Actavis, Inc.
Form 10-Q
July 30, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

or

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

For the transition period from _____ to _____

Commission file number 001-13305

ACTAVIS, INC.

(Exact name of registrant as specified in its charter)

Nevada	95-3872914
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Morris Corporate Center III

400 Interpace Parkway

Parsippany, New Jersey 07054

(Address of principal executive offices, including zip code)

(862) 261-7000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares outstanding of the Registrant s only class of common stock as of July 19, 2013 was approximately 133,152,384.

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ACTAVIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions)

	June 30, 2013	December 31, 2012 (Revised) See Note 1
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 226.9	$ 319.0
Marketable securities	8.0	9.0
Accounts receivable, net	1,372.3	1,330.9
Inventories, net	1,601.9	1,546.5
Prepaid expenses and other current assets	365.9	323.6
Deferred tax assets	341.0	309.3
Total current assets	3,916.0	3,838.3
Property and equipment, net	1,417.7	1,485.0
Investments and other assets	98.4	91.2
Deferred tax assets	79.4	61.8
Product rights and other intangibles, net	3,856.6	3,784.3
Goodwill	4,192.5	4,854.2
Total assets	$ 13,560.6	$ 14,114.8
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,104.5	$ 2,467.9
Income taxes payable	46.1	68.1
Current portion of long-term debt and capital leases	177.2	176.2
Deferred revenue	32.2	32.3
Deferred tax liabilities	29.0	4.8
Total current liabilities	2,389.0	2,749.3
Long-term debt and capital leases	6,173.9	6,257.1
Deferred revenue	30.7	11.3
Other long-term liabilities	355.0	162.6
Other taxes payable	84.7	70.3
Deferred tax liabilities	986.3	1,007.8
Total liabilities	10,019.6	10,258.4
Commitments and contingencies		
Equity:		
Common stock	0.5	0.4
Additional paid-in capital	2,470.1	1,956.7
Retained earnings	1,515.1	2,182.7
Accumulated other comprehensive income (loss)	(84.3)	36.8
Treasury stock, at cost	(365.3)	(342.8)

Total stockholders equity	3,536.1	3,833.8
Noncontrolling interests	4.9	22.6
Total equity	3,541.0	3,856.4
Total liabilities and equity	$ 13,560.6	$ 14,114.8

See accompanying Notes to Condensed Consolidated Financial Statements.

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ACTAVIS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues	$ 1,989.8	$ 1,355.2	$ 3,885.3	$ 2,879.5
Operating expenses:				
Cost of sales (excludes amortization, presented below)	1,050.0	754.0	2,136.2	1,658.3
Research and development	135.6	79.7	267.7	168.2
Selling and marketing	235.6	117.9	462.8	236.0
General and administrative	225.8	121.8	411.6	286.2
Amortization	149.6	105.8	308.0	237.7
Loss on asset sales, impairments, and contingent consideration adjustment, net	655.3	79.8	803.3	80.0
Total operating expenses	2,451.9	1,259.0	4,389.6	2,666.4
Operating income (loss)	(462.1)	96.2	(504.3)	213.1
Non-operating income (expense):				
Interest income	1.2	0.5	2.0	0.9
Interest expense	(56.1)	(21.0)	(110.6)	(42.7)
Other (expense), net	3.8	(156.6)	24.4	(155.1)
Total other income (expense), net	(51.1)	(177.1)	(84.2)	(196.9)
Income (loss) before income taxes	(513.2)	(80.9)	(588.5)	16.2
Provision (benefit) for income taxes	51.4	(18.7)	79.6	23.6
Net income (loss)	(564.6)	(62.2)	(668.1)	(7.4)
Net income (loss) attributable to noncontrolling interests	0.2		(0.5)	
Net income (loss) attributable to common shareholders	$ (564.8)	$ (62.2)	$ (667.6)	$ (7.4)
Earnings (loss) per share attributable to common shareholders:				
Basic	$ (4.27)	$ (0.49)	$ (5.09)	$ (0.06)
Diluted	$ (4.27)	$ (0.49)	$ (5.09)	$ (0.06)
Weighted average shares outstanding:				
Basic	132.2	125.8	131.2	125.5
Diluted	132.2	125.8	131.2	125.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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ACTAVIS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$ (564.6)	$ (62.2)	$ (668.1)	$ (7.4)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	7.4	(59.1)	(121.1)	(21.6)
Total other comprehensive income (loss), net of tax	7.4	(59.1)	(121.1)	(21.6)
Comprehensive income (loss)	(557.2)	(121.3)	(789.2)	(29.0)
Comprehensive income (loss) attributable to noncontrolling interests	0.2		(0.5)	
Comprehensive income (loss) attributable to common shareholders	$ (557.4)	$ (121.3)	$ (788.7)	$ (29.0)

See accompanying Notes to Condensed Consolidated Financial Statements.

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ACTAVIS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2013	**2012**
Cash Flows From Operating Activities:		
Net income (loss)	$ (668.1)	$ (7.4)
Reconciliation to net cash provided by operating activities:		
Depreciation	97.6	40.5
Amortization	308.0	237.7
Provision for inventory reserve	29.5	26.9
Share-based compensation	26.3	23.9
Deferred income tax benefit	(137.5)	(108.4)
Earnings on equity method investments	(1.7)	(1.1)
Loss on asset sales and impairments, net	653.0	101.3
Amortization of inventory step up	93.5	
Loss on foreign exchange derivatives		142.7
Amortization of deferred financing costs	3.8	13.3
Increase (decrease) in allowance for doubtful accounts	(1.0)	1.6
Accretion of preferred stock and contingent consideration obligations	1.4	14.9
Contingent consideration fair value adjustment	150.3	(21.3)
Excess tax benefit from stock-based compensation	(14.2)	(9.9)
Other, net	1.2	2.5
Changes in assets and liabilities (net of effects of acquisitions):		
Accounts receivable, net	(46.1)	310.9
Inventories	(215.0)	14.7
Prepaid expenses and other current assets	21.2	(25.9)
Accounts payable and accrued expenses	(18.5)	(355.4)
Deferred revenue	22.8	(5.4)
Income and other taxes payable	(19.8)	(98.4)
Other assets and liabilities	4.3	2.4
Total adjustments	959.1	307.5
Net cash provided by operating activities	291.0	300.1
Cash Flows From Investing Activities:		
Additions to property and equipment	(73.8)	(53.3)
Additions to product rights and other intangibles	(2.4)	(3.6)
Proceeds from sales of property and equipment	5.9	7.4
Proceeds from sales of marketable securities and other investments	11.9	8.9
Additions to marketable securities and other investments		(0.2)
Acquisition of businesses, net of cash acquired	(194.6)	(383.5)
Net cash used in investing activities	(253.0)	(424.3)
Cash Flows From Financing Activities:		
Proceeds from borrowings on credit facility	125.0	375.0
Debt issuance costs		(25.5)

Principal payments on debt	(216.7)	(125.3)
Proceeds from stock plans	5.5	10.9
Payment of contingent consideration	(2.2)	(90.1)
Repurchase of common stock	(22.5)	(13.7)
Acquisition of noncontrolling interests	(10.4)	(4.7)
Excess tax benefit from stock-based compensation	14.2	9.9
Net cash (used in) provided by financing activities	(107.1)	136.5
Effect of currency exchange rate changes on cash and cash equivalents	(23.0)	(4.0)
Net increase (decrease) in cash and cash equivalents	(92.1)	8.3
Cash and cash equivalents at beginning of period	319.0	209.3
Cash and cash equivalents at end of period	$ 226.9	$ 217.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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ACTAVIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL

On the close of business January 24, 2013, the Company was renamed to Actavis, Inc. and began trading under its new symbol ACT on the New York Stock Exchange.

Actavis, Inc. (Actavis, Company, or We) is an integrated global specialty pharmaceutical company engaged in the development, manufacturing, marketing, sale and distribution of generic and brand pharmaceutical products. Through its third-party business within the Actavis Pharma segment, Actavis out-licenses generic pharmaceutical products rights developed or acquired by the Company, primarily in Europe. Actavis is also developing biosimilar products within the Actavis Specialty Brands segment. Additionally, we distribute generic and certain select brand pharmaceutical products manufactured by third parties through our Anda Distribution segment. Our largest market is the United States of America (U.S.), followed by our key international markets including Europe, Canada, Australia, Southeast Asia, South America and South Africa.

The accompanying condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012, as revised by Form 8-K filed on June 18, 2013 to reflect adjustments made to the preliminary amounts recorded in connection with the Actavis Group Acquisition primarily related to working capital, intangible assets and deferred taxes balance sheet financial data as of December 31, 2012. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted from the accompanying condensed consolidated financial statements. The accompanying year end condensed consolidated balance sheet was derived from the audited financial statements. The accompanying interim financial statements are unaudited, but reflect all adjustments which are, in the opinion of management, necessary for a fair statement of Actavis consolidated financial position, results of operations, comprehensive income and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. The Company s results of operations, comprehensive income and cash flows for the interim periods are not necessarily indicative of the results of operations, comprehensive income and cash flows that it may achieve in future periods.

Acquisitions

Acquisition of Warner Chilcott

On May 19, 2013, the Company entered into a definitive agreement (the Transaction Agreement) under which the Company will acquire Warner Chilcott plc (Warner Chilcott) in a stock-for-stock transaction valued at approximately $8.5 billion. The proposed transaction has been unanimously approved by the Boards of Directors of Actavis and Warner Chilcott, and is supported by the management teams of both companies. At the close of the transaction, which is expected by year end 2013, the Company and Warner Chilcott will be combined under a new company incorporated in Ireland, where Warner Chilcott is currently incorporated. The newly created company, which is expected to be called Actavis plc, or a variant thereof (New Actavis), will be led by the current Actavis leadership team. Under the terms of the definitive agreement, at closing Warner Chilcott shareholders will receive 0.160 shares of New Actavis for each Warner Chilcott share they own.

The transaction is expected to be tax-free, for U.S. federal income tax purposes, to Warner Chilcott shareholders. Actavis shareholders will receive one share of New Actavis for each Actavis share they own upon closing. The transaction will be taxable, for U.S. federal income tax purposes, to Actavis shareholders.

Acquisition costs incurred during the second quarter of 2013 for advisory, legal and other costs incurred in connection with the Warner Chilcott transaction totaled $22.6 million.

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Acquisition of Uteron Pharma, SA

On January 23, 2013, the Company completed the acquisition of Belgium-based Uteron Pharma, SA. The acquisition was consummated for a cash payment of $142.0 million, plus assumption of debt and other liabilities of $7.7 million, and up to $155.0 million in potential milestone payments. The acquisition expands our Specialty Brands pipeline of Women s Health products including two potential near term commercial opportunities in contraception and infertility, and one oral contraceptive project expected to launch by 2018. Several additional products in earlier stages of development are also included in the acquisition. For additional information on the Uteron acquisition, refer to Note 2 Acquisitions and Divestitures.

Acquisition of Actavis Group

On October 31, 2012, the Company completed the acquisition of the Actavis Group. The acquisition was consummated for a cash payment of 4.2 billion, or approximately $5.5 billion, and a contingent consideration payment in the form of 5.5 million newly issued shares of Actavis, Inc. common stock. Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. Actavis Group s results are included in the Actavis Pharma and Actavis Specialty Brands segments as of the acquisition date. For additional information on the Actavis Group acquisition, refer to Note 2 Acquisitions and Divestitures.

Business Developments

On April 5, 2013, the Company and Valeant Pharmaceuticals International, Inc. (Valeant) entered into an agreement for Actavis to be the exclusive marketer and distributor of the authorized generic version of Valeant s Zovirax® ointment (acyclovir 5%) product. Under the terms of the agreement, Valeant will supply the Company with a generic version of Valeant s Zovirax® ointment product and the Company will market and distribute the product in the United States. Additionally, Valeant granted the Company the exclusive right to co-promote Zovirax® cream (acyclovir 5%) to obstetricians and gynecologists in the U.S. and the Company granted Valeant the exclusive right to co-promote Actavis Specialty Brands Cordran® Tape (flurandrenolide) product in the U.S. Under terms of the agreement related to the co-promotion of Zovirax® cream, the Company will utilize its existing Specialty Brands sales and marketing structure to promote the product and will receive a co-promotion fee from sales generated by prescriptions written by its defined targeted physician group. The fees earned by Actavis under the Zovirax cream co-promotion arrangement will be recognized in other revenues in the period earned. Under the terms of the Cordran® Tape co-promotion agreement, Valeant will utilize its existing Dermatology sales and marketing structure to promote the product, and will receive a co-promotion fee on sales. The fees paid by Actavis under the Cordran Tape arrangement will be recognized in the period incurred as selling and marketing expenses.

On May 1, 2013, the Company entered into an agreement to acquire the worldwide rights to Valeant s metronidazole 1.3% vaginal gel antibiotic development product, a topical antibiotic for the treatment of bacterial vaginosis. Under the terms of the agreement, the Company will acquire the product upon FDA approval for approximately $57.0 million which includes upfront and certain milestone payments, and guaranteed royalties for the first three years of commercialization. Upon FDA approval or receipt of product launch quantity, the Company will account for this transaction using the acquisition method of accounting. In the event of generic competition on metronidazole 1.3%, should the Company choose to launch an authorized generic product, the Company would share the gross profits of the authorized generic with Valeant.

On June 11, 2013, the Company entered into an exclusive license agreement with Medicines360 to market, sell and distribute Medicines360 LNG20 intrauterine device (LNG 20) in the U.S and in Canada for a payment of approximately $52.3 million. The Company will also pay Medicines360 certain regulatory and sales based milestone payments totaling up to nearly $125.0 million plus royalties. Medicines360 retains the rights to market the product in the U.S. public sector, including family planning clinics that provide services to low-income women. LNG20, originally developed by Uteron Pharma S.P.R.L. in Belgium, is designed to initially deliver 20 mcg of levonorgestrel per day for the indication of long term contraception, and is currently in Phase III clinical trials in the United States. Pending FDA approval, the LNG20 product could be launched in the U.S. as early as 2014. The transaction has been accounted for using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their respective fair values as of the acquisition date and that in-process research and development (IPR&D) be

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recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology. In connection with the acquisition, the Company recorded $190.4 million in IPR&D, $6.7 million in prepaid R&D and contingent consideration of $144.8 million.

Agreements

In November 2012, the Company entered into an exclusive agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) to market the authorized generic version of Concerta® (methylphenidate ER). Under the terms of the agreement, OMJPI supplies Actavis with product. Actavis launched its authorized generic of Concerta® on May 1, 2011.

Under the terms of its agreement with OMJPI, the Company pays a royalty to OMJPI based on the gross profit of product revenues as defined in the agreement. During 2012, the royalty payable to OMJPI ranged from 50% to 55% of sales. This royalty includes the cost of the product supplied by OMJPI. Our royalty payable on sales of methylphenidate ER declines when a third party competitor launches a competing bioequivalent product. The change in royalty is a one-time event and is applied on a strength-by-strength basis following the launch of the first third-party generic competitor. A generic version of the 27mg strength was launched by a third-party competitor in January 2013 and of the 36mg and 54mg strengths in March 2013, triggering a decline in royalty on these strengths. Accordingly, for the 27mg and the 36mg and 54mg strengths, commencing in January 2013 and March 2013, respectively, the royalty payable to OMJPI is approximately 30% of sales, which includes the cost of the product supplied by OMJPI. The royalty on the 18mg strength will be 30% of sales commencing upon launch of a third party competing product. The agreement with OMJPI expires on December 31, 2014 and is subject to normal and customary early termination provisions. The agreement with OMJI has been accounted for as a distribution arrangement. Accordingly, Actavis has recorded the net sales of the authorized generic product in the period earned and reflected the cost of product sold and the royalty payments to OMJPI in costs of goods sold in the period incurred.

Common Stock

As of June 30, 2013 and December 31, 2012, there were 500.0 million shares of $0.0033 par value per common stock authorized, 143.7 million and 138.0 million shares issued and 133.2 million and 127.7 million shares outstanding, respectively. Of the issued shares, 10.5 million and 10.3 million shares were held as treasury shares as of June 30, 2013 and December 31, 2012, respectively.

Revenue Recognition

Revenue is generally realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller s price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company records revenue from product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery to the customer. Revenues recognized from research, development and licensing agreements (including milestone payments) are recorded on the contingency-adjusted performance model which requires deferral of revenue until such time as contract milestone requirements, as specified in the individual agreements, have been met. Under this model, revenue related to each payment is recognized over the entire contract performance period, starting with the contract s commencement, but not prior to earning and/or receiving the milestone payment (i.e., removal of any contingency). The amount of revenue recognized is based on the ratio of costs incurred to date to total estimated cost to be incurred. In certain circumstances, it may be appropriate to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. Royalty and commission revenue is recognized in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and revenue can be reasonably measured.

Revenue and Provision for Sales Returns and Allowances

As customary in the pharmaceutical industry, the Company s gross product sales are subject to a variety of deductions in arriving at reported net product sales, most significantly in the U.S. When the Company recognizes revenue from the sale of products, an estimate of sales returns and allowances (SRA) is recorded, which reduces

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product sales. Accounts receivable and/or accrued expenses are also reduced and/or increased by the SRA amount. These adjustments include estimates for chargebacks, rebates, cash discounts and returns and other allowances. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of our SRA reserves to ensure that our financial statements are fairly stated. This includes periodic reviews of customer inventory data, customer contract programs and product pricing trends to analyze and validate the SRA reserves.

The provision for chargebacks is our most significant sales allowance. A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to the Company by our wholesale customer for a particular product and the negotiated contract price that the wholesaler s customer pays for that product. The Company s chargeback provision and related reserve vary with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at contract prices. The Company validates the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent 85% 90% of the Company s chargeback payments. The Company continually monitors current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

Net revenues and accounts receivable balances in the Company s condensed consolidated financial statements are presented net of SRA estimates. Certain SRA balances are included in accounts payable and accrued expenses. Accounts receivable are presented net of SRA balances of $1,016.2 million and $814.3 million at June 30, 2013 and December 31, 2012, respectively. SRA balances in accounts receivable at June 30, 2013 increased $201.9 million compared to December 31, 2012 primarily due to an increase in shelf stock, promotions and other allowances mainly resulting from higher sales volumes of certain products ($78.8 million), an increase in chargebacks primarily due to increased purchases by wholesalers ($33.4 million), an increase in sales returns accruals primarily resulting from the launch of new products ($10.6 million) and higher rebates accruals on certain large wholesale customer accounts ($79.0 million). SRA balances in accounts payable and accrued expenses were $586.0 million and $634.4 million at June 30, 2013 and December 31, 2012, respectively. SRA balances in accounts payable and accrued expenses at June 30, 2013 decreased $48.4 million compared to December 31, 2012 due to lower Medicaid rebates ($20.0 million) primarily from declining Methylphenidate AG sales volume and a greater percentage of processed claims than prior year coupled with lower U.S. indirect rebates ($16.1 million) and lower international rebates ($12.9 million) primarily due to timing of payments.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to the Company s stockholders. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that, under GAAP, are included in comprehensive income (loss), but excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders equity. Actavis other comprehensive income (loss) is composed of unrealized gains (losses) on certain holdings of publicly traded equity securities and investments in U.S. Treasury and agency securities, net of realized gains (losses) included in net income, net of tax and foreign currency translation adjustments.

Goodwill and Intangible Assets with Indefinite-Lives

During the second quarter of 2013, the Company performed its annual impairment assessment of goodwill, IPR&D intangibles and trade name intangible assets with indefinite-lives. The Company has determined there was no impairment associated with trade name intangibles. The Company recognized an impairment loss related to the goodwill in the Actavis Pharma Europe reporting unit ($647.5 million) and IPR&D intangible assets associated with the Arrow acquisition ($4.4 million). For additional information on the impairment loss related to goodwill and IPR&D intangible assets, refer to Note 5 Goodwill and Intangible Assets.

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Earnings Per Share (EPS)

Basic EPS is computed by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding during a period. Diluted EPS is based on the treasury stock method and includes the effect from potential issuance of common stock, such as shares issuable pursuant to the exercise of stock options, assuming the exercise of all in-the-money stock options, and restricted stock units. Common share equivalents have been excluded where their inclusion would be anti-dilutive.

A reconciliation of the numerators and denominators of basic and diluted EPS consisted of the following (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
EPS - basic				
Net income (loss) attributable to common shareholders	$ (564.8)	$ (62.2)	$ (667.6)	$ (7.4)
Basic weighted average common shares outstanding	132.2	125.8	131.2	125.5
EPS - basic	$ (4.27)	$ (0.49)	$ (5.09)	$ (0.06)
EPS - diluted				
Net income (loss) attributable to common shareholders	$ (564.8)	$ (62.2)	$ (667.6)	$ (7.4)
Basic weighted average common shares outstanding	132.2	125.8	131.2	125.5
Effect of dilutive securities:				
Dilutive stock awards				
Diluted weighted average common shares outstanding	132.2	125.8	131.2	125.5
EPS - diluted	$ (4.27)	$ (0.49)	$ (5.09)	$ (0.06)

Awards to purchase 2.0 million and 1.8 million common shares for the three month periods ended June 30, 2013 and 2012, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive. Awards to purchase 2.2 million and 1.9 million common shares for the six month periods ended June 30, 2013 and 2012, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive.

As of December 31, 2012, the estimated number of shares contingently issuable in connection with the Actavis Group earn-out was calculated to be 3,850,000 shares, which are included in the basic weighted average common shares outstanding for the three month and six month periods ended June 30, 2013. On March 28, 2013, the decision was made to award the remaining 1,650,000 shares. The 1,650,000 additional shares are included in the basic weighted average common shares outstanding for the three and six month period ended June 30, 2013 beginning on March 28, 2013.

Share-Based Compensation

The Company recognizes compensation expense for all share-based compensation awards made to employees and directors based on estimated fair values. Share-based compensation expense recognized during a period is based on the value of the portion of share-based awards that are expected to vest with employees. Accordingly, the recognition of share-based compensation expense has been reduced for estimated future forfeitures. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation expense in the period in which the change in estimate occurs.

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As of June 30, 2013, the Company had $83.6 million of total unrecognized compensation expense, net of estimated forfeitures, which will be recognized over the remaining weighted average period of 2.8 years. During the six months ended June 30, 2013, the Company issued approximately 765,000 restricted stock grants and performance awards with an aggregate fair value of $67.1 million. Certain restricted awards are performance-based awards issued at a target number, subject to adjustments up or down based upon achievement of certain financial targets. During the six months ended June 30, 2013, the Company also issued 225,000 stock option grants with an aggregate fair value of $4.9 million.

In connection with the Warner Chilcott Transaction Agreement, the Actavis Board of Directors modified the existing awards for its directors and executive officers such that immediately prior to closing each stock option, share of restricted stock and restricted stock unit held will become fully vested and exercisable and converted into a right to receive a New Actavis ordinary share net of applicable tax withholding. The effect of the modification did not have a material effect on the second quarter of 2013 given the modification is contingent upon the transaction closing.

Recent Accounting Pronouncements

In February 2013, the FASB issued guidance that supersedes the presentation requirements for reclassifications out of accumulated other comprehensive income. The new guidance requires entities to separately provide information about the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income if those amounts are required to be reclassified to net income in their entirety in the same reporting period. This information is to be provided, in one location, in either the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. This guidance is effective for fiscal years beginning after December 15, 2012 and interim and annual periods thereafter. The adoption of this guidance did not have any impact on the Company s consolidated financial statements.

In March 2013, the FASB issued clarifying guidance for the release of the cumulative translation adjustment in accumulated other comprehensive income when an entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in the subsidiary or group of assets that is a nonprofit activity or a business *within* a foreign entity. This guidance is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The adoption of this guidance is not expected to have any impact on the Company s consolidated financial statements.

In July 2013, the FASB issued guidance to address the diversity in practice related to the financial statement presentation of unrecognized tax benefits as either a reduction of a deferred tax asset or a liability when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

NOTE 2 ACQUISITIONS AND DIVESTITURES

Business acquisitions occurring during 2013 and updates to 2012 business acquisitions were as follows:

Acquisition of the Uteron Pharma, SA

On January 23, 2013, the Company completed the acquisition of Uteron Pharma, SA for approximately $142.0 million in cash, plus assumption of debt and other liabilities of $7.7 million and up to $155.0 million in potential future milestone payments. The acquisition expands our Specialty Brands pipeline of Women s Health products including two potential near term commercial opportunities in contraception and infertility, and one oral contraceptive project projected to launch by 2018. Several additional products in earlier stages of development are also included in the acquisition.

Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value

The transaction has been accounted for using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date and that IPR&D be recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology.

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The following table summarizes the preliminary fair values of the tangible and identifiable intangible assets acquired and liabilities assumed at acquisition date, with the excess being allocated to goodwill. At June 30, 2013, certain amounts have not been finalized including intangible asset values, uncertain tax positions, as well as evaluation of contingencies. The finalization of these matters may result in changes to the goodwill and the Company expects to finalize such matters in the second half of 2013.

(in millions)	Amount
Accounts receivable	$ 1.6
Other current assets	1.2
Property, plant & equipment	5.7
Other long term assets	0.5
IPR&D intangible assets	250.0
Goodwill	26.4
Current liabilities, excluding current portion of debt	(8.0)
Long-term deferred tax and other tax liabilities	(82.5)
Contingent consideration	(43.4)
Debt	(5.2)
Other long-term liabilities	(4.3)
Net assets acquired	$ 145.0

IPR&D

IPR&D intangible assets represent the value assigned to product acquired R&D projects that, as of the acquisition date, had not established technological feasibility and had no alternative future use. The IPR&D intangible assets are capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project and launch of the product, the Company will make a separate determination of the estimated useful life of the IPR&D intangible assets and the related amortization will be recorded as an expense over the estimated useful life.

The fair value of the IPR&D intangible assets was determined using the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of those asset valuations include the estimated net cash flows for each year for each asset or product (including net revenues, cost of sales, research and development costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset s life cycle, competitive trends impacting the asset and each cash flow stream as well as other factors. The discount rates used to arrive at the present value of IPR&D intangible assets as of the acquisition date was 22% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

Contingent Consideration

Additional consideration is due to the seller conditional upon the achievement of certain milestones in respect to the development and commercialization of the products as well as reaching certain sales targets. The Company estimated the fair value of the contingent consideration to be $43.4 million using a probability weighting approach that considered the possible outcomes based on assumptions related to the timing and probability of the product launch date, discount rates matched to the timing of first payment, and probability of success rates and discount adjustments on the related cash flows.

Long-Term Deferred Tax Liabilities and Other Tax Liabilities

Long-term deferred tax liabilities and other tax liabilities result from identifiable intangible assets fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

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Unaudited Pro Forma Results of Operations

Pro forma results of operations have not been presented because the effect of the acquisition was not material.

Acquisition of Actavis Group

On October 31, 2012, the Company acquired the Actavis Group, in exchange for the following consideration:

A cash payment of 4,219.7 million, or approximately $5,469.8 million;

Contingent consideration of 5.5 million newly issued shares of Common Stock, $0.0033 par value per share, of the Company stock (Common Shares) based on Actavis Group s financial performance in 2012 as described in the purchase agreement.

The Actavis Group was a privately held generic pharmaceutical company specializing in the development, manufacture and sale of generic pharmaceuticals. With the acquisition, Actavis significantly expands its international market presence in established markets including Europe (Europe, Russia, Commonwealth of Independent States (CIS) and Turkey), and MEAAP (Middle East, Africa, Australia and Asia Pacific). In addition, the acquisition expands the Company s product portfolio and pipeline in modified release, solid oral dosage and transdermal products into semi-solids, liquids and injectables. Actavis results are included in the Actavis Pharma and Actavis Specialty Brands segments as of the acquisition date.

The Company funded the cash portion of the transaction through a combination of term loan borrowings and senior unsecured notes. For additional information, refer to Note 6 Debt.

Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value

The transaction has been accounted for using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date and that IPR&D be recorded at fair value on the balance sheet regardless of the likelihood of success of the related product or technology.

The following table summarizes the preliminary fair values of the tangible and identifiable intangible assets acquired and liabilities assumed at acquisition date, with the excess being allocated to goodwill.

At June 30, 2013, certain amounts have not been finalized including intangible asset values, uncertain tax positions as well as evaluation of contingencies pending the finalization of the Company s evaluation of certain matters in connection with historical rebate programs. The finalization of these matters may result in changes to the goodwill and the Company expects to finalize such matters in the second half of 2013.

(in millions)	Amount
Cash and cash equivalents	$ 110.5
Accounts receivable	527.9
Inventories	680.1
Other current assets	286.2
Property and equipment	763.0
Other long term assets	16.9
IPR&D intangible assets	272.9
Intangible assets	2,268.0
Goodwill	2,895.2
Current liabilities	(1,396.5)
Long-term deferred tax and other tax liabilities	(742.4)
Other long term liabilities	(176.0)
Long-term debt	(14.1)
Noncontrolling interests	(21.9)

Net assets acquired	$ 5,469.8

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Inventories

The fair value of inventories acquired included a step-up in the value of inventories of approximately $137.3 million. Approximately $44.1 million was amortized to cost of sales during 2012, and the remaining $93.5 million was amortized to cost of sales during the first quarter of 2013. Amounts amortized to cost of sales during 2012 and the first quarter of 2013 includes the effects of foreign currency translation.

IPR&D and Intangible Assets

IPR&D intangible assets represent the value assigned to product acquired R&D projects that, as of the acquisition date, were expected to be approved for marketing over the next one to two years, had not established technological feasibility and had no alternative future use. The IPR&D intangible assets are capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project and launch of the product, the Company will make a separate determination of the estimated useful life of the IPR&D intangible assets and the related amortization will be recorded as an expense over the estimated useful life. Intangible assets represent product rights, trademarks, customer relationships and technology rights and have an estimated weighted average useful life of 8.7 years.

The fair value of the IPR&D and identifiable intangible assets was determined using the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of those asset valuations include the estimated net cash flows for each year for each asset or product (including net revenues, cost of sales, research and development costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset s life cycle, competitive trends impacting the asset and each cash flow stream as well as other factors. The discount rates used to arrive at the present value of product right intangible assets as of the acquisition date ranged from 8.8% to 11.5% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

Goodwill

Among the primary reasons the Company acquired the Actavis Group and factors that contributed to the preliminary recognition of goodwill were a strong commercial presence on an expanded global basis. In addition, the acquisition expands the Company s product portfolio and pipeline in modified release, solid oral dosage and transdermal products into semi-solids, liquids and injectables. The goodwill recognized from the Actavis Group acquisition is not deductible for tax purposes. Goodwill from the Actavis Group acquisition was assigned to the Actavis Pharma and Actavis Specialty Brands segments.

Contingent Consideration

At December 31, 2012, the Company estimated the Actavis Group earn-out to be 3,850,000 shares. On March 28, 2013, based on further evaluation, the decision was made to award the remaining 1,650,000 contingent shares. Accordingly, during the first quarter, the Company recorded expense of approximately $150.3 million for contingent consideration as a result of the decision to award all remaining contingent shares.

Long-Term Deferred Tax Liabilities and Other Tax Liabilities

Long-term deferred tax liabilities and other tax liabilities result from identifiable intangible assets fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

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Unaudited Pro Forma Results of Operations

The following table presents the unaudited pro forma consolidated operating results for the Company, as though the Actavis Group acquisition had occurred as of the beginning of the prior annual reporting period. The unaudited pro forma results reflect certain adjustments related to past operating performance, acquisition costs and acquisition accounting adjustments, such as increased depreciation and amortization expense based on the fair valuation of assets acquired, the impact of acquisition financing in place at January 1, 2012 and the related tax effects. The pro forma results do not include any anticipated synergies which may be achievable subsequent to the acquisition date. Accordingly, such pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on the dates indicated, nor are they indicative of the future operating results of the combined company (in millions; except per share amounts):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Net revenues	$ 2,003.3	$ 4,150.6
Net income attributable to common shareholders	$ (78.8)	$ (73.5)
Earnings (loss) per share:		
Basic	$ (0.60)	$ (0.56)
Diluted	$ (0.60)	$ (0.56)

NOTE 3 REPORTABLE SEGMENTS

Actavis has three reportable segments: Actavis Pharma, Actavis Specialty Brands and Anda Distribution. The Actavis Pharma segment includes off-patent pharmaceutical products that are therapeutically equivalent to proprietary products. The Actavis Specialty Brands segment includes patent-protected products and certain trademarked off-patent products that Actavis sells and markets as brand pharmaceutical products. The Anda Distribution segment mainly distributes generic pharmaceutical products manufactured by third parties, as well as by Actavis, primarily to independent pharmacies, pharmacy chains, pharmacy buying groups and physicians offices. The Anda Distribution segment operating results exclude sales of products developed, acquired, or licensed by the Actavis Pharma and Actavis Specialty Brands segments.

The Company evaluates segment performance based on segment contribution. Segment contribution represents segment net revenues less cost of sales (excluding amortization), R&D expenses and selling and marketing expenses. The Company does not report total assets, capital expenditures, general and administrative expenses, amortization, gains or losses on asset sales or disposals and impairments by segment as not all such information has been accounted for at the segment level, nor is such information used by all segments.

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Segment net revenues, segment operating expenses and segment contribution information for the Company s Actavis Pharma, Actavis Specialty Brands and Anda Distribution segments consisted of the following (in millions):

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total
Product sales	$ 1,525.5	$ 126.9	$ 275.8	$ 1,928.2	$ 976.0	$ 100.9	$ 240.9	$ 1,317.8
Other	43.7	17.9		61.6	19.0	18.4		37.4
Net revenues	1,569.2	144.8	275.8	1,989.8	995.0	119.3	240.9	1,355.2
Operating expenses:								
Cost of sales (1)	776.8	34.4	238.8	1,050.0	517.4	28.7	207.9	754.0
Research and development	103.7	31.9		135.6	53.8	25.9		79.7
Selling and marketing	160.9	47.0	27.7	235.6	52.6	42.5	22.8	117.9
Contribution	$ 527.8	$ 31.5	$ 9.3	$ 568.6	$ 371.2	$ 22.2	$ 10.2	$ 403.6
Contibution margin	33.6%	21.8%	3.4%	28.6%	37.3%	18.6%	4.2%	29.8%
General and administrative				225.8				121.8
Amortization				149.6				105.8
Loss on asset sales, impairments, and contingent consideration adjustment, net				655.3				79.8
Operating income (loss)				$ (462.1)				$ 96.2
Operating margin				(23.2%)				7.1%

(1) Excludes amortization of acquired intangibles, including product rights.

	Six Months Ended June 30, 2013				Six Months Ended June 30, 2012			
	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total	Actavis Pharma	Actavis Specialty Brands	Anda Distribution	Total
Product sales	$ 3,049.6	$ 243.1	$ 506.8	$ 3,799.5	$ 2,084.0	$ 193.8	$ 539.5	$ 2,817.3
Other	53.4	32.4		85.8	27.1	35.1		62.2
Net revenues	3,103.0	275.5	506.8	3,885.3	2,111.1	228.9	539.5	2,879.5
Operating expenses:								
Cost of sales (1)	1,638.7	64.2	433.3	2,136.2	1,131.6	54.5	472.2	1,658.3
Research and development	202.5	65.2		267.7	109.9	58.3		168.2
Selling and marketing	320.2	90.6	52.0	462.8	100.1	90.2	45.7	236.0
Contribution	$ 941.6	$ 55.5	$ 21.5	$ 1,018.6	$ 769.5	$ 25.9	$ 21.6	$ 817.0
Contibution margin	30.3%	20.1%	4.2%	26.2%	36.5%	11.3%	4.0%	28.4%
General and administrative				411.6				286.2
Amortization				308.0				237.7
Loss on asset sales, impairments, and contingent consideration adjustment, net				803.3				80.0
Operating income (loss)				$ (504.3)				$ 213.1

Operating margin	(13.0)%	7.4%

(1) Excludes amortization of acquired intangibles, including product rights.

NOTE 4 INVENTORIES

Inventories consist of finished goods held for sale and distribution, raw materials and work-in-process. Included in inventory at June 30, 2013 and December 31, 2012 is approximately $89.2 million and $49.7 million, respectively, of inventory that is pending approval by the U.S. Food and Drug Administration (FDA), by other regulatory agencies or has not been launched due to contractual restrictions. The increase was primarily due to additional lidocaine inventories. This inventory consists of generic pharmaceutical products that are capitalized only when the bioequivalence of the product is demonstrated or the product has already received regulatory approval and is awaiting a contractual triggering event to enter the marketplace.

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Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value). The Company writes down inventories to net realizable value based on forecasted demand and market conditions, which may differ from actual results. Inventory consisted of the following (in millions):

	June 30, 2013	December 31, 2012 (Revised)
Inventories:		
Raw materials	$ 453.6	$ 426.9
Work-in-process	132.4	126.2
Finished goods	1,138.5	1,104.6
	1,724.5	1,657.7
Less: Inventory reserves	(122.6)	(111.2)
	$ 1,601.9	$ 1,546.5

NOTE 5 GOODWILL AND INTANGIBLE ASSETS

Goodwill consisted of the following (in millions):

	June 30, 2013	December 31, 2012
&nb		