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 and on the SEC website at 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 incorporates 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.

		September 30, 2017		December 31, 2016	
(in millions)	**Maturity**	**Principal Amount**	**Net of Discounts and Issuance Costs**	**Principal Amount**	**Net of Discounts and Issuance Costs**
Senior Secured Credit Facilities:					
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
Senior Secured Notes:					
6.50% Secured Notes	March 2022	1,250	1,235	—	—
7.00% Secured Notes	March 2024	2,000	1,975	—	—
Senior Unsecured Notes:					
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
Total long-term debt		$ 27,426	$ 27,141	$ 30,169	$ 29,846

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:

(in millions)	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	$ 27,426	$ 30,169

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions, except per share data)	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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues						
Product sales	$ 2,186	$ 2,443	$ (257)	$ 6,462	$ 7,168	$ (706)
Other revenues	33	36	(3)	99	103	(4)
	2,219	2,479	(260)	6,561	7,271	(710)
Expenses						
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)
	2,181	3,342	(1,161)	6,137	7,987	(1,850)
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)	1,300	(1,219)	2,519	1,892	(1,896)	3,788
Less: Net (loss) income attributable to noncontrolling interest	(1)	(1)	—	1	(2)	3
Net income (loss) attributable to Valeant Pharmaceuticals International, Inc.	$ 1,301	$ (1,218)	$ 2,519	$ 1,891	$ (1,894)	$ 3,785

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:

	Three Months Ended September 30,			
	2017		2016	
(in millions)	Amount	Pct.	Amount	Pct.
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	$ 2,219		$ 2,479	

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 than15%, 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:

	Three Months Ended September 30,	
(in millions)	**2017**	**2016**
Gain on the iNova Sale	$ (306)	$ —
Gain on the Skincare Sale	3	—
Gain on the Dendreon Sale	(25)	—
Litigation and other matters	3	1
	$ (325)	$ 1

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.

	Three Months Ended September 30,					
	2017		2016		Change	
(in millions)	Amount	Pct.	Amount	Pct.	Amount	Pct.
Segment Revenues						
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	$ 2,219	100 %	$ 2,479	100 %	$ (260)	(10)%
Segment Profits / Segment Profit Margins						
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	$ 982	44 %	$ 1,244	50 %	$ (262)	(21)%

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.

	Three Months Ended September 30,					
	2017		2016		Change	
(in millions)	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:

	Nine Months Ended September 30,			
	2017		2016	
(in millions)	Amount	Pct.	Amount	Pct.
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	$ 6,561		$ 7,271	

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 than15%, 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:

	Nine Months Ended September 30,	
(in millions)	**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
	$ (584)	$ (20)

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.

	Nine Months Ended September 30,					
	2017		2016		Change	
(in millions)	Amount	Pct.	Amount	Pct.	Amount	Pct.
Segment Revenues						
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	$ 6,561	100 %	$ 7,271	100 %	$ (710)	(10)%
Segment Profits / Segment Profit Margins						
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	$ 2,878	44 %	$ 3,377	46 %	$ (499)	(15)%

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 discontinuations 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 discontinuations 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 discontinuations 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.

	Nine Months Ended September 30,					
	2017		2016		Change	
(in millions)	Amount	Pct.	Amount	Pct.	Amount	Pct.
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)%
Total U.S. Diversified revenues	$ 1,043	100%	$ 1,521	100%	$ (478)	(31)%

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

	Nine Months Ended September 30,			
	2017	2016	Change	
(in millions)	Amount	Amount	Amount	Pct.
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	$ 1,969	$ 659	$ 1,310	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:

(in millions)	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	$ 27,426	$ 30,169

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:

Rating Agency	Corporate Rating	Senior Secured Rating	Senior Unsecured Rating	Outlook
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:

(in millions)	Total	Remainder of 2017	2018	2019 and 2020	2021 and 2022	Thereafter
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.