmo Technologies III Ltd. (collectively, “Cosmo”), the licensor of certain intellectual property rights in, and supplier of, the Company’s Uceris® extended release tablets, commenced arbitration against certain affiliates of the Company, Santarus Inc. (“Santarus”) and Valeant Pharmaceuticals Ireland (“Valeant Ireland”), under the Rules of Arbitration of the International Chamber of Commerce (No. 22453/GR, *Cosmo Technologies Ltd. et al. v. Santarus, Inc. et al.*). In the arbitration, Cosmo is alleging breach of contract with respect to certain terms of the license agreement, including the obligations on Santarus to use certain commercially reasonable efforts to promote the Uceris® extended release tablets. Cosmo is seeking a declaration that both the license agreement and a supply agreement with Valeant Ireland have been terminated, plus audit and attorney fees. Santarus and Valeant Ireland submitted their Answer in the arbitration on January 10, 2017 denying each of Cosmo’s allegations and making certain counterclaims. A hearing on liability issues was conducted from October 5 to 8, 2017. No ruling has yet issued. The Company is vigorously defending this matter.

### *Arbitration with Alfa Wasserman*

On or about July 21, 2016, Alfa Wasserman S.p.A. (“Alfa Wasserman”) commenced arbitration against the Company and its subsidiary, Salix Pharmaceuticals, Inc. (“Salix Inc.”) under the Rules of Arbitration of the International Chamber of Commerce (No. 22132/GR, *Alfa Wasserman S.p.A. v. Salix Pharmaceuticals, Inc. et al.*), pursuant to the terms of the Amended and Restated License Agreement between Alfa Wasserman and Salix Inc. (the “ARLA”). In the arbitration, Alfa Wasserman has made certain allegations respecting a development project for a formulation of the rifaximin compound (not the Xifaxan® product) that is being conducted under the terms of the ARLA, including allegations that Salix Inc. has failed to use the required efforts with respect to this development and that the Company’s acquisition of Salix resulted in a change of control under the ARLA, which entitled Alfa Wasserman to assume control of this development. Alfa Wasserman is seeking, among other things, a declaration that the provisions of the ARLA relating to the development product and the rights relating to the rifaximin formulation being developed have been terminated and such development and rights shall be returned to Alfa Wasserman, an order requiring the Company and Salix Inc. to pay for the costs of such development (in an amount of at least \$80 million), and alleged damages in the amount of approximately \$285 million plus arbitration costs and attorney fees. The Company and Salix Inc. have submitted their initial response to the request for arbitration and a three-member arbitration tribunal was selected. The Company is vigorously defending this matter.

The Company’s Xifaxan® products (and Salix Inc.’s rights thereto under the ARLA) are not the subject of any of the allegations or relief sought in this arbitration.

### *Mimetogen Litigation*

In November 2014, B&L Inc. filed a lawsuit against Mimetogen Pharmaceuticals Inc. (“MPI”) in the United States District Court for the Western District of New York (*Bausch & Lomb Incorporated v. Mimetogen Pharmaceuticals Inc.*, Case No. 6:14-06640 (FPG-JWF) (W.D.N.Y.)) relating to the Development Collaboration and Exclusive Option Agreement between B&L Inc. and MPI dated July 17, 2013 (the “MIM-D3 Agreement”) for MIM-D3, a compound created by MPI to treat dry eye syndrome. In particular, B&L Inc. sought a declaratory judgment that the Initial Phase III Trial regarding the safety and efficacy of MIM-D3 conducted pursuant to the MIM-D3 Agreement was “Not Successful” as defined in the MIM-D3 Agreement and, as a result, B&L Inc. had no further obligation to MPI when B&L Inc. elected not to exercise or extend its option to obtain an exclusive license to the MIM-D3 Technology to develop and commercialize certain products pursuant to

the MIM-D3 Agreement before the end of the applicable option period. MPI filed a counterclaim against B&L Inc., in which it contended that the result of the clinical trial did not meet the definition of “Not Successful” under the MIM-D3 Agreement and that, as a result, a \$20 million termination fee was due by B&L Inc. to MPI under the terms of the MIM-D3 Agreement and that B&L Inc. had breached the MIM-D3 Agreement by failing to pay this termination fee. MPI also contended that B&L Inc. acted intentionally and consequently was entitled to additional damages. MPI also brought certain third-party claims against the Company, alleging that the Company intentionally interfered with the MIM-D3 Agreement with the intent to harm MPI. MPI also asserted a claim against the Company for unfair and deceptive acts under Massachusetts law, and sought recovery of the \$20 million fee, as well as additional damages related to this claimed delay and injury to the value of its developmental product. On March 12, 2015, the Company moved to dismiss all of the claims against the Company and the claims for extra-contractual damages. In May 2016, the Court dismissed all claims against the Company, other than the claim for tortious interference, and declined to dismiss the claims against B&L Inc. and the Company for extra-contractual damages. On August 19, 2016, MPI filed a motion for summary judgment on its contract claim against B&L Inc. On September 22, 2016, B&L Inc. responded to MPI’s motion for summary judgment, and, along with the Company, filed a cross-motion for judgment in their favor, dismissing the contract claims against B&L Inc., as well as the remaining third-party claim against the Company for tortious interference. On June 30, 2017, the Court issued a Decision and Order granting MPI’s motion for partial summary judgment, awarding MPI the amount of \$20 million (based on a finding that the termination fee was due based on the outcome of the clinical trial) and denying the cross-motion for summary judgment filed by B&L Inc. and the Company. The Decision and Order is not yet appealable and the Company believes that that the Decision and Order cannot be enforced, as it is a partial summary judgment and not yet a final order of the Court. B&L Inc. and the Company intend to appeal this decision at the soonest possible time and will continue to vigorously defend the remainder of the suit. Discovery is proceeding as to the remaining claims.

### **Salix Legal Proceedings**

The Salix legal proceeding matter set out below, as well as each of those Salix matters described under the sub-heading “Completed Matters” below, were commenced prior to the Company’s acquisition of Salix. The estimated fair values of the potential losses regarding these matters, along with other matters, are included as part of contingent liabilities assumed in the Salix Acquisition and updated regularly as needed.

#### *Salix SEC Investigation*

In the fourth quarter of 2014, the SEC commenced a formal investigation into possible securities law violations by Salix relating to disclosures by Salix of inventory amounts in the distribution channel and related issues in press releases, on analyst calls and in Salix’s various SEC filings, as well as related accounting issues. In April 2017, the SEC staff indicated that it had substantially completed its investigation and will be making recommendations to the Commission in the near future. Salix continues to cooperate with the SEC staff. The Company cannot predict the outcome of the SEC investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on Salix or the Company arising out of the SEC investigation.

### **Philidor Matters**

As mentioned above in this section, the Company is involved in certain investigations, disputes and other proceedings related to the Company’s now terminated relationship with Philidor. These include the putative class action litigation in the U.S. and Canada, the purported class actions under the federal RICO statute and the investigations by certain offices of the Department of Justice, the SEC and the California Department of Insurance and the request for documents and other information received from the AMF. There can be no assurances that governmental agencies or other third parties will not commence additional investigations or assert claims relating to the Company’s former relationship with Philidor or Philidor’s business practices, including claims that Philidor or its affiliated pharmacies improperly billed third parties or that the Company is liable, directly or indirectly, for such practices. The Company is cooperating with all existing governmental investigations related to Philidor and is vigorously defending the putative class action litigations. No assurance can be given regarding the ultimate outcome of any present or future proceedings relating to Philidor.

### **Completed Matters**

The following matters have concluded, settled or otherwise been closed or the Company anticipates that no further material activity will take place with respect thereto.

### *Salix Securities Litigation*

Beginning on November 7, 2014, three putative class action lawsuits were filed by shareholders of Salix, each of which generally alleges that Salix and certain of its former officers and directors violated federal securities laws in connection with Salix's disclosures regarding certain products, including with respect to disclosures concerning historic wholesaler inventory levels, business prospects and demand, reserves and internal controls. Two of these actions were filed in the U.S. District Court for the Southern District of New York, and are captioned: *Woburn Retirement System v. Salix Pharmaceuticals, Ltd., et al.* (Case No. 1:14-CV-08925 (KMW)), and *Bruyn v. Salix Pharmaceuticals, Ltd., et al.* (Case No. 1:14-CV-09226 (KMW)). These two actions have been consolidated under the caption *In re Salix Pharmaceuticals, Ltd.* (Case No. 14-CV-8925 (KMW)). Defendants' Motions to Dismiss were fully briefed as of August 3, 2015. The Court denied the Motions to Dismiss in an order dated March 31, 2016 for the reasons stated in an opinion dated April 22, 2016. Defendants' Answers to the operative Complaint were filed on May 31, 2016. On October 10, 2016, Plaintiffs' filed a motion for class certification. A third action was filed in the U.S. District Court for the Eastern District of North Carolina under the caption *Grignon v. Salix Pharmaceuticals, Ltd. et al.* (Case No. 5:14-cv-00804-D), but was subsequently voluntarily dismissed. On February 8, 2017, the parties reached an agreement in principle to settle the consolidated action, pursuant to which Salix will make a payment of \$210 million and, on April 5, 2017, the court granted preliminary approval of the settlement. A hearing to grant final approval of the settlement was heard on July 28, 2017 and the settlement was approved by the Court. The settlement amount has been fully accrued for in the Company's consolidated financial statements as of December 31, 2016 and a payment of \$210 million was made in the second quarter of 2017 (in total, the Company received \$60 million of insurance refund proceeds related to this matter). Included in Other expense (income) in the statement of loss for 2016 is a \$90 million charge in the fourth quarter for this matter.

### *U.S. Department of Justice Investigation*

On September 15, 2015, Bausch & Lomb International, Inc. received a subpoena from the Criminal Division of the U.S. Department of Justice regarding agreements and payments between B&L and medical professionals related to its surgical products Crystalens® IOL and Victus® femtosecond laser platform. The government indicated that the subpoena was issued in connection with a criminal investigation into possible violations of Federal health care laws. B&L International produced certain documents in response to the subpoena and cooperated with the investigation. The underlying *qui tam* action relating to this investigation was dismissed without prejudice on June 19, 2017 and the Department of Justice has both declined to intervene, as well as, declined to further prosecute this matter.

### *Sprout Litigation*

On or about November 2, 2016, the Company and Valeant were named as defendants in a lawsuit filed by the shareholder representative of the former shareholders of Sprout in the Court of Chancery of the State of Delaware (C.A. No. 12868). The plaintiff in this action alleged, among other things, breach of contract with respect to certain terms of the merger agreement relating to the Company's acquisition of Sprout, including a disputed contractual term respecting the use of certain diligent efforts to develop and commercialize the Addyi® product (including a disputed contractual term respecting the spend of no less than \$200 million in certain expenditures). The plaintiff in this action sought unspecified compensatory and other damages and attorneys' fees, as well as an order requiring Valeant to perform its obligations under the merger agreement. On December 27, 2016, the Company and Valeant filed (i) an answer directed to the claim for breach of contract and (ii) a partial motion to dismiss the other claims. The Court held a hearing on the partial motion to dismiss on March 10, 2017, and the Court subsequently granted that motion in part, dismissing plaintiff's intentional misrepresentation and declaratory judgment claims in their entirety and narrowing plaintiff's implied covenant claim. On November 6, 2017, the Company announced that it had entered into a definitive agreement to sell Sprout. In connection with the closing of the Sprout Sale, this action will be dismissed with prejudice. The Company expects to close the Sprout Sale in 2017.

### *Depomed/PDL Litigation*

On September 7, 2017, Depomed, Inc. ("Depomed") and PDL BioPharma, Inc. ("PDL") commenced litigation by the filing of a complaint in the United States District Court for the District of New Jersey, against Valeant Pharmaceuticals International, Inc. and Valeant Pharmaceuticals Luxembourg S.à r.l. (together, "Valeant") relating to alleged underpayment of royalties in breach of a certain commercialization agreement by and between Depomed and Santarus, Inc. (a predecessor company of the Company) dated as of August 22, 2011, as amended, based on, inter alia, the findings in an audit report prepared by KPMG LLP. Valeant disputed the claims alleged in Depomed's complaint. On October 27, 2017, PDL, Depomed and Valeant entered into a settlement agreement that resolved all matters addressed in the lawsuit filed. Under the terms of the settlement agreement, the parties agree that the settlement is not an admission by any party thereto of any fact alleged in the litigation, and reflects

a reasonable compromise in the best interest of the parties. As a consequence of the settlement, the litigation was dismissed, with prejudice, on November 6, 2017, and Valeant made a one-time, lump-sum payment of \$13 million to Depomed. In addition, under the terms of the settlement agreement, Depomed and PDL will release Valeant from any and all claims against it arising out of the royalty audit that was performed, Valeant's obligation to pay royalties during the relevant audit period, and/or the litigation, and Valeant will release Depomed and PDL from any and all claims against them as a result of the audit and/or the litigation.

## 19. SEGMENT INFORMATION

### Reportable Segments

During the third quarter of 2016, the Company's CEO, who is the Company's Chief Operating Decision Maker, commenced managing the business differently through changes in and reorganizations to the Company's business structure, including changes to its operating and reportable segments, which necessitated a realignment of the Company's historical segment structure. Pursuant to this change, which was effective in the third quarter of 2016, the Company operates in three operating and reportable segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. Effective for the first quarter of 2017, revenues and profits from the Company's operations in Canada, included in the Branded Rx segment in prior periods, are included in the Bausch + Lomb/International segment. Prior period presentations of segment revenues, segment profits and segment assets have been recast to conform to the current segment reporting structure.

The following is a brief description of the Company's segments:

- **The Bausch + Lomb/International segment** consists of: (i) sales in the U.S. of pharmaceutical products, OTC products and medical device products, primarily comprised of Bausch + Lomb products, with a focus on the Vision Care, Surgical, Consumer and Ophthalmology Rx products and (ii) sales in Canada, Europe, Asia, Australia and New Zealand, Latin America, Africa and the Middle East of branded pharmaceutical products, branded generic pharmaceutical products, OTC products, medical device products, and Bausch + Lomb products.
- **The Branded Rx segment** consists of sales in the U.S. of: (i) Salix products (gastrointestinal products), (ii) Ortho Dermatologics (dermatological products) and (iii) oncology (or Dendreon), dentistry and women's health products. As a result of the Dendreon Sale completed on June 28, 2017, the Company exited the oncology business.
- **The U.S. Diversified Products segment** consists of sales in the U.S. of: (i) pharmaceutical products, OTC products and medical device products in the areas of neurology and certain other therapeutic classes, including aesthetics which includes the Solta business and the Obagi business and (ii) generic products.

Segment profit is based on operating income after the elimination of intercompany transactions. Certain costs, such as amortization of intangible assets, asset impairments, in-process research and development costs, restructuring and integration costs, acquisition-related contingent consideration costs and other (income) expense are not included in the measure of segment profit, as management excludes these items in assessing segment financial performance.

Corporate includes the finance, treasury, certain research and development programs, tax and legal operations of the Company's businesses and maintains and/or incurs certain assets, liabilities, expenses, gains and losses related to the overall management of the Company, which are not allocated to the other business segments. In addition, a portion of share-based compensation is considered a corporate cost, since the amount of such expense depends on Company-wide performance rather than the operating performance of any single segment.

Prior period segment financial information has been recast to conform to current segment presentation.

## Segment Revenues and Profits

Segment revenues and profits for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Bausch + Lomb/International	\$ 1,254	\$ 1,243	\$ 3,645	\$ 3,666
Branded Rx	633	766	1,873	2,084
U.S. Diversified Products	332	470	1,043	1,521
	<u>\$ 2,219</u>	<u>\$ 2,479</u>	<u>\$ 6,561</u>	<u>\$ 7,271</u>
<b>Segment profits:</b>				
Bausch + Lomb/International	\$ 387	\$ 381	\$ 1,097	\$ 1,072
Branded Rx	357	484	1,024	1,078
U.S. Diversified Products	238	379	757	1,227
	<u>982</u>	<u>1,244</u>	<u>2,878</u>	<u>3,377</u>
Corporate	(126)	(185)	(432)	(525)
Amortization of intangible assets	(657)	(664)	(1,915)	(2,015)
Goodwill impairments	(312)	(1,049)	(312)	(1,049)
Asset impairments	(406)	(148)	(629)	(394)
Restructuring and integration costs	(6)	(20)	(42)	(78)
Acquired in-process research and development costs	—	(31)	(5)	(34)
Acquisition-related contingent consideration	238	(9)	297	(18)
Other income (expense), net	325	(1)	584	20
Operating income (loss)	<u>38</u>	<u>(863)</u>	<u>424</u>	<u>(716)</u>
Interest income	3	3	9	6
Interest expense	(459)	(470)	(1,392)	(1,369)
Loss on extinguishment of debt	(1)	—	(65)	—
Foreign exchange and other	19	(2)	87	4
Loss before recovery of income taxes	<u>\$ (400)</u>	<u>\$ (1,332)</u>	<u>\$ (937)</u>	<u>\$ (2,075)</u>

## Segment Assets

Total assets by segment were as follows:

<i>(in millions)</i>	September 30, 2017	December 31, 2016
<b>Assets:</b>		
Bausch + Lomb/International	\$ 15,608	\$ 16,201
Branded Rx	18,455	21,143
U.S. Diversified Products	5,172	5,820
	<u>39,235</u>	<u>43,164</u>
Corporate	739	365
Total assets	<u>\$ 39,974</u>	<u>\$ 43,529</u>

## 20. SUBSEQUENT EVENTS

### Debt Repayments

On October 5, 2017, using the Restricted cash received from the iNova Sale completed on September 29, 2017, the Company repaid \$923 million of its Series F Tranche B Term Loan Facility. On November 2, 2017, using cash on hand, the Company repaid \$125 million of its Series F Tranche B Term Loan Facility.

### Senior Secured Note Offering

On October 17, 2017, the Company issued \$1,000 million aggregate principal amount of the 5.50% 2025 Notes, in a private placement, the proceeds of which were used to (i) repurchase \$569 million in principal amount of the 6.375% 2020 Notes and (ii) repurchase \$431 million in principal amount of the 7.00% 2020 Notes. The related fees and expenses were paid using cash on hand. Interest on these notes is payable semi-annually in arrears on each May 1 and November 1.

The 5.50% 2025 Notes are guaranteed by each of the Company's subsidiaries that is a guarantor under the Credit Agreement and existing Senior Unsecured Notes (together, the "Note Guarantors"). The Senior Secured Notes and the guarantees related thereto are senior obligations and are secured, subject to permitted liens and certain other exceptions, by the same first priority liens that secure the Company's obligations under the Credit Agreement under the terms of the indenture governing the Senior Secured Notes.

The 5.50% 2025 Notes and the guarantees rank equally in right of payment with all of the Company's and Note Guarantors' respective existing and future unsubordinated indebtedness and senior to the Company's and Note Guarantors' respective future subordinated indebtedness. The Senior Secured Notes and the guarantees related thereto are effectively *pari passu* with the Company's and the Note Guarantors' respective existing and future indebtedness secured by a first priority lien on the collateral securing the Senior Secured Notes and effectively senior to the Company's and the Note Guarantors' respective existing and future indebtedness that is unsecured, including the existing Senior Unsecured Notes, or that is secured by junior liens, in each case to the extent of the value of the collateral. In addition, the Senior Secured Notes are structurally subordinated to (i) all liabilities of any of the Company's subsidiaries that do not guarantee the Senior Secured Notes and (ii) any of the Company's debt that is secured by assets that are not collateral.

The 5.50% 2025 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after November 1, 2020, at the redemption prices set forth in the indenture. The Company may redeem some or all of the 5.50% 2025 Notes prior to November 1, 2020 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to November 1, 2020, the Company may redeem up to 40% of the aggregate principal amount of the 5.50% 2025 Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

Upon the occurrence of a change in control (as defined in the indentures governing the Senior Secured Notes), unless the Company has exercised its right to redeem all of the notes of a series as described above, holders of the Senior Secured Notes may require the Company to repurchase such holder's notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

### Sprout Sale

On November 6, 2017, the Company announced it had entered into a definitive agreement to sell Sprout to a buyer affiliated with certain former shareholders of Sprout, in exchange for a 6% royalty on global sales of Addyi® beginning May 2019. In connection with the completion of the Sprout Sale, the terms of the October 2015 merger agreement relating to the Company's acquisition of Sprout will be amended to terminate the Company's ongoing obligation to make future royalty payments associated with the Addyi® product, as well as certain related provisions (including the obligation to make certain marketing and other expenditures). In connection with the completion of the Sprout Sale, the current litigation against the Company, initiated on behalf of the former shareholders of Sprout, which disputes the Company's compliance with certain contractual terms of that same merger agreement with respect to the use of certain diligent efforts to develop and commercialize the Addyi® product (including a disputed contractual term with respect to the spend of no less than \$200 million in certain expenditures), will be dismissed with prejudice. Upon completion of the Sprout Sale, the Company will issue the buyer a five-year \$25 million loan for initial operating expenses. The Sprout Sale is subject to certain closing conditions, including the approval of the requisite portion of the former shareholders of Sprout to the amendments to the original merger agreement.

Royalties due to the Company from the future sales of the Addyi® product will be contingent upon future events. As the Company has previously elected a policy to record such contingent proceeds only when the contingency is realizable, no value

will be ascribed to the Company's right to receive those future royalties in determining the Company's gain or loss on the Sprout Sale. The Sprout Sale is expected to close in 2017, at which time the Company will recognize a loss equal to the carrying value of the net assets of Sprout at the date of closing, plus any necessary provisions regarding the five-year \$25 million loan executed as part of the Sprout Sale agreement. As of September 30, 2017, net assets of the Sprout business were \$71 million and were included in assets and liabilities held for sale.

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

### INTRODUCTION

Unless the context otherwise indicates, as used in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the terms “we,” “us,” “our,” “the Company,” and similar terms refer to Valeant Pharmaceuticals International, Inc. and its subsidiaries. This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” has been updated through November 7, 2017 and should be read in conjunction with the unaudited interim Consolidated Financial Statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (this “Form 10-Q”). The matters discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and that may be forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, “Forward-Looking Statements”). See “Forward-Looking Statements” at the end of this discussion.

Our accompanying unaudited interim Consolidated Financial Statements as of September 30, 2017 and for the three and nine months ended September 30, 2017 and 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) for interim financial statements, and should be read in conjunction with our Consolidated Financial Statements and other financial information for the year ended December 31, 2016, which were included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017. In our opinion, the unaudited interim Consolidated Financial Statements reflect all adjustments, consisting of normal and recurring adjustments, necessary for a fair statement of the financial condition, results of operations and cash flows for the periods indicated. Additional company information is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the SEC website at [www.sec.gov](http://www.sec.gov). All currency amounts are expressed in U.S. dollars, unless otherwise noted.

### OVERVIEW

Valeant Pharmaceuticals International, Inc. is a multinational, specialty pharmaceutical and medical device company that develops, manufactures, and markets a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter (“OTC”) products and medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment, and aesthetics devices), which are marketed directly or indirectly in approximately 100 countries. We are diverse not only in our sources of revenue from our broad drug and medical device portfolio, but also among the therapeutic classes and geographies we serve.

We generated revenues of \$6,561 million and \$7,271 million for the nine months ended September 30, 2017 and 2016, respectively. Our portfolio of products falls into three reportable segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products.

- **The Bausch + Lomb/International segment** consists of: (i) sales in the U.S. of pharmaceutical products, OTC products and medical device products, primarily comprised of Bausch + Lomb products, with a focus on the Vision Care, Surgical, Consumer and Ophthalmology Rx products and (ii) sales in Canada, Europe, Asia, Australia and New Zealand, Latin America, Africa and the Middle East of branded pharmaceutical products, branded generic pharmaceutical products, OTC products, medical device products, and Bausch + Lomb products.
- **The Branded Rx segment** consists of sales in the U.S. of: (i) Salix products (gastrointestinal (“GI”) products), (ii) Ortho Dermatologics (dermatological products) and (iii) oncology (or Dendreon (as defined below)), dentistry and women’s health products. As a result of the Dendreon Sale (as defined below) completed on June 28, 2017, the Company exited the oncology business.
- **The U.S. Diversified Products segment** consists of sales in the U.S. of: (i) pharmaceutical products, OTC products and medical device products in the areas of neurology and certain other therapeutic classes, including aesthetics which includes the Solta business and the Obagi business and (ii) generic products.

We are focused on core geographies and the therapeutic classes discussed above which have the potential for strong operating margins and offer growth opportunities.

For a comprehensive discussion of our business, business strategy, products and other business matters, see Item 1. “Business” included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017.

## History

Following the Company's (then named Biovail Corporation) acquisition of Valeant Pharmaceuticals International ("Valeant") on September 28, 2010 (the "Merger"), we supplemented our internal research and development ("R&D") efforts with strategic acquisitions to expand our portfolio offerings and geographic footprint. In 2013, we acquired Bausch & Lomb Holdings Incorporated ("B&L"), a global eye health company that focuses on developing, manufacturing and marketing eye health products, including contact lenses, contact lens care solutions, ophthalmic pharmaceuticals and ophthalmic surgical products. In 2015, we acquired Salix Pharmaceuticals, Ltd. ("Salix") (the "Salix Acquisition"), a specialty pharmaceutical company dedicated to developing and commercializing prescription drugs and medical devices used in treatment of a variety of GI disorders with a portfolio of over 20 marketed products, including Xifaxan®, Uceris®, Apriso®, Glumetza®, and Relistor®. In 2015, we acquired the exclusive licensing rights to develop and commercialize brodalumab, an IL-17 receptor monoclonal antibody for patients with moderate-to-severe plaque psoriasis for which, following internal development work, on February 15, 2017, we received approval from the U.S. Food and Drug Administration ("FDA"). On July 27, 2017, we launched this product in the U.S. (marketed as Siliq™ in the U.S.). We believe the investments we have made in B&L, Salix, brodalumab and other acquisitions, as well as our ongoing investments in our internal R&D efforts, are helping us to capitalize on the core geographies and therapeutic classes that have the potential for strong operating margins and offer attractive growth opportunities. While business development through acquisitions may continue to be a component of our long-term strategy, we have made minimal acquisitions since 2015 and expect the volume and size of acquisitions to be low in the foreseeable future.

## Business Strategy

Our strategy is to focus our business on core geographies and therapeutic classes that offer attractive growth opportunities. Within our chosen therapeutic classes and geographies, we prioritize durable products which have the potential for strong operating margins and evidence of growth opportunities. The growth of our business is further augmented through our lower risk, output-focused R&D model, which allows us to advance certain development programs to drive future commercial growth, while creating efficiencies in our R&D efforts.

## Key Initiatives

Prior to 2016, we had completed a series of mergers and acquisitions which were key to the Company's previous strategy for growth.

The Company has transitioned away from a focus on acquisitions, has taken steps to stabilize its business and has begun placing greater emphasis on a select number of internal R&D projects. The Company's key initiatives include: (i) concentrating our focus on core businesses where we believe we have an existing and sustainable competitive edge, (ii) identifying opportunities to improve operational efficiencies and reviewing our internal allocation of capital and (iii) strengthening the Company's balance sheet and capital structure.

In 2017, we have continued to execute on these key initiatives. We have better defined our core businesses, shifted our operations toward those core businesses and made measurable progress in strengthening our balance sheet.

*Focus on Core Businesses* - We believe that there is significant opportunity in the eye health and branded prescription pharmaceutical businesses. Our existing portfolio, commercial footprint and pipeline of product development projects are expected to position us to compete and be successful in these markets. As a result, we believe these businesses provide us with the greatest opportunity to build value for our stakeholders. In order to focus our efforts, in 2016, we performed a review of our portfolio of assets to identify those areas where we believe we have, and can maintain, a competitive advantage and we continue to define and shape our business around these assets. We identify these areas as "core", meaning that we are best positioned to grow and develop them. By narrowing our focus, we have the opportunity to reduce complexity in our business and maximize the value of our core businesses. We describe our core areas by business and by geography. Within our Branded Rx segment, our core businesses include GI (or Salix) and dermatology. We also view our global eye health business, within our Bausch + Lomb/International segment, as core. Although the business units that fall outside our definition of "core" assets may be solid, the focus of their product pipelines and geographic footprint are not fully aligned with the focus of our core business, and they are, therefore, at a disadvantage when competing against our core activities for resources and capital within the Company.

*Internal Capital Allocation and Operating Efficiencies* - In support of the key initiatives outlined above, in 2016, a new leadership team was recruited and many of the executive roles were realigned or expanded to drive value in our product portfolio and generate operational efficiencies. Beginning in the latter half of 2016, the leadership team began to address a number of issues affecting performance and other operational matters. These operational matters included:

- *Sales Force Stabilization* - We believe that new leadership and the enhanced focus on core assets have enabled the Company to recruit and retain stronger talent for its sales initiatives. We continue to focus on stabilizing our sales forces, which, in turn, will allow us to deliver more consistent and concise messages in the marketplace.
- *Patient Access and Pricing Committee and New Pricing Actions* - In May 2016, we formed the Patient Access and Pricing Committee responsible for setting, changing and monitoring the pricing of our Branded Rx and other pharmaceutical products. Following this committee's recommendation, we implemented an enhanced rebate program to all hospitals in the U.S. to reduce the price of our Nitropress® and Isuprel® products. In October 2016, the Patient Access and Pricing Committee approved 2% to 9% increases to our gross selling price (wholesale acquisition cost or "WAC") for products in our neurology, GI and urology portfolios. The changes are aligned with the Patient Access and Pricing Committee's commitment that the average annual price increase for our prescription pharmaceutical products will be set at no greater than single digits and below the 5-year weighted average of the increases within the branded biopharmaceutical industry. In addition, in 2016, no pricing increases were taken on our dermatology and ophthalmology products and, in 2016, net pricing of our dermatology and ophthalmology products, after taking into account the impact of rebates and other adjustments, decreased by greater than 10% on average. On April 21, 2017, the Company announced that, following the evaluation and approval of the Patient Access and Pricing Committee, it had decided to list Siliq™ (brodalumab) injection at \$3,500 per month, which represented the lowest-priced injectable biologic psoriasis treatment based on total annual costs on the market at the time of the announcement. In the future, we expect that the Patient Access and Pricing Committee will implement or recommend additional price changes and/or new programs to enhance patient access to our drugs and that these pricing changes and programs could affect the average realized pricing for our products and may have a significant impact on our revenue trends.

The ranking of our business units during 2016 changed our view of how capital should be allocated across our activities. Our first step was to review each business unit, consider and assess the appropriate levels of operating expense, and to eliminate non-productive costs. As a result of that review, we identified several hundred million dollars of cost savings opportunities.

To position the Company to drive the value of our core assets, we made a number of leadership changes and took steps to increase our promotional efforts, particularly in GI, and increase our commitment to research and development.

*GI Initiatives* - The GI unit initiated a significant sales force expansion program in December 2016 to reach potential primary care physician ("PCP") prescribers of Xifaxan® for irritable bowel syndrome with diarrhea ("IBS-D") and Relistor® tablets for opioid induced constipation ("OIC"). In the first quarter of 2017, we hired approximately 250 trained and experienced sales force representatives and managers to create, bolster and sustain deep relationships with PCPs. With approximately 70 percent of IBS-D patients initially presenting with symptoms to a PCP, we believe that the dedicated PCP sales force will be positioned to reach more patients in need of IBS-D treatment. The investment in these additional sales resources, including an increase in associated promotional costs, is expected to be in the range of \$50 million to \$60 million, as we believe this spend is needed to allow us to capitalize on the full potential of Xifaxan®. The costs of this investment in our GI unit reduced our operating results in the fourth quarter of 2016 and the first quarter of 2017 and we have begun experiencing incremental revenue for Xifaxan®. In addition, we have expanded our dedicated pain sales representatives to strengthen our position in the OIC market, and established a nurse educator team to educate clinical staff within top institutions.

*R&D Investments* - Our R&D organization focuses on the development of products through clinical trials and consists of approximately 1,000 dedicated R&D and quality assurance employees in 18 R&D facilities. Currently, we have over 100 R&D projects in the pipeline and we have launched or expect to launch and/or relaunch over 120 products during 2017.

In 2016, we increased our R&D expenditures by 26% over our R&D expenditures in 2015, as we began the transition away from the Company's previous growth by acquisition strategy and moved toward our organic growth supported by investment in R&D strategy. Although R&D expenses for the nine months ended September 30, 2017 were \$271 million and were lower when compared to R&D expenses for the nine months ended September 30, 2016 of \$328 million, as a percentage of revenues R&D expenses remain between 4% and 5% in 2017 and 2016 and demonstrates our consistent commitment to our investment in R&D strategy. The decrease in dollars spent is attributable to the year over year phasing as we completed the R&D investment in Siliq™ and other newly launched products requiring investment in the prior year, removed projects related to divested businesses and rebalanced our portfolio to better align with our long-term plans.

Core assets that have received a significant portion of our R&D investment are:

- *Dermatology* - On July 27, 2017, we launched Siliq™ in the U.S. Siliq™ is an IL-17 receptor blocker monoclonal antibody biologic for treatment of moderate-to-severe plaque psoriasis, which we estimate to be an over \$5,000 million market in the U.S. The FDA approved the Biologics License Application ("BLA") for Siliq™ injection, for subcutaneous

use for the treatment of moderate-to-severe plaque psoriasis in adult patients who are candidates for systemic therapy or phototherapy and have failed to respond or have lost response to other systemic therapies. Siliq™ has a Black Box Warning for the risks in patients with a history of suicidal thoughts or behavior and was approved with a Risk Evaluation and Mitigation Strategy involving a one-time enrollment for physicians and one-time informed consent for patients.

- *Dermatology* - IDP-118 is the first and only topical lotion that contains a unique combination of halobetasol propionate and tazarotene for the treatment of moderate-to-severe plaque psoriasis in adults. Halobetasol propionate and tazarotene are each approved to treat plaque psoriasis when used separately, but are limited in duration of use. Halobetasol propionate may be used for up to two weeks and tazarotene may be limited due to irritation. Based on existing data from clinical studies, the combination of these ingredients in IDP-118 with a dual mechanism of action, potentially allows for expanded duration of use, with reduced adverse events. On September 5, 2017, we announced that we had submitted a New Drug Application (“NDA”) for IDP-118 to the FDA which included data from two successful Phase 3 clinical trials. On November 2, 2017, we announced that the FDA had accepted the NDA for review, and set a Prescription Drug User Fee Act (“PDUFA”) action date of June 18, 2018.
- *Dermatology* - IDP-122 is a novel psoriasis product, for which we expect to file an NDA in 2017.
- *Dermatology* - IDP-121 is a novel acne product for which we expect to file an NDA in 2017.
- *Dermatology* - IDP-123 is an acne product containing lower concentration of tazarotene in a lotion form to help reduce irritation while keeping efficacy currently in Phase 3 testing.
- *Dermatology* - IDP-120 - is an acne product with a fixed combination of mutually incompatible ingredients; benzoyl peroxide and tretinoin. We plan to begin Phase 3 testing of this product in the first half of 2018.
- *Dermatology* - IDP-126 - is an acne product with a fixed combination of benzoyl peroxide, clindamycin phosphate and adapalene currently in Phase 2 testing.
- *Gastrointestinal* - A new formulation of rifaximin, which we acquired as part of the Salix Acquisition, is scheduled to begin Phase 2b/3 testing in 2017.
- *Eye Health* - Luminesse™ (*provisional name*) (brimonidine tartrate ophthalmic solution, 0.025%) is being developed as an ocular redness reliever. On February 27, 2017, we filed the NDA for Luminesse™ with the FDA. In May 2017, we announced that the FDA had accepted the NDA for review, and set a PDUFA action date of December 27, 2017.
- *Eye Health* - Vyzulta™ (latanoprostene bunod ophthalmic solution, 0.024%) is an intraocular pressure lowering single-agent eye drop dosed once daily for patients with open angle glaucoma or ocular hypertension. In September 2015, we announced that the FDA had accepted for review the NDA for this product and set a PDUFA action date of July 21, 2016. On July 22, 2016, we announced that we had received a Complete Response Letter (“CRL”) from the FDA regarding the NDA for this product. On February 24, 2017, we refiled the NDA and, on August 7, 2017, we received another CRL from the FDA regarding the NDA for this product. The concerns raised by the FDA in both CRLs pertain to the findings of Current Good Manufacturing Practices (“GMP”) inspections at our manufacturing facility in Tampa, Florida, where certain deficiencies were identified by the FDA. However, neither CRL identified any efficacy or safety concerns with respect to this product or additional clinical trials needed for the approval of the NDA. On August 16, 2017, we announced that the FDA confirmed that all issues related to the Current Good Manufacturing Practice inspection at the Tampa, Florida facility are being satisfactorily resolved, and a Voluntary Action Indicated inspection classification has since been issued by the FDA for this facility. Then on November 2, 2017, we announced that the FDA approved the NDA for Vyzulta™. We expect to launch Vyzulta™ in 2017.
- *Eye Health* - Vitesse™ is a novel technology using ultrasonic energy for vitreous removal with reduced surgical trauma. On April 26, 2017, Vitesse™ received 510(k) clearance from the FDA. We expect to launch this product in 2017.
- *Dermatology* - Traser™ is an energy-based platform device with significant versatility and power capabilities to address various dermatological conditions, including vascular and pigmented lesions. Product launch is currently planned for the second half of 2019.
- *Eye Health* - We expect to file a Premarket Approval application with the FDA in 2017 for 7-day extended wear for our Bausch + Lomb ULTRA® monthly planned replacement contact lenses.
- *Eye Health* - On April 6, 2017, we announced that our Stellaris Elite™ Vision Enhancement System received 510(k) clearance from the FDA. The Stellaris Elite™ Vision Enhancement System is our next generation phacoemulsification

cataract platform, which offers new innovations, as well as the opportunity to add upgrades and enhancements every one to two years. Stellaris Elite™ is the first phacoemulsification platform on the market to offer Adaptive Fluidics™, which combines aspiration control with predictive infusion management to create a responsive and controlled surgical environment for efficient cataract lens removal. Stellaris Elite™ was launched in April 2017.

- *Eye Health* - Biotrue® ONEday for Astigmatism is a daily disposable contact lens for astigmatic patients. The Biotrue® ONEday lenses incorporate Surface Active Technology™ to provide a dehydration barrier. The Biotrue® ONEday for Astigmatism also includes evolved peri-ballast geometry to deliver stability and comfort for the astigmatic patient. We launched this product in December 2016 and launched the complete extended power range in 2017.
- *Eye Health* - Bausch + Lomb ULTRA® for Astigmatism is a monthly planned replacement contact lens for astigmatic patients. The Bausch + Lomb ULTRA® for Astigmatism lens was developed using the proprietary MoistureSeal® technology. In addition, the Bausch + Lomb ULTRA® for Astigmatism lens integrates a OpticAlign™ design engineered for lens stability and to promote a successful wearing experience for the astigmatic patient. We launched this product and the extended power range for this product in 2017.
- *Eye Health* - Bausch + Lomb ULTRA® for Presbyopia is a monthly planned replacement contact lens for presbyopic patients. The Bausch + Lomb ULTRA® for Presbyopia lens was developed using the proprietary MoistureSeal® technology. In addition, the Bausch + Lomb ULTRA® for Presbyopia lens integrates a 3 zone progressive design for near, intermediate and distance vision. We will continue to launch expanded parameters of this product throughout 2017.
- *Eye Health* - Bausch + Lomb ScleralFil™ solution is a novel contact lens care solution that makes use of a preservative free buffered saline solution for use with the insertion of scleral lenses. This contact lens care solution was launched in 2017.
- *Eye Health* - Bausch + Lomb Renu® Advanced Formula multi-purpose solution is a novel soft and silicone hydrogel contact lenses solution that makes use of three disinfectants and two moisture agents. This contact lens multipurpose care solution was launched in May 2017.
- *Eye Health* - On February 21, 2017, EyeGate Pharmaceuticals, Inc. granted the Company the exclusive licensing rights to manufacture and sell its EyeGate® II Delivery System and EGP-437 combination product candidate worldwide for the treatment of post-operative pain and inflammation in ocular surgery patients. EyeGate Pharmaceuticals, Inc. will be responsible for the continued development of this product candidate in this field in the U.S. and all associated costs. The Company has the right to further develop the product in this field outside of the U.S., at its cost. In July 2017, EyeGate Pharmaceuticals, Inc. enrolled its first patient in a new Phase IIB clinical study for cataract surgery.
- *Eye Health* - We are developing a new Ophthalmic Viscosurgical Device product, with a formulation to protect corneal endothelium during Phaco emulsification process during a cataract surgery and to help chamber maintenance and lubrication during intraocular lens delivery. We expect to initiate an investigative device exemption (“IDE”) study in 2017.
- *Dermatology* - Next Generation Thermage® is a fourth-generation non-invasive treatment option using a radiofrequency platform designed to optimize key functional characteristics, expand clinical indication set and improve patient outcomes. On September 22, 2017, we received 510(k) clearance from the FDA and expect to launch this product in 2017.
- *Gastrointestinal* - NER1006 (provisionally named Plenvu®) is a novel, lower-volume polyethylene glycol-based bowel preparation that has been developed to help provide complete bowel cleansing, with an additional focus on the ascending colon. In June 2017, we announced that the FDA accepted for review the NDA for NER1006 and we expect an FDA decision in 2018. NER1006 was licensed by Norgine B.V. to Salix in August 2016.
- *Eye Health* - Loteprednol Gel 0.38% is a new formulation for the treatment of post-operative ocular inflammation and pain with lower drug concentration and less frequent dosing and has completed Phase III testing.
- *Eye Health* - enVista® Trifocal intraocular lens is an innovative lens design, for which we expect to initiate an IDE study in 2017.

Our investment in R&D reflects our commitment to drive organic growth through internal development of new products, a pillar of our new strategy.

*Strengthening the Balance Sheet/Capital Structure* - We have made measurable progress in reducing our debt level, improving our capital structure and generating additional liquidity for our operations. Using our cash flows from operations and the net cash proceeds from sales of certain non-core assets, during the period January 1, 2016 through the date of this filing, we repaid (net of additional borrowings) over \$5,200 million of long-term debt, which includes over \$900 million of repayments made after September 30, 2017 using the net proceeds from a divestiture as discussed below and cash on hand. In addition, in March 2017 and October 2017, we accessed the credit markets and completed a series of transactions to improve our capital structure, whereby we extended the maturities of certain debt obligations originally scheduled to mature in the years 2018 through 2020 out to the year 2021 and beyond. Our repayments through the date of this filing, and the refinancings we completed in March 2017 and October 2017 have eliminated any further mandatory principal long-term debt repayments until March 2020, providing us with additional liquidity and greater flexibility to execute our business plans. Our reduced debt levels and improved debt portfolio will translate to lower payments of principal over the next three years, which, in turn, should free up cash flows to be directed toward developing our core assets and repaying additional debt amounts.

#### *Divestitures*

In order to better focus on our business objectives, we have divested certain businesses and assets and identified others for potential divestiture, which, in each case, were not aligned with our core business objectives.

In March 2017, we completed the sale of the CeraVe®, AcneFree™ and AMBI® skincare brands to a global beauty company for \$1,300 million in cash (the “Skincare Sale”). Aggregate annual revenue associated with these skincare brands was less than \$200 million.

In June 2017, we completed the sale of our equity interests in Dendreon Pharmaceuticals LLC (formerly Dendreon Pharmaceuticals, Inc.) (“Dendreon”), for \$845 million (as adjusted for working capital provisions through September 30, 2017) in cash (the “Dendreon Sale”). Dendreon’s only commercialized product, Provenge®, is an autologous cellular immunotherapy (vaccine) for prostate cancer treatment approved by the FDA in April 2010. Revenues from Provenge® were \$303 million and \$250 million for the years 2016 and 2015, respectively. With this sale completed, we have exited the oncology business, which is not core to our business objectives.

In September 2017, we completed the sale of our Australian-based iNova Pharmaceuticals (“iNova”) business for \$938 million in cash (the “iNova Sale”), subject to certain working capital provisions. iNova markets a diversified portfolio of weight management, pain management, cardiology and cough and cold prescription and over-the-counter products in more than 15 countries, with leading market positions in Australia and South Africa, as well as an established platform in Asia. iNova revenues were \$196 million for the nine months ended September 30, 2017 and \$246 million and \$252 million for the years 2016 and 2015, respectively. With the iNova Sale completed, we have less exposure to the over-the-counter and prescription medicines markets in the geographies noted above, which are not core to our business objectives. However, we will continue to maintain a footprint in these geographies through our core Bausch + Lomb franchise. On October 5, 2017, using the net proceeds from the iNova Sale, we repaid \$923 million of our Series F Tranche B Term Loan Facility.

As the completed Skincare Sale, Dendreon Sale and iNova Sale transactions represented positive returns on our investments, we took the opportunity to monetize these non-core assets to help strengthen our balance sheet today, as opposed to making capital investments into the development and marketing of these brands over an extended period of time. During 2016 and the nine months ended September 30, 2017, we have divested other businesses and assets not aligned with our core business objectives, which, when taken in total with the completed Skincare Sale, Dendreon Sale and iNova Sale transactions, has generated over \$3,200 million of net asset sale proceeds through September 30, 2017 and have simplified our operating model and strengthened our balance sheet.

In July 2017, we entered into a definitive agreement to sell our Obagi business for \$190 million in cash (the “Obagi Sale”), subject to certain working capital provisions. Obagi is a specialty skin care pharmaceutical business with products focused on premature skin aging, skin damage, hyperpigmentation, acne and sun damage which are primarily available through dermatologists, plastic surgeons, and other skin care professionals. Obagi revenues were \$60 million for the nine months ended September 30, 2017 and \$71 million and \$91 million for the years 2016 and 2015, respectively. As the nature and profit margins of the Obagi product lines do not align with our U.S. Diversified Products segment and differ from our dermatology portfolio within our Branded Rx segment, Obagi was not core to our business objectives. We expect this transaction to close in 2017, subject to customary closing conditions. We expect to use the proceeds from this transaction to pay advisory and legal fees associated with this transaction and related income taxes and other taxes associated with this transaction, if any. We will use the balance of the proceeds from this transaction and other divestitures of assets, if any, to repay principal amounts of our Series F Tranche B Term Loan Facility.

On November 6, 2017, we announced we had entered into a definitive agreement to sell Sprout Pharmaceuticals, Inc. (“Sprout”) to a buyer affiliated with certain former shareholders of Sprout (the “Sprout Sale”), in exchange for a 6% royalty on global sales of Addyi® (flibanserin 100 mg) beginning May 2019. In connection with the completion of the Sprout Sale, the terms of the October 2015 merger agreement relating to the Company's acquisition of Sprout will be amended to terminate our ongoing obligation to make future royalty payments associated with the Addyi® product, as well as certain related provisions (including the obligation to make certain marketing and other expenditures). In connection with the completion of the Sprout Sale, the current litigation against the Company, initiated on behalf of the former shareholders of Sprout, which disputes the Company's compliance with certain contractual terms of that same merger agreement with respect to the use of certain diligent efforts to develop and commercialize the Addyi® product (including a disputed contractual term with respect to the spend of no less than \$200 million in certain expenditures), will be dismissed with prejudice. Upon completion of the Sprout Sale, the Company will issue the buyer a five-year \$25 million loan for initial operating expenses. Addyi®, a once-daily, non-hormonal tablet approved for the treatment of acquired, generalized hypoactive sexual desire disorder in premenopausal women, is the only approved and commercialized product of Sprout and does not align with the balance of our Branded Rx segment. The Sprout Sale, expected to be completed in 2017, presents us with the opportunity to divest ourselves of a business not core to our business objectives and allows us to resolve an ongoing legal matter which was requiring significant capital and business resources.

### *Reducing and Refinancing our Debt*

In 2017, we completed a series of transactions which improved our leverage, reduced our annual debt maintenance and extended the maturities of a significant portion of our debt. Through the sale of certain non-core assets and using cash on hand, we repaid \$2,937 million of debt principal during the nine months ended September 30, 2017. In addition, by accessing the credit markets, we (i) refinanced \$6,312 million which was due to mature in 2018 through 2020, (ii) extended \$1,190 million of commitments under our revolving credit facility, originally set to expire in April 2018, out to April 2020 and (iii) obtained less stringent loan financial maintenance covenants under our Senior Secured Credit Facilities, that included the removal of the financial maintenance covenants from our term loans. As a result, the financial maintenance covenants apply only with respect to our revolving loans and can be waived or amended without the consent of the term loan lenders under the Credit Agreement. These transactions and debt payments have had the effect of lowering our cash requirements for principal debt payments through 2020 by more than \$7,200 million as of September 30, 2017 as compared with those as of December 31, 2016.

Debt repayments - We used the proceeds from the sale of non-core assets, including the Skincare Sale and Dendreon Sale, to pay-down \$2,151 million of debt under our Senior Secured Credit Facilities during the nine months ended September 30, 2017. In addition, using cash on hand, we repurchased \$500 million of our 6.75% Senior Unsecured Notes due August 2018 (the “August 2018 Senior Unsecured Notes”), made scheduled principal payments under our Series F Tranche B Term Loan Facility of \$86 million and paid down our revolving loans by \$200 million during the nine months ended September 30, 2017.

Refinancing - On March 21, 2017, we completed a series of transactions that provided us with additional borrowings, which we used to (i) repay \$4,962 million of debt, representing all outstanding amounts of our senior secured (a) Series A-3 Tranche A Term Loan Facility originally due October 2018, (b) Series A-4 Tranche A Term Loan Facility originally due April 2020, (c) Series D-2 Tranche B Term Loan Facility originally due February 2019, (d) Series C-2 Tranche B Term Loan Facility originally due December 2019 and (e) Series E-1 Tranche B Term Loan Facility originally due August 2020, (ii) repay \$250 million of revolving loans and (iii) repurchase, at a purchase price of 103%, \$1,100 million of August 2018 Senior Unsecured Notes.

The sources of funds for the repayments and repurchase of the aforementioned debt obligations and the related fees and expenses were obtained through (i) a comprehensive amendment and refinancing of our Credit Agreement, which, among other matters provided for incremental term loans under our Series F Tranche B Term Loan Facility of \$3,060 million maturing April 2022 (the “Series F-3 Tranche B Term Loan”), (ii) issuance of \$1,250 million aggregate principal amount of 6.50% Senior Secured Notes due March 15, 2022, (iii) issuance of \$2,000 million aggregate principal amount of 7.00% Senior Secured Notes due March 15, 2024, and (iv) the use of cash on hand.

The aforementioned repayments and refinancing has had an impact on our debt portfolio. The table below summarizes our debt portfolio as of September 30, 2017 and December 31, 2016.

<i>(in millions)</i>	<b>Maturity</b>	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
		<b>Principal Amount</b>	<b>Net of Discounts and Issuance Costs</b>	<b>Principal Amount</b>	<b>Net of Discounts and Issuance Costs</b>
<b>Senior Secured Credit Facilities:</b>					
Revolving Credit Facility	April 2018	\$ —	\$ —	\$ 875	\$ 875
Revolving Credit Facility	April 2020	425	425	—	—
Series A-3 Tranche A Term Loan Facility	October 2018	—	—	1,032	1,016
Series A-4 Tranche A Term Loan Facility	April 2020	—	—	668	658
Series D-2 Tranche B Term Loan Facility	February 2019	—	—	1,068	1,048
Series C-2 Tranche B Term Loan Facility	December 2019	—	—	823	805
Series E-1 Tranche B Term Loan Facility	August 2020	—	—	2,456	2,429
Series F Tranche B Term Loan Facility	April 2022	5,800	5,685	3,892	3,815
<b>Senior Secured Notes:</b>					
6.50% Secured Notes	March 2022	1,250	1,235	—	—
7.00% Secured Notes	March 2024	2,000	1,975	—	—
<b>Senior Unsecured Notes:</b>					
6.75%	August 2018	—	—	1,600	1,593
All other Senior Unsecured Notes	March 2020 through April 2025	17,937	17,807	17,743	17,595
Other	Various	14	14	12	12
<b>Total long-term debt</b>		<b>\$ 27,426</b>	<b>\$ 27,141</b>	<b>\$ 30,169</b>	<b>\$ 29,846</b>

The weighted average stated interest rate of the Company's outstanding debt as of September 30, 2017 and December 31, 2016 was 6.09% and 5.75%, respectively.

The aforementioned repayments, refinancing and other changes in our debt portfolio completed prior to September 30, 2017 have lowered our cash requirements for principal debt repayment over the next five years. The scheduled maturities and mandatory amortization payments of our debt obligations for the remainder of 2017, annually for the five years ending December 31, 2022 and thereafter for our debt portfolio as of September 30, 2017 compared with December 31, 2016 were as follows:

<i>(in millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
October through December 2017	\$ 923	\$ —
2018	2	3,738
2019	—	2,122
2020	5,365	7,723
2021	3,175	3,215
2022	6,677	4,281
Thereafter	11,284	9,090
Gross maturities	<b>\$ 27,426</b>	<b>\$ 30,169</b>

In addition, subsequent to September 30, 2017, we took the following additional actions to reduce our debt and extend the maturity of another portion of our debt beyond 2021.

Subsequent debt repayments - On October 5, 2017, using the net proceeds from the iNova Sale, we repaid \$923 million of our Series F Tranche B Term Loan Facility. On November 2, 2017, using cash on hand, the Company repaid \$125 million of its Series F Tranche B Term Loan Facility. These repayments satisfy \$923 million of maturities due for the period October through December 2017 and \$125 million of maturities due in the year 2022 reflected in the table above.

Subsequent refinancing - On October 17, 2017, we issued \$1,000 million aggregate principal amount of 5.50% senior secured notes due November 1, 2025 (the "5.50% 2025 Notes"), in a private placement, the proceeds of which were used to repurchase (i) \$569 million in principal amount of our 6.375% senior notes due 2020 (the "6.375% 2020 Notes") and (ii) \$431 million in principal amount of our 7.00% senior notes due 2020 (the "7.00% 2020 Notes") (collectively the "2020 Notes") (collectively, the "October 2017 Refinancing Transactions"). The related fees and expenses were paid using cash on hand. The refinancing had the effect of extending principal payments of \$1,000 million due in the year 2020 in the table above out to the year 2025.

Our repayments through the date of this filing, and the refinancings we completed in March 2017 and October 2017 have eliminated any further mandatory principal long-term debt repayments until March 2020, providing us with additional liquidity and greater flexibility to execute our business plans.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited Consolidated Financial Statements and "Management's Discussion and Analysis - Liquidity and Capital Resources: Long-term Debt" for further details.

We continue to evaluate other opportunities to simplify our business and strengthen our balance sheet. While we intend to focus our divestiture activities on non-core assets, consistent with our duties to our shareholders and other stakeholders, we will consider dispositions in core areas that we believe are in the best interest of the Company as well. Also, the Company regularly evaluates market conditions, its liquidity profile, and various financing alternatives for opportunities to enhance its capital structure. If opportunities are favorable, the Company may refinance or repurchase existing debt or issue additional debt securities.

## **Other Business Matters**

In addition to the matters outlined above, the following events have affected and are expected to affect our business trends:

### **Walgreens Fulfillment Arrangements**

At the beginning of 2016, we launched a brand fulfillment arrangement with Walgreen Co. ("Walgreens") and extended these programs to additional participating independent retail pharmacies. Under the terms of the brand fulfillment arrangement, we made available certain of our products to eligible patients through a patient access and co-pay program available at Walgreens U.S. retail pharmacy locations, as well as participating independent retail pharmacies. The program under this 20-year agreement initially covers certain of our dermatology products, including Jublia®, Luzu®, Solodyn®, Retin-A Micro® Gel 0.08%, Onexton® and Acanya® Gel, certain of our ophthalmology products, including Besivance®, Lotemax®, Alrex®, Prolensa®, Bepreve®, and Zylet®. The Company continues to explore options to modify or enhance the Walgreens arrangement to improve the distribution and sales of our products.

### **Stabilizing the Dermatology Business**

We continue our efforts to stabilize our Dermatology business. Since January 2017, we have taken a number of actions which we believe will help stabilize the business, including recruiting a new experienced leadership team, adjusting the size of the sales force and organizing that sales force around roughly 150 territories, as we work to rebuild relationships with prescribers of our products. In July 2017, we rebranded our dermatology business as Ortho Dermatologics, dedicated to helping patients in the treatment of a range of therapeutic areas including actinic keratosis, acne, atopic dermatitis, psoriasis, cold sores, athlete's foot, nail fungus and other dermatoses. The Ortho Dermatologics portfolio includes several leading acne, anti-fungal and anti-infective products. The name change to Ortho Dermatologics is part of a larger rebranding initiative for the dermatology business.

The rebranding efforts also include a renewed commitment to deliver on an innovative pipeline. In July 2017, Ortho Dermatologics launched Siliq™ in the U.S. Siliq™ is an IL-17 receptor blocker monoclonal antibody biologic for treatment of moderate-to-severe plaque psoriasis, which we estimate to be an over \$5,000 million market in the U.S. To make this drug affordable and accessible to the broader market, on April 21, 2017, the Company announced that, following the evaluation and approval of the Patient Access and Pricing Committee, it had decided to list Siliq™ injection at \$3,500 per month, which represented the lowest-priced injectable biologic psoriasis treatment based on total annual cost on the market at the time of the announcement. On October 12, 2017, Ortho Dermatologics announced results from the Phase 3 long-term extension study, which demonstrated that Siliq™ injection provided sustained high levels of skin clearance in patients with moderate-to-severe psoriasis over a period greater than two years. Additionally, a sub-analysis group of patients who received any dose of brodalumab in the induction phase and Siliq™ during the maintenance and long-term extension phases demonstrated similar response rates.

Further, on September 5, 2017, Ortho Dermatologics filed a NDA for IDP-118 after the successful completion of its Phase 3 trials. IDP-118 is a fixed combination product of halobetasol propionate and tazarotene for the topical treatment of moderate-to-severe plaque psoriasis in adults. Halobetasol propionate and tazarotene are each approved to treat plaque psoriasis when

used separately, but are limited to a four-week or less duration of use. Based on existing data from clinical studies, the combination of these ingredients in IDP-118 with a dual mechanism of action, potentially allows for expanded duration of use, with reduced adverse events. On November 2, 2017, we announced that the FDA had accepted the NDA for IDP-118 for review, and set a PDUFA action date of June 18, 2018.

#### Regulatory Compliance of Bausch + Lomb Facilities

In the normal course of business, our products, devices and facilities are the subject of ongoing oversight and review, by regulatory and governmental agencies, including general, for cause and pre-approval inspections by the FDA.

##### *Rochester, New York Facility*

On November 3, 2016, we were issued a Warning Letter by the FDA identifying violations of GMP, for two device products acquired from other companies and currently managed at our Rochester, New York facility. The acquired products did not fully meet design control requirements and had not been completely resolved at the time of the inspection. The FDA did not identify any issue with the manufacturing or quality controls of either the drugs or the B&L devices manufactured by us at the Rochester facility. Nevertheless, we are committed to the quality of any product or device distributed by us and welcome these inspections as an opportunity to demonstrate that commitment and improve on the current processes. The Company immediately issued a formal Warning Letter Response and began rigorously addressing the identified matters. In May 2017, the NY FDA District Office performed a Warning Letter Response Verification inspection to assess the effectiveness of the corrective actions we had taken. The three day inspection resulted in no observations and the FDA has since removed the Official Action Indicated status. On June 13, 2017, the FDA posted on its official compliance status website that the November 3, 2016 Warning Letter was successfully closed.

Separately, the FDA completed a drug inspection at our Rochester facility in March 2017. Shortly after, we received notice from the FDA NY District Office that two observations identified had been adequately addressed. The inspection focused on the testing and laboratory controls of our drug stability program. The notice identified no observations by the FDA investigators during their inspection and confers a compliant status for the Rochester facility's drug testing and quality operations.

##### *Tampa, Florida Facility*

In September 2015, we announced that the FDA had accepted for review the NDA for Vyzulta™ and set a PDUFA action date of July 21, 2016. On July 22, 2016, we announced that we had received a CRL from the FDA regarding the NDA for this product. On February 24, 2017, we refiled the NDA and, on August 7, 2017, we received another CRL from the FDA regarding the NDA for this product. The concerns raised by the FDA in both CRLs pertain to the findings of Current Good Manufacturing Practices inspections at our manufacturing facility in Tampa, Florida where certain deficiencies were identified by the FDA. However, neither CRL identified any efficacy or safety concerns with respect to this product or additional clinical trials needed for the approval of the NDA. On August 16, 2017, we announced that the FDA confirmed that all issues related to the Current Good Manufacturing Practice inspection at the Tampa, Florida facility are being satisfactorily resolved, and a Voluntary Action Indicated inspection classification has since been issued by the FDA for this facility. On November 2, 2017, we announced that the FDA approved the NDA for Vyzulta™. We expect to launch Vyzulta™ in 2017.

Following the resolution of these matters and the completion of U.S. FDA inspections of our other facilities going back to February 2017, all Valeant and Bausch + Lomb facilities are currently in good compliance standing with the FDA. With these confirmations, we have eliminated manufacturing uncertainties related to our current and upcoming regulatory submissions and have cleared the way for new product approvals and the continued shipment of our products to countries outside the U.S.

All Valeant and Bausch + Lomb facilities are now rated either as No Action Indicated (or NAI, where there was no Form 483 observation) or Voluntary Action Indicated (or VAI, where there was a Form 483 with one or more observations). In the case of the VAI inspection outcome, the FDA has accepted our responses to the issues cited in the Form 483, which will be verified when the agency makes its next inspection of those specific facilities. (A Form 483 is issued at the end of each inspection when FDA investigators have observed any condition that in their judgment may constitute violations of Current Good Manufacturing Practices.)

## U.S. Healthcare Reform

The U.S. federal and state governments continue to propose and pass legislation designed to regulate the healthcare industry. In March 2010, the Patient Protection and Affordable Care Act (the “ACA”) was enacted in the U.S. The ACA contains several provisions that impact our business, including: (i) an increase in the minimum Medicaid rebate to states participating in the Medicaid program; (ii) the extension of the Medicaid rebates to Managed Care Organizations that dispense drugs to Medicaid beneficiaries; (iii) the expansion of the 340(B) Public Health Services drug pricing program, which provides outpatient drugs at reduced rates, to include additional hospitals, clinics, and healthcare centers; and (iv) a fee payable to the federal government based on our prior-calendar-year share relative to other companies of branded prescription drug sales to specified government programs.

In addition to the above, in 2013: (i) federal subsidies began to be phased in for brand-name prescription drugs filled in the Medicare Part D cover gap and (ii) the law requires the medical device industry to subsidize healthcare reform in the form of a 2.3% excise tax on U.S. sales of most medical devices. However, the Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, includes a two-year moratorium on the medical device excise tax. Thus, the medical device excise tax does not apply to the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on January 1, 2016, and ending on December 31, 2017. The ACA also included provisions designed to increase the number of Americans covered by health insurance. In 2014, the ACA's private health insurance exchanges began to operate along with the mandate on individuals to purchase health insurance. The ACA also allows states to expand Medicaid coverage with most of the expansion's cost paid for by the federal government.

For 2016, 2015 and 2014, we incurred costs of \$36 million, \$28 million and \$9 million, respectively, related to the annual fee assessed on prescription drug manufacturers and importers that sell branded prescription drugs to specified U.S. government programs (e.g., Medicare and Medicaid). For 2016, 2015 and 2014, we also incurred costs of \$128 million, \$104 million and \$43 million, respectively, on Medicare Part D utilization incurred by beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the “donut hole”). The increase in Medicare Part D coverage gap liability is mainly due to Xifaxan®. Under the legislation which provides for a two-year moratorium on the medical device excise tax beginning January 1, 2016 as discussed above, the Company incurred medical device excise taxes for 2016, 2015 and 2014 of \$0, \$5 million and \$6 million, respectively.

On July 28, 2014, the Internal Revenue Service issued final regulations related to the branded pharmaceutical drug annual fee pursuant to the ACA. Under the final regulations, an entity's obligation to pay the annual fee is triggered by qualifying sales in the current year, rather than the liability being triggered upon the first qualifying sale of the following year. We adopted this guidance in the third quarter of 2014, and it did not have a material impact on our financial position or results of operations.

The financial impact of the ACA will be affected by certain additional developments over the next few years, including pending implementation guidance and certain healthcare reform proposals. Additionally, policy efforts designed specifically to reduce patient out-of-pocket costs for medicines could result in new mandatory rebates and discounts or other pricing restrictions. Also, it is possible, as discussed further below, that under the current administration, legislation will be passed by the Republican-controlled Congress repealing the ACA in whole or in part. Adoption of legislation at the federal or state level could affect demand for, or pricing of, our products.

In 2017, we face uncertainties due to federal legislative and administrative efforts to repeal, substantially modify or invalidate some or all of the provisions of the ACA. However, there is low likelihood of repeal of the ACA given the recent failure of the Senate's multiple attempts to repeal various combinations of ACA provisions. There is no assurance that any replacement or administrative modifications of the ACA will not adversely affect our business and financial results, particularly if the replacing legislation reduces incentives for employer-sponsored insurance coverage, and we cannot predict how future federal or state legislative or administrative changes relating to the reform will affect our business.

Other legislative efforts relating to drug pricing have been proposed and considered at the U.S. federal and state level. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may in the future propose and adopt legislation or policy changes or implementations affecting additional fundamental changes in the healthcare delivery system.

## Competition and Loss of Exclusivity

We face increased competition from manufacturers of generic pharmaceutical products when patents covering certain of our currently marketed products expire or are successfully challenged or when the regulatory exclusivity for our products expires or is otherwise lost. Generic versions are generally priced significantly lower than branded versions, and, where available, may be required to be utilized before or in preference to the branded version under third party reimbursement programs, or substituted

by pharmacies. Accordingly, when a branded product loses its market exclusivity, it normally faces intense price competition from generic forms of the product. To successfully compete for business with managed care and pharmacy benefits management organizations, we must often demonstrate that our products offer not only medical benefits, but also cost advantages as compared with other forms of care.

A number of our products already face generic competition. In the U.S., these products include, among others, Ammonul®, Atralin®, Carac®, Edecrin®, Glumetza®, Isuprel®, Nitropress®, certain strengths of Retin-A Micro®, certain strengths of Solodyn®, Targetin® capsules, Tasmar®, Vanos®, Virazole®, Wellbutrin XL®, Xenazine®, Zegerid®, Ziana® and Zovirax® ointment. In Canada, these products include, among others, Aldara®, Glumetza®, Sublinox® and Wellbutrin XL®. In addition, certain of our products face the expiration of their patent or regulatory exclusivity in 2017 or in later years, following which we anticipate generic competition of these products. Furthermore, in certain cases, as a result of negotiated settlements of some of our patent infringement proceedings against generic competitors, we have granted licenses to such generic companies, which will permit them to enter the market with their generic products or an authorized generic prior to the expiration of our applicable patent. Finally, for certain of our products that lost patent or regulatory exclusivity in prior years, we anticipate that generic competitors may launch in 2017 or in later years. Following a loss of exclusivity of and/or generic competition for a product, we anticipate that product sales from such product would decrease significantly shortly following such loss of exclusivity or the entry of a generic competitor. Where we have the rights, we may elect to launch an authorized generic of such product (either ourselves or through a third party) prior to, upon or following generic entry, which may mitigate the anticipated decrease in product sales; however, even with the launch of an authorized generic, the decline in product sales of such product would still be expected to be significant and the effect on our future revenues could be material.

Based on patent expiration dates, settlement agreements and/or competitive information, we believe that our products facing a potential loss of exclusivity and/or generic competition in the five year period from 2017 to and including 2021 include, among others, the following key products in the U.S.: in 2017, Istalol®, Lotemax® Suspension, Mephyton®, and Syprine®, which in aggregate represented 4% and 3% of our U.S. and Puerto Rico revenues for the nine months ended September 30, 2017 and the year 2016, respectively; in 2018, Cuprimine®, Elidel®, Lotemax® Gel, Zovirax® cream and certain products subject to settlement agreements, which in aggregate represented 7% and 7% of our U.S. and Puerto Rico revenues for the nine months ended September 30, 2017 and the year 2016, respectively; in 2019, certain products subject to settlement agreements, which in aggregate represented 2% and 2% of our U.S. and Puerto Rico revenues for the nine months ended September 30, 2017 and the year 2016, respectively; in 2020, Clindagel®, Luzu®, and Migranal® which represented 0% and 1% of our U.S. and Puerto Rico revenues for the nine months ended September 30, 2017 and the year 2016, respectively; and, in 2021, Preservision® and certain products subject to settlement agreements, which represented 3% and 3% of our U.S. and Puerto Rico revenue for the nine months ended September 30, 2017 and the year 2016, respectively. These dates may change based on, among other things, successful challenge to our patents, settlement of existing or future patent litigation and at-risk generic launches.

In addition, for a number of our products (including Apriso®, Carac®, Cardizem®, Onexton®, Uceris®, Relistor® and Xifaxan® in the U.S. and Wellbutrin XL and Glumetza® in Canada), we have commenced infringement proceedings against potential generic competitors in the U.S. and Canada. If we are not successful in these proceedings, we may face increased generic competition for these products. See Note 18, "LEGAL PROCEEDINGS" to our unaudited Consolidated Financial Statements for further details regarding certain infringement proceedings.

#### *Regulatory Stay for Generic Version of Xifaxan® Extended*

As fully discussed in Note 18, "LEGAL PROCEEDINGS - Patent Litigation/Paragraph IV Matters" to our unaudited Consolidated Financial Statements, the Company initiated litigation alleging infringement by Actavis Laboratories FL, Inc. ("Actavis") which filed an Abbreviated New Drug Application ("ANDA") for a generic version of the Company's Xifaxan® (rifaximin) tablets, 550 mg.

In February 2016, the Company received a Notice of Paragraph IV Certification Actavis, in which Actavis asserted that certain U.S. patents, owned or licensed by certain subsidiaries of the Company for Xifaxan® tablets, 550 mg, are either invalid, unenforceable and/or will not be infringed by the commercial manufacture, use or sale of Actavis' generic version of Xifaxan® (rifaximin) tablets, 550 mg, for which it filed an ANDA. On March 23, 2016, the Company initiated litigation against Actavis alleging infringement by Actavis of one or more claims of each of the Xifaxan® patents, thereby triggering a 30-month stay of the approval of Actavis' ANDA. A seven-day trial was scheduled to commence on January 29, 2018.

However, on May 17, 2017, the Company and Actavis announced that at Actavis' request, the parties agreed to stay outstanding litigation and extend the 30-month stay regarding Actavis' ANDA for its generic version of Xifaxan® (rifaximin) 550 mg tablets. The legal action is stayed through April 30, 2018 and Actavis has not yet taken any steps to lift the stay. All scheduled litigation activities, including the January 2018 trial date, have been indefinitely removed from the Court docket.

Further, the parties agree and the Court ordered that Actavis' 30-month regulatory stay shall be extended from August 12, 2018 until no earlier than February 12, 2019 and could be longer if the litigation stay lasts for more than six months.

Although the ultimate outcome of these proceedings is unknown, in part due to the extension of the 30-month regulatory stay of Actavis' ANDA and the agreement to stay outstanding litigation for the extended periods discussed above, the Company remains confident in the strength of its Xifaxan® patents and believes it will prevail in this matter should it move forward. The Company also continues to believe the allegations raised in Actavis' notice are without merit and will defend its intellectual property vigorously.

See Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC and the CSA on March 1, 2017 for additional information on our competition risks.

## SELECTED FINANCIAL INFORMATION

<i>(in millions, except per share data)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$ 2,219	\$ 2,479	\$ (260)	\$ 6,561	\$ 7,271	\$ (710)
Operating income (loss)	\$ 38	\$ (863)	\$ 901	\$ 424	\$ (716)	\$ 1,140
Loss before recovery of income taxes	\$ (400)	\$ (1,332)	\$ 932	\$ (937)	\$ (2,075)	\$ 1,138
Net income (loss) attributable to Valeant Pharmaceuticals International, Inc.	\$ 1,301	\$ (1,218)	\$ 2,519	\$ 1,891	\$ (1,894)	\$ 3,785
Earnings (loss) per share attributable to Valeant Pharmaceuticals International, Inc.:						
Basic	\$ 3.71	\$ (3.49)	\$ 7.20	\$ 5.40	\$ (5.47)	\$ 10.87
Diluted	\$ 3.69	\$ (3.49)	\$ 7.18	\$ 5.38	\$ (5.47)	\$ 10.85

### Financial Performance

#### *Summary of the Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016*

Revenue for the three months ended September 30, 2017 and 2016 was \$2,219 million and \$2,479 million, respectively, a decrease of \$260 million, or 10%. The decrease was primarily driven by lower volumes in our U.S. Diversified segment as a result of the loss of exclusivity for a number of products and in our Branded Rx segment as a result of challenging market dynamics, particularly in dermatology. Revenues were also negatively affected by divestitures and discontinuations and foreign currencies. The decreases were partially offset by increased volumes in our Bausch + Lomb / International segment. The changes in our segment revenues and segment profits are discussed in detail in the section titled "Reportable Segment Revenues and Profits".

Operating income for the three months ended September 30, 2017 was \$38 million as compared to the Operating loss for the three months ended September 30, 2016 of \$863 million, an increase of \$901 million. Our Operating income (loss) for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 reflects, among other factors:

- a decrease in contribution (Product sales revenue less Cost of goods sold, excluding amortization and impairments of intangible assets) of \$258 million. The decrease is primarily driven by: (i) the decrease in product sales of our existing business (excluding the effects of foreign currencies and divestitures and discontinuances) and includes decreases in contribution from lower volumes, (ii) the impact of divestitures and discontinuances and (iii) higher third-party royalty costs;
- a decrease in Selling, general, and administrative ("SG&A") expenses of \$38 million primarily attributable to: (i) retention costs for key employees in 2016 and (ii) the impact of 2017 divestitures. These decreases were partially offset by higher professional fees;
- a decrease in Research and development of \$20 million due to the timing of costs on projects in development;
- a decrease in Amortization of intangible assets of \$7 million which is reflective of impairments to intangible assets in 2016 and divestitures and discontinuances of product lines as the Company focuses on its core assets;
- a decrease in Goodwill impairments of \$737 million. In 2016, we recognized Goodwill impairments of \$1,049 million in connection with the realignment of our segment structure that took place during the three months ended September 30, 2016. In 2017, we recognized Goodwill impairments of \$312 million in connection with a change in a reporting unit that took place during the three months ended September 30, 2017;
- an increase in Asset impairments of \$258 million primarily related to the Sprout business classified as held for sale;

- a decrease in Acquisition-related contingent consideration of \$247 million primarily due to a fair value adjustment of \$259 million reflecting a decrease in forecasted sales for the Addyi® product which impacted the expected future royalty payments; and
- Other income of \$325 million during the three months ended September 30, 2017 primarily due to the Gain on the iNova Sale of \$306 million and a working capital adjustment related to the Gain on the Dendreon Sale of \$25 million.

Operating income for the three months ended September 30, 2017 of \$38 million and Operating loss for the three months ended September 30, 2016 of \$863 million includes non-cash charges for Depreciation and amortization of intangible assets of \$698 million and \$708 million, Asset impairments of \$406 million and \$148 million and Share-based compensation of \$19 million and \$37 million, respectively.

Our Loss before recovery of income taxes for the three months ended September 30, 2017 and 2016 was \$400 million and \$1,332 million, respectively, a decrease of \$932 million. The decrease in our Loss before recovery of income taxes is primarily attributable to: (i) the increase in Operating income of \$901 million discussed above, (ii) a favorable net change in Foreign exchange and other of \$21 million, and (iii) a decrease in Interest expense of \$11 million as a result of lower principal amounts of outstanding debt partially offset by higher interest rates during the three months ended September 30, 2017.

Net income attributable to Valeant Pharmaceuticals International, Inc. for the three months ended September 30, 2017 was \$1,301 million and Net loss attributable to Valeant Pharmaceuticals International, Inc. for the three months ended September 30, 2016 was \$1,218 million, an increase of \$2,519 million. The increase in Net income attributable to Valeant Pharmaceuticals International, Inc. was primarily due to (i) the increase in Recovery of income taxes of \$1,587 million and (ii) the decrease in Loss before recovery of income taxes of \$932 million discussed above. See Note 16, "INCOME TAXES" to our unaudited Consolidated Financial Statements for further details.

#### ***Summary of the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016***

Revenue for the nine months ended September 30, 2017 and 2016 was \$6,561 million and \$7,271 million, respectively, a decrease of \$710 million, or 10%. The decrease was primarily driven by the decline in product sales from our existing business (excluding foreign currency and divestitures and discontinuations) primarily due to lower volumes in our U.S. Diversified segment as a result of the loss of exclusivity for a number of products and in our Branded Rx segment as a result of challenging market dynamics, particularly in dermatology. Revenues were also negatively affected by divestitures and discontinuations and foreign currencies. These decreases were partially offset by increased volumes in our Bausch + Lomb / International segment, primarily driven by the U.S. Bausch + Lomb Consumer and international businesses and increased international pricing in our Bausch + Lomb / International segment. The changes in our segment revenues and segment profits are discussed in detail in the section titled "Reportable Segment Revenues and Profits".

Operating income for the nine months ended September 30, 2017 was \$424 million as compared to the Operating loss for the nine months ended September 30, 2016 of \$716 million, an increase of \$1,140 million. Our Operating income (loss) for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 reflects, among other factors:

- a decrease in contribution of \$658 million. The decrease is primarily driven by the decrease in product sales of our existing business and includes decreases in contribution from: (i) lower volumes and (ii) the impact of divestitures and discontinuances;
- a decrease in SG&A expenses of \$202 million primarily attributable to (i) a net decrease in advertising and promotional expenses, (ii) higher severance and other benefits in 2016 associated with exiting executives and on-boarding a new executive team and other key employees, (iii) termination benefits associated with our former Chief Executive Officer in 2016, and (iv) the impact of divestitures. These factors were partially offset by an increase in professional fees;
- a decrease in Research and development of \$57 million due to the timing of costs on projects in development;
- a decrease in Amortization of intangible assets of \$100 million which is reflective of impairments to intangible assets in 2016 and divestitures and discontinuances of product lines as the Company focuses on its core assets;
- a decrease in Goodwill impairments of \$737 million. In 2016, we recognized Goodwill impairments of \$1,049 million in connection with the realignment of our segment structure that took place during the three months ended September 30, 2016. In 2017, we recognized Goodwill impairments of \$312 million in connection with a change in a reporting unit that took place during the three months ended September 30, 2017;
- an increase in Asset impairments of \$235 million primarily related to the Sprout business classified as held for sale;
- a decrease in Restructuring and integration costs of \$36 million as the integration of acquisitions in 2015 and prior is substantially complete;

- a decrease in Acquisition-related contingent consideration of \$315 million primarily due to a fair value adjustment of \$312 million reflecting a decrease in forecasted sales for the Addyi® product which impacted the expected future royalty payments; and
- Other income, net of \$584 million for the nine months ended September 30, 2017 which includes: (i) the Gain on the Skincare Sale of \$316 million, (ii) the Gain on the iNova Sale of \$306 million, and (iii) the Gain on the Dendreon Sale of \$98 million, as adjusted. These other income amounts during the nine months ended September 30, 2017 were partially offset by: (i) accruals for Litigation and other matters of \$112 million and (ii) the net loss from the sale of other assets of \$25 million.

Operating income for the nine months ended September 30, 2017 of \$424 million and Operating loss for the nine months ended September 30, 2016 of \$716 million includes non-cash charges for Depreciation and amortization of intangible assets of \$2,039 million and \$2,159 million, Asset impairments of \$629 million and \$394 million and Share-based compensation of \$70 million and \$134 million, respectively.

Our Loss before recovery of income taxes for the nine months ended September 30, 2017 and 2016 was \$937 million and \$2,075 million, respectively, a decrease of \$1,138 million. The decrease in our Loss before recovery of income taxes is primarily attributable to (i) the increase in Operating income of \$1,140 million discussed above and (ii) a favorable net change in Foreign exchange and other of \$83 million. These changes in Loss before recovery of income taxes were partially offset by the Loss on extinguishment of debt of \$65 million and an increase of Interest expense of \$23 million.

Net income attributable to Valeant Pharmaceuticals International, Inc. for the nine months ended September 30, 2017 was \$1,891 million as compared to Net loss attributable to Valeant Pharmaceuticals International, Inc. for the nine months ended September 30, 2016 of \$1,894 million, an increase of \$3,785 million. The increase in Net income attributable to Valeant Pharmaceuticals International, Inc. was primarily due to (i) the increase in the Recovery of income taxes of \$2,650 million primarily associated with discrete items occurring during the nine months ended September 30, 2017 and (ii) the decrease in Loss before recovery of income taxes of \$1,138 million described above. See Note 16, "INCOME TAXES" to our unaudited Consolidated Financial Statements for further details.

## RESULTS OF OPERATIONS

Our unaudited operating results for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
<b>Revenues</b>						
Product sales	\$ 2,186	\$ 2,443	\$ (257)	\$ 6,462	\$ 7,168	\$ (706)
Other revenues	33	36	(3)	99	103	(4)
	<u>2,219</u>	<u>2,479</u>	<u>(260)</u>	<u>6,561</u>	<u>7,271</u>	<u>(710)</u>
<b>Expenses</b>						
Cost of goods sold (excluding amortization and impairments of intangible assets)	650	649	1	1,869	1,917	(48)
Cost of other revenues	9	9	—	32	29	3
Selling, general and administrative	623	661	(38)	1,943	2,145	(202)
Research and development	81	101	(20)	271	328	(57)
Amortization of intangible assets	657	664	(7)	1,915	2,015	(100)
Goodwill impairments	312	1,049	(737)	312	1,049	(737)
Asset impairments	406	148	258	629	394	235
Restructuring and integration costs	6	20	(14)	42	78	(36)
Acquired in-process research and development costs	—	31	(31)	5	34	(29)
Acquisition-related contingent consideration	(238)	9	(247)	(297)	18	(315)
Other (income) expense, net	(325)	1	(326)	(584)	(20)	(564)
	<u>2,181</u>	<u>3,342</u>	<u>(1,161)</u>	<u>6,137</u>	<u>7,987</u>	<u>(1,850)</u>
Operating income (loss)	38	(863)	901	424	(716)	1,140
Interest income	3	3	—	9	6	3
Interest expense	(459)	(470)	11	(1,392)	(1,369)	(23)
Loss on extinguishment of debt	(1)	—	(1)	(65)	—	(65)
Foreign exchange and other	19	(2)	21	87	4	83
Loss before recovery of income taxes	(400)	(1,332)	932	(937)	(2,075)	1,138
Recovery of income taxes	(1,700)	(113)	(1,587)	(2,829)	(179)	(2,650)
Net income (loss)	<u>1,300</u>	<u>(1,219)</u>	<u>2,519</u>	<u>1,892</u>	<u>(1,896)</u>	<u>3,788</u>
Less: Net (loss) income attributable to noncontrolling interest	(1)	(1)	—	1	(2)	3
Net income (loss) attributable to Valeant Pharmaceuticals International, Inc.	<u>\$ 1,301</u>	<u>\$ (1,218)</u>	<u>\$ 2,519</u>	<u>\$ 1,891</u>	<u>\$ (1,894)</u>	<u>\$ 3,785</u>

### *Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016*

#### **Revenues**

Our primary sources of revenues are the sale of pharmaceutical products, OTC products, and medical devices. Our revenue was \$2,219 million and \$2,479 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$260 million, or 10%. The decrease was primarily driven by: (i) the impact of divestitures and discontinuations of \$141 million, (ii) the net decline in volumes from our existing business (excluding foreign currency and divestitures and discontinuations) of \$122 million primarily due to decreased volumes in our U.S. Diversified segment as a result of the loss of exclusivity for a number of products and in our Branded Rx segment as a result of challenging market dynamics, particularly in dermatology, partially offset by increased volumes in our Bausch + Lomb / International segment, driven by the U.S. Bausch + Lomb Consumer, international and U.S. Bausch + Lomb Vision Care businesses and (iii) the unfavorable impact of foreign currencies of \$15 million primarily attributable to the Egyptian pound. These decreases were partially offset by the net increase in average realized pricing of \$22 million driven by our Branded Rx and Bausch + Lomb / International segments.

Our segment revenues and segment profits for the three months ended September 30, 2017 and 2016 are discussed in detail in the subsequent section titled “ - Reportable Segment Revenues and Profits”.

### Cash Discounts and Allowances, Chargebacks and Distribution Fees

As is customary in the pharmaceutical industry, gross product sales are subject to a variety of deductions in arriving at net product sales. Provisions for these deductions are recognized concurrent with the recognition of gross product sales. These provisions include cash discounts and allowances, chargebacks, and distribution fees, which are paid to direct customers, as well as rebates and returns, which can be paid to direct and indirect customers. Price appreciation credits are generated when we increase a product's wholesaler acquisition cost ("WAC") under our contracts with certain wholesalers. Under such contracts, we are entitled to credits from such wholesalers for the impact of that WAC increase on inventory on hand at the wholesalers. Such credits are offset against the total distribution service fees we pay on all of our products to each such wholesaler. Net product sales on these credits are recognized on the date that the wholesaler is notified of the price increase. Provision balances relating to amounts payable to direct customers are netted against trade receivables and balances relating to indirect customers are included in accrued liabilities. Provisions recorded to reduce gross product sales to net product sales and revenues for the three months ended September 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	<b>Three Months Ended September 30,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>Pct.</b>	<b>Amount</b>	<b>Pct.</b>
Gross product sales	\$ 3,777	100%	\$ 4,088	100%
Provisions to reduce gross product sales to net product sales				
Discounts and allowances	214	6%	193	5%
Returns	104	3%	100	2%
Rebates	656	17%	684	17%
Chargebacks	546	14%	562	14%
Distribution fees	71	2%	106	2%
Total provisions	1,591	42%	1,645	40%
Net product sales	2,186	58%	2,443	60%
Other revenues	33		36	
Revenues	<u>\$ 2,219</u>		<u>\$ 2,479</u>	

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 42% and 40% for the three months ended September 30, 2017 and 2016, respectively, an increase of 2 percentage points. The increase was primarily driven by:

- an increase in discounts and allowances as a percentage of product sales, primarily associated with the generic release of Glumetza® Authorized Generic ("AG") partially offset by lower sales of Zegerid® AG due to generic competition.
- an increase in returns as a percentage of product sales attributable to certain drugs facing generic competition.
- rebates as a percentage of product sales was unchanged as increased sales of products that carry higher contractual rebates and co-pay assistance programs, including the impact of gross price increases where customers receive incremental rebates based on contractual price increase limitations. The comparisons were impacted primarily by higher provisions for rebates and the co-pay assistance programs for launch products and other promoted products. These increases were offset by a decrease in rebates for Solodyn®, Jublia®, Carac® and Glumetza® as generic competition caused a decline in volume year over year; and
- chargebacks as a percentage of gross product sales was unchanged as higher chargebacks resulting from higher year over year sales of certain generic drugs such as Glumetza® AG and Targretin® AG and certain branded drugs such as Nifedical®, and Xifaxan®. These increases were offset by decreases associated with: (i) lower utilization by the U.S. government of certain products such as Minocin®, Ativan®, and Mysoline®, (ii) lower year over year sales of Zegerid® AG and Nitropress® and other drugs due to generic competition and Provenge®, which was divested with the Dendreon Sale and (iii) better contract pricing as a result of the Company's pricing discipline. During much of 2016, the Company was subject to higher chargeback rates as a result of its 2015 pricing strategies. As a result of corrective actions taken by the Company, and its continued pricing discipline during 2016, the previous chargeback rates, which were substantial, are no longer effective during 2017.

## Expenses

### *Cost of Goods Sold (excluding amortization and impairments of intangible assets)*

Cost of goods sold primarily includes: manufacturing and packaging; the cost of products we purchase from third parties; royalty payments we make to third parties; depreciation of manufacturing facilities and equipment; and lower of cost or market adjustments to inventories. Cost of goods sold excludes the amortization and impairments of intangible assets.

Cost of goods sold was \$650 million and \$649 million for the three months ended September 30, 2017 and 2016, respectively, an increase of \$1 million, or less than 1%. The increase was primarily driven by higher third-party royalty costs on certain drugs and was partially offset by: (i) the decrease in costs attributable to the net decrease in sales volumes from existing businesses, (ii) the impact of divestitures and discontinuations, (iii) the favorable impact of foreign currencies and (iv) the reclassification of certain maintenance costs.

Beginning in the three months ended June 30, 2017, we classified certain maintenance costs as costs of sales which in previous periods were included in R&D expenses. The costs incurred for the three months ended September 30, 2017 were approximately \$10 million. No adjustments were made to prior periods as the impact was not material.

Cost of goods sold as a percentage of product sales revenue was 30% and 27% for the three months ended September 30, 2017 and 2016, respectively, an increase of 3 percentage points and was primarily driven by an unfavorable change in our product mix and higher third-party royalty costs on certain drugs. In 2017, a greater percentage of our revenue is attributable to the Bausch + Lomb/International segment, which generally has lower gross margins than the balance of the Company's products portfolio. Our segment revenues and segment profits are discussed in detail in the subsequent section titled "Reportable Segment Revenues and Profits".

### *Selling, General and Administrative Expenses*

SG&A expenses primarily include: employee compensation associated with sales and marketing, finance, legal, information technology, human resources, and other administrative functions; certain outside legal fees and consultancy costs; product promotion expenses; overhead and occupancy costs; depreciation of corporate facilities and equipment; and other general and administrative costs.

SG&A expenses were \$623 million and \$661 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$38 million, or 6%. The decrease was primarily driven by: (i) a net decrease in compensation expense as we incurred higher personnel costs in 2016 resulting from changes in our senior management team and employee retention costs, (ii) the impact of divestitures, and (iii) a net decrease in third-party consulting fees. These decreases were partially offset by an increase in professional fees incurred in connection with: (i) legal and governmental proceedings, investigations and information requests relating to, among other matters, our distribution, marketing, pricing, disclosure and accounting practices, (ii) the execution on our key initiatives and (iii) other ongoing corporate and business matters.

### *Research and Development*

Included in Research and development are costs related to our product development and quality assurance programs. Expenses related to product development include: employee compensation costs; overhead and occupancy costs; depreciation of research and development facilities and equipment; clinical trial costs; clinical manufacturing and scale-up costs; and other third party development costs. Quality assurance are the costs incurred to meet evolving customer and regulatory standards and include: employee compensation costs; overhead and occupancy costs; amortization of software; and other third party costs.

R&D expenses were \$81 million and \$101 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$20 million, or 20%. The decrease was primarily due to: (i) the timing of costs on the projects in development and is not representative of our current product development activities and (ii) \$10 million of certain maintenance costs classified as cost of sales in 2017 that in previous periods were included in R&D expenses as discussed above.

The decrease in the current quarter represents costs associated with: (i) lower spend due to the Dendreon Sale in June 2017, (ii) lower spend as compared to the 2016 testing and attaining regulatory approval for Siliq™ (brodalumab), which received FDA approval on February 15, 2017 and was launched in the U.S. on July 27, 2017 and (iii) the development and testing of our IDP-118 (a treatment of moderate-to-severe plaque psoriasis) which is at the end of its development cycle, during the three months ended September 30, 2017. On November 2, 2017, we announced that the FDA had accepted the NDA for IDP-118 for review, and set a PDUFA action date of June 18, 2018.

### ***Amortization of Intangible Assets***

Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives, generally 2 to 20 years.

Amortization of intangible assets was \$657 million and \$664 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$7 million, or 1%. The decrease in amortization is reflective of impairments to intangible assets in 2016 and divestitures and discontinuances of product lines as the Company focuses on its core assets, resulting in less straight-line amortization in 2017 compared to 2016.

### ***Goodwill Impairments***

Goodwill is not amortized but is tested for impairment at least annually at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants. The Company estimates the fair values of all reporting units using a discounted cash flow model which utilizes Level 3 unobservable inputs.

Goodwill impairments were \$312 million and \$1,049 million for the three months ended September 30, 2017 and 2016, respectively.

During the three months ended September 30, 2017, the Sprout business was classified as held for sale. As the Sprout business represented only a portion of a Branded Rx reporting unit, we assessed the remaining reporting unit for impairment and determined the carrying value of the remaining reporting unit exceeded its fair value. After completing step two of the impairment testing, we determined and recorded a goodwill impairment charge of \$312 million during the three months ended September 30, 2017.

Commencing in the three months ended September 30, 2016, the Company operates in three operating segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. The realignment of the segment structure resulted in changes in the Company's reporting units. In the third quarter of 2016, goodwill impairment testing was performed under the former reporting unit structure immediately prior to the change and under the current reporting unit structure immediately subsequent to the change.

Under the former reporting unit structure, the fair value of each reporting unit exceeded its carrying value by more than 15%, except for the former U.S. reporting unit whose carrying value exceeded its fair value by 2%. As a result, the Company proceeded to perform step two of the goodwill impairment test for the former U.S. reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value, which resulted in an initial goodwill impairment charge of \$838 million in the three months ended September 30, 2016.

Under the current reporting unit structure, the carrying value of the Salix reporting unit exceeded its fair value, as updates to the unit's forecast resulted in a lower estimated fair value for the business. As a result, the Company proceeded to perform step two of the goodwill impairment test for the Salix reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value, which resulted in an initial goodwill impairment charge of \$211 million in the three months ended September 30, 2016.

### ***Asset Impairments***

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company continues to monitor the recoverability of its finite-lived intangible assets and tests the intangible assets for impairment if indicators of impairment are present.

Asset impairments were \$406 million and \$148 million for the three months ended September 30, 2017 and 2016, respectively, an increase of \$258 million. We continue to critically evaluate our businesses and product portfolios and as a result identified assets that are not aligned with our core objectives. Asset impairments for the three months ended September 30, 2017 included: (i) an impairment charge of \$352 million related to the Sprout, (ii) impairment charges of \$47 million reflecting decreases in forecasted sales for other product lines and (iii) impairment charges of \$6 million, related to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core business. Asset impairments for the three months ended September 30, 2016 included: (i) an impairment charge of \$88 million recognized upon classification of assets associated with a number of small businesses as held for sale and (ii) an impairment charge of \$25 million related to IBSChek™ (U.S. Diversified Products segment), resulting from a decline in sales trends. See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited Consolidated Financial Statements regarding the asset impairments of our intangible assets.

In connection with an ongoing litigation matter between the Company and potential generic competitors to the branded drug Uceris® Tablet, the Company performed an impairment test of its Uceris® Tablet related intangible assets. As the undiscounted expected cash flows from the Uceris® Tablet exceed the carrying value of the Uceris® Tablet related intangible assets, no impairment exists as of September 30, 2017. However, if market conditions or legal outcomes differ from the Company's assumptions, or if the Company is unable to execute its strategies, it may be necessary to record an impairment charge equal to the difference between the fair value and carrying value of the Uceris® Tablet related intangible assets. As of September 30, 2017, the carrying value of Uceris® Tablet related intangible assets was \$619 million.

### ***Restructuring and Integration Costs***

Restructuring and integration costs were \$6 million and \$20 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$14 million. We have substantially completed the integration of the businesses acquired prior to 2016. The Company continues to evaluate opportunities to streamline its operations and identify additional cost savings globally. Although a specific plan does not exist at this time, the Company may identify and take additional exit and cost-rationalization restructuring actions in the future, the costs of which could be material. See Note 5, "RESTRUCTURING AND INTEGRATION COSTS" to our unaudited Consolidated Financial Statements for further details regarding these actions.

### ***Acquisition-Related Contingent Consideration***

Acquisition-related contingent consideration, primarily consists of potential milestone payments and royalty obligations associated with businesses and assets we acquired in the past. These obligations are recorded in the consolidated balance sheet at their estimated fair values at the acquisition date, in accordance with the acquisition method of accounting. The fair value of the acquisition-related contingent consideration is remeasured each reporting period, with changes in fair value recorded in the consolidated statements of operations. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting.

Acquisition-related contingent consideration was a net gain of \$238 million for the three months ended September 30, 2017 and included a fair value adjustment of \$259 million reflecting a decrease in forecasted sales for the Addyi® product which impacted the expected future royalty payments. The net gain was partially offset by accretion for the time value of money of \$13 million and other net fair value adjustments of \$8 million. Acquisition-related contingent consideration was a net expense of \$9 million for the three months ended September 30, 2016, and included accretion for the time value of money of \$23 million offset by net fair value adjustments of \$14 million.

### ***Other (Income) Expense, Net***

Other (income) expense, net for the three months ended September 30, 2017 and 2016 consists of the following:

<i>(in millions)</i>	<b>Three Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Gain on the iNova Sale	\$ (306)	\$ —
Gain on the Skincare Sale	3	—
Gain on the Dendreon Sale	(25)	—
Litigation and other matters	3	1
	<u>\$ (325)</u>	<u>\$ 1</u>

During the three months ended September 30, 2017, the initially reported Gain on the Dendreon Sale was increased by \$25 million to reflect a working capital adjustment to the initial sales price. See Note 4, "DIVESTITURES" to our unaudited Consolidated Financial Statements for details related to the Gain on the Dendreon Sale.

### **Non-Operating Income and Expense**

#### ***Interest Expense***

Interest expense primarily consists of interest payments due on indebtedness under our credit facilities and notes and the amortization of deferred financing costs and debt discounts. We regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure. If market conditions are favorable, we may refinance existing debt.

Interest expense was \$459 million and \$470 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$11 million, or 2%. Interest expense includes non-cash amortization and write-offs of debt discounts and debt issuance costs of \$34 million and \$33 million for the three months ended September 30, 2017 and 2016, respectively. The decrease in interest expense was primarily driven by lower principal amounts of outstanding debt during the three months ended September 30, 2017, partially offset by higher interest rates primarily resulting from the March 2017 debt refinancing. The weighted average stated rates of interest as of September 30, 2017 and 2016 were 6.09% and 5.71%, respectively.

### ***Loss on Extinguishment of Debt***

Loss on extinguishment of debt of \$1 million for the three months ended September 30, 2017 was incurred in connection with the August 2017 repurchase of \$500 million of our August 2018 Senior Unsecured Notes.

### ***Foreign Exchange and Other***

Foreign exchange and other was a gain of \$19 million for the three months ended September 30, 2017 as compared to a loss of \$2 million for the three months ended September 30, 2016, a favorable net change of \$21 million. Foreign exchange gains/losses include translation gains/losses on intercompany loans, primarily on euro-denominated intercompany loans.

### **Income Taxes**

For interim financial statement purposes, U.S. GAAP income tax expense/benefit related to ordinary income is determined by applying an estimated annual effective income tax rate against our ordinary income. Income tax expense/benefit related to items not characterized as ordinary income is recognized as a discrete item when incurred. The estimation of our annual effective income tax rate requires the use of management forecasts and other estimates, a projection of jurisdictional taxable income and losses, application of statutory income tax rates, and an evaluation of valuation allowances. Our estimated annual effective income tax rate may be revised, if necessary, in each interim period during the fiscal year.

Recovery of income taxes was \$1,700 million and \$113 million for the three months ended September 30, 2017 and 2016, respectively, an increase of \$1,587 million.

Our effective income tax rate for the three months ended September 30, 2017 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of: (a) \$1,397 million of tax benefit from internal restructuring efforts and (b) a \$108 million tax benefit related to an intangible impairment during the three months ended September 30, 2017.

Our effective income tax rate for the three months ended September 30, 2016 differs from the statutory Canadian income tax rate primarily due to: (i) tax expense generated from our annualized mix of earnings by jurisdiction, (ii) the discrete treatment of: (a) an adjustment to the accrual established for legal expenses and (b) a tax benefit for the deduction of a significant impairment of an intangible asset, (iii) the recording of valuation allowance on entities for which no tax benefit of losses is expected and (iv) the accrual of interest on uncertain tax positions.

### **Reportable Segment Revenues and Profits**

During the third quarter of 2016, our Chief Executive Officer, who is the Company's Chief Operating Decision Maker, commenced managing the business differently through changes in and reorganizations to the Company's business structure, including changes to its operating and reportable segments, which necessitated a realignment of the Company's historical segment structure. Pursuant to this change, which was effective in the third quarter of 2016, we have three operating and reportable segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. Further, effective for the first quarter of 2017, revenues and profits from the Company's operations in Canada, included in the Branded Rx segment in prior periods, are included in the Bausch + Lomb/International segment. Prior period presentations of segment revenues and segment profits have been recast to conform to the current segment reporting structure.

The following is a brief description of our segments:

- ***The Bausch + Lomb/International segment*** consists of: (i) sales in the U.S. of pharmaceutical products, OTC products and medical device products, primarily comprised of Bausch + Lomb products, with a focus on the Vision Care, Surgical, Consumer and Ophthalmology Rx products and (ii) sales in Canada, Europe, Asia, Australia and New Zealand, Latin America, Africa and the Middle East of branded pharmaceutical products, branded generic pharmaceutical products, OTC products, medical device products, and Bausch + Lomb products.

- **The Branded Rx segment** consists of sales in the U.S. of: (i) Salix products (GI products), (ii) Ortho Dermatologics (dermatological products) and (iii) oncology (or Dendreon), dentistry and women's health products. As a result of the Dendreon Sale completed on June 28, 2017, the Company exited the oncology business.
- **The U.S. Diversified Products segment** consists of sales in the U.S. of: (i) pharmaceutical products, OTC products and medical device products in the areas of neurology and certain other therapeutic classes, including aesthetics which includes the Solta business and the Obagi business and (ii) generic products.

Segment profit is based on operating income after the elimination of intercompany transactions (including transactions with any consolidated variable interest entities). Certain costs, such as amortization and impairments of intangible assets, goodwill impairment, certain R&D expenses not specific to our active portfolio, acquired in-process research and development costs, restructuring, integration and acquisition-related costs, and other (income) expense, are not included in the measure of segment profit, as management excludes these items in assessing financial performance. In addition, a portion of share-based compensation, representing the difference between actual and budgeted expense, is not allocated to segments. See Note 19, "SEGMENT INFORMATION" to our unaudited Consolidated Financial Statements for a reconciliation of segment profit to Loss before recovery of income taxes.

The following table presents segment revenues, segment revenues as a percentage of total revenues, and the year over year changes in segment revenues for the three months ended September 30, 2017 and 2016. The following table also presents segment profits, segment profits as a percentage of segment revenues and the year over year changes in segment profits for the three months ended September 30, 2017 and 2016.

<i>(in millions)</i>	Three Months Ended September 30,					
	2017		2016		Change	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
<b>Segment Revenues</b>						
Bausch + Lomb/International	\$ 1,254	56 %	\$ 1,243	50 %	\$ 11	1 %
Branded Rx	633	29 %	766	31 %	(133)	(17)%
U.S. Diversified Products	332	15 %	470	19 %	(138)	(29)%
Total revenues	<u>\$ 2,219</u>	<u>100 %</u>	<u>\$ 2,479</u>	<u>100 %</u>	<u>\$ (260)</u>	<u>(10)%</u>
<b>Segment Profits / Segment Profit Margins</b>						
Bausch + Lomb/International	\$ 387	31 %	\$ 381	31 %	\$ 6	2 %
Branded Rx	357	56 %	484	63 %	(127)	(26)%
U.S. Diversified Products	238	72 %	379	81 %	(141)	(37)%
Total segment profits	<u>\$ 982</u>	<u>44 %</u>	<u>\$ 1,244</u>	<u>50 %</u>	<u>\$ (262)</u>	<u>(21)%</u>

*Bausch + Lomb/International Segment:*

*Bausch + Lomb/International Segment Revenue*

The Bausch + Lomb/International segment has a diversified product line with no single product group representing 10% or more of its segment product sales. The Bausch + Lomb/International segment revenue was \$1,254 million and \$1,243 million for the three months ended September 30, 2017 and 2016, respectively, an increase of \$11 million, or 1%. The increase was primarily driven by:

- an increase in product sales volume from our existing business (excluding foreign currency and divestitures and discontinuations) of \$58 million. The increase in volume was driven by the U.S. Bausch + Lomb Consumer, international and U.S. Bausch + Lomb Vision Care businesses; and
- an increase in average realized pricing of \$20 million, primarily in Egypt.

These factors were partially offset by:

- the impact of other divestitures and discontinuations of \$51 million; and
- the unfavorable impact of foreign currencies of \$15 million, which includes the unfavorable impact from the Egyptian pound of \$40 million. In November 2016, as a result of the Egyptian government's decision to float the Egyptian

pound and un-peg it to the U.S. Dollar, the Egyptian pound was significantly devalued. Our exposure to the Egyptian pound is primarily with respect to revenue generated from the Amoun business we acquired in October 2015, which represented approximately 2% of our total revenues and approximately 3% of our Bausch + Lomb/International segment revenues for the nine months ended September 30, 2017. Further strengthening of the U.S. dollar and/or the devaluation of other countries' currencies could have a negative impact on our reported international revenue. Revenue outside the U.S. and Puerto Rico was approximately 40% of our total 2017 revenues. The impact of the Egyptian pound was partially offset by the favorable impact of foreign currencies in Eastern Europe.

#### *Bausch + Lomb/International Segment Profit*

The Bausch + Lomb/International segment profit for three months ended September 30, 2017 and 2016 was \$387 million and \$381 million, respectively, an increase of \$6 million, or 2%. The increase was primarily driven by:

- an increase in contribution as a result of the increases in volume and average realized pricing as discussed above; and
- a decrease in operating expenses (excluding amortization and impairments of intangible assets) of \$6 million primarily in advertising and promotion as a result of the Skincare Sale and other divestitures and discontinuances.

These factors were partially offset by:

- the decrease in contribution from other divestitures and discontinuations of \$33 million; and
- the unfavorable impact of foreign currencies on the existing business of \$3 million, primarily the Egyptian pound.

#### *Branded Rx Segment:*

##### *Branded Rx Segment Revenue*

The Branded Rx segment has a diversified product line which includes Xifaxan®. This product accounted for 46% and 36% of the Branded Rx segment product sales and 13% and 11% of the Company's product sales for the three months ended September 30, 2017 and 2016, respectively. No other single product group represents 10% or more of the Branded Rx segment product sales. The Branded Rx segment revenue for the three months ended September 30, 2017 and 2016 was \$633 million and \$766 million, respectively, a decrease of \$133 million, or 17%. The decrease was primarily driven by:

- a decrease in volume from our existing business of \$88 million primarily driven by: (i) the dermatology business, most notably with our Jublia® and Solodyn® products which have experienced lower volumes since the change in our fulfillment model and (ii) generic competition as certain products lost exclusivity, such as our Zegerid® product in our GI business and our Targetin®, Carac®, and Ziana® products in our dermatology business unit; and
- the impact of the Dendreon Sale and other divestitures and discontinuations of \$86 million.

These factors were partially offset by the increase in pricing of \$45 million primarily driven by: (i) increased wholesale selling prices and (ii) lower discounts within the GI business in 2017 when compared to 2016. As discussed above in “*Cash Discounts and Allowances, Chargebacks and Distribution Fees*,” as a result of corrective actions taken by the Company and its continued pricing discipline during 2016, chargeback rates within the GI business are lower in 2017 when compared to 2016. This resulted in an increase in average realized pricing and were partially offset by higher managed care rebates, particularly in the dermatology business and, to a lesser extent, the GI business.

##### *Branded Rx Segment Profit*

The Branded Rx segment profit for the three months ended September 30, 2017 and 2016 was \$357 million and \$484 million, respectively, a decrease of \$127 million, or 26%. The decrease was primarily driven by:

- a decrease in contribution from the impact of: (i) the Dendreon Sale and other divestitures and discontinuations of \$77 million, (ii) lower volume partially offset by higher average realized pricing in our existing business, and (iii) higher third-party royalty costs on certain drugs; and
- an increase in operating expenses of \$8 million primarily related to an increase in legal fees associated with certain intellectual property matters and the sales field force expansion in GI.

U.S. Diversified Products Segment:

*U.S. Diversified Products Segment Revenue*

The following table displays the U.S. Diversified Products segment revenue by product and product revenues as a percentage of segment revenue for the three months ended September 30, 2017 and 2016.

<i>(in millions)</i>	Three Months Ended September 30,					
	2017		2016		Change	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Wellbutrin®	\$ 61	18%	\$ 65	14%	\$ (4)	(6)%
Xenazine US®	28	8%	35	7%	(7)	(20)%
Isuprel®	23	7%	30	6%	(7)	(23)%
Cuprimine®	20	6%	29	6%	(9)	(31)%
Syprine®	18	5%	26	6%	(8)	(31)%
Mephyton®	14	4%	15	3%	(1)	(7)%
Migranal® AG	14	4%	15	3%	(1)	(7)%
Ativan®	13	4%	13	3%	—	— %
Glumetza® AG	9	3%	—	—%	9	— %
Obagi Nu-Derm®	8	2%	8	2%	—	— %
Other product revenues	119	36%	229	49%	(110)	(48)%
Other revenues	5	2%	5	1%	—	— %
Total U.S. Diversified revenues	\$ 332	100%	\$ 470	100%	\$ (138)	(29)%

The U.S. Diversified segment revenue for the three months ended September 30, 2017 and 2016 was \$332 million and \$470 million, respectively, a decrease of \$138 million, or 29%. The decrease was driven by decreases in volume of \$92 million and average realized pricing of \$43 million, primarily attributable to generic competition to certain products, including Nitropress®, Cuprimine®, Xenazine®, Syprine®, Isuprel®, Virazole®, and Wellbutrin® in our neurology business unit and the Zegerid® AG in our generics business unit.

*U.S. Diversified Products Segment Profit*

The U.S. Diversified segment profit for three months ended September 30, 2017 and 2016 was \$238 million and \$379 million, respectively, a decrease of \$141 million, or 37% and was primarily driven by the decrease in contribution from our existing business as a result of lower volumes and average realized pricing.

***Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016***

**Revenues**

Our revenue was \$6,561 million and \$7,271 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$710 million, or 10%. The decrease was primarily driven by: (i) the decline in product sales from our existing business (excluding foreign currency and divestitures and discontinuations) of \$359 million primarily due to lower volumes in our U.S. Diversified segment as a result of the loss of exclusivity for a number of products and in our Branded Rx segment as a result of challenging market dynamics, particularly in dermatology, partially offset by increased international pricing in our Bausch + Lomb / International segment and increased volumes in our Bausch + Lomb / International segment, primarily driven by the U.S. Bausch + Lomb Consumer and international businesses, (ii) the impact of divestitures and discontinuations of \$237 million and (iii) the unfavorable impact of foreign currencies of \$110 million which is primarily attributable to the Egyptian pound.

Our segment revenues and segment profits for the nine months ended September 30, 2017 and 2016 are discussed in detail in the subsequent section titled “ - Reportable Segment Revenues and Profits”.

### **Cash Discounts and Allowances, Chargebacks and Distribution Fees**

Provisions recorded to reduce gross product sales to net product sales and revenues for the nine months ended September 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	<b>Nine Months Ended September 30,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>Pct.</b>	<b>Amount</b>	<b>Pct.</b>
Gross product sales	\$ 11,085	100%	\$ 11,992	100%
Provisions to reduce gross product sales to net product sales				
Discounts and allowances	613	6%	561	5%
Returns	326	3%	343	3%
Rebates	1,894	17%	1,880	15%
Chargebacks	1,568	14%	1,708	14%
Distribution fees	222	2%	332	3%
Total provisions	4,623	42%	4,824	40%
Net product sales	6,462	58%	7,168	60%
Other revenues	99		103	
Revenues	<u>\$ 6,561</u>		<u>\$ 7,271</u>	

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 42% and 40% for the nine months ended September 30, 2017 and 2016, respectively, an increase of 2 percentage point. The increase was primarily driven by:

- an increase in discounts and allowances as a percentage of product sales primarily associated with the generic release of Glumetza® AG partially offset by lower sales of Zegerid® AG due to generic competition;
- rebates as a percentage of product sales was higher as increased sales of products that carry higher contractual rebates and co-pay assistance programs, including the impact of gross price increases where customers receive incremental rebates based on contractual price increase limitations. The comparisons were impacted primarily by higher provisions for rebates and the co-pay assistance programs for launch products and other promoted products. These increases were offset by decreases in rebates for Solodyn®, Jublia®, Glumetza®, Ziana® and other products as generic competition caused a decline in volume year over year;
- chargebacks as a percentage of gross product sales was unchanged as higher chargebacks resulting from higher year over year sales of certain generic drugs such as Glumetza® AG and Targretin® AG and certain branded drugs such as Nifedical® and Xifaxan®. These increases were offset by decreases associated with: (i) lower utilization by the U.S. government of certain products such as Minocin®, Ativan®, and Mysoline®, (ii) lower year over year sales of Zegerid® AG and Nitropress® and other drugs due to generic competition and Provenge® which was divested with the Dendreon Sale and (iii) better contract pricing as a result of the Company's pricing discipline. During much of 2016, the Company was subject to higher chargeback rates as a result of its 2015 pricing strategies. As a result of corrective actions taken by the Company, and its continued pricing discipline during 2016, the previous chargeback rates, which were substantial, are no longer effective during 2017; and
- a decrease in distribution service fees as a percentage of gross product sales due in part to higher offsetting price appreciation credits and better contract terms with our distributors. Price appreciation credits offset against the total distribution service fees we pay on all of our products to each wholesaler. Price appreciation credits were \$10 million and \$3 million for the nine months ended September 30, 2017 and 2016, respectively.

### **Expenses**

#### **Cost of Goods Sold (excluding amortization and impairments of intangible assets)**

Cost of goods sold was \$1,869 million and \$1,917 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$48 million, or 3%. The decrease was primarily driven by: (i) costs attributable to the net decrease in sales volumes from existing businesses, (ii) the favorable impact of foreign currencies, (iii) lower amortization of acquisition accounting adjustments related to inventories and (iv) the impact of divestitures and discontinuations. These decreases were partially offset by higher third-party royalty costs on certain drugs.

Beginning in the three months ended June 30, 2017, we classified certain maintenance costs as costs of sales which in previous periods were included in R&D expenses. The costs incurred for the three months ended June 30, 2017 and September 30, 2017 were approximately \$14 million, in aggregate. No adjustments were made to prior periods based on materiality.

Cost of goods sold as a percentage of product sales revenue was 29% and 27% for the nine months ended September 30, 2017 and 2016, respectively, an increase of 2 percentage points and was primarily driven by an unfavorable change in our product mix. In 2017, a greater percentage of our revenue is attributable to the Bausch + Lomb/International segment, which generally has lower gross margins than the balance of the Company's products portfolio, including products with higher third-party royalty rates, in part due to the loss of exclusivity previously discussed with respect to certain higher gross margin products. These increases in costs of goods sold as a percentage of product sales revenue were partially offset by acquisition accounting adjustments related to inventories expensed in 2016 of \$38 million. Our segment revenues and segment profits are discussed in detail in the subsequent section titled "Reportable Segment Revenues and Profits".

### ***Selling, General and Administrative Expenses***

SG&A expenses were \$1,943 million and \$2,145 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$202 million, or 9%. The decrease was primarily driven by: (i) a net decrease in advertising and promotional expenses, primarily driven by decreases in (a) direct to consumer advertising in support of our Jublia®, Xifaxan®, Bausch + Lomb ULTRA® contact lenses and other branded products and (b) expenses with businesses sold, (ii) a net decrease in compensation expense as we incurred higher personnel costs in 2016 resulting from changes in our senior management team and employee retention costs, (iii) termination benefits associated with our former Chief Executive Officer in 2016 consisting of (a) the pro-rata vesting of performance-based restricted stock units ("RSUs") (no shares were issued on vesting of these performance-based RSUs because the associated market-based performance condition was not attained), (b) a cash severance payment and (c) a pro-rata annual cash bonus, (iv) the impact of divestitures, (v) the favorable impact of foreign currencies and (vi) a net decrease in third-party consulting fees. These factors were partially offset by an increase in professional fees incurred in connection with: (i) legal and governmental proceedings, investigations and information requests relating to, among other matters, our distribution, marketing, pricing, disclosure and accounting practices, (ii) the execution on our key initiatives and (iii) other ongoing corporate and business matters.

### ***Research and Development***

R&D expenses were \$271 million and \$328 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$57 million, or 17%. The decrease was primarily due to: (i) the timing of costs on the projects in development and is not representative of our current product development activities and (ii) \$14 million of certain maintenance costs classified as cost of sales in 2017 that in previous periods were included in R&D expenses as discussed above.

The decrease represents lower costs associated with projects at the end or near the end of their development cycles. A significant portion of our 2016 R&D expense was dedicated to the dermatology business and included expenses for: (i) testing and attaining regulatory approval for Siliq™ (brodalumab), which received FDA approval on February 15, 2017 and was launched in the U.S. on July 27, 2017 and (ii) the development and testing of our IDP-118 (a treatment of moderate-to-severe plaque psoriasis), which is at the end of its development cycle. On November 2, 2017, we announced that the FDA had accepted the NDA for IDP-118 for review, and set a PDUFA action date of June 18, 2018.

### ***Amortization of Intangible Assets***

Amortization of intangible assets was \$1,915 million and \$2,015 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$100 million, or 5%. The decrease in amortization is reflective of impairments to intangible assets in 2016 and divestitures and discontinuances of product lines as the Company focuses on its core assets, resulting in less straight-line amortization in 2017 compared to 2016.

### ***Goodwill Impairments***

Goodwill impairments were \$312 million and \$1,049 million for the nine months ended September 30, 2017 and 2016, respectively.

During the three months ended September 30, 2017, the Sprout business was classified as held for sale. As the Sprout business represented only a portion of a Branded Rx reporting unit, we assessed the remaining reporting unit for impairment and determined the carrying value of the remaining reporting unit exceeded its fair value. After completing step two of the impairment testing, we determined and recorded a goodwill impairment charge of \$312 million during the three months ended September 30, 2017.

Commencing in the three months ended September 30, 2016, the Company operates in three operating segments: (i) Bausch + Lomb/International, (ii) Branded Rx and (iii) U.S. Diversified Products. The realignment of the segment structure resulted in changes in the Company's reporting units. In the third quarter of 2016, goodwill impairment testing was performed under the former reporting unit structure immediately prior to the change and under the current reporting unit structure immediately subsequent to the change.

Under the former reporting unit structure, the fair value of each reporting unit exceeded its carrying value by more than 15%, except for the former U.S. reporting unit whose carrying value exceeded its fair value by 2%. As a result, the Company proceeded to perform step two of the goodwill impairment test for the former U.S. reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value, which resulted in an initial goodwill impairment charge of \$838 million in the three months ended September 30, 2016.

Under the current reporting unit structure, the carrying value of the Salix reporting unit exceeded its fair value, as updates to the unit's forecast resulted in a lower estimated fair value for the business. As a result, the Company proceeded to perform step two of the goodwill impairment test for the Salix reporting unit and determined that the carrying value of the unit's goodwill exceeded its implied fair value, which resulted in an initial goodwill impairment charge of \$211 million in the three months ended September 30, 2016.

### ***Asset Impairments***

Asset impairments were \$629 million and \$394 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of \$235 million. We continue to critically evaluate our businesses and product portfolios and as a result identified assets that are not aligned with our core objectives. Asset impairments for the nine months ended September 30, 2017 includes: (i) an impairment charge of \$352 million related to the Sprout business, (ii) impairment charges of \$115 million to other assets classified as held for sale, (iii) impairments of \$86 million, in aggregate, to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core business, (iv) impairment charges of \$73 million reflecting decreases in forecasted sales for other product lines and (v) impairment charges of \$3 million related to acquired IPR&D. Asset impairments for the nine months ended September 30, 2016 includes: (i) an impairment charge of \$199 million associated with the Ruconest® business, (ii) an impairment charge of \$88 million recognized upon classification of assets associated with a number of small businesses as held for sale and (iii) an impairment charge of \$25 million related to IBSChek™ (U.S. Diversified Products segment), resulting from a decline in sales trends. See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited Consolidated Financial Statements regarding the asset impairments of our intangible assets.

### ***Restructuring and Integration Costs***

Restructuring and integration costs were \$42 million and \$78 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$36 million. We have substantially completed the integration of the businesses acquired prior to 2016. The Company continues to evaluate opportunities to streamline its operations and identify additional cost savings globally. Although a specific plan does not exist at this time, the Company may identify and take additional exit and cost-rationalization restructuring actions in the future, the costs of which could be material. See Note 5, "RESTRUCTURING AND INTEGRATION COSTS" to our unaudited Consolidated Financial Statements for further details regarding these actions.

### ***Acquisition-Related Contingent Consideration***

Acquisition-related contingent consideration was a net gain of \$297 million for the nine months ended September 30, 2017, which included: (i) a fair value adjustment of \$312 million reflecting a decrease in forecasted sales for the Addyi® product which impacted the expected future payments and (ii) net fair value adjustments of \$33 million. These gains were partially offset by accretion for the time value of money of \$48 million. Acquisition-related contingent consideration was a net expense of \$18 million for the nine months ended September 30, 2016, which included accretion for the time value of money of \$71 million offset by net fair value adjustments of \$53 million.

### ***Other (Income) Expense, Net***

Other (income) expense, net for the nine months ended September 30, 2017 and 2016 consists of the following:

<i>(in millions)</i>	Nine Months Ended September 30,	
	2017	2016
Gain on the iNova Sale	\$ (306)	\$ —
Gain on the Skincare Sale	(316)	—
Gain on the Dendreon Sale	(98)	—
Net loss (gain) on other sales of assets	25	(9)
Deconsolidation of Philidor	—	19
Litigation and other matters	112	(32)
Other, net	(1)	2
	<u>\$ (584)</u>	<u>\$ (20)</u>

Litigation and other matters includes amounts provided for certain matters discussed in Note 18, "LEGAL PROCEEDINGS" to our unaudited Consolidated Financial Statements. During the nine months ended September 30, 2016, included in Litigation and other matters is a favorable adjustment of \$39 million made to certain legal accruals related to the investigation into Salix's pre-acquisition sales and promotional practices for the Xifaxan®, Relistor® and Apriso® products and settled during the three months ended June 30, 2016.

### **Non-Operating Income and Expense**

#### ***Interest Expense***

Interest expense was \$1,392 million and \$1,369 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of \$23 million, or 2%. Interest expense includes non-cash amortization and write-offs of debt discounts and debt issuance costs of \$100 million and \$89 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in interest expense was primarily driven by higher interest rates resulting from the March 2017 debt refinancing and amendments to our Credit Agreement, partially offset by lower principal amounts of outstanding debt during the nine months ended September 30, 2017. The weighted average stated rates of interest as of September 30, 2017 and 2016 were 6.09% and 5.71%, respectively.

#### ***Loss on Extinguishment of Debt***

Loss on extinguishment of debt was \$65 million for the nine months ended September 30, 2017. In March 2017, we completed a series of transactions which allowed us to refinance a portion of our debt arrangements and in August 2017, we repurchased the remaining \$500 million of our August 2018 Senior Unsecured Notes. Losses representing the differences between the amounts paid to settle the extinguished debts and the carrying value of the extinguished debts (the debts' stated principal net of unamortized debt discount and debt issuance costs) were recognized. See Note 10, "FINANCING ARRANGEMENTS" to our unaudited Consolidated Financial Statements for further details.

#### ***Foreign Exchange and Other***

Foreign exchange and other was a net gain of \$87 million and \$4 million for the nine months ended September 30, 2017 and 2016, respectively, a favorable net change of \$83 million. Foreign exchange gains/losses include translation gains/losses on intercompany loans, primarily on euro-denominated intercompany loans.

### **Income Taxes**

Recovery of income taxes was \$2,829 million and \$179 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of \$2,650 million.

Our effective income tax rate for the nine months ended September 30, 2017 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of (a) a \$2,626 million tax benefit from internal restructuring efforts, consisting of the reversal of a \$1,947 million deferred tax liability for previously recorded outside basis differences and a \$679 million increase in deferred tax assets for NOL's available after the

carryback of a capital loss and utilization against current year income, (b) a tax charge of \$224 million resulting from our divestitures during the nine months ended September 30, 2017, and (c) a \$108 million tax benefit related to an intangible impairment during the nine months ended September 30, 2017.

Our effective income tax rate for the nine months ended September 30, 2016 differs from the statutory Canadian income tax rate primarily due to: (i) the tax expense generated from our annualized mix of earnings by jurisdiction, (ii) the discrete treatment of: (a) an adjustment to the accrual established for legal expenses and (b) a tax benefit for the deduction of a significant impairment of an intangible asset, (iii) the recording of valuation allowance on entities for which no tax benefit of losses is expected and (iv) the accrual of interest on uncertain tax positions.

## Reportable Segment Revenues and Profits

The following table presents segment revenues, segment revenues as a percentage of total revenues, and the year over year changes in segment revenues for the nine months ended September 30, 2017 and 2016. The following table also presents segment profits, segment profits as a percentage of segment revenues and the year over year changes in segment profits for the nine months ended September 30, 2017 and 2016.

<i>(in millions)</i>	Nine Months Ended September 30,					
	2017		2016		Change	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
<b>Segment Revenues</b>						
Bausch + Lomb/International	\$ 3,645	55 %	\$ 3,666	50 %	\$ (21)	(1)%
Branded Rx	1,873	29 %	2,084	29 %	(211)	(10)%
U.S. Diversified Products	1,043	16 %	1,521	21 %	(478)	(31)%
Total revenues	<u>\$ 6,561</u>	<u>100 %</u>	<u>\$ 7,271</u>	<u>100 %</u>	<u>\$ (710)</u>	<u>(10)%</u>
<b>Segment Profits / Segment Profit Margins</b>						
Bausch + Lomb/International	\$ 1,097	30 %	\$ 1,072	29 %	\$ 25	2 %
Branded Rx	1,024	55 %	1,078	52 %	(54)	(5)%
U.S. Diversified Products	757	73 %	1,227	81 %	(470)	(38)%
Total segment profits	<u>\$ 2,878</u>	<u>44 %</u>	<u>\$ 3,377</u>	<u>46 %</u>	<u>\$ (499)</u>	<u>(15)%</u>

### Bausch + Lomb/International Segment:

#### *Bausch + Lomb/International Segment Revenue*

The Bausch + Lomb/International segment has a diversified product line with no single product group representing 10% or more of its segment product sales. The Bausch + Lomb/International segment revenue was \$3,645 million and \$3,666 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$21 million, or less than 1%. The decrease was primarily driven by:

- the impact of the Skincare Sale and other divestitures and discontinuations of \$123 million; and
- the unfavorable impact of foreign currencies of \$110 million which includes the unfavorable impact from the Egyptian pound of \$125 million.

These factors were partially offset by:

- an increase in product sales volume from our existing business (excluding foreign currency and divestitures and discontinuations) of \$114 million. The increase in volume was primarily driven by the U.S. Bausch + Lomb Consumer and international businesses and, to a lesser extent, the U.S. Bausch + Lomb Vision Care and Surgical businesses; and
- an increase in average realized pricing of \$97 million, primarily in Egypt.

### *Bausch + Lomb/International Segment Profit*

The Bausch + Lomb/International segment profit for nine months ended September 30, 2017 and 2016 was \$1,097 million and \$1,072 million, respectively, an increase of \$25 million, or 2%. The increase was primarily driven by:

- an increase in contribution as a result of increases in volume and average realized pricing as discussed above; and
- a decrease in operating expenses (excluding amortization and impairments of intangible assets) of \$32 million primarily in advertising and promotion, including expenses eliminated as a result of the Skincare Sale and other divestitures and discontinuances.

These factors were partially offset by:

- the decrease in contribution from the impact of the Skincare Sale and other divestitures and discontinuances of \$80 million; and
- the unfavorable impact of foreign currencies on the existing business, primarily due to the Egyptian pound of \$38 million.

### *Branded Rx Segment:*

#### *Branded Rx Segment Revenue*

The Branded Rx segment has a diversified product line which includes Xifaxan®. This product accounted for 38% and 33% of the Branded Rx segment product sales and 11% and 10% of the Company's product sales for the nine months ended September 30, 2017 and 2016, respectively. No other single product group represents 10% or more of the Branded Rx segment product sales. The Branded Rx segment revenue for the nine months ended September 30, 2017 and 2016 was \$1,873 million and \$2,084 million, respectively, a decrease of \$211 million, or 10%. The decrease was primarily driven by:

- a decrease in volume from our existing business of \$212 million primarily driven by: (i) the dermatology business, most notably with our Jublia® product, and to a lesser extent our Solodyn® product, which have experienced lower volumes since the change in our fulfillment model, (ii) lower demand within the GI business most notably with our Uceris® products attributable to (a) competition and (b) the increase in high deductible medical plans, and (iii) generic competition as certain products lost exclusivity, such as our Zegerid® product in our GI business and our Carac®, Targetin® and Ziana® products in our dermatology business; and
- the decrease from the impact of the Dendreon Sale and other divestitures and discontinuances of \$106 million.

These factors were partially offset by the increase in pricing of \$111 million primarily driven by: (i) increased wholesale selling prices and (ii) lower discounts within the GI business in 2017 when compared to 2016. As discussed above in “*Cash Discounts and Allowances, Chargebacks and Distribution Fees*,” as a result of corrective actions taken by the Company, and its continued pricing discipline during 2016, chargeback rates within the GI business are lower in 2017 when compared to 2016. This resulted in an increase in average realized pricing and were partially offset by higher managed care rebates particularly in the dermatology business and to a lesser extent the GI business.

#### *Branded Rx Segment Profit*

The Branded Rx segment profit for the nine months ended September 30, 2017 and 2016 was \$1,024 million and \$1,078 million, respectively, a decrease of \$54 million, or 5%. The decrease was primarily driven by:

- a decrease in contribution from the impact of: (i) lower volume partially offset by higher average realized pricing in our existing business, (ii) the Dendreon Sale and other divestitures and discontinuances of \$83 million and (iii) higher third-party royalty costs on certain drugs.

These factors were partially offset by:

- a decrease in operating expenses of \$104 million primarily related to lower advertising and promotional expenses; and
- acquisition accounting adjustments related to inventories expensed in 2016 of \$33 million.

U.S. Diversified Products Segment:

*U.S. Diversified Products Segment Revenue*

The following table displays the U.S. Diversified Products segment revenue by product and product revenues as a percentage of segment revenue for the nine months ended September 30, 2017 and 2016.

<i>(in millions)</i>	<b>Nine Months Ended September 30,</b>					
	<b>2017</b>		<b>2016</b>		<b>Change</b>	
	<b>Amount</b>	<b>Pct.</b>	<b>Amount</b>	<b>Pct.</b>	<b>Amount</b>	<b>Pct.</b>
Wellbutrin®	\$ 168	16%	\$ 212	14%	\$ (44)	(21)%
Isuprel®	95	9%	136	9%	(41)	(30)%
Xenazine US®	90	9%	124	8%	(34)	(27)%
Syprine®	65	6%	68	4%	(3)	(4)%
Cuprimine®	59	6%	82	5%	(23)	(28)%
Ativan®	46	4%	35	2%	11	31 %
Mephyton®	41	4%	45	3%	(4)	(9)%
Migranal® AG	40	4%	40	3%	—	— %
Glumetza® AG	28	3%	—	—%	28	— %
Obagi Nu-Derm®	23	2%	21	1%	2	10 %
Other product revenues	375	36%	743	49%	(368)	(50)%
Other revenues	13	1%	15	1%	(2)	(13)%
<b>Total U.S. Diversified revenues</b>	<b>\$ 1,043</b>	<b>100%</b>	<b>\$ 1,521</b>	<b>100%</b>	<b>\$ (478)</b>	<b>(31)%</b>

The U.S. Diversified segment revenue for the nine months ended September 30, 2017 and 2016 was \$1,043 million and \$1,521 million, respectively, a decrease of \$478 million, or 31%. The decrease was primarily driven by the decrease in volume of \$330 million and the decrease in average realized pricing of \$139 million. The decrease in volumes and average realized pricing is primarily driven by generic competition to certain products, such as Nitropress®, Wellbutrin®, Isuprel®, Xenazine®, and Cuprimine® in our neurology business unit and the Zegerid® AG in our generics business unit.

*U.S. Diversified Products Segment Profit*

The U.S. Diversified segment profit for nine months ended September 30, 2017 and 2016 was \$757 million and \$1,227 million, respectively, a decrease of \$470 million, or 38% and was primarily driven by the decrease in contribution from our existing business as a result of lower volumes and average realized pricing.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

<i>(in millions)</i>	<b>Nine Months Ended September 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Pct.</b>
Net income (loss)	\$ 1,892	\$ (1,896)	\$ 3,788	(200)%
Adjustments to reconcile net income (loss) to net cash provided by operating activities	(850)	3,520	(4,370)	(124)%
Changes in operating assets and liabilities	670	(49)	719	(1,467)%
Net cash provided by operating activities	1,712	1,575	137	9 %
Net cash provided by (used in) investing activities	2,797	(131)	2,928	(2,235)%
Net cash used in financing activities	(3,121)	(1,388)	(1,733)	125 %
Effect of exchange rate on cash and cash equivalents	39	6	33	550 %
Net increase in cash and cash equivalents	1,427	62	1,365	2,202 %
Cash, cash equivalents and restricted cash, beginning of period	542	597	(55)	(9)%
Cash, cash equivalents and restricted cash, end of period	<u>\$ 1,969</u>	<u>\$ 659</u>	<u>\$ 1,310</u>	199 %

### *Operating Activities*

Net cash provided by operating activities was \$1,712 million and \$1,575 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of \$137 million, or 9%. The increase is primarily attributable to changes in our operating assets and liabilities partially offset by the changes in our operating results discussed above.

Changes in our operating assets and liabilities resulted in a net increase in cash of \$670 million for the nine months ended September 30, 2017 as compared to the net decrease in cash of \$49 million for the nine months ended September 30, 2016, an increase of \$719 million. For the nine months ended September 30, 2017, the change in our operating assets and liabilities was primarily driven by the collection of trade receivables, primarily attributable to our fulfillment agreement with Walgreens in resolution of certain 2016 billing issues and the impact of the timing of payments and receipts in the ordinary course of business. The changes in our operating assets and liabilities were partially offset by \$150 million of payments (net of insurance proceeds) in resolution of the Salix securities class action litigation. For the nine months ended September 30, 2016, the change in our operating assets and liabilities was primarily driven by the reduction in prepaid expenses and other current assets and was partially offset by increases in our inventories and the impact of the timing of payments and receipts in the ordinary course of business. See Note 18, "LEGAL PROCEEDINGS" to our unaudited interim Consolidated Financial Statements for further details regarding the Salix securities litigation matter.

### *Investing Activities*

Net cash provided by investing activities was \$2,797 million for the nine months ended September 30, 2017 and was primarily driven by the net proceeds from sales of non-core assets of \$3,063 million, which includes the Skincare Sale, the Dendreon Sale and the iNova Sale. See Note 4, "DIVESTITURES" to our unaudited Consolidated Financial Statements for further details. Net cash used in investing activities was \$131 million for the nine months ended September 30, 2016 and included a reduction in cash due to the deconsolidation of a former subsidiary of \$30 million and payments for businesses previously acquired of \$19 million. Other uses of cash by investing activities for the nine months ended September 30, 2017 and 2016 included payments for purchases of property, plant and equipment of \$118 million and \$181 million and acquisitions of intangible assets and other assets previously acquired of \$146 million and \$48 million, respectively.

### *Financing Activities*

Net cash used in financing activities was \$3,121 million for the nine months ended September 30, 2017 and was primarily driven by the net reduction in our debt portfolio. Net cash used in financing activities includes: (i) repayments of term loans under our Senior Secured Credit Facilities of \$7,199 million, (ii) repayments of principal amounts due under our Senior Unsecured Notes of \$1,600 million, (iii) repayments of amounts borrowed on our revolving credit facility of \$450 million, and (iv) payments for costs associated with the refinancing of certain debt on March 21, 2017 of \$39 million. These payments were funded with the net proceeds from the sales of non-core assets, including the Skincare Sale, Dendreon Sale, cash on hand and \$6,231 million of net proceeds from the issuance of long-term debt, which included: (i) \$3,022 million from incremental Series F-3 Tranche B Term Loan of \$3,060 million obtained in the March 21, 2017 refinancing, (ii) \$1,974 million from the issuance of \$2,000 million of 7.00% Senior Secured Notes due 2024 and (iii) \$1,235 million from the issuance of \$1,250 million of 6.5% Senior Secured

Notes due 2022. Net cash used in financing activities was \$1,388 million for the nine months ended September 30, 2016 and included: (i) term loan repayments under our Senior Secured Credit Facilities of \$1,547 million, (ii) payments of deferred consideration of \$500 million in connection with the acquisition of Sprout in 2015, (iii) payments of financing costs associated with Amendment No. 12 and Waiver to the Credit Agreement in April 2016 and Amendment 13 to the Credit Agreement in August 2016 for an aggregate amount of \$96 million, (iv) payments of contingent considerations associated with acquisitions in 2015 and prior of \$94 million and (v) other payments of deferred consideration of \$17 million. These uses of cash in 2016 were partially offset by net borrowings on our revolving credit facility of \$850 million. See Note 10, "FINANCING ARRANGEMENTS" to our unaudited Consolidated Financial Statements for additional information regarding the financing activities described above.

## **Liquidity and Debt**

### ***Future Sources of Liquidity***

Our primary sources of liquidity are our cash, cash collected from customers, funds as available from our revolving credit facility, issuances of long-term debt and issuances of equity and equity-linked securities. We believe these sources will be sufficient to meet our current liquidity needs for the next twelve months.

On September 29, 2017, we completed the sale of our iNova business for \$938 million in cash. On October 5, 2017, using the net proceeds from the iNova Sale, we repaid \$923 million of our Series F Tranche B Term Loan Facility. On July 17, 2017, we entered into a definitive agreement to sell our Obagi business for \$190 million in cash. The Obagi Sale is expected to close in 2017, subject to customary closing conditions. We expect to use the proceeds from this transaction to pay advisory and legal fees associated with this transaction and related income taxes and other taxes associated with this transaction, if any. We will use the balance of the proceeds from this transaction and other divestitures of assets, if any, to repay principal amounts of our Series F Tranche B Term Loan Facility.

The Company regularly evaluates market conditions, its liquidity profile, and various financing alternatives for opportunities to enhance its capital structure. If opportunities are favorable, the Company may refinance or repurchase existing debt. We believe our existing cash and cash generated from operations will be sufficient to service our debt obligations in the years 2017 through 2019.

### ***Long-term Debt***

Long-term debt, net of unamortized discounts and finance costs was \$27,141 million and \$29,846 million as of September 30, 2017 and December 31, 2016, respectively. Aggregate contractual principal amounts due under our debt obligations were \$27,426 million and \$30,169 million as of September 30, 2017 and December 31, 2016, respectively, a decrease of \$2,743 million during the nine months ended September 30, 2017.

In 2017, we completed a series of transactions which improved our leverage, reduced our annual debt maintenance and extended the maturities of a significant portion of our debt. Through the sale of certain non-core assets, and using cash on hand, we repaid \$2,937 million of debt principal during the nine months ended September 30, 2017. In addition, by accessing the credit markets, we (i) refinanced \$6,312 million which was due to mature in 2018 through 2020, (ii) extended \$1,190 million of commitments under our revolving credit facility, originally set to expire in April 2018, out to April 2020 and (iii) obtained less stringent loan financial maintenance covenants under our Senior Secured Credit Facilities, that included the removal of the financial maintenance covenants from our term loans. As a result, the financial maintenance covenants apply only with respect to our revolving loans and can be waived or amended without the consent of the term loan lenders under the Credit Agreement. These transactions and debt payments have had the effect of lowering our cash requirements for principal debt payments through 2020 by more than \$7,200 million as of September 30, 2017 as compared with those as of December 31, 2016.

Debt repayments - We used the proceeds from the sale of non-core assets, including the Skincare Sale and Dendreon Sale, to pay-down \$2,151 million of debt under our Senior Secured Credit Facilities during the nine months ended September 30, 2017. In addition, using cash on hand, we repurchased \$500 million of our August 2018 Senior Unsecured Notes, made scheduled principal payments under our Series F Tranche B Term Loan Facility of \$86 million and paid down our revolving loans by \$200 million during the nine months ended September 30, 2017.

Refinancing - On March 21, 2017, we completed a series of transactions that provided us with additional borrowings, which we used to (i) repay \$4,962 million of debt, representing all outstanding amounts of our senior secured (a) Series A-3 Tranche A Term Loan Facility originally due October 2018, (b) Series A-4 Tranche A Term Loan Facility originally due April 2020, (c) Series D-2 Tranche B Term Loan Facility originally due February 2019, (d) Series C-2 Tranche B Term Loan Facility originally due December 2019 and (e) Series E-1 Tranche B Term Loan Facility originally due August 2020, (ii) repay \$250

million of revolving loans and (iii) repurchase at a purchase price of 103%, \$1,100 million of August 2018 Senior Unsecured Notes.

The sources of funds for the repayments and repurchase of the aforementioned debt obligations and the related fees and expenses were obtained through (i) a comprehensive amendment and refinancing of our Credit Agreement, which, among other matters provided for incremental term loans under our Series F Tranche B Term Loan Facility of \$3,060 million maturing April 2022 (the “Series F-3 Tranche B Term Loan”), (ii) issuance of \$1,250 million aggregate principal amount of 6.50% Senior Secured Notes due March 15, 2022, (iii) issuance of \$2,000 million aggregate principal amount of 7.00% Senior Secured Notes due March 15, 2024, and (iv) the use of cash on hand.

The repayments, refinancing and other changes in our debt portfolio have lowered our cash requirements for principal debt repayment over the next five years. The scheduled maturities and mandatory amortization payments of our debt obligations for the remainder of 2017, for each year through 2022 and thereafter for our debt portfolio as of September 30, 2017 compared to December 31, 2016 were as follows:

<i>(in millions)</i>	September 30, 2017	December 31, 2016
October through December 2017	\$ 923	\$ —
2018	2	3,738
2019	—	2,122
2020	5,365	7,723
2021	3,175	3,215
2022	6,677	4,281
Thereafter	11,284	9,090
Gross maturities	<u>\$ 27,426</u>	<u>\$ 30,169</u>

In addition, subsequent to September 30, 2017, we took additional actions to reduce our debt and extend the maturity of another portion of our debt beyond 2021.

Subsequent debt repayments - On October 5, 2017, using the net proceeds from the iNova Sale, we repaid \$923 million of our Series F Tranche B Term Loan Facility. On November 2, 2017, using cash on hand, the Company repaid \$125 million of its Series F Tranche B Term Loan Facility. These repayments satisfy \$923 million of maturities due for the period October through December 2017 and \$125 million of maturities due in the year 2022 reflected in the table above.

Subsequent refinancing - On October 17, 2017, we issued \$1,000 million aggregate principal amount of the 5.50% 2025 Notes, in a private placement, the proceeds of which were used to (i) repurchase \$569 million in principal amount of our 6.375% 2020 Notes and (ii) repurchase \$431 million in principal amount of our 7.00% 2020 Notes. The related fees and expenses were paid using cash on hand. Interest on these notes is payable semi-annually in arrears on each May 1 and November 1. The refinancing had the effect of extending principal payments of \$1,000 million due in the year 2020 in the table above out to the year 2025.

Our repayments through the date of this filing, and the refinancings we completed in March 2017 and October 2017 have eliminated any further mandatory principal long-term debt repayments until March 2020, providing us with additional liquidity and greater flexibility to execute our business plans.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited Consolidated Financial Statements for further details.

The weighted average stated rate of interest of the Company's outstanding debt as of September 30, 2017 and December 31, 2016 was 6.09% and 5.75%, respectively.

#### *Senior Secured Credit Facilities*

On February 13, 2012, the Company and certain of its subsidiaries as guarantors entered into the Third Amended and Restated Credit and Guaranty Agreement (as amended, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) with a syndicate of financial institutions and investors, as lenders. As of September 30, 2017, the Credit Agreement provided for: (i) a \$1,500 million revolving credit facility through April 20, 2018 and thereafter \$1,190 million revolving credit facility through April 2020, including a sublimit for the issuance of standby and commercial letters of credit and a sublimit for swing line loans (the “Revolving Credit Facility”) and (ii) a Series F Tranche B Term Loan Facility which matures April 2022.

On March 21, 2017, the Company entered into Amendment No. 14 to the Credit Agreement (“Amendment No. 14”) which (i) provided additional financing from the incremental Series F-3 Tranche B Term Loan under the Series F Tranche B Term Loan Facility of \$3,060 million, (ii) amended the financial covenants contained in the Credit Agreement, (iii) increased the amortization rate for the Series F Tranche B Term Loan Facility from 0.25% per quarter (1% per annum) to 1.25% per quarter (5% per annum), with quarterly payments starting March 31, 2017, (iv) amended certain financial definitions, including the definition of Consolidated Adjusted EBITDA and (v) provided additional ability for the Company to, among other things, incur indebtedness and liens, consummate acquisitions and make other investments, including relaxing certain limitations imposed by prior amendments. The proceeds from the additional financing, combined with the proceeds from the issuance of the Senior Secured Notes described below and cash on hand were used to (i) repay all outstanding balances under the Company’s Series A-3 Tranche A Term Loan Facility, Series A-4 Tranche A Term Loan Facility, Series D-2 Tranche B Term Loan Facility, Series C-2 Tranche B Term Loan Facility, and Series E-1 Tranche B Term Loan Facility (collectively the “Refinanced Debt”), (ii) repurchase \$1,100 million in principal amount of August 2018 Senior Unsecured Notes, (iii) repay \$350 million of amounts outstanding under our Revolving Credit Facility and (iv) pay related fees and expenses (collectively, the “March 2017 Refinancing Transactions”).

Amendments to the covenants included: (i) removing the financial maintenance covenants with respect to the Series F Tranche B Term Loan Facility, (ii) reducing the interest coverage ratio maintenance covenant to 1.50:1.00 with respect to the Revolving Credit Facility through the quarter ending March 31, 2019 (stepping up to 1.75:1.00 thereafter) and (iii) increasing the secured leverage ratio maintenance covenant to 3.00:1.00 with respect to the Revolving Credit Facility through the quarter ending March 31, 2019 (stepping down to 2.75:1.00 thereafter). These financial maintenance covenants will apply only with respect to the Revolving Credit Facility and can be waived or amended without the consent of the term loan lenders under the Credit Agreement. Details regarding the financial maintenance covenants in our Senior Secured Credit Facilities can be found in our Credit Agreement and amendments thereto, which are incorporated by reference as exhibits to this Form 10-Q.

Modifications to Consolidated Adjusted EBITDA from Amendment No. 14 included, among other things: (i) modifications to permit the Company to add back extraordinary, unusual or non-recurring expenses or charges (including certain costs of, and payments of, litigation expenses, actual or prospective legal settlements, fines, judgments or orders, subject to a cap of \$500 million in any twelve month period, of which no more than \$250 million may pertain to any costs, payments, expenses, settlements, fines, judgments or orders, in each case, arising out of any actual or potential claim, investigation, litigation or other proceeding that the Company did not publicly disclosed on or prior to the effectiveness of the March 2017 amendment, and subject to other customary limitations) and (ii) modifications to allow the Company to add back expenses, charges or losses actually reimbursed or for which the Company reasonably expects to be reimbursed by third parties within 365 days, subject to customary limitations.

On March 28, 2017, the Company entered into Amendment No. 15 to the Credit Agreement (“Amendment No. 15”) which provides for the extension of the maturity date of \$1,190 million of revolving credit commitments under the Revolving Credit Facility from April 20, 2018 to the earlier of (i) April 20, 2020 and (ii) the date that is 91 calendar days prior to the scheduled maturity of any series or tranche of term loans under the Credit Agreement, certain Senior Secured Notes or Senior Unsecured Notes and any other indebtedness for borrowed money in excess of \$750 million. Unless otherwise terminated prior thereto, the remaining \$310 million of revolving credit commitments under the Revolving Credit Facility will continue to mature on April 20, 2018.

In April 2017, using the remaining proceeds from the Skincare Sale and the proceeds from the divestiture of a manufacturing facility in Brazil, the Company repaid \$220 million of its Series F Tranche B Term Loan Facility. On July 3, 2017, using the net proceeds from the Dendreon Sale, the Company repaid \$811 million of its Series F Tranche B Term Loan Facility. On September 29, 2017, using cash on hand, the Company repaid \$100 million of amounts outstanding under its Revolving Credit Facility.

Borrowings under the Senior Secured Credit Facilities bear interest at a rate per annum equal to, at the Company's option from time to time, either (i) a base rate determined by reference to the higher of (a) the prime rate (as defined in the Credit Agreement) and (b) the federal funds effective rate plus 1/2 of 1% or (ii) 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. These applicable margins are subject to increase or decrease quarterly based on the secured leverage ratio beginning with the quarter ended June 30, 2017. Based on its calculation of the Company’s secured leverage ratio, management does not anticipate any such increase or decrease to the current applicable margins for the next applicable period.

The applicable interest rate margins for borrowings under the Revolving Credit Facility are 2.75% with respect to base rate borrowings and 3.75% with respect to LIBO rate borrowings. As of September 30, 2017, the stated rate of interest on the Revolving Credit Facility was 4.99% per annum. In addition, we are required to pay commitment fees of 0.50% per annum in respect to the commitments not utilized, 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, customary fronting fees for the issuance

of letters of credit and agency fees. As of September 30, 2017, we had \$425 million of outstanding borrowings, \$94 million of issued and outstanding letters of credit, and remaining availability of \$981 million under our Revolving Credit Facility. Of the \$94 million issued and outstanding letters of credit, a \$50 million letter of credit was issued as part of the collateral to secure a bank guarantee for the benefit of the Australian Government in connection with the notice of assessment received on August 8, 2017 from the Australian Taxation Office. See Note 16, "INCOME TAXES" to our unaudited interim Consolidated Financial Statements for further details.

The applicable interest rate margins for the Series F Tranche B Term Loan Facility are 3.75% with respect to base rate borrowings and 4.75% with respect to LIBO rate borrowings, subject to a 0.75% LIBO rate floor. As of September 30, 2017, the stated rate of interest on the Company's borrowings under the Series F Tranche B Term Loan Facility was 5.99% per annum.

#### *Senior Secured Notes*

*March 2017 Refinancing Transactions* - In connection with the March 2017 Refinancing Transactions, the Company issued \$1,250 million aggregate principal amount of 6.50% senior secured notes due March 15, 2022 (the "March 2022 Senior Secured Notes") and \$2,000 million aggregate principal amount of 7.00% senior secured notes due March 15, 2024 (the "March 2024 Senior Secured Notes" and, together with the March 2022 Notes, the "Senior Secured Notes"), in a private placement, the proceeds of which when combined with the proceeds from the Series F-3 Tranche B Term Loan and cash on hand were used to (i) repay the Refinanced Debt, (ii) repurchase \$1,100 million in principal amount of August 2018 Senior Unsecured Notes, (iii) repay \$350 million of amounts outstanding under our Revolving Credit Facility and (iv) pay related fees and expenses. Interest on these notes is payable semi-annually in arrears on each March 15 and September 15.

The Senior Secured Notes were issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended. We are not obligated under any registration rights agreement or other obligation to register the Senior Secured Notes for resale or to exchange the notes for notes registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction.

The Senior Secured Notes are guaranteed by each of the Company's subsidiaries that is a guarantor under the Credit Agreement and existing Senior Unsecured Notes (together, the "Note Guarantors"). The notes and the guarantees related thereto are senior obligations and are secured, subject to permitted liens and certain other exceptions, by the same first priority liens that secure the Company's obligations under the Credit Agreement under the terms of the indenture governing the Senior Secured Notes.

The Senior Secured Notes and the guarantees related thereto rank equally in right of payment with all of the Company's and Note Guarantors' respective existing and future unsubordinated indebtedness and senior to the Company's and Note Guarantors' respective future subordinated indebtedness. The notes and the guarantees are effectively *pari passu* with the Company's and the Note Guarantors' respective existing and future indebtedness secured by a first priority lien on the collateral securing the notes and effectively senior to the Company's and the Note Guarantors' respective existing and future indebtedness that is unsecured, including the existing Senior Unsecured Notes, or that is secured by junior liens, in each case to the extent of the value of the collateral. In addition, the notes are structurally subordinated to (i) all liabilities of any of the Company's subsidiaries that do not guarantee the notes and (ii) any of the Company's debt that is secured by assets that are not collateral.

The March 2022 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 15, 2019, at the redemption prices set forth in the indenture. The Company may redeem some or all of the March 2022 Notes prior to March 15, 2019 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to March 15, 2019, the Company may redeem up to 40% of the aggregate principal amount of the March 2022 Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

The March 2024 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 15, 2020, at the redemption prices set forth in the indenture. The Company may redeem some or all of the March 2024 Notes prior to March 15, 2020 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to March 15, 2020, the Company may redeem up to 40% of the aggregate principal amount of the March 2024 Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

Upon the occurrence of a change in control (as defined in the indentures governing the Senior Secured Notes), unless the Company has exercised its right to redeem all of the notes of a series as described above, holders of the Senior Secured Notes may require the Company to repurchase such holder's notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

*October 2017 Refinancing Transactions* - On October 17, 2017, the Company issued \$1,000 million aggregate principal amount of the 5.50% 2025 Notes, in a private placement, the proceeds of which were used to (i) repurchase \$569 million in principal amount of the 6.375% 2020 Notes and (ii) repurchase \$431 million in principal amount of the 7.00% 2020 Notes. The related fees and expenses were paid using cash on hand. Interest on these notes is payable semi-annually in arrears on each May 1 and November 1.

The 5.50% 2025 Notes are guaranteed by each of the Company's subsidiaries that is a guarantor under the Credit Agreement and existing Senior Unsecured Notes (together, the "Note Guarantors"). The Senior Secured Notes and the guarantees related thereto are senior obligations and are secured, subject to permitted liens and certain other exceptions, by the same first priority liens that secure the Company's obligations under the Credit Agreement under the terms of the indenture governing the Senior Secured Notes.

The 5.50% 2025 Notes and the guarantees rank equally in right of payment with all of the Company's and Note Guarantors' respective existing and future unsubordinated indebtedness and senior to the Company's and Note Guarantors' respective future subordinated indebtedness. The Senior Secured Notes and the guarantees related thereto are effectively *pari passu* with the Company's and the Note Guarantors' respective existing and future indebtedness secured by a first priority lien on the collateral securing the Senior Secured Notes and effectively senior to the Company's and the Note Guarantors' respective existing and future indebtedness that is unsecured, including the existing Senior Unsecured Notes, or that is secured by junior liens, in each case to the extent of the value of the collateral. In addition, the Senior Secured Notes are structurally subordinated to (i) all liabilities of any of the Company's subsidiaries that do not guarantee the Senior Secured Notes and (ii) any of the Company's debt that is secured by assets that are not collateral.

The 5.50% 2025 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after November 1, 2020, at the redemption prices set forth in the indenture. The Company may redeem some or all of the 5.50% 2025 Notes prior to November 1, 2020 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to November 1, 2020, the Company may redeem up to 40% of the aggregate principal amount of the 5.50% 2025 Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

Upon the occurrence of a change in control (as defined in the indentures governing the Senior Secured Notes), unless the Company has exercised its right to redeem all of the notes of a series as described above, holders of the Senior Secured Notes may require the Company to repurchase such holder's notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

#### *Senior Unsecured Notes*

The Senior Unsecured Notes issued by the Company are the Company's senior unsecured obligations and are jointly and severally guaranteed on a senior unsecured basis by each of its subsidiaries that is a guarantor under the Senior Secured Credit Facilities. The Senior Unsecured Notes issued by the Company's subsidiary, Valeant are senior unsecured obligations of Valeant and are jointly and severally guaranteed on a senior unsecured basis by the Company and each of its subsidiaries (other than Valeant) that is a guarantor under the Senior Secured Credit Facilities. Future subsidiaries of the Company and Valeant, if any, may be required to guarantee the Senior Unsecured Notes. On a non-consolidated basis, the non-guarantor subsidiaries had total assets of \$2,857 million and total liabilities of \$1,283 million as of September 30, 2017, and revenues of \$1,217 million and operating loss of \$196 million for the nine months ended September 30, 2017.

If the Company experiences a change in control, the Company may be required to make an offer to repurchase each series of Senior Unsecured Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount of the Senior Unsecured Notes repurchased, plus accrued and unpaid interest.

As part of the March 2017 Refinancing Transactions, the Company completed a tender offer to repurchase \$1,100 million in aggregate principal amount of the August 2018 Senior Unsecured Notes for total consideration of approximately \$1,132 million plus accrued and unpaid interest through March 20, 2017. Loss on extinguishment of debt during the three months ended March 31, 2017 associated with the repurchase of the August 2018 Senior Unsecured Notes was \$36 million representing the difference between the amount paid to settle the debt and the debt's carrying value.

On August 15, 2017, the Company repurchased the remaining \$500 million of outstanding August 2018 Senior Unsecured Notes using cash on hand, plus accrued and unpaid interest. Loss on extinguishment of debt during the three months ended September 30, 2017 associated with the repurchase of the August 2018 Senior Unsecured Notes was \$1 million representing the difference between the amount paid to settle the debt and the debt's carrying value.

As part of the October 2017 Refinancing Transactions, the Company completed a tender offer to repurchase \$1,000 million in aggregate principal amount of the 2020 Notes for total consideration of approximately \$1,000 million plus accrued and unpaid interest through October 17, 2017.

### *Covenant Compliance*

Any inability to comply with the financial maintenance and other covenants under the terms of our Credit Agreement, Senior Secured Notes indentures or Senior Unsecured Notes indentures could lead to a default or an event of default for which we may need to seek relief from our lenders and noteholders in order to waive the associated default or event of default and avoid a potential acceleration of the related indebtedness or cross-default or cross-acceleration to other debt. There can be no assurance that we would be able to obtain such relief on commercially reasonable terms or otherwise and we may be required to incur significant additional costs. In addition, the lenders under our Credit Agreement, holders of our Senior Secured Notes and holders of our Senior Unsecured Notes may impose additional operating and financial restrictions on us as a condition to granting any such waiver.

As outlined above, during the nine months ended September 30, 2017, the Company completed several actions which included using the proceeds from divestitures and cash flows from operations to repay debt, amending financial maintenance covenants, extending a significant portion of the Revolving Credit Facility, and refinancing debt with near term maturities. These actions have reduced the Company's debt balance and positively affected the Company's ability to comply with its financial maintenance covenants. As of September 30, 2017, the Company was in compliance with all financial maintenance covenants related to its outstanding debt. The Company, based on its current forecast for the next twelve months from the date of issuance of this Form 10-Q and the amendments executed, expects to remain in compliance with these financial maintenance covenants and meet its debt service obligations over that same period.

The Company continues to take steps to improve its operating results to ensure continual compliance with its financial maintenance covenants and take other actions to reduce its debt levels to align with the Company's long term strategy. The Company may consider taking other actions, including divesting other businesses and refinancing debt as deemed appropriate, to provide additional coverage in complying with the financial maintenance covenants and meeting its debt service obligations.

### *Credit Ratings*

As of November 7, 2017, the credit and outlook ratings from Moody's and Standard & Poor's for certain of our outstanding obligations are as follows:

<b>Rating Agency</b>	<b>Corporate Rating</b>	<b>Senior Secured Rating</b>	<b>Senior Unsecured Rating</b>	<b>Outlook</b>
Moody's	B3	Ba3	Caa1	Negative
Standard & Poor's	B	BB-	B-	Stable

Any downgrade in our corporate credit ratings or other credit ratings may increase our cost of borrowing and may negatively impact our ability to raise additional debt capital.

### *Future Cash Requirements*

A substantial portion of our cash requirements for the remainder of 2017 are for debt service. Our other future cash requirements relate to working capital, capital expenditures, business development transactions (contingent consideration), restructuring and integration, litigation settlements and benefit obligations. In addition, we may use cash to make strategic acquisitions, although we have made minimal acquisitions since 2015 and expect the volume and size of acquisitions to be low for the foreseeable future.

In addition to our working capital requirements, as of September 30, 2017, we expect our primary cash requirements for the remainder of 2017 to be as follows:

- *Debt service*—We expect to make contractual debt service payments of principal and interest of \$1,360 million during the remainder of 2017, which includes the \$923 million principal repayment using the Restricted cash from the iNova Sale. We may elect to make additional principal payments under certain circumstances. The expected contractual debt service payments of principal and interest are exclusive of: (i) the \$125 million repayment of our Series F Tranche B Term Loan Facility on November 2, 2017 and (ii) repayments we may make under our Revolving Credit Facility. In the ordinary course of business, we may borrow and repay amounts under our Revolving Credit Facility to meet business needs;
- *Capital expenditures*—We expect to make payments of approximately \$60 million for property, plant and equipment during the remainder of 2017, of which there is \$52 million in committed amounts as of September 30, 2017;

- *Contingent consideration payments*—We expect to make contingent consideration and other approval/sales-based milestone payments of \$13 million during the remainder of 2017;
- *Restructuring and integration payments*—We expect to make payments of \$24 million during the remainder of 2017 for employee separation costs and lease termination obligations associated with restructuring and integration actions we have taken through September 30, 2017; and
- *Benefit obligations*—We expect to make payments under our pension and postretirement obligations of \$5 million during the remainder of 2017. See Note 11, "PENSION AND POSTRETIREMENT EMPLOYEE BENEFIT PLANS" to our unaudited interim Consolidated Financial Statements for further details of our benefit obligations.

Restricted cash as of September 30, 2017 includes the net proceeds from the iNova Sale used on October 5, 2017 to repay \$923 million of our Series F Tranche B Term Loan Facility. On November 2, 2017, using cash on hand, the Company repaid \$125 million of its Series F Tranche B Term Loan Facility.

Other non-current assets as of September 30, 2017 includes restricted cash of \$77 million deposited with a bank as collateral to secure a bank guarantee for the benefit of the Australian Government in connection with the notice of assessment received on August 8, 2017 from the Australian Taxation Office. The Company disagrees with the assessment and continues to believe that its tax positions are appropriate and supported by the facts, circumstances and applicable laws. The Company intends to defend its tax position in this matter vigorously. See Note 16, "INCOME TAXES" to our unaudited interim Consolidated Financial Statements for further details of our benefit obligations.

Our repayments through the date of this filing, and the refinancings we completed in March 2017 and October 2017 have eliminated any further mandatory principal long-term debt repayments until March 2020, providing us with additional liquidity and greater flexibility to execute our business plans.

We continue to evaluate opportunities to improve our operating results and may initiate additional cost savings programs to streamline our operations and eliminate redundant processes and expenses. These cost savings programs may include, but are not limited to: (i) reducing headcount, (ii) eliminating real estate costs associated with unused or under-utilized facilities and (iii) implementing contribution margin improvement and other cost reduction initiatives. The expenses associated with the implementation of these cost savings programs could be material and may impact our cash flows.

In the ordinary course of business, the Company is involved in litigation, claims, government inquiries, investigations, charges and proceedings. See Note 18, "LEGAL PROCEEDINGS" to our unaudited Consolidated Financial Statements. Our ability to successfully defend the Company against pending and future litigation may impact cash flows.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material effect on our results of operations, financial condition, capital expenditures, liquidity, or capital resources. The following table summarizes our contractual obligations related to our long-term debt, including interest, as of September 30, 2017:

<i>(in millions)</i>	<b>Total</b>	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019 and 2020</b>	<b>2021 and 2022</b>	<b>Thereafter</b>
Long-term debt obligations, including interest	\$ 35,785	\$ 1,360	\$ 1,637	\$ 8,605	\$ 12,024	\$ 12,159

There have been no other material changes to the contractual obligations disclosed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements and Contractual Obligations" included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017.

## OUTSTANDING SHARE DATA

Our common shares trade on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "VRX".

At November 2, 2017, we had 348,591,928 issued and outstanding common shares. In addition, as of November 2, 2017, we had outstanding 4,609,460 stock options and 4,843,102 time-based RSUs that each represent the right of a holder to receive one of the Company's common shares, and 2,255,503 performance-based RSUs that represent the right of a holder to receive a number of the Company's common shares up to a specified maximum. A maximum of 4,321,089 common shares could be issued upon vesting of the performance-based RSUs outstanding.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those policies and estimates that are most important and material to the preparation of our Consolidated Financial Statements, and which require management's most subjective and complex judgment due to the need to select policies from among alternatives available, and to make estimates about matters that are inherently uncertain. Management has reassessed the critical accounting policies as disclosed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017 and determined that there were no significant changes in our critical accounting policies in nine months ended September 30, 2017 except for recently adopted accounting guidance as discussed in Note 2, "SIGNIFICANT ACCOUNTING POLICIES" to our unaudited consolidated financial statements. Further, there were no significant changes in our estimates associated with those policies except for those pertaining to determining the implied fair value of the Salix reporting unit goodwill at September 30, 2017.

### *Goodwill Impairment Testing*

The Company conducted its annual goodwill impairment test as of October 1, 2016 and determined that the carrying value of the Salix reporting unit exceeded its fair value and, as a result, the Company proceeded to perform step two of the goodwill impairment test for the Salix reporting unit. After completing step two of the impairment testing, the Company determined that the carrying value of the unit's goodwill did not exceed its implied fair value and, therefore, no impairment was identified to the goodwill of the Salix reporting unit. As of the date of testing the Salix reporting unit had a carrying value of \$14,087 million, an estimated fair value of \$10,319 million and goodwill with a carrying value of \$5,128 million. The Company's remaining reporting units passed step one of the goodwill impairment test as of October 1, 2016 as the estimated fair value of each reporting unit exceeded its carrying value at the date of testing and, therefore, impairment to goodwill was \$0.

As detailed in Note 4, "DIVESTITURES" to our unaudited consolidated financial statements, as of September 30, 2017 the Sprout business was classified as held for sale. As the Sprout business represented only a portion of a Branded Rx reporting unit, the Company assessed the remaining reporting unit for impairment and determined the carrying value of the remaining reporting unit exceeded its fair value. After completing step two of the impairment testing, the Company determined and recorded a goodwill impairment charge of \$312 million during the three months ended September 30, 2017.

No additional events occurred or circumstances changed during the nine months ended September 30, 2017 that would indicate that the fair value of any other reporting unit may be below its carrying value, except for the Salix reporting unit. As the facts and circumstances had not materially changed since the October 1, 2016 impairment test, management concluded that the carrying value of the Salix reporting unit continues to be in excess of its fair value. Therefore, during the three months ended March 31, 2017, June 30, 2017 and September 30, 2017, the Company performed qualitative assessments of the Salix reporting unit goodwill to determine if testing was warranted.

As part of its qualitative assessments, management compared the reporting unit's operating results to its original forecasts. Although Salix reporting unit revenue during the three months ended March 31, 2017, June 30, 2017 and September 30, 2017 declined as compared to the three months ended December 31, 2016, each decrease was within management's expectations. Further, the latest forecast for the Salix reporting unit is not materially different than the forecast used in management's October 1, 2016 testing and the difference in the forecasts would not change the conclusion of the Company's goodwill impairment testing as of October 1, 2016. As part of these qualitative assessments, the Company also considered the sensitivity of its conclusions as they relate to changes in the estimates and assumptions used in the latest forecast available for each period. Based on its qualitative assessments, management believes that the carrying value of the Salix reporting unit goodwill does not exceed its implied fair value and that testing the Salix reporting unit goodwill for impairment was not required based on the current facts and circumstances.

If market conditions deteriorate, or if the Company is unable to execute its strategies, it may be necessary to record impairment charges in the future.

Further, in January 2017, the Financial Accounting Standards Board (the "FASB") issued guidance which simplifies the subsequent measurement of goodwill by eliminating the "Step 2" from the goodwill impairment test. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The Company will continue to evaluate the potential impact of this guidance when adopted, which could have a significant impact on its financial position, results of operations, and disclosures, particularly in respect of the Salix reporting unit in which its carrying value exceeded its fair value as of the date of the annual goodwill impairment test in 2016.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim consolidated financial statements for further details on goodwill impairment testing.

## **NEW ACCOUNTING STANDARDS**

### **Adoption of New Accounting Guidance**

Information regarding recently issued accounting guidance is contained in Note 2, "SIGNIFICANT ACCOUNTING POLICIES" of notes to the unaudited Consolidated Financial Statements.

## **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: our business strategy, business plans and prospects, forecasts and changes thereto, product pipeline, prospective products or product approvals, product development and distribution plans, the timing of product launches, the timing of development activities, anticipated or future research and development expenditures, future performance or results of current and anticipated products, our liquidity and our ability to satisfy our debt maturities as they become due, our ability to reduce debt levels, our anticipated cash requirements, the impact of our distribution, fulfillment and other third party arrangements, proposed pricing actions, the anticipated timing of completion of our pending divestitures, anticipated use of proceeds for certain of our divestitures, exposure to foreign currency exchange rate changes and interest rate changes, the outcome of contingencies, such as litigation, subpoenas, investigations, reviews, audits and regulatory proceedings, general market conditions, our expectations regarding our financial performance, including revenues, expenses, gross margins and income taxes, our ability to meet the financial and other covenants contained in our Third Amended and Restated Credit and Guaranty Agreement, as amended (the "Credit Agreement") and senior note indentures, potential cost savings programs we may initiate and the impact of such programs, and our impairment assessments, including the assumptions used therein and the results thereof.

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", "should", "target", "potential", "opportunity", "tentative", "positioning", "designed", "create", "predict", "project", "forecast", "seek", "ongoing", "increase", or "upside" and variations or other similar expressions. In addition, any statements that refer to expectations, intentions, 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. These statements are based upon the current expectations and beliefs of management. 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:

- the expense, timing and outcome of legal and governmental proceedings, investigations and information requests relating to, among other matters, our distribution, marketing, pricing, disclosure and accounting practices (including with respect to our former relationship with Philidor Rx Services, LLC ("Philidor")), including pending investigations by the U.S. Attorney's Office for the District of Massachusetts, the U.S. Attorney's Office for the Southern District of New York and the State of North Carolina Department of Justice, the pending investigations by the U.S. Securities and Exchange Commission (the "SEC") of the Company, the request for documents and information received by the Company from the Autorité des marchés financiers (the "AMF") (the Company's principal securities regulator in Canada), the pending investigation by the California Department of Insurance, a number of pending putative securities class action litigations in the U.S. (including related opt-out actions, including the recently filed securities and RICO

claims by Lord Abbett) and Canada and purported class actions under the federal RICO statute and other claims, investigations or proceedings that may be initiated or that may be asserted;

- the impact of the changes in and reorganizations to our business structure, including changes to our operating and reportable segments;
- the effectiveness of the measures implemented to remediate the material weaknesses in our internal control over financial reporting that were identified by the Company, our deficient control environment and the contributing factors leading to the misstatement of our previously issued results and the impact such measures may have on the Company and our businesses;
- potential additional litigation and regulatory investigations (and any costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom), negative publicity and reputational harm on our Company, products and business that may result from the recent public scrutiny of our distribution, marketing, pricing, disclosure and accounting practices and from our former relationship with Philidor, including any claims, proceedings, investigations and liabilities we may face as a result of any alleged wrongdoing by Philidor and/or its management and/or employees;
- the current scrutiny of our business practices including with respect to pricing (including the investigations by the U.S. Attorney's Offices for the District of Massachusetts and the Southern District of New York, and the State of North Carolina Department of Justice) and any pricing controls or price adjustments that may be sought or imposed on our products as a result thereof;
- pricing decisions that we have implemented, or may in the future elect to implement, whether as a result of recent scrutiny or otherwise, such as the decision of the Company to take no further price increases on our Nitropress® and Isuprel® products and to implement an enhanced rebate program for such products, our decision on the price of our Siliq™ product, the Patient Access and Pricing Committee's commitment that the average annual price increase for our prescription pharmaceutical products will be set at no greater than single digits and below the 5-year weighted average of the increases within the branded biopharmaceutical industry or any future pricing actions we may take following review by our Patient Access and Pricing Committee (which is responsible for the pricing of our drugs);
- legislative or policy efforts, including those that may be introduced and passed by the U.S. Congress, designed to reduce patient out-of-pocket costs for medicines, which could result in new mandatory rebates and discounts or other pricing restrictions, controls or regulations (including mandatory price reductions);
- ongoing oversight and review of our products and facilities by regulatory and governmental agencies, including periodic audits by the FDA and the results thereof;
- any default under the terms of our senior notes indentures or Credit Agreement and our ability, if any, to cure or obtain waivers of such default;
- any delay in the filing of any future financial statements or other filings and any default under the terms of our senior notes indentures or Credit Agreement as a result of such delays;
- our substantial debt (and potential additional future indebtedness) and current and future debt service obligations, our ability to reduce our outstanding debt levels in accordance with our stated intention and the resulting impact on our financial condition, cash flows and results of operations;
- our ability to meet the financial and other covenants contained in our Credit Agreement, indentures and other current or future debt agreements and the limitations, restrictions and prohibitions such covenants impose or may impose on the way we conduct our business, prohibitions on incurring additional debt if certain financial covenants are not met, limitations on the amount of additional debt we are able to incur where not prohibited, and restrictions on our ability to make certain investments and other restricted payments;
- any further downgrade by rating agencies in our credit ratings, which may impact, among other things, our ability to raise debt and the cost of capital for additional debt issuances;
- any reductions in, or changes in the assumptions used in, our forecasts for fiscal year 2017 or beyond, which could lead to, among other things, (i) a failure to meet the financial and/or other covenants contained in our Credit Agreement and/or indentures, and/or (ii) impairment in the goodwill associated with certain of our reporting units (including our

Salix reporting unit) or impairment charges related to certain of our products or other intangible assets, which impairments could be material;

- changes in the assumptions used in connection with our impairment analyses or assessments, which would lead to a change in such impairment analyses and assessments and which could result in an impairment in the goodwill associated with any of our reporting units or impairment charges related to certain of our products or other intangible assets;
- the pending and additional divestitures of certain of our assets or businesses and our ability to successfully complete any such divestitures on commercially reasonable terms and on a timely basis, or at all, and the impact of any such pending or future divestitures on our Company, including the reduction in the size or scope of our business or market share, loss of revenue, any loss on sale, including any resultant write-downs of goodwill, or any adverse tax consequences suffered as a result of any such divestitures;
- our shift in focus to much lower business development activity through acquisitions for the foreseeable future as we focus on reducing our outstanding debt levels and as a result of the restrictions imposed by our Credit Agreement that restrict us from, among other things, making acquisitions over an aggregate threshold (subject to certain exceptions) and from incurring debt to finance such acquisitions, until we achieve a specified leverage ratio;
- the uncertainties associated with the acquisition and launch of new products (such as our Siliq™ product), including, but not limited to, our ability to provide the time, resources, expertise and costs required for the commercial launch of new products, the acceptance and demand for new pharmaceutical products, and the impact of competitive products and pricing, which could lead to material impairment charges;
- our ability to retain, motivate and recruit executives and other key employees, including subsequent to retention payments being paid out and as a result of the reputational challenges we face and may continue to face;
- our ability to implement effective succession planning for our executives and key employees;
- the challenges and difficulties associated with managing a large complex business, which has, in the past, grown rapidly;
- 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;
- our ability to effectively operate, stabilize and grow our businesses in light of the challenges that the Company currently faces, including with respect to its substantial debt, pending investigations and legal proceedings, scrutiny of our pricing, distribution and other practices, reputational harm and limitations on the way we conduct business imposed by the covenants in our Credit Agreement, indentures and the agreements governing our other indebtedness;
- the success of our fulfillment arrangements with Walgreen Co. ("Walgreens"), including market acceptance of, or market reaction to, such arrangements (including by customers, doctors, patients, pharmacy benefit managers ("PBMs"), third party payors and governmental agencies), the continued compliance of such arrangements with applicable laws, and our ability to successfully negotiate any improvements to our arrangements with Walgreens;
- the extent to which our products are reimbursed by government authorities, PBMs and other third party payors; the impact our distribution, pricing and other practices (including as it relates to our former relationship with Philidor, any alleged wrongdoing by Philidor and our current relationship with Walgreens) may have on the decisions of such government authorities, PBMs and other third party payors to reimburse our products; and the impact of obtaining or maintaining such reimbursement on the price and sales of our products;
- the inclusion of our products on formularies or our ability to achieve favorable formulary status, as well as the impact on the price and sales of our products in connection therewith;
- 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, including the impact on such matters of the proposals published by the Organization for Economic Co-operation and Development ("OECD") respecting base erosion and profit shifting ("BEPS") and various corporate tax reform proposals being considered in the U.S.;
- our recent shift in business strategy as we are seeking to sell a variety of assets, some of which may be material and/or transformative;

- the actions of our third party partners or service providers of research, development, manufacturing, marketing, distribution or other services, including their compliance with applicable laws and contracts, which actions may be beyond our control or influence, and the impact of such actions on our Company, including the impact to the Company of our former relationship with Philidor and any alleged legal or contractual non-compliance by Philidor;
- the risks associated with the international scope of our operations, including our presence in emerging markets and the challenges we face when entering and operating in new and different geographic markets (including the challenges created by new and different regulatory regimes in such countries and the need to comply with applicable anti-bribery and economic sanctions laws and regulations);
- adverse global economic conditions and credit markets and foreign currency exchange uncertainty and volatility in the countries in which we do business (such as the current or recent instability in Brazil, Russia, Ukraine, Argentina, Egypt, certain other countries in Africa and the Middle East, the devaluation of the Egyptian pound, and the adverse economic impact and related uncertainty caused by the United Kingdom's decision to leave the European Union (Brexit));
- our ability to obtain, maintain and license sufficient intellectual property rights over our products and enforce and defend against challenges to such intellectual property;
- the introduction of generic, biosimilar or other competitors of our branded products and other products, including the introduction of products that compete against our products that do not have patent or data exclusivity rights;
- if permitted under our Credit Agreement, and to the extent we elect to resume business development activities through acquisitions, our ability to identify, finance, acquire, close and integrate acquisition targets successfully and on a timely basis;
- factors relating to the acquisition and integration of the companies, businesses and products that have been acquired by the Company and that may in the future be acquired by the Company (if permitted under our Credit Agreement and to the extent we elect to resume business development activities through acquisitions), such as the time and resources required to integrate such companies, businesses and products, the difficulties associated with such integrations (including potential disruptions in sales activities and potential challenges with information technology systems integrations), the difficulties and challenges associated with entering into new business areas and new geographic markets, the difficulties, challenges and costs associated with managing and integrating new facilities, equipment and other assets, the risks associated with the acquired companies, businesses and products and our ability to achieve the anticipated benefits and synergies from such acquisitions and integrations, including as a result of cost-rationalization and integration initiatives. Factors impacting the achievement of anticipated benefits and synergies may include greater than expected operating costs, the difficulty in eliminating certain duplicative costs, facilities and functions, and the outcome of many operational and strategic decisions;
- the expense, timing and outcome of pending or future legal and governmental proceedings, arbitrations, investigations, subpoenas, tax and other regulatory audits, reviews and regulatory proceedings against us or relating to us and settlements thereof;
- our ability to obtain components, raw materials or finished products supplied by third parties (some of which may be single-sourced) and other manufacturing and related supply difficulties, interruptions and delays;
- the disruption of delivery of our products and the routine flow of manufactured goods;
- 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;
- interest rate risks associated with our floating rate debt borrowings;
- our ability to effectively distribute our products and the effectiveness and success of our distribution arrangements, including the impact of our arrangements with Walgreens;
- our ability to secure and maintain third party research, development, manufacturing, marketing or distribution arrangements;
- the risk that our products could cause, or be alleged to cause, personal injury and adverse effects, leading to potential lawsuits, product liability claims and damages and/or recalls or withdrawals of products from the market;
- the mandatory or voluntary recall or withdrawal of our products from the market and the costs associated therewith;

- the availability of, and our ability to obtain and maintain, adequate insurance coverage and/or our ability to cover or insure against the total amount of the claims and liabilities we face, whether through third party insurance or self-insurance;
- the difficulty in predicting the expense, timing and outcome within our legal and regulatory environment, including with respect to approvals by the FDA, Health Canada and similar agencies in other countries, 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 others;
- the results of continuing safety and efficacy studies by industry and government agencies;
- 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, as well as other factors impacting the commercial success of our products (such as our Siliq™ product), which could lead to material impairment charges;
- the results of management reviews of our research and development portfolio (including following the receipt of clinical results or feedback from the FDA or other regulatory authorities), which could result in terminations of specific projects which, in turn, could lead to material impairment charges;
- the seasonality of sales of certain of our products;
- declines in the pricing and sales volume of certain of our products that are distributed or marketed by third parties, over which we have no or limited control;
- compliance by the Company or our third party partners and service providers (over whom we may have limited influence), or the failure of our Company or these third parties to comply, with health care “fraud and abuse” laws and other extensive regulation of our marketing, promotional and business practices (including with respect to pricing), worldwide anti-bribery laws (including the U.S. Foreign Corrupt Practices Act), worldwide economic sanctions and/or export laws, worldwide environmental laws and regulation and privacy and security regulations;
- the impacts of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the “Health Care Reform Act”) and potential repeal or amendment thereof and other legislative and regulatory healthcare reforms in the countries in which we operate, including with respect to recent government inquiries on pricing;
- the impact of any changes in or reforms to the legislation, laws, rules, regulation and guidance that apply to the Company and its business and products or the enactment of any new or proposed legislation, laws, rules, regulations or guidance that will impact or apply to the Company or its businesses or products;
- the impact of changes in federal laws and policy under consideration by the new administration and Congress, including the effect that such changes will have on fiscal and tax policies, the potential repeal of all or portions of the Health Care Reform Act, international trade agreements and policies and policy efforts designed to reduce patient out-of-pocket costs for medicines (which could result in new mandatory rebates and discounts or other pricing restrictions);
- illegal distribution or sale of counterfeit versions of our products;
- interruptions, breakdowns or breaches in our information technology systems; and
- risks in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 1, 2017, and risks detailed from time to time in our other filings with 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 in our Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 1, 2017, under Item 1A. “Risk Factors” and in the Company’s other filings with the SEC and CSA. 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 or revise any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect actual outcomes, except as required by law. We caution that, as it is not possible to predict or identify

all relevant factors that may impact forward-looking statements, the foregoing list of important factors that may affect future results is not exhaustive and should not be considered a complete statement of all potential risks and uncertainties.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Other than as indicated below under “— Interest Rate Risk”, there have been no material changes to our exposures to market risks as disclosed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market Risks” included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017.

#### **Interest Rate Risk**

As of September 30, 2017, we had \$19,429 million and \$6,225 million principal amount of issued fixed rate debt and variable rate debt, respectively, that requires U.S. dollar repayment, as well as €1,500 million principal amount of issued fixed rate debt that requires repayment in euros. The estimated fair value of our issued fixed rate debt as of September 30, 2017, including the debt denominated in euros, was \$20,150 million. If interest rates were to increase by 100 basis-points, the fair value of our long-term debt would decrease by approximately \$740 million. If interest rates were to decrease by 100 basis-points, the fair value of our long-term debt would increase by approximately \$636 million. We are subject to interest rate risk on our variable rate debt as changes in interest rates could adversely affect earnings and cash flows. A 100 basis-points increase in interest rates, based on 3-month LIBOR, would have an annualized pre-tax effect of approximately \$62 million in our consolidated statements of operations and cash flows, based on current outstanding borrowings and effective interest rates on our variable rate debt. For the tranches in our credit facility that have a LIBOR floor, an increase in interest rates would only impact interest expense on those term loans to the extent LIBOR exceeds the floor. While our variable-rate debt may impact earnings and cash flows as interest rates change, it is not subject to changes in fair value.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2017.

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

There were no changes in our internal controls over financial reporting that occurred during the nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

For information concerning legal proceedings, reference is made to Note 18, "LEGAL PROCEEDINGS" of notes to the unaudited Consolidated Financial Statements included elsewhere in this Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes to the risk factors as disclosed in Item 1A "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017.

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

The following table contains information about our purchases of equity securities during the three-month period ended September 30, 2017:

Period	Total Number of Shares Purchased <sup>(1)(2)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number (Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans <sup>(2)</sup>
July 1, 2017 to July 31, 2017	—	\$ —	—	\$ —
August 1, 2017 to August 31, 2017	—	\$ —	—	\$ —
September 1, 2017 to September 30, 2017	126	\$ 14.43	—	\$ —

(1) Represents 126 purchased (subsequently canceled) under the employee stock purchase program.

(2) The Company currently has no active securities repurchase plan.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

None.

## Item 6. Exhibits

- 4.1 Indenture, dated as of October 17, 2017, by and among Valeant Pharmaceuticals International, Inc., the guarantors party thereto, The Bank of New York Mellon, as trustee and the notes collateral agents party thereto, originally filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 17, 2017, which is incorporated by reference herein.
- [31.1\\*](#) [Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2\\*](#) [Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1\\*](#) [Certificate of the Chief Executive Officer of Valeant Pharmaceuticals International, Inc. pursuant to 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2\\*](#) [Certificate of the Chief Financial Officer of Valeant Pharmaceuticals International, Inc. pursuant to 18 U.S.C. § 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema Document
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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\* Filed herewith.

**SIGNATURES**

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

Valeant Pharmaceuticals International, Inc.  
(Registrant)

Date: November 7, 2017

/s/ JOSEPH C. PAPA

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Joseph C. Papa  
Chief Executive Officer  
(Principal Executive Officer and Chairman of the Board)

Date: November 7, 2017

/s/ PAUL S. HERENDEEN

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Paul S. Herendeen  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Exhibit Description</b>
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\* Filed herewith.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a)  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph C. Papa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valeant Pharmaceuticals International, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 7, 2017

/s/ JOSEPH C. PAPA

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Joseph C. Papa

Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a)  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul S. Herendeen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valeant Pharmaceuticals International, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 7, 2017

/s/ PAUL S. HERENDEEN

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Paul S. Herendeen

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph C. Papa, Chairman of the Board and Chief Executive Officer of Valeant Pharmaceuticals International, Inc. (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2017

/s/ JOSEPH C. PAPA

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Joseph C. Papa

Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul S. Herendeen, Executive Vice-President and Chief Financial Officer of Valeant Pharmaceuticals International, Inc. (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2017

/s/ PAUL S. HERENDEEN

Paul S. Herendeen

Executive Vice President and Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.