

Purdue
Quarterly Report to the Board
2nd Quarter, 2012

July 27, 2012

TABLE OF CONTENTS

SALES & MARKETING	3
MANUFACTURING & SUPPLY CHAIN	18
QUALITY	20
RESEARCH & DEVELOPMENT	23
DISCOVERY RESEARCH	28
HEALTH POLICY	30
CORPORATE COMPLIANCE	32
LICENSING & BUSINESS DEVELOPMENT.....	33
EXTERNAL AFFAIRS	36
HUMAN RESOURCES	40
FINANCE	44
INFORMATION TECHNOLOGY	51

MARKETING & SALES

Assure 2012 sales and market share targets are met or exceeded. 2012 ex-factory net sales budget is \$2,351.5 mm. Operate within approved S&P budget of \$343.4 mm, with a target savings goal of \$7.9 mm.

Meet or exceed total prescriber call targets of 752,417 with Butrans in 83% primary position and OxyContin in 17% primary position. OxyContin will be in the second position in at least 90% of Butrans' primary calls and Butrans will be in the second position in at least 90% of OxyContin's primary calls. Senokot/Colace will be in third position on at least 35% of all primary calls.

Compliance with all relevant policies, government law and regulations will be closely monitored.

Gross Sales Budget: \$3,167.9MM

Net Sales Budget: \$2,351.5MM

2012 (\$MM)	Actual		Budget		Prior Year	
	Gross Sales	Net Sales	Gross Sales	Net Sales	Gross Sales	Net Sales
Q1	674.0	507.5	724.0	537.1	725.2	552.7
Q2	764.0	556.3	798.9	596.1	762.2	583.7
Q3			792.8	592.0	726.3	543.7
Q4			852.2	626.2	757.4	530.0
Total	1,438.0	1,063.8	3,167.9	2,351.5	2,971.2	2,210.1

Note: Net sales for all periods reported have been restated to include patient savings card discount expense and the proposed Medicaid rebate adjustment.

2012 year to date actual net sales of \$1,063.8 mm were lower than budget by \$69.4 mm or 6.1%. This variance was driven by:

- OxyContin gross sales of \$1,330.4 mm that were \$69.4 mm or 5% below budget mainly due to lower Rx demand and lower trade inventory than forecast.
- Butrans gross sales of \$48.9 mm that were \$9.2 mm or 16% below budget due to lower Rx demand.
- Ryzolt gross sales of (\$6.3 mm) driven by product discontinuance and returns.

2012 year to date actual net sales of \$1,063.8 mm were lower than 2011 by \$72.6 mm or 6.4%. This variance was driven by lower OxyContin sales of \$69.0 mm and lower Ryzolt sales of (\$12.8 mm), offset by higher Butrans sales of \$16.3 mm.

Operating Budget

The department will operate within the total 2012 S&P budget of \$343.4 mm, which is 14.6% of total net sales budget of \$2.4 billion.

2012	Actual		Budget		Prior Year	
	\$MM	% net sales	\$MM	% net sales	\$MM	% net sales
Q1	68.3	13.4%	78.4	14.6%	54.1	9.8%
Q2	78.1	14.0%	81.6	13.7%	55.4	9.5%
Q3			83.6	14.1%	59.1	10.9%
Q4			99.7	15.9%	60.7	11.4%
Total	146.3	13.6%	343.4	14.6%	229.3	10.4%

Note: S&P expense has been restated to exclude patient savings card discount expense.

S&P expense of \$146.3 mm was \$13.7 mm lower than budget primarily due to lower salary and related expenses of \$5.1 mm (primarily bonus related), lower promotional spend of \$2.8 mm (detailed below), lower spend on fleet and other miscellaneous costs related to the Contract Sales Organization of \$0.9 mm, and all other of \$4.9 mm.

- OxyContin promotional under-spend is due to lower special promotions due to delays in eMarketing initiatives and delays in spend due to label updates.
- OTC promotional under-spend is due to timing of consumer ad media and samples.

S&P expense of \$146.3 mm was \$36.8 mm higher than prior year primarily due to the Intermezzo launch (CSO and promotional spend).

Business Unit Performance

Each Branded Business Unit will strive to maintain its budgeted contribution on net sales: OxyContin \$1,656.0 mm/ 78.5% of net sales, Butrans negative \$ 55.9 mm, Intermezzo negative \$72.4 mm, Laxatives \$ 19.4 mm/38.4 % of net sales. Full year targets and results are detailed below.

	2012 Target Gross (\$MM)	2012 Target Net (\$MM)	2012 Target Product Contribution	2012 Target Product Contribution	YTD Actual Gross (\$MM)	YTD Actual Net (\$MM)	YTD Actual Product Contribution	YTD Actual Product Contribution
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			ion (\$MM)	tion (%)			tion (\$MM)	ion (%)
<i>OxyContin</i>	\$2,877.4	\$2,108.7	\$1,656.0	78.5%	\$1,330.4	\$970.7	\$747.5	77.0%
<i>Butrans</i>	\$135.8	\$95.9	(\$55.9)	N/A	\$48.9	\$41.0	(\$28.0)	N/A
<i>Intermezzo</i>	\$49.2	\$43.4	(\$72.4)	N/A	\$13.9	\$3.3	(\$33.8)	N/A
<i>Laxatives</i>	\$51.9	\$50.6	\$19.4	38.4%	\$25.1	\$24.5	\$9.8	40.2%

OxyContin's product contribution of \$747.5 mm was lower than budget by \$39.9 mm. This variance is primarily driven by lower gross sales of \$69.4 mm offset by lower variable expenses of \$14.9 mm and lower S&P expenses (promo/sales force) of \$6.1mm.

Butrans' product contribution of (\$28.0 mm) was higher than budget by \$0.9 mm. This variance is primarily driven by lower gross sales of \$9.2 mm offset by lower variable expenses of \$2.9 mm and lower S&P and R&D expenses of \$5.6 mm.

Intermezzo's product contribution of (\$33.8 mm) was lower than budget by \$3.5 mm. This variance was primarily driven by higher gross sales of \$2.7 mm and lower S&P expenses (CSO) of \$2.4 mm offset by a higher returns reserve of \$9.0 mm.

OTC's product contribution of \$9.8 mm was higher than budget by \$0.3 mm. This variance was primarily driven by lower S&P expenses of \$1.0 mm.

Purdue Analgesic Sales Force

In order to maximize the Analgesic Sales Force effectiveness we will meet or exceed total prescriber call targets of 752,417 for 2012. A daily call average of 7.1 prescribers per day has been established for 2012. Budget calls per product are as follows.

- Butrans will be in the primary position in 83% of calls and second position in at least 15% of calls.
 - OxyContin will be in primary position in 17% of calls and second position in at least 75% of calls.
 - Senokot/Colace will be in third position in at least 35% of all calls.
- Q2 Performance by product detailed

below

Sales Calls (YTD)					
Primary Calls	Actual	Budget	Var	Actual	Budget
Butrans	313,000	301,119	11,881	86%	83%
OxyContin	49,800	60,568	(10,768)	14%	17%
Total Primary Calls	362,800	361,687	1,113	100%	100%
Secondary Calls	Actual	Budget	Var	Actual	Budget
OxyContin	250,263	271,007	(20,744)	80%	90%
Butrans	45,123	54,511	(9,388)	91%	90%
Total Secondary Calls	295,386	325,518	(30,132)	81%	90%
Tertiary Calls	Actual	Budget	Var	Actual	Budget
Laxatives	153,203	126,590	26,613	42%	35%
Total Tertiary Calls	153,203	126,590	26,613	42%	35%
Total Presentations %	Actual	Budget	Var		
Butrans	99%	98%	0%		
OxyContin	83%	92%	-9%		
Laxatives	42%	35%	7%		

Result: 2012 YTD total calls are above goal. However, Q2 total sales calls are below overall target due to vacancies and slightly lower calls per day offset by higher days on territory. During Q2, 82% of Primary calls went to Butrans. OxyContin received 18% of primary calls, which is 9 points up from Q1 (average YTD of 14%).

2012	Call Goal	Calls Made	Difference	% to Goal	Butrans Total % of all	OxyContin Total % of all	Senokot/ Colace Total % of all
Q1	171,024	179,554	8,530	105%	99%	82%	41%
Q2	190,662	183,636	(7,026)	96%	98%	84%	45%
Q3	199,466						
Q4	191,264						
Total	752,417	363,190	1,503	101%	99%	83%	42%

Source: Report Gallery - Metrics Report (weeks of 1/1 - 6/30/2012)

Result: The average physician calls per day for Q2 2012 is 7.0. This is slightly below the objective of 7.1 calls per day.

2012	Daily Average Call Target	Daily Call Average Actual	Prior Year
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Q1	7.1	7.0	6.7
Q2	7.1	7.0	7.2
Q3	7.1		7.2
Q4	7.1		7.1

Intermezzo Sales Force

In order to maximize Intermezzo Sales Force effectiveness we will meet or exceed total prescriber call targets of 328,860 in 2012. A daily call average of 8.0 prescribers per day has been established for 2012.

Result: 2012 Q2 total sales calls are slightly below overall target due to lower calls per day offset by higher days on territory.

2012	Call Goal	Calls Made	Difference	% to Goal
Q1	0	0		0
Q2	112,505	112,120	(385)	100%
Q3	112,505			
Q4	103,850			
Total	328,860	112,120	(385)	100%

Source: Phoenix Territory Management System

Result: The average physician calls per day for Q2 2012 is 6.8 calls per day. This is below the objective of 8.0 calls per day.

2012	Daily Average Call Target	Daily Call Average Actual
Q1	N/A	N/A
Q2	8.0	6.8
Q3	8.0	
Q4	8.0	

Marketing Department Key Initiatives

There are several key initiatives for each brand that are being implemented in an effort to support the activities of the sales force. Below is a top-line review of 2nd Quarter activities:

Butrans® Brand Team:

- In May we introduced a new initiative called “Butrans Experience Program”. The objective of this initiative is to increase number of physicians who “trial” Butrans by

getting them to initiate Butrans therapy in up to five patients. This is a national pilot involving approximately 2,620 physicians. Each sales representative will enroll five healthcare professionals. The program is managed by InfoMedics, a company that specializes in providing physicians with direct feedback from their patients about their treatment experience and satisfaction levels with the therapy. The physician accomplishes this by enrolling patients into the “Experience Program”, which in turn allows the patients to communicate experiences via patient self-assessment tools that are provided to the physician between office visits. Each patient who enrolls in the program completes a survey at enrollment and again at 7, 15, 30, and 60 days to track their experience. This assists the physician in appropriate management of the patients, and increases involvement of the patient to better assess the Butrans “experience”. InfoMedics has implemented similar programs across various categories and demonstrated very positive results.

- During the 2nd quarter, 300 speaker programs were conducted. This level of implementation met the objective established. There are 900 speaker programs budgeted for the remainder of 2012, and based on ROI analysis conducted for programs held in 2011 - these programs profitably contribute to the growth of Butrans.
- To assist in creating greater awareness and educating on Butrans, proper patient selection, use of supplemental analgesia and initiating with the correct dose, we have introduced the Butrans Lunch & Learn Presentation Kit:
 - The Kit will be used by sales representatives to deliver a presentation that highlights key topics for Butrans to a small group of physicians and/or health care professionals
 - The Kit will help reps deliver a strong, effective in-service by providing them with a selection of prepared presentation materials including a presentation implementation guide, instruction sheet, and pre- & post-presentation surveys. Presentation options for include:
 - Application & Rotation Video
 - INITIATIONS
 - Physician’s Insights Video- Butrans & Buprenorphine video featuring Dr. Raffa
 - Physician’s Insights Video- Clinical Trials video featuring Dr. Hale
 - Physician’s Insights Video- Dosing & Administration video featuring Dr. Pergolizzi
 - Physician’s Insights Video- Application & Disposal video featuring Dr. Cole
- In the 2nd quarter, we continued to implement the Butrans physician relationship marketing program. It includes the interactivity of invitations, an eMail series on Butrans-related topics, the Initiations Case Study program, eDetails, as well as a Butrans Web portal and Web site that contains available materials (such as the

Patient Education Brochure and the Butrans Initiation and Titration guide) for healthcare professionals to download and use to educate themselves, peers, and patients. This eMarketing initiative reinforces the branding, positioning, and key selling messages of Butrans.

- Relationship Marketing targeted HCPs are sent branded Butrans eMails every two weeks:
 - Over 90K eMails were sent in Q2 with an open rate of 3.6% which was higher than our forecast of 3.0%
 - Calls to Action include Use Savings Cards, Do the eDetail, Do the Initiations interactive experience, etc.
- Representatives are using paper invitations to recruit targeted HCPs to
 - Over 44K invitations were delivered in Q2 which is 110% of forecast
- Representatives are presenting the Initiations In-service to targeted HCPs to educate them on the appropriate patients to initiate Butrans
 - Over 9K in-services were delivered during Q2 which is 162% of forecast
- The implementation of the Patient Savings Program for Butrans continues to represent a significant part of promotional budget. This program is designed to reduce the out-of-pocket costs for patients who are prescribed Butrans. YTD, 40% of all prescriptions are filled using redemption of the Patient Savings Card, the RelayHealth eVoucher, or the “Trial Offer” savings card. This Trial Offer is designed specifically for “new-to-brand” patients. It reduces the initial patient co-pay to \$0, with Purdue covering up to an additional \$75 of the first prescription. Refill prescriptions for these patients change to the original savings program which consists of \$15 co-pay, with Purdue covering up to an additional \$40. Since introduction in January, 11,664 patients have redeemed this offer. We are measuring impact of this program on refill prescriptions.

OxyContin® Tablets Brand Team:

- The OxyContin Brand Team developed and introduced two new important tools to support promotional efforts. In order to support the appropriate conversion and titration of OxyContin, the brand team introduced the OxyContin Conversion and Titration Guide aligned with the new “Individualize the Dose” campaign. In addition, the OxyContin Core Message Summary Leave Behind was introduced. This Leave Behind reinforces the branding, positioning, and key selling messages of OxyContin.
- Based on positive experience with the Butrans RelayHealth eVoucher component of the Patient Savings Program, we designed a similar program for new-to-brand

patients for OxyContin. This was introduced to the Analgesic Sales Force at the National Sales Meeting. YTD there have been 88,764 redemptions for this program. We are monitoring this program to measure impact on overall prescription trends, “new-to-brand” share capture and ROI. The Patient Savings Program is currently driving a positive ROI of 4.3 and a 14.6 TRx lift per HCP. Currently 4% of total prescriptions are redeemed with a Savings a Card and 6% through Relay Health.

- Due to changes in FDA perspective on dosing conversion tables, we needed to remove the conversion tables in the OxyContin FPI. As a result the brand team developed changes to all marketing & sales support material that referenced the conversion table. The new pieces will be rolled out to the field during the fourth quarter.
- Also, brand management worked with medical/regulatory to prepare for the class-wide REMs for extended-release opioids to identify changes to the FPI and any corresponding changes to marketing & sales material and to determine what actions need to be taken to comply with the class-wide REMSs.
- Sales Representatives are presenting the OxyContin “Conversions” In-service to targeted HCP in order to educate on the appropriate patients to convert to OxyContin.
 - Over 3K In-services were presented in Q2 which is 172% of forecast
- The OxyContin Relationship Marketing Program continues from the January targeting of 57K HCPs:
 - In the second quarter, 292K eMails were sent to targeted HCPs with an open rate of 3.6% which was above our forecasted rate of 3.0%
 - Targeted HCPs are sent branded OxyContin eMails every two weeks
 - The calls to action include Savings Cards utilization, engaging in the OxyContin eDetails, Visiting the PurdueHCP.com, participating in the OxyContin Conversions interactive experience, and the appropriate prescribing of OxyContin
- 192 eDetail starts with 114 completions were achieved YTD with the three existing eDetails
 - 10K eMails were sent recruiting HCPs to engage with the eDetails
- Online advertising continues for OxyContin on Google, Yahoo and Bing search engines and major HCP websites. In the second quarter we had approximately

1.6MM search impressions leading to 22K visits to the website at a cost of \$4.51, well below our forecast of \$5.18/visit

- Display advertising started in May and yielded 1.6mm impressions leading to 2.4K visits to the website at an average click thru rate of 0.16% above the target rate of 0.10%. During the 2nd quarter, we continued to place OxyContin Journal ads on a monthly basis.
- A “Conversion” direct mail campaign was sent in April to Decile 8-10 OER prescribers, broken out by Confident (35,100) and Delaying (12,345) Treaters. This mail campaign utilized patient case vignettes to educate HCPs on the appropriate conversion to OxyContin.

Intermezzo® Brand Team

- Patient Savings Programs were implemented in April. These include an eVoucher (at retail pharmacy) and Savings Card approach, similar to Butrans. Through July 7, 2,432 redemptions have been processed (1,721 for eVouchers and 711 for Savings Cards). YTD, 30% of prescriptions filled have been accompanied by either eVoucher or Savings Card.
- The Speakers Bureau began with nine national KOLs trained within FDA guidelines. We have completed 26 speaker programs, with 193 attendees. We have now trained additional regional/local KOLs (in June) and the Intermezzo Sales Force is scheduling programs for July-December. We have budgeted for 550 programs in 2012, and will be monitoring the impact of these programs to determine ROI.
- We implemented a sampling program via mail directly to physician’s offices (those who request samples) and we are offering a “Trial Offer” sampling program which provides patients the ability to obtain three Intermezzo tablets free of cost. The patient receives a prescription for the “Trial Offer” and fills this at a retail pharmacy. YTD we have 1,141 patients enrolled in the “Trial Offer” program and 25,633 sample orders have been received to ship to physicians offices.
- FDA approved visual aids were introduced to the sales force the week of June 25th. These pieces are designed to effectively message and position Intermezzo. Prior to availability of the pieces, the sales force was utilizing “interim sales aids” which did not include full graphics, detailed information from the two pivotal trials, or graphic depictions of the PK profiles for the 1.75mg and 3.5mg tablets. We also introduced two assessment tools that assist the HCP in identifying patients who meet Intermezzo’s indication. One of the major barriers to use is identification of

appropriate patients, via proper assessment. The introduction of new visual aids, as well as the assessment tools should provide a boost to prescription trends.

- eMarketing initiatives continued in the 2nd quarter, with acceleration in June and a series of email “blasts” which are designed to increase awareness of Intermezzo. These reinforce the messages/positioning seen in the new visual aids. These email initiatives are targeting approximately 100,000 HCPs. In addition, we are focusing efforts on 44,000 of the highest potential prescribers with a “Relationship Management” initiative.

Laxatives Brands

- Several promotions continued in the 2nd quarter
 - National Consumer Sweepstakes
 - Print advertising in demographic specific magazines such as Women’s Day, Better Homes and Gardens, and Readers Digest
 - “At-shelf” purchase incentives such as instant redeemable coupons.
 - Customer Relationship Marketing (CRM) to loyal customers
 - Twitter campaign

Managed Care

The tables below depict the formulary status of Purdue products in three major payer channels. Included in the tables are the percentages and number of lives in each formulary category/tier, and a brief summary follows each channel with major customers and developments/status changes in the 2nd quarter of 2012

Commercial Formulary Status ~ 213 Million lives in this channel

	OxyContin		Butrans		Intermezzo	
	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%
Preferred/2nd tier	182.3	85.5	54.2	25	21.7	10.4
Preferred/3rd tier	4.7	2.2	107	51	92.3	42.9
Step Edit/Prior Authorization	11	5.1	23.8	11	44.9	21.6
Not Covered	15.2	7.2	28.3	13	52.4	25.2

- OxyContin (Commercial)
 - OxyContin continues to maintain “best in class” access and is the only extended-release opioid brand in its market with more unrestricted access than restrictions
 - OxyContin commercial national market share exceeds 26%
- Butrans (Commercial) continues to achieve improved formulary access (25% commercial lives in a preferred position).
 - Three significant accomplishments in the “commercial” book of business occurred during the 2nd QTR.
 - Express Script and Medco (two of our largest pharmacy benefit customers, which encompass over 35 million commercial lives) approved Butrans for inclusion on Tier 2 “preferred-brand” formulary listings. This puts Butrans at the lowest co-pay level for branded products.
 - Envision, a pharmacy benefit manager covering mid-size regional employers has also moved Butrans to 2nd tier during the 2nd QTR
 - We anticipate a greater than 30% lift in prescriptions with 2nd tier formulary access
- Intermezzo’s (Commercial) commercial channel has been our focus from launch
 - We have achieved our 2012 target of over 50% of commercial lives at 2nd tier or 3rd tier unrestricted access.
 - We still have approximately 25% of commercial lives with some kind of restriction before the patient can receive Intermezzo, as well as an additional 20% of commercial lives in plans where Intermezzo is “Not Covered”.
 - We are continuing our efforts to reverse the restrictions by:
 - implementing a rebate strategy for unrestricted access
 - increased focus on clinical presentations by our Medical team

Medicare Part D ~ 30 Million lives in this channel

	OxyContin		Butrans		Intermezzo	
	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%
Preferred	17.8	58	0.3	1.2	0.009	0
Non-Preferred	1.7	6	2.7	9.2	0.012	0
Step Edit/Prior Authorization	2.4	8.4	1.2	4	0.275	0.2
Not Covered	7.9	27.6	25	85.6	28.7	99.8

- OxyContin (Med Part D)
 - OxyContin continues favorable formulary status for 2012 Medicare Part D formularies with more than 58% of seniors having access to a preferred formulary position and favorable co-pay
 - OxyContin Medicare Part D national market share exceeds 21%
 - Generic fentanyl patch (market share of 26.1%), generic extended-release morphine (market share of 29.2%), and methadone (market share of 16%) all have market share increases in the last 12 months in this channel
 - 86% of all prescriptions filled in this channel are for generics
- Butrans (Med Part D)
 - Butrans has had a slow uptake in the Medicare Part D channel, due mostly to two factors:
 - The payers advocating increased generic utilization and substitution of all brands via a “therapeutic alternative” formulary approach.
 - The cost sensitivity of the senior citizen population with fixed incomes and increasing prescription utilization with high out-of-pocket costs
 - Currently, negotiations are on-going for inclusion on 2013 Medicare Part D formularies
- Intermezzo (Med Part D)
 - We are not on any formularies as of launch
 - The focus of our efforts is the commercial book of business for the first year of launch
 - Our targeted patient is 35-55 year old females, therefore not Medicare Part D patients
 - We do not have any clinical support for use in elderly; specifically the two pivotal trials did not include patients over 64 years old.

Medicaid ~ 48 Million lives in this channel

	OxyContin		Butrans		Intermezzo	
	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%	Lives (<i>mm</i>)	%
On PDL Formulary	1.5	3.1	7.9	16.5	2.3	4.8
Prior Authorization Required	46.8	96.9	40.3	83.5	46	95.2

The Medicaid market continues to be a channel dominated by the individual States, generally mandating use of generics. State budget shortfalls dominate the news and many States believe these shortfalls are accelerated by expenditures from their Medicaid recipients.

In the last 12-15 months many States have moved their Medicaid populations to "Managed Medicaid", where private commercial health plans bid to the State for a fixed cost on a "per patient per month" basis, to financially cover the total health care for a percentage of the State's Medicaid recipients.

- If the health plan exceeds this monthly cost allotment, the health plan pays the excessive cost, if the health plan's cost is lower than the State's per patient per month specified amount the health plan profits.
- We are currently re-evaluating our approach to Medicaid for the 2013 contracting process to determine if there is a rationale for bidding to "Managed Medicaid" providers in a way that demonstrates a positive ROI.

OxyContin (Medicaid)

We only have "preferred brand" formulary status in Missouri, with 1.5 mm lives. In all other States, a prior authorization is required before a patient is allowed to have OxyContin. In most cases, a patient must first be prescribed generic MS Contin. Only if that "fails" due to efficacy or unacceptable side-effects, can a patient obtain OxyContin.

Butrans (Medicaid)

We had a success in the 2nd QTR for Wisconsin Medicaid. They added Butrans to the Preferred Drug list in 2nd quarter, the only other products included were generic MS Contin and generic Duragesic.

Forecasting, Analytics and Market Research

During the second quarter, we have undertaken, or developed plans, to undertake numerous market research projects each with the goal of driving the business through actionable insights. For the purposes of brevity, we will list below some of the *key* projects recently completed or undertaken directly associated with the top three prescription brands.

Intermezzo Projects	Status	Objectives	Results/actions
Sales Force Effectiveness	Underway (ongoing monthly tracking)	- Quantitatively track sales rep performance/message delivery from a physician perspective. Compare to two branded competitors. - Determine the influence that sales reps are having on physician behavior	The results, combined with other data, can be used to refine the details of rep-physician interactions.
Market Tracking Study	Underway	Measure awareness of Intermezzo in called on and non-called on physicians, perceptions, and barriers to use and compare to other products in the market.	Determine awareness compared to budget assumptions, determine barriers to use, assist in adapting marketing/sales efforts. Help identify hurdles to adoption for us to develop mitigation strategies.

Butrans Projects	Status	Objectives	Results/actions
Physician Qualitative Study	Complete	Evaluate physicians' experience with Butrans. Gain insight as to why some patients remain on Butrans, why others leave and why others never try Butrans. Help explain discontinuation rate after first month trial of Butrans.	Determined that physicians may not be targeting the appropriate patient with the appropriate dose of Butrans and that physicians are not properly titrating. As a result of this and pending quantitative study sales/marketing has implemented an adjustment in messages and promotional tactics to ensure correct initiation/titration.
Butrans / Nucynta-ER Analysis	Completed	Determine if Nucynta-ER impacted the Butrans launch	Nucynta-ER had an impact on Butrans New-to-Brand share, primarily in terms of absorbing new patients who could have been initiated on

			Butrans.
Butrans Persistence Studies	Ongoing	Determine Butrans patient persistence (length of therapy) across cohorts over time and by strength. Also compare to selected opioids	Butrans persistence is similar to other ERO's, however, for the 5mcg strength there is higher than anticipated discontinuations rates at 30 days. Numerous actions have been taken as a result of this work (seeking label changes and revised messages regarding titration and use of the 5mcg strength.)
Butrans Brand Vision	Underway	Evaluate Butrans and its competition in the opioid analgesics market on key dimensions that affect market share.	This allows us to diagnose perceptions of and attitudes regarding Butrans in the market against benchmarks. We can then implement new messages or reprioritize marketing mix to emphasize or changes these perceptions in order to influence prescribing behavior.

OxyContin Projects	Status	Objectives	Results/actions
ERO Opioid Length of Therapy (LOT) Project	Completed	Determine the LOT of new OxyContin patient and compare to other ERO's. Also determine if LOT has changed over time.	OxyContin's LOT has increased over time. The average NEW patient remains on OxyContin for 125 days, just above the market average of 122 days.
ERO Marketplace	Underway (Gathering proposals)	Conduct a analysis of market trends and "future cast" how the ERO market may be transformed in 5 years	Develop plans to adapt to market/physicians needs over the next 5 years. Inform forecast for the ERO market.
Physician Targeting	Underway	Determine OxyContin call sensitivity and ROI on physician calls.	Based on the information gathered and calculations to date, we believe OxyContin will benefit from additional primary calls on select high ROI targets.

MANUFACTURING / SUPPLY CHAIN / PHARMACEUTICAL TECHNOLOGY

Sustain Compliance across operational areas by auditing, monitoring key metrics and planned system upgrades/improvements (FDA, DEA, OSHA and EPA, CIA and HR policy) without major disruption to supply. Maintain continuous supply of commercial and new products to all customers, on time across the major product lines. Ensure project milestones are met and product moves into commercialization. Attain operational and management efficiency, continuously improving and assuring cost effectiveness.

Key Metrics: Manufacturing, Supply Chain and Pharmaceutical Technology

Manufacturing and Supply Chain	Q2 YTD			Full Year	
	Actual	Budget	Var	2012 Budget	2011 Actual
Tablets Manufactured (MM)	311	277	34	593	629
OxyContin	221	194	27	409	456
MS / MSER	83	83	0	163	165
Oxy APAP	-	-	-	21	-
Oxy Export	6	-	6	-	8
Export Packaging Bottles (000)					
Bottles Packed	206	-	206	-	308
Orders Shipped On-Time					
Wilson	99.0%	99.0%	0.0%	99.0%	99.8%
Rhodes	99.0%	99.0%	0.0%	99.0%	99.1%
3rd Party	98.0%	99.0%	-1.0%	99.0%	99.7%
Orders Shipped In-Full					
Wilson	99.0%	99.0%	0.0%	99.0%	99.6%
Rhodes	99.0%	99.0%	0.0%	99.0%	99.9%
3rd Party	99.5%	99.0%	0.5%	99.0%	99.6%
Inventory On-Hand (Months)					
OxyContin	2.1	2.5	(0.4)	2.5	2.6
BuTrans	3.5	3.0	0.5	3.0	3.3
Intermezzo		TBD		TBD	

Pharmaceutical Technology	Q2 YTD			Full Year	
	Actual	Budget	Var	2012 Budget	2011 Actual
Research and Development Hours	15,035	19,603	(4,568)	40,633	29,784
Production Hours	2,110	3,123	(1,013)	6,474	4,289
Support Hours	12,925	16,480	(3,555)	34,159	25,495
Development Batches Manufactured	53	53	-	114	89

2012 Cost Savings



- Additional savings are being identified in our third party supplier business relationships, and in our distribution / transportation operations to support our total savings goal.

Infrastructure / Capital Projects

- IMA (Packaging Line Manufacturer) will ship the first new packaging line the week of July 16, 2012. The project now includes the transition from RFID to 2D labeling. This transition will occur during the first quarter of 2013, and will result in an annual savings of approximately \$800,000.

Third Party Manufacture

- Dilaudid Injectables from Hospira remain a supply challenge due to the unpredictable forecasted demand. Purdue is working with Hospira to improve the relationship and delivery performance; however, we expect the supply issues to remain through the later part of the year.
- MSER for Rhodes Pharma (RP) has also become a significant supply challenge due to un-forecasted increases in demand as RP has grown the market share from 29% to 42% in the last few months. Wilson is responding to this new demand with increased production output; however, API availability and DEA quota will be the challenge in maintaining these new sales levels. Purdue is working with RP to improve the forecast accuracy going forward.
- Intermezzo – A team has been assembled to improve Intermezzo’s security of supply by qualifying a new API source and alternate source of key excipients.
- Butrans – The supply team is expecting to transition the US market to patches produced at LTS West Caldwell by November 2012.

OTC / Laxative Highlights

- Peri-Colace – The project to have Purdue Canada produce Peri-Colace for the US market (as well as Senokot) will be completed in July 2012.

DEA Requirements / Compliance

- DEA Inspection Readiness Plan is in place in Wilson with an anticipated inspection beginning the week of July 23rd.
- EHS – The Wilson facility received a Storm Water No Exposure Certification from the North Carolina Department of Environment and Natural Resources (NCDENR). This resulted after a thorough review of our past record and an onsite inspection of the facility by state officials. This exempts the site from permit and sampling requirements and is indicative of the strong reputation the site has with the state environmental authorities.
- Security camera hardware upgrades for enhancing system stability are in-process.

QUALITY

Sustain compliance with all laws and regulations related to cGxP from drug development through commercialization. Support the accurate and timely release of approved quality product. Assure integrity and qualification of all new product development, technology transfer and regulatory filings.

Sustained Compliance

- An FDA inspection took place in Stamford on May 21-25, 2012. The inspection focused on the Butrans REMS and PPLP Pharmacovigilance activities. Review of the odor product complaints trend for Slow-Mag led the Investigator to examine the presence of diethoxymethane (DEM) in the product. The investigator agreed with the investigation steps and the PPLP actions in place, but did not feel that sufficient risk mitigation steps (market action) had been taken given the unknown toxicity of DEM. The inspection resulted in a two item 483 being issued related to the lack of sufficient risk mitigation, and the lack of a validated test method, a formal specification, and controls to reduce the level of DEM at the time of inspection closure. All Butrans REMS, Adverse Event, and Product Complaint processing was found to be acceptable with no deficiencies identified. A full response to the FDA 483 was submitted on June 11, 2012.

- Investigations into the Slow-Mag and DEM issue continue. An analytical method has been validated for the quantification of DEM levels in the product. Analyses of both the current and previous formulations demonstrate the presence of DEM. Manufacturing campaign two of three for the current formulation demonstrates levels of DEM above the threshold of concern of 0.3 micrograms/tablet calculated from the maximum daily exposure limit for genotoxic materials (per the draft FDA guidance document). *In vitro* test results for genotoxicity were inconclusive, requiring completion of *in vivo* tests which are being scheduled. A meeting with the FDA District Office has been requested to discuss the status of the investigation and to obtain their input into actions.
- ONF Support Activities:
 - As previously reported, a single stability lot of ONF 10 mg tablets (WBL51) showed Out of Trend (OOT) results for unknown degradants at the three month stability pull. Monthly monitoring of the lot was initiated at the six-month time interval, and has continued with the 20-month testing recently completed. The level of the degradant has plateaued and remains within specification. At the 21-month stability test point, the lot will be at its 24-month expiration.
 1. A meeting with the FDA Atlanta District Office occurred on April 25, 2012. The FDA District Office was satisfied with the progress of Purdue activities in relation to the degradants.
 2. A second meeting will be requested to discuss the genotoxicity test results upon report availability scheduled for mid-July 2012.
 - A Field Alert Report was filed on June 13, 2012, concerning OxyContin 60 mg Tablets (WKM61) manufactured in Wilson. The API supplied by Rhodes Technologies was the subject of an investigation initiated by Rhodes Technologies into a limited number of pink colored API particles detected during reprocessing operations. No product actions are required.
- Rhodes Pharma used Lachman Associates to perform a three-day audit (May 29-31, 2012) of Wilson's Quality Systems and processes as they relate to production of MSER and development projects. Corrective action plans are in development for observations shared verbally during the wrap-up meeting.

External Manufacturing

- Butrans Update:
 - The supplement for manufacture of Butrans at the LTS West Caldwell site was approved on April 20, 2012. The site was not inspected as a part of the approval process.
 - Sporadic issues with the dissolution procedure have continued to occur in both West Caldwell and Totowa laboratories. The investigation into the root

- cause continues, but the problem is analytical and not product performance related. An alternative validated dissolution method has been approved which will correct the analytical issue, and will be submitted to the FDA in the next annual report.
- LTS was forced to make a sudden supplier change for an excipient, oleyl oleate, used in the manufacturing of Butrans. This is the second instance of a similar issue indicating the need for increased LTS oversight of their suppliers. The Quality Advisory Group (QAG) discussed the issue, and Bard will work with LTS to affect improvements.
 - Intermezzo Support:
 - Shortly after release of Intermezzo, Patheon, the manufacturer, notified Purdue of an investigation of black specks and magnetized particles discovered after screening two of the excipients during the manufacture of a batch. The black particles were identified and posed no risk to patients. Examination of associated retain samples resulted in the discovery of a third type of black particle. The black particle was identified as phenolic resin for which the source has not been identified. A health hazard assessment is in progress for potential patient ingestion of the phenolic resin.
 - SPI, the manufacturer of Buffered Soda used in the production of Intermezzo, reported a three-month stability failure for one of three lots produced in the last campaign of this excipient. Investigation into the problem is ongoing, as failure at this time point is atypical. The recent batches were the first ones produced in two years, and the release values were at the low end of the specification range. Transcept had previously identified the need to expand the specification range, and a CBE-30 supplement is scheduled to be filed to accomplish this.

Support for New Products

- Validation and stability testing of OxyAPAP lots produced to support the Rhodes regulatory filing is underway in Totowa. Methods for impurity testing have been revalidated in support of the reformulation of the product.

RESEARCH & DEVELOPMENT

R&D's goal is to efficiently and effectively advance each pipeline project to and through the defined stage gates as described within each program's strategic development plan. R&D's objectives for 2012 are reflected in Purdue's Business Scorecard and focus on progress or completion of major milestones for each pipeline project. While there are many components within each program, emphasis is placed on those items whose progress, quality and outcome drive stage gate decisions and as a consequence, project progress to NDA submission, approval, or termination. Through 2Q2012, substantial progress has been made toward the budgeted plan.

Each of the following pipeline projects are addressed herein:

- Reformulated OxyContin® (OTR/ORF)
- Butrans® (BTDS)
- Targin® (ONU)
- Hydrocodone QD (HYD)
- TRPV-1 (VND)
- ORL1 (OAG)
- Intermezzo (INT)
- AHI (FAAH)
- Abuse Deterrent Immediate Release Oxycodone (ADIR)
- Ryzolt

Reformulated OxyContin (OTR/ORF)

Corporate Scorecard Milestones for OTR/ORF are on or ahead of schedule

ORF Messaging and Exclusivity: The ORF Messaging and Exclusivity Group has progressed its plan to ensure that the in vitro, in vivo (pharmacokinetic and abuse liability), and epidemiology data collected to date are communicated to appropriate audiences in a time frame supportive of Purdue's business and public health objectives.

- The group's charter focuses on the following goal: "Ensure that there are sufficient data, approaches, and messaging externally to enable OxyContin to remain the branded ER oxycodone product well beyond 2013".
- To date, 15 of 28 accepted abstracts have been presented at various association meeting venues.
- Nine additional abstracts submitted to various associations are pending acceptance.

- Forward looking plans include further abstract submissions and presentations through 4Q2012.
- A medical communications vendor is assisting with Purdue's publication strategy in support of the group's charter. Plans are to have 15 manuscripts submitted by February 2013. One has already been submitted and is pending acceptance.

Pediatric Exclusivity

The pediatric exclusivity research program remains on-track for sNDA submission January 2016.

- Lessons learned through this program have been applied to other pediatric and adult study programs.
- To date, 63 children have been enrolled compared to 13 children enrolled as of October 2011.

Japanese sNDA for OxyContin in non-malignant pain

- The Japanese sNDA (non-malignant pain) is on track for 2Q2016 submission to Japan's Pharmaceuticals and Medical Devices Agency (PMDA).
 - Substantial Clinical and Non-clinical support has been supplied by Purdue to MPKK / Shionogi collaboration

10mg ORF

A meeting was held with FDA's Atlanta District Office on April 25, 2012 to discuss an out of trend investigation, status and forward plan for the 10mg ORF lot. The FDA agreed with our plans, and we continue to track the observed levels of the degradant.

Butrans® (BTDS)

Corporate Scorecard Milestones for Butrans are on or ahead of schedule.

High dose program

The planned high dose program is on track with an interim analysis of data from the Thorough QTc Trial (BUP1025) planned for 4Q12. The results from this analysis will be used to inform our study design and initiation of higher dose pivotal studies BUP3027 and BUP3028 in 2013.

2nd Generation program

- The 2nd Generation Butrans® Program is advancing as per plan.
- The refined prototypes to be tested in the clinic yield a 33% reduction in patch size and 27% (or greater) reduction in drug load versus the current commercial product.

Intermediate strength development (7.5 mcg/hr & 15 mcg/hr)

Development of intermediate strengths is proceeding between Purdue and LTS. Approval of these strengths will be based primarily on a CMC submission if Purdue's request for a bio waiver is granted (high probability). A draft timeline has been developed projecting a 4Q2013 market launch.

Manufacturing site transfer to West Caldwell, NJ

The Prior Approval Supplement for the LTS Manufacturing Site Transfer from Andernach, Germany to West Caldwell, New Jersey was approved by FDA on the PDUFA date, April 20, 2012; commercial production at this site will begin 4Q2012.

ONU (Targin)

All corporate scorecard milestones for ONU are on schedule.

- The NDA submission (for the indication of Pain with abuse deterrent properties) planned for 2Q2013 is on track with all submission elements on or ahead of established timelines.
 - A pre-NDA meeting with FDA is scheduled to occur on September 13, 2012.
 - 615 patients have been enrolled in the ONU3701 study, and we completed the Last Patient First Visit on July 5, 2012.
- The sNDA submission for label expansion (Opioid Induced Constipation) planned for 2Q2014 remains on track, with efforts being made to stimulate enrollment in each of the two required pivotal (OIC) studies.
 - Data to support ONU's benefit in alleviating signs and symptoms of Opioid Bowel Dysfunction (vs. OIC) are being collected in pivotal trials and will also be addressed through additional means.
 - We remain on target with 134 patients enrolled in ONU3704 and 24 patients enrolled in ONU3705.

Hydrocodone QD (HYD)

All corporate scorecard milestones for HYD are on schedule.

- 2Q2014 NDA filing and 3Q2015 launch dates are on track.
- The competitive landscape has changed in a favorable direction with high likelihood of Purdue's HYD (once-daily, tamper abuse deterrent hydrocodone) to be the first long-acting hydrocodone market entrant.
 - Teva/Cephalon has reported that its single pivotal study for CEP-33237 (twice daily hydrocodone) is negative and that their NDA submission

- planned for 4Q2012 will not be possible; the viability of this potential competitor is considered low.
- Zogenix's Zohydro (twice daily hydrocodone) NDA is under review at FDA, however, several potential deficiencies are likely to delay and/or prevent approval of this product (e.g. lack of a tamper-resistant formulation, lack of safety information related to potential ototoxicity and/or cardiac repolarization).
 - Enrollment in the HYD Phase 3 program (pivotal study, and open-label safety study) is on schedule and supportive of an on-time NDA submission.
 - 693 patients have been enrolled in the HYD3003 study and we completed the Last Patient First Visit on July 6, 2012. We have enrolled 140 patients in HYD3002 (double blind study).

TRPV1 (VND)

All corporate scorecard milestones for TRPV-1 are on schedule.

- Positive results were received from the human experimental pain / biomarker development study (VND1004). This study demonstrates that TRPV1 has a positive effect on thermal pain.
- Plans to initiate two human Proof-of-Concept studies (Osteoarthritis and Post - Herpetic Neuralgia) remain on track for September, 2012; this will be the first time a Purdue new chemical entity will have reached this stage of development.

ORL1 (OAG)

The First-in-Human, single ascending dose study (OAG1001) has completed three cohorts.

The study was paused to allow for thorough analysis of adverse event (somnolence) and pharmacokinetic (low bioavailability) data. A forward plan of nonclinical experiments designed to better understand the cause of these adverse events has been agreed with Shionogi and will be executed in 2H 2012. The next decision point will be in 1Q2013 when the nonclinical results are available.

Intermezzo (INT)

All corporate scorecard milestones for Intermezzo are on schedule.

- To meet the post-approval commitment from the US Consumer Product Safety Commission (CPSC), CMC work toward the new package configuration (change

from blister in a pouch to tablet in a pouch) for both Intermezzo tablet strengths (1.75 mg and 3.5 mg) is on track.

- A recently devised R&D-driven strategy for the brand includes publication of modeled PK data that supports differentiation from immediate release formulations of zolpidem on the basis of safety.

AHI (IPI-940)

- The planned human Proof-of-Concept study in Post-Herpetic Neuralgia is delayed by one year due to contamination and rejection of clinical supplies manufactured by Infinity's contract manufacturer (Pii).
- The process to manufacture new API and clinical supplies has initiated, with a new planned study start date of 1Q2013.

Abuse Deterrent Immediate Release Oxycodone /ADIR - (OCI)

- In March 2012, R&D created a project team charged with developing an Abuse Deterrent ImmEDIATE Release drug delivery platform for oxycodone.
 - In collaboration with Rhodes Pharma, an IND was submitted on May 9th, 2012, with oral administration commencing under a pilot PK/PD investigation (OCI1001) on May 21st
 - Selection of a final formulation for definitive testing is planned to occur by 4Q12

Ryzolt Pediatric Program

NOTE: The Board approved a plan to discontinue the sale of Ryzolt on June 22, 2012; the NDA will be withdrawn by the end of 2012, and no pediatric program will commence.

New Disciplines

Through 2Q12, Purdue's organizational capabilities have been enhanced through onboarding of key leaders, and the creation of several new disciplines within R&D: R&D Innovation, Health Outcomes & Pharmacoeconomics, and Medical Affairs. These disciplines are already contributing to the near and long term success of our current and future products. The initiatives described below are considered mission-critical, and will help drive Purdue's 10-year plan and overarching vision to become known as "The" Pain Management Company:

R&D Innovation

- Identify and recommend for pursuit novel external analgesic drug development opportunities at the Pre-Proof of Concept stage.

- Create strategy and an execution plan that will deliver novel non-drug product technologies designed to address key stakeholder needs in the market (e.g. objective measures of pain and medication compliance, devices, services, novel surveillance mechanisms for abuse and diversion); such technologies may become a Purdue offering or take the form of a separate business opportunity.

Health Outcomes & Pharmacoeconomics (HOPE)

The Health Outcomes and Pharmacoeconomics (HOPE) department is developing strategies to support commercial objectives to demonstrate value to payers. The HOPE strategies are an integral part of the overarching product strategies and support market access, formulary placement, and the demonstration of Patient Reported Outcomes (PROs) that will drive reimbursement. Cross functional teams that include commercial, medical, scientific communications, project management, and legal representation guide the development of HOPE strategies and execution of tactics.

Medical Affairs

The Medical Affairs group has been recreated following a seven year absence. Its objectives target both externally (Key Opinion Leader planning and engagement, planning and conduct of Investigator Initiated Trials, recruitment of investigators for registration trials), and internally facing deliverables (design and conduct of Phase IIIb/IV Clinical Studies, publication planning and communication strategy, and provision of competitive clinical intelligence to internal stakeholders) in support of lifecycle management for Purdue's current and future marketed products.

DISCOVERY RESEARCH

TRPV1 Back-up Antagonist Program (VAN)

- The main objective of the TRPV1 back-up program is to identify and develop a compound that has similar or better efficacy than V116517, but reduced risk for effects on body temperature and thermal sensation. We are also investigating mechanisms associated with pharyngeal pain and dysesthesia.
- V120083 was selected as a back-up candidate to V116517 in April of 2012 and all of the IND enabling studies have been completed and the results meet or exceed the stage-gate criteria with one exception. A genotoxic impurity has been detected during the synthesis of the material and currently the team is working on a resolution that will drive a go or no-go decision for IND filing in August of 2012.

Purdue-Only TRPV1 Antagonist Program (517)

In collaboration with the Medical School at the University of Wisconsin, we are evaluating the mechanistic role and possible clinical utility of TRPV1 channel blockers in pain associated with sickle cell disease. Our collaborators have established a translatable animal model of this condition, we have completed all legal agreements, and the work will initiate in July/August with results available in early Q4.

Purdue-Shionogi Collaboration ORL-1 Agonist Back-up Program

- The main goal of the ORL-1 back-up program is to identify compounds with similar or better efficacy, ADME profiles and low risk for kidney toxicity issues, as well as reduced side effects (fatigue/somnolence) compared to V117957.
- The team has identified one potent and selective peripheral ORL-1 compound (V120063), however the preliminary result of monkey cardiovascular system study showed a less than 10 fold safety margin which may prevent further development of this lead. The final report of this study will be available by the end of July.
- Due to an unexpected adverse event (somnolence) in the Phase 1 clinical trial of V117957, a work plan to evaluate the issue has been established. The primary purpose of these studies is to determine the mechanism underlying the clinical observations and to provide data to inform a go/no-go decision for further clinical studies on V117957. A secondary purpose is to inform the back-up strategy to ensure a lower risk molecule with differentiation from V117957.

Peripheral Kappa Agonist (PKA)

V120557, a compound that is effective in visceral pain and reverses opioid induced constipation, was shown to be effective in inflammatory pain. It displays no motor deficits at 10X the minimally effective dose in inflammatory pain. Preliminary data with an antagonist suggests the efficacy in the visceral pain model is through kappa.

Sodium Channel (Nav) Blocker

- With the goal of assessing the cardiovascular (CV) safety margin of a peripheral Nav antagonist, the Nav team selected two compounds to enter Maximum Tolerable Dose (MTD) studies in dogs - V121216 and V121241. Both of these compounds had shown efficacy in rat neuropathic pain testing and were without Rotarod deficits at the efficacious doses.
- In the MTD studies, V121216 was not able to achieve the target plasma concentration and was dropped from further consideration. On the other hand, the target plasma concentration of V121241 was achieved and this compound was progressed to CV studies. Testing was completed the first week of June and results are expected in July 2012.

Exploration of Signal-Biased Opiates

The research team is deeply pursuing biased opiate ligands and has recently established a panel of new in vitro assay systems to support the effort. Currently, the focus is on the discovery of new mu agonists with minimal/non-existent side effect or euphoria. A second priority is the design of central kappa agonists with minimal/no dysphoria.

HEALTH POLICY

The objective of the Health Policy Group is to help shape the public face of Purdue, enhance corporate visibility and provide a supportive environment - by communication and other external activities. The group also supports Medical Education initiatives providing high-quality, relevant education resources that meet clinical needs and increases awareness of non-drug value of Purdue Pharma as a compliment to the portfolio of drug products. Provide accurate and timely medical review of Materials that educate external customers (healthcare professionals, patients, general public, etc.) and the Sales Force on the safe and appropriate use of Purdue products.

Risk Management Activities

REMS Participating Companies (RPC, formerly the IWG)

- Prescribers Subteam Lead - Created communication document drafts and negotiated approval of same with FDA.
- Negotiated improved educational Blueprint with FDA, allowing emphasis on important content for prescribers, as opposed to administrative content.

Healthcare Grants and Giving

- 212 healthcare educational and non-educational grants were reviewed.
- Seventy-six (36%) were approved for a total \$1,602,133.29.

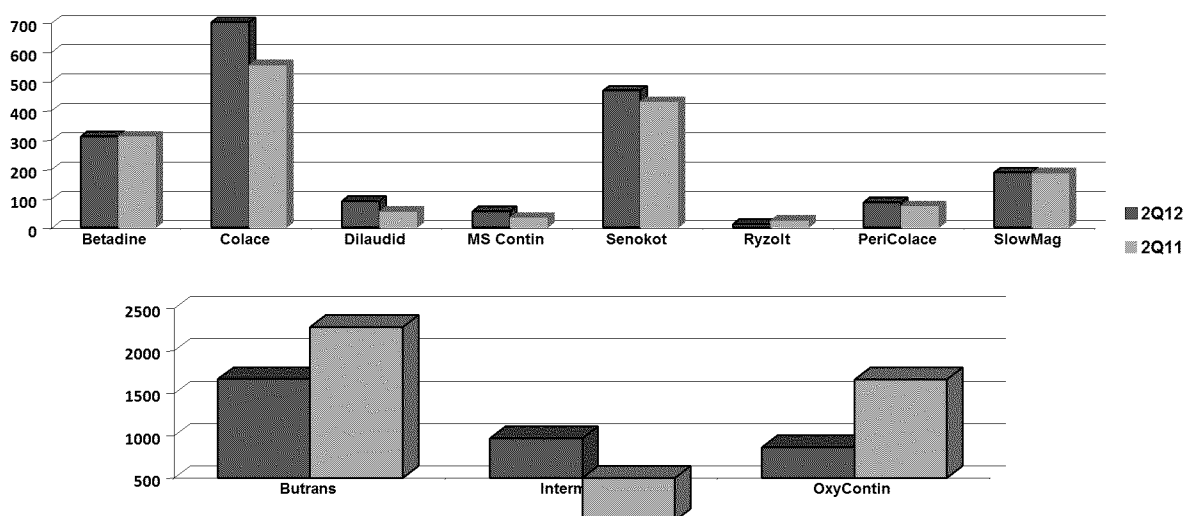
Medical Liaison

Medical Liaisons in Alliance Outreach, Managed Health Systems and Strategic Educational Initiatives continue to focus on providing education and support of PPLP products and research to internal and external customers. Notable progress toward 2012 objectives:

- Pain care and risk minimization resource packets were presented to forty-nine (49) state healthcare professional organizations in 2Q12.
- Product support focused on providing education, clinical information, and research support to healthcare professionals, such as formulary decision-makers and investigators:
 - **Butrans®**
 1. Three (3) clinical discussions - Managed Care customers (YTD=6)
 2. Four (4) posters presented in collaboration with Medical Research (YTD=6)
 3. BUP3031 Pediatric Study - Recruitment of sites continues with 17 approved, plus two open to enrollment (YTD=2)
 - **Intermezzo®**-Five clinical discussions - Managed Care customers (YTD=12)
 - **ORF/OTR** - OTR3001 Pediatric Study - site-specific enrollment support plans are in place; 48 US sites open to enrollment

Medical Inquiries Received Regarding Purdue Products

- 5,761 Inquiries
 - 9% increase from 1Q12 (3.8% decrease from 2Q11)
 - 76% answered within one (1) business day, 97.4% within ten (10) days
 - 972 inquiries regarding Intermezzo®



Library & Information Services

\$44,000 saved through favorable contract renewals, negotiated savings, use of articles from our repository and, cancellation of information products which have shown appreciable drops in usage. YTD savings is \$209,500.

CORPORATE COMPLIANCE

Assure compliance with Purdue's Corporate Integrity Agreement (CIA) and all Federal and State laws and regulations, as well as the PhRMA Code. Conduct risk assessments and audit and monitor business operations. Respond as required to all inquiries and conduct investigations of Company operations when appropriate. Assure that all ethics and compliance training requirements are met.

Corporate Integrity Agreement

- Purdue's CIA term comes to an end July 30th. There have been no Reportable Events in year five, and no unfavorable communications with the Office of Inspector General. We expect to complete the full term of the CIA with a favorable review, although the formal close of the CIA review by OIG may well take up to six months past July 30th.
- Communications to Employees regarding the end of the CIA term have begun, stressing the importance of continued compliance and the fact that there will be only limited changes to Purdue's compliance-related activities..

Call Note Review Process

Greater effectiveness and cost-savings has been accomplished with new call note reviews. Call notes had previously been performed by contract attorneys, employing up to six on a full-time basis. With the transfer of this function to Compliance in late 2011, a new approach to risk assessment was undertaken, reducing use of key word searches in favor of word searches based on productivity of results, with analysis of call notes on a random basis increased. This has resulted in the work being completed by two people in half their working time, with a back-log of 4-5 months eliminated, and call notes reviewed within three weeks following the close of each current month. This real time review resulted in earlier identification and investigation of any issues.

Public Citizen Freedom of Information Act (FOIA) Request

Recall, in 2010 Public Citizen requested copies of certain Purdue (and Pfizer) CIA Annual Report filings, and was largely denied access. Public Citizen since has appealed to the DC District Court, and together with Law we have collaborated with OIG on a common defense of the OIG's denial of access. The matter is now finally submitted to the Court for decision on the basis of affidavits and briefs of the parties.

LICENSING AND BUSINESS DEVELOPMENT

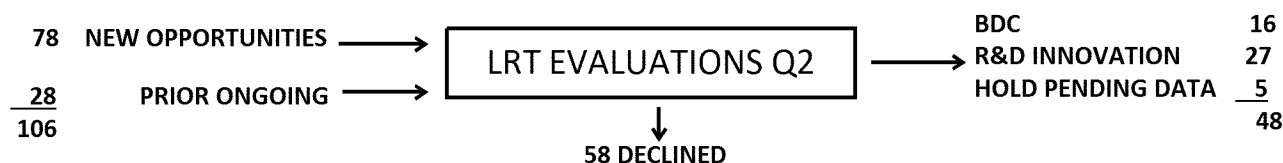
Advance Purdue's portfolio diversification strategy through in-licensing or acquisition, through an organized, systematic and strategic licensing review process. Champion the establishment of the new R&D Innovation effort, in the form of screening, business analysis, deal structuring and contract negotiation. Support Intellectual Property efforts related to new or existing products by acquiring and strengthening our IP portfolio as it applies to our in-line Rx products or new products and platforms. Continue to coordinate worldwide business development efforts, supporting Purdue Board-driven potential investment opportunities, by making strategic or financial investments in new companies, as directed by Purdue Board members.

The table below shows a tabular summary of the review activity within LBD in the second quarter of 2012.

The broad metrics show that the group processed 106 opportunity requests through the new system. More relevantly, we took 16 opportunities into the BDC process, and referred 27 opportunities to R&D Innovation, which is charged with reviewing and evaluating pre-POC drugs/devices/platform technologies/discovery technologies, etc.

The active projects within LBD in Q2 are shown in the table below. Our goal in 2012 is to deeply evaluate 25-30 projects in level two, and ultimately bring forward 5 - 10 level three projects - which would qualify for full negotiations, detailed due diligence, and ultimately term sheets. We have two projects at that level today; Theravance and Tarsa.

Q2 2012 Results



LBD Active Projects listed below

COMPANY	PRODUCT	INDICATION	BDC LEVEL + STATUS	RESPONSIBLE PARTY	SCREENING DATE
Tarsa	Oral rsCT Calcitonin	Osteoporosis	Level 3 Term sheet being worked on by Purdue	Yao	5/26/11
Theravance	TD-1211 oral	OIC	Level 3 Positive phase 2b data reported July 2012. Purdue to analyze data and further consider deal terms.	[REDACTED]	11/19/2010
Convergence	Nav 1.7 blocker oral	Neuropathic pain	Level 2 Phase 2 data due late Aug. 2012. Convergence will run a WW deal process once data becomes available.	[REDACTED]	1/10/2012
Spinifex	EMA-401 Angiotensin II Type 2 receptor antagonist oral capsule	Neuropathic pain	Level 2 Spinifex is conducting a 154 patient Phase 2 PHN trial dosing the drug BID for 28 days in Australia. Results due July/Aug. 2012	[REDACTED]	1/10/2012
Array	ARRY-797, p38 MAP Kinase Inhibitor	OA	Level 1B Phase 2 a data due Aug. 2012	[REDACTED]	10/24/2011
Cara Therapeutics	CR-845	Post-operative pain	Level 2 Phase 2b data under review	[REDACTED]	7/31/2008
Flexion	FX-0005, SR p38 inhibitor	OA	Level 1B Phase 2 study ongoing	[REDACTED]	6/10/2012
Regeneron	REGN475, NGF antibody	Chronic pain	Level 2 Confidential meeting on June 22. POC appears to	[REDACTED]	5/18/2012

			be met. Development costs \$300 - \$400M.		5/18/2012
ImmuPharma	Lupuzor	Systemic Lupus Erythematosus	Level 1B Mundipharma is not proceeding. POC not yet confirmed. US to look at market.		5/24/2012
ReNew	Ultimate Flora probiotics; CleanseSmart intestinal cleaner, Ultimate Fish oils, omega oils, TripleFiber, Digest More Enzymes	Digestive Health	Level 1B		6/28/2012

EXTERNAL AFFAIRS

Build support for appropriate pain care through policy development and implementation. Take appropriate action on external threats to optimal pain care. Promote Purdue's reputation in academic, community and scientific venues. Address proposed legislation and regulation that may affect the Company and its products. Develop and support innovative programs that safeguard public health and address abuse and diversion of prescription medication.

Build Support For Appropriate Pain Care Through Policy Development And Implementation

- The Pain Care Forum hosted Dr. Douglas Throckmorton, Deputy Director, FDA as a speaker at the meeting this quarter.
- The Food and Drug Administration (FDA), Office of National Drug Control Policy (ONDCP) and several members of Congress have contacted the Centers for Medicaid & Medicare Services (CMS) seeking a carve-out for abuse deterrent formulations from the line extension proposed regulation. Twenty-two organizations from the Pain Care Forum have commented on the CMS regulations. The White House has expressed concerns to CMS.
- Members of Congress are reviewing a third draft of legislation that would prevent FDA from approving a non-deterrent controlled substance where a deterrent formulation of the same drug is already approved. The legislation has received considerable comment from FDA and it seems that FDA's positions are consistent with that of Purdue.
- The National Hospice and Palliative Care Organization has launched "Live Without Pain," a national education campaign to empower patients and family caregivers to advocate for expert pain relief in all care settings through education and how to resources.
- American Osteopathic Association's "Break Through Your Pain" campaign in the states of Washington, Kentucky, Massachusetts and Florida reached an estimated audience of more than 175 million individuals through a combination of TV, radio, print and online media coverage. This campaign is supported through an unrestricted grant by Purdue Pharma.

Take Appropriate Action On External Threats To Optimal Pain Care

- Public Affairs developed a company response regarding a letter from the Senate Finance Committee and conducted media relations to communicate the company response to the media. We conducted targeted outreach to key opinion leaders and professionals/patient organizations named in the letter to alert them to the company's letter and communicate our plans to respond.

Promote Purdue's Reputation In Academic, Community And Scientific Venues

- Nine states are now operational with the National Association of Boards of Pharmacy (NABP) Interconnect Hub program which allows state prescription monitoring programs (pmps) to share data across state lines. Twenty states have signed agreements to participate and other states are currently in discussion.
- A press announcement and communications guidance document was developed for employees surrounding the presentation of data from the epidemiology studies with the reformulation of OxyContin at the annual meeting of the American Pain Society. Placement of articles was secured in Medscape, Physicians Prescribing Reference and Reuters Health. Public Affairs attended the APS meeting and alerted key opinion leaders to the poster presentations on the epidemiological data. Purdue provided communications guidance surrounding the presentation of in vivo liking studies and epidemiological data at the annual meeting of the College on Problems of Drug Dependence.
- Public Affairs issued a press release announcing Purdue's PERFORM module to help clinicians recognize and deter prescription drug abuse in their practice.
- Materials were developed under the Research and Development Advocacy Network (RADAN) to help recruit clinical investigators and facilitate patient enrollment in Purdue's clinical trials and distributed RADAN flyer at American Pain Society annual meeting.
- The Purdue corporate web site home page has been redesigned and updated.

Address Proposed Legislation And Regulation That May Affect The Company And Its Products.

- 16 states have introduced legislation (in some states such as New York as many as 12 bills) that addresses restrictions or regulations on controlled substance prescribing. Also, in at least six states (Kentucky, Ohio, Maine, Tennessee, Vermont and West Virginia) Governors/ Attorneys General have formed task forces to

address controlled substances prescribing as a result of prescription drug abuse and diversion.

- Florida passed a bill that allowed for an exemption for Rheumatologist from the pain clinic restrictions.
- Kentucky passed a bill that requires physicians to access the state prescription monitoring program before prescribing controlled substances.
- A New Mexico bill requiring mandatory CME for Pain Management and restrictions on CII prescriptions to a maximum of seven days was defeated.
- New Hampshire passed a bill to implement a prescription monitoring program.
- New York passed the ISTOP bill that updates the state prescription monitoring program, allows access for pharmacists and makes hydrocodone containing products CII controlled substances.
- Massachusetts approved through a budget bill, the use of copay coupons and allows physician dinner/speaker programs. Previously, it was the only state that prohibited their use.
- Mississippi introduced a bill to specifically restrict OxyContin. The bill was defeated.
- Tennessee passed a bill that requires prescribers to access the state prescription monitoring program when initiating a course of treatment with an opioid and then every year thereafter.
- Purdue convened a multi-functional planning team to develop company messages and a position supporting the appropriate use of opioids in the treatment of chronic non-malignant pain for the May 30-31 FDA meeting “Assessment of Analgesic Treatment of Chronic Pain: A Scientific Workshop.” Key opinion leaders and professional associations were informed of the upcoming workshop and were encouraged to voice their position on the appropriate use of opioids for chronic non-malignant pain.

Develop And Support Innovative Programs That Safeguard Public Health And Address Abuse And Diversion Of Prescription Medication.

- Public Affairs drove awareness of the national program SafeGuardMeds.org to educate the public about proper storage and disposal of prescription medications. This included a continued partnership with the US Conference of Mayors. The

Public Service Announcement campaign initiated in September 2011 has secured 11,525 airings, 252 million impressions and \$6,008,057 in media values to date.

- Proactive media relations were conducted to promote RxPATROL and the Law Enforcement Liaison & Education program. Public Affairs achieved positive delivery of Purdue's anti-diversion/anti-abuse messages by garnering more than 85 stories to an estimated 2 million readers/views for both RxPATROL and LELE.
- *Rx for Understanding*, a new curriculum developed in partnership with the National Education Association Health Information Network has been launched. In accordance with National Health Education Standards this program helps middle school teachers educate 5th through 8th grade students on the dangers of prescription drug abuse. Press announcements to enhance company reputation as part of the solution to prescription drug abuse were launched in coordination with the National Education Association.
- Purdue collaborated with the American Medical Association Foundation to announce new grant awards for community programs addressing prescription drug abuse. Press announcement with AMAF were coordinated to announce the grant program, thereby further enhancing the company's reputation.
- In Maine, Melissia Petro, Regional Director, State Government Affairs was appointed to a Prescription Drug Abuse Task Force by the Attorney General and assigned to the sub group responsible for making recommendations regarding the state prescription monitoring program.

HUMAN RESOURCES

Design, communicate and implement rewards programs that drive alignment and achievement of corporate and individual performance objectives. Staff positions with highly capable talent and assure employee engagement and retention. Develop employees through relevant and meaningful programs and assignments while providing for future succession requirements. Assure program and management compliance with all regulatory and legal requirements.

Staffing, Employee Engagement, Relations and Retention

- 129 employees have been recruited to Purdue YTD 2012. Turnover in 2012 is 3.9% YTD compared to 2.4% at the same time in 2011.
- Three Director level positions have been filled within the Stamford R&D organization:
 - [REDACTED] M.D., Senior Medical Director reporting to [REDACTED]
 - [REDACTED] Ph.D., Director, Clinical Pharmacology, reporting to Dr. Stephen Harris
 - [REDACTED] Director, Outsourcing and Vendor Alliance Management, reporting to [REDACTED]
- [REDACTED] has joined Corporate Field Sales Training & Development as Associate Director, reporting to [REDACTED]
- [REDACTED] joined Medical Affairs as Associate Director, reporting to Bridget Martell.
- Yahghong (Stella) Li joined Regulatory Affairs reporting to Mary Carpenter as Associate Director.
- [REDACTED] has been named Executive Director and Plant Manager at our Wilson site and will begin his employment in August.
- Recruiting is in the final stages for three critical positions in Wilson:
 - Associate Director, GxP Training
 - Associate Director, Pharm Tech Services
 - Sr. Manager, Finance
- A search is under way for the position of Director of Toxicology for Cranbury.

- The Supplier Quality Assurance organization in Totowa is being reorganized with the intent of broadening skills and roles, improving process efficiencies and providing improved stakeholder alignment.
- Early response from District Managers on the use of pre-employment testing in Field Sales indicates positive results.
- An “e-Chain of Custody” electronic pilot program has been implemented for the administration of drug screening of new employees in Stamford. The process will replace the paper forms we currently provide new hires at all sites, Field Sales and Zero Chaos, our consultant hiring company. Turnaround time for drug screening results has decreased from 10 days to under a week.

Training & Development

- Level 600 training for new District Managers was conducted to prepare for the management of employee relations issues in the Field.
- Human Resources conducted development workshops in Totowa and Wilson in June targeting Problem Solving, Decision Making, and Project Management.
- A Functional Organization Review session was held with key Tech Ops leadership in Wilson in June to analyze the business scorecard, talent review, succession plans, employee development, performance gaps and retention in Wilson.
- Human Resources facilitated an offsite meeting for BBU leaders as an update to the BBUs Operating Principles Guide, to draft individual BBU charters and to develop action plans addressing individual and collective improvement opportunities.
- A Leading for Success Managers II Program incorporating new material from the Harvard High Potentials Leadership Program was conducted, with a focus on the dual roles of managers in providing management oversight and leadership, and an eight-step process for leading change. Sales and Marketing Directors participated in Presentation Skills coaching which included ideas on building a compelling business case. A Leading for Success Professionals I Program was held for directors, managers and individual contributors on practicing a core set of skills, also featuring new material.
- Corporate Succession Planning is well underway. An upcoming meeting with senior management is scheduled to finalize actions and development planning.
- The Medical Education Department participated in a Team Effectiveness training session to strengthen trust, communication and collaboration.

- Human Resources held the annual College Fair with eight colleges represented. Forty-five employees met with various schools and inquired about Purdue's tuition reimbursement program.

Rhodes Technologies and Rhodes Pharmaceuticals

- Purdue Human Resources supported the Rhodes organization by facilitating an April 17 meeting which included:
 - Compensation budget utilization
 - Recommendations for 2012 compensation design
 - Transparency of compensation information to the Rhodes Board and Board of MNP Consulting
 - Organizational planning

Environment, Facility and Regulatory Compliance

- The Wilson facility was inspected by North Carolina's Department of Environment and Natural Resources, Water Quality and Surface Water group. The site has been granted the "No-Exposure Certification," thereby releasing the Wilson site from the required regulatory burden. Wilson must maintain non-exposure conditions and be recertified annually.

Efficiency and Effectiveness

- Human Resources recruiting staff members have been trained to use LinkedIn and Bullhornreach.com as candidate search tools, reducing the use of outside search firms.
- Restructuring of the Litigation Support group took place in June resulting in the reduction of five positions.

Full-Time Turnover Report YTD 6/30/2012

	Begin Count	End Count	Ave # EE's	Termina- tions	% Term EE's	Retired	Resigna- tions	% Resigned	Total T/O	YTD T/O Rate
S&P										
Sales	631	633	632	8	1.3%	1	29	4.6%	38	6.0%
Marketing	45	46	46	1	2.2%	0	2	4.4%	3	6.7%
Sales Support	23	28	26	0	0.0%	1	1	4.3%	2	8.7%
Field Ops, Support & Admin	15	14	15	0	0.0%	0	3	20.0%	3	20.0%
Total S&P	714	721	718	9	1.3%	2	35	4.9%	46	6.4%
% of X-FTE's				19.6%		4.3%	76.1%			
G&A										
Administrative Services	34	34	34	0	0.0%	0	0	0.0%	0	0.0%
Business Development	7	7	7	0	0.0%	0	0	0.0%	0	0.0%
Corporate Compliance	9	11	10	0	0.0%	0	0	0.0%	0	0.0%
EHS	5	6	6	0	0.0%	0	0	0.0%	0	0.0%
Executive	11	13	12	0	0.0%	0	1	9.1%	1	9.1%
External Affairs	18	18	18	0	0.0%	0	0	0.0%	0	0.0%
Finance	60	60	60	0	0.0%	0	0	0.0%	0	0.0%
General Counsel	47	45	46	0	0.0%	0	0	0.0%	0	0.0%
Human Resources	23	23	23	0	0.0%	0	0	0.0%	0	0.0%
IT	92	97	95	0	0.0%	0	2	2.2%	2	2.2%
Procurement	13	13	13	0	0.0%	0	0	0.0%	0	0.0%
QA	24	30	27	0	0.0%	0	0	0.0%	0	0.0%
Security	16	14	15	0	0.0%	1	0	0.0%	1	6.3%
Total G&A	359	371	365	0	0.0%	1	3	0.8%	4	1.1%
% of X-FTE's				0.0%		25.0%	75.0%			
IRD/US										
Discovery	46	47	47	1	2.2%	0	0	0.0%	1	2.2%
Cranbury Support	10	13	12	0	0.0%	0	0	0.0%	0	0.0%
Drug Safety & Pharma	36	35	36	0	0.0%	0	0	0.0%	0	0.0%
Health Policy	38	40	39	0	0.0%	0	0	0.0%	0	0.0%
Medical Research	75	85	80	0	0.0%	0	2	2.7%	2	2.7%
Nonclinical & R&D	47	49	48	0	0.0%	0	0	0.0%	0	0.0%
Program Management	22	24	23	0	0.0%	0	1	4.5%	1	4.5%
Regulatory Affairs	23	24	24	0	0.0%	0	1	4.3%	1	4.3%
Total IRD/US	297	317	307	1	0.3%	0	4	1.3%	5	1.7%
% of X-FTE's				20.0%		0.0%	80.0%			
MFG/OPERATIONS										
PF Labs Salaried	17	18	18	0	0.0%	0	0	0.0%	0	0.0%
PPMD	55	57	56	0	0.0%	0	0	0.0%	0	0.0%
Wilson NC	189	188	189	2	1.1%	1	10	5.3%	13	6.9%
Total MFG/OPERATIONS	261	263	262	2	0.8%	1	10	3.8%	13	5.0%
% of X-FTE's				15.4%		7.7%	76.9%			
Total PURDUE	1,631	1,672	1,652	12	0.7%	4	52	3.2%	68	4.2%
RHODES Technologies										
RHODES Pharma	22	25	24	0	0.0%	0	1	4.5%	1	4.5%
Total MFG/OPERATIONS	167	172	170	1	0.6%	0	2	1.2%	3	1.8%
Total MIAMI	4	5	5	0	0.0%	0	0	0.0%	0	0.0%
Grand Total	1,802	1,849	1,826	13	0.7%	4	54	3.0%	71	3.9%
% of X-FTE's				18.3%		5.6%	76.1%			

FINANCE/INFORMATION TECHNOLOGY

Assure 2012 sales, profitability, efficiency, cash flow, compliance and pipeline objectives are supported by proactive, future-focused and meaningful financial analysis. Assure that Purdue's financial reporting and forecasting provide transparency into business results, and financial reporting internal controls are in place.

Financial Performance First Half 2012

Expressed in 000's	June Year-to-Date			Full Year	
	2012 YTD	2012 YTD	2011 YTD	2012 Budget	2011 Actual
	Actual	Budget	Actual		
Net Branded Revenues	1,063,833	1,133,253	1,136,433	2,351,488	2,210,115
Operating Margin	483,770	512,861	631,843	1,094,217	1,186,089
EBITDA	482,061	497,737	619,498	1,070,182	1,173,772
Net Profit Before Tax	468,123	484,823	605,427	1,038,083	1,145,824
Owner's Equity	624,308	696,423	681,176	661,224	491,636
Non-tax Distributions	129,543	242,000	210,546	448,000	575,246
Days Sales Outstanding	35.4	35.0	35.1	35.0	33.9
Accounts Receivable Outstanding > 90 Days Past Due	< 1%	< 1%	< 1%	< 1%	< 1%
Capital Spending YTD	13,203	17,750	8,999	35,500	26,823
Unrestricted Cash on Hand	788,096	734,400	602,889	771,202	606,494
Available Liquidity	788,096	734,400	602,889	771,202	606,494
Available Liquidity - Average Months Sales	3.7	3.2	2.7	3.9	3.3
Headcount	1,672	1,730	1,630	1,788	1,633

Notes

- See full financial report for detail.
- Profit is lower than prior year due to increases in R&D (pipeline progressing), increasing S&P (launching new products) and lower sales (OxyContin).
- A \$113 million non-tax distribution was made in July bringing year-to-date to \$242 million.

Financial Performance Full Year 2012

The mid-year update presented in June projected:

(\$mm)	2012 Mid-year Update	2012 Budget	Variance FAV/ADV	Variance FAV/ADV %
Gross Branded Product Sales	\$3,019.0	\$3,167.9	(\$148.9)	-4.7%
Net Branded Sales	\$2,237.9	\$2,351.5	(\$113.6)	-4.8%
Operating Margin (before Incentive, Settlements & Other Items)	\$1,018.2	\$1,133.6	(\$115.4)	-10.2%
Operating Margin % Net Branded Sales	45.5%	48.2%	-2.7%	-5.6%
Pre-Tax Profit (Loss)	\$922.7	\$1,038.1	(\$115.4)	-11.1%
EBITDA	\$953.4	\$1,072.0	(\$118.6)	-11.1%
Tax Distributions	\$418.4	\$429.2	(\$10.8)	-2.5%
Non-Tax Distributions	\$381.5	\$448.0	(\$66.5)	-14.8%
Total Equity (all Companies in Pharmaceutical Group reported to Management Revisions)	\$621.5	\$661.2	(\$39.7)	-6.0%
Total Equity (US Operating Companies – Bank Reporting Group)	\$600.0	\$600.0	\$0.0	0.0%
Unrestricted Cash	\$701.9	\$771.2	(\$69.3)	-9.0%

Notes

- Lower than budget gross sales of \$148 million primarily due to lower OxyContin sales. Management reported that additional S&P resources are being allocated to OxyContin.
- An increase in R&D spend of \$28 million due to (1) a decision to develop an Oxycodone IR TR formulation, 2012 cost \$11 million, (2) timing and resupply of clinical materials for the ONU and Butrans higher strength studies, 2012 cost \$9 mm, and (3) adding 165 sites to ensure patient enrollment targets are met in the ONU pain plus OIC efficacy studies - \$5 million.
- Management is identifying spending reductions of \$15 million to partially fund the higher R&D spending.

Executive Audit Committee

Members: Stuart Baker, Jack Crowley, Mark Geraci, Ed Mahony, and Bert Weinstein
Purpose: To ensure the effectiveness of internal controls, integrity of financial statements, and performance of internal and external auditors.
Frequency: Quarterly

Below is a summary of the most recent Audit reports.

Review of Butrans Speaker Program (performed by Corporate Compliance)

- Corporate Compliance performed an audit of the Butrans speaker programs to determine whether the cost per person was compliant with requirements of the Sunshine Act. The audit concluded that the program recordkeeping often included paperwork errors in numbers of attendees, room rental charges, etc. The Audit did not detect compliance violations.
- Subsequent to the audit, there has been additional training of Logistics Innovations (the third party that administers the programs) and closer oversight by the sales and finance departments has been implemented. These changes are expected to improve the accuracy of record keeping.

Review of Contracts Supporting Payments to Major Vendors (performed by Internal Audit)

- Internal audit performed an audit of all vendors that Purdue paid more than \$100,000 during the twelve months ended September 30, 2011 to ensure that, where appropriate, a contract is in place and all work was competitively bid in accordance with company policy.
- Recommendations from the audit were:
 - Office of the General Counsel should update and circulate the guidelines that explain when a contract is required. Current status: In process.
 - The current \$50,000 limitation for competitive bidding should be clarified – does the limit relate to an individual purchase or to the total annual purchase for a vendor. Current status: The policy is being reviewed.
 - Manufacturing should consider more extensive, competitive bidding. Current status: The recommendation relates to materials used in production which are highly regulated and typically single or dual sourced. Implementing competitive bidding from non-approved sources would not add value.

Treasury

Purdue's cash holding is currently invested in Treasury bills and US Government Securities mutual funds primarily in accounts registered to Purdue. These investments earn approximately 0.05-0.07% per annum.



2Q12 STI updated
10 July 2012.xls

See attached for Purdue's investment portfolio.

Capital Committee

Members: David Long, Ed Mahony, David Lundie, Larry Pickett
Frequency: 2-3 times per year
Purpose: The Capital Committee recommends (1) an annual capital plan, (2) a long term capital, and (3) limits of authority for capital approvals to the President. The Capital Committee also reports postmortems on major capital projects to the President.

2012 Outlook

- Management agreed to reduce the budget by \$5.9 million of approved 2011 capital due to under spending, savings, and cancelled projects.
- 2011 carryover, net of the above reductions, is \$27.5 million. In addition, the Board approved \$35.0 million of 2012 new projects - these result in a total capital pool of \$62.5 million.
- Cash capital spend for 2012 is expected to be on budget at \$35.0 million with \$13.2 million spent year to date June 2012. We expect spend in the 2nd half to include the sales force computer equipment replacement (\$2.0 million), the Cranbury high potency lab fit out (\$1.6 million), the Cranbury hydrogenation lab (\$0.9 million) and computer hardware (\$4.5 million).
- A President Capital Reserve of \$2.5 million was set up in the 2012 Budget to fund projects that had not been fully vetted by budget time last year. The following reports on the status of this reserve:

Opening Balance in 2012 Budget	\$2.5
Projects approved:	
SAP access control system enhancements	(0.1)
Continuous power supply engineering study	(0.4)
Trackwise system for product complaints	(0.45)
Data disposition ⁽¹⁾	(0.3)
Dashboard for licensing and product opportunities	<u>(0.4)</u>
	<u>(1.65)</u>
Balance in President Reserve as of June 30 th	<u>\$0.85</u>

⁽¹⁾ This project allows Purdue to categorize stored IT data with the objective of removing unnecessary data, better identifying the data required to respond to legal requests and more. The payback on this project is less than one year through the elimination of storage costs.

2013 Budget Preparation

Purdue has initiated the 2013 budget process and has issued the following guidelines to all executive and departments heads:

- Sales – 2013 sales are expected to be at or about 2012 levels.
- Expense - Expenses and headcount are not expected to grow from 2012 by more than inflation, and in some areas we will be looking for reductions.
- R&D – Early indication is that to progress all the projects in the pipeline, the R&D budget will have to increase substantially. We will prepare the proposed spend accordingly, but will prioritize as the budget develops.
- S&P – BBU budgets will be critically evaluated. Continued support for OxyContin, Butrans and Intermezzo is currently anticipated.
- Headcount Budgets - Headcount needs, if any, should first be funded by efficiencies.
- Product In-Licensing / Acquisitions – A place holder for new product licenses or acquisitions will not be included in the 2013 Budget.

Trade Inventory

During 2011 and first half of 2012, OxyContin trade inventory operated at about 70 to 80 days demand. The expectation is that this will continue or decline as the trade improves its inventory management practices.

Summary of OxyContin inventory at the trade:

\$ millions	12/31/2009	12/31/2010	6/30/2011	9/30/11	12/31/11	3/31/12	6/30/12
Wholesaler	254.4	195.7	199.2	186.9	224.6	188.2	208.4
Pharmacy	427.2	438.1	421.5	406.9	347.0	369.7	337.9
Hospital/Other	4.1	3.3	4.1	4.0	5.0	4.1	4.0
Total \$	685.7	637.1	624.8	597.8	576.6	562.0	550.3
Total Days	75.8	75.6	75.1	69.8	72.6	75.4	78.5

Butrans inventory at the trade is down to about 70 days – a normal level:

\$ millions	9/30/11	12/31/11	3/31/11	6/30/12
Wholesaler	5.3	7.0	6.0	7.7
Pharmacy	12.6	10.8	12.4	10.7
Hospital/Other	0.1	0.1	0.1	0.5
Total \$	18.0	17.9	18.5	18.9
Total Days	139.0	117.2	79.9	72.1

Intermezzo inventory at the trade is \$12.8 million – a return reserve of \$9.0 million has been established based on current Rx demand and inventory shelf life expiration. As demand increases, this reserve will be decreased.

\$ millions	6/30/12
Wholesaler	7.9
Pharmacy	4.9
Hospital/Other	0
Total \$	12.8

Pension Investment Committee

Members: Stuart Baker, David Long, and Ed Mahony.

Frequency: 4 to 5 meetings per year

Purpose: The Pension Investment Committee oversees the investment managers and investments made in the Purdue defined benefits plan and, the investment choices offered to employees in Purdue's defined contribution 401(k) plan.

Defined Benefits Pension Plans

Purdue Pharma employee benefit package includes a defined benefit pension plan. This plan provides employees with a pension benefit calculated based on pay and years of service. Purdue contributes to a Trust Fund and that fund pays the employees' pension benefit. Purdue Pharma is ultimately liable to pay the benefits and until those benefits are completely paid out, the liability is uncertain and will change due to changes in many factors including, beneficiary life expectancy, turnover, pay raises, return on assets, and interest rate used to calculate lump sum payouts.

- PPLP Plan - At 12/31/12, the plan's Accumulated Benefit Obligation¹ was \$220 million and the plan assets were \$191 million. Purdue made \$7.1 million of contributions to the plan in Q2-2012 and budgeted to make \$28 million of

¹ Pension plan liability calculation above is calculated under ERISA/IRS guidance. Accounting guidance projects future benefits so liabilities are higher, but less relevant to our funding decisions.

contributions spread equally over 2012. The relatively high 2012 contribution is due to lower than expected investment return in 2011 and a decrease in discount rate used to determine future liability.

The plan investments returned approximately 1.0% for the 12-month ended 6/30/12. The fund assets are invested in: (a) passive equity indexed funds, and (b) actively managed fixed income funds – which have outperformed passive fixed income.

- PF Labs (Union) Plan - PF Labs has a smaller defined benefit plan - \$6.6 million in assets – covering ex-employees, the plan is well funded and small contributions are being made.

Defined Contribution Pension Plans - 401(k)

- Purdue Pharma LP also offers employees an optional 401(k) defined contribution savings plan. The company's contribution to this plan was \$5.9 million in 2011 and is defined as a certain limited percentage of the employee's contribution to the plan. The 401(k) plan assets total \$265 million and \$290 million at the end of 2011 and Q2-2012, respectively. Purdue employees choose how these funds are invested from a diversified list of mutual funds that are vetted and monitored by the Committee, Fidelity and an outside consultant.
- The plan offers employees a broad range of active and passive investment options. The funds offered are generally very good performers in their classes. Marginal and poor performers are frozen to new investment and/or removed. Nearly all

funds in Purdue's lineup are rated by Morningstar at 3-star or higher.

Information Technology

Top Projects & Initiatives

- The Health Care Practitioner (HCP) Portal is a Purdue website set up for HCP's who, once registered, have access to product information, formulary coverage, a sales representative visit request form, etc. The website is managed internally by IT at a significant savings from the previous vendor. Hosting savings alone are \$275K annually. The entire site was recently redeveloped, highlighting the addition of Intermezzo, as well as now being integrated with Managed Care Formulary information, which we believe HCP's will find very helpful.
- The IT team implemented an application called UPS Worldship which provides UPS labeling, parcel, and rate tracking functions to Rhodes Pharma at the Wilson distribution center. This will reduce group shipping costs by \$2,184,400. Rhodes Pharma successfully shipped the first orders under this UPS method on July 2.
- As presented at the board meeting on June 20, IT off-shoring currently used extensively in Purdue, is being evaluated by [REDACTED] for Europe. The group is considering establishing off-shore goals in line with industry standards (50% in-house, 50% off-shore). Approximately \$40 million in savings have been realized in the off-shore program at Purdue over the past six years.

Efficiency Initiative

Purdue's management team is undertaking targeted deep-dive expense analysis with a goal of delivering \$50 million in savings to Purdue's bottom line by 2Q 2013. The areas of focus are:

- IT-Worldwide – This study was completed in Q1 and presented to senior management and the Board. The study identified approximately \$8 million in savings. Larry Pickett and [REDACTED] are beginning to implement some of the proposed changes and will report back in 4Q 2012.
- Sales Force – This project will be initiated at the end of 4Q 2012 or 1Q 2013. Estimated savings could be in the range of 5% or \$5 million.
- Clinical Trial (CRO) Costs called "Project Breakthrough" – [REDACTED] and [REDACTED] have undertaken organizational and contracting changes which are delivering substantial savings.
- There will also be negotiated cost savings, vendor rebates, etc. delivered by [REDACTED] and department heads throughout Purdue.

Produced Natively

Produced Natively

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% of X-FTE's				19.6%		4.3%	76.1%			
G&A										
Administrative Services	34	34	34	0	0.0%	0	0	0.0%	0	0.0%
Business Development	7	7	7	0	0.0%	0	0	0.0%	0	0.0%
Corporate Compliance	9	11	10	0	0.0%	0	0	0.0%	0	0.0%
EHS	5	6	6	0	0.0%	0	0	0.0%	0	0.0%
Executive	11	13	12	0	0.0%	0	1	9.1%	1	9.1%
External Affairs	18	18	18	0	0.0%	0	0	0.0%	0	0.0%
Finance	60	60	60	0	0.0%	0	0	0.0%	0	0.0%
General Counsel	47	45	46	0	0.0%	0	0	0.0%	0	0.0%
Human Resources	23	23	23	0	0.0%	0	0	0.0%	0	0.0%
IT	92	97	95	0	0.0%	0	2	2.2%	2	2.2%
Procurement	13	13	13	0	0.0%	0	0	0.0%	0	0.0%
QA	24	30	27	0	0.0%	0	0	0.0%	0	0.0%
Security	16	14	15	0	0.0%	1	0	0.0%	1	6.3%
Total G&A	359	371	365	0	0.0%	1	3	0.8%	4	1.1%
% of X-FTE's				0.0%		25.0%	75.0%			
IRD/US										
Discovery	46	47	47	1	2.2%	0	0	0.0%	1	2.2%
Cranbury Support	10	13	12	0	0.0%	0	0	0.0%	0	0.0%
Drug Safety & Pharma	36	35	36	0	0.0%	0	0	0.0%	0	0.0%
Health Policy	38	40	39	0	0.0%	0	0	0.0%	0	0.0%
Medical Research	75	85	80	0	0.0%	0	2	2.7%	2	2.7%
Nonclinical & R&D	47	49	48	0	0.0%	0	0	0.0%	0	0.0%
Program Management	22	24	23	0	0.0%	0	1	4.5%	1	4.5%
Regulatory Affairs	23	24	24	0	0.0%	0	1	4.3%	1	4.3%
Total IRD/US	297	317	307	1	0.3%	0	4	1.3%	5	1.7%
% of X-FTE's				20.0%		0.0%	80.0%			
MFG/OPERATIONS										
PF Labs Salaried	17	18	18	0	0.0%	0	0	0.0%	0	0.0%
PPMD	55	57	56	0	0.0%	0	0	0.0%	0	0.0%
Wilson NC	189	188	189	2	1.1%	1	10	5.3%	13	6.9%
Total MFG/OPERATIONS	261	263	262	2	0.8%	1	10	3.8%	13	5.0%
% of X-FTE's				15.4%		7.7%	76.9%			
Total PURDUE	1,631	1,672	1,652	12	0.7%	4	52	3.2%	68	4.2%
RHODES Technologies										
	145	147	146	1	0.7%	0	1	0.7%	2	1.4%
RHODES Pharma	22	25	24	0	0.0%	0	1	4.5%	1	4.5%
Total MFG/OPERATIONS	167	172	170	1	0.6%	0	2	1.2%	3	1.8%
Total MIAMI	4	5	5	0	0.0%	0	0	0.0%	0	0.0%
Grand Total	1,802	1,849	1,826	13	0.7%	4	54	3.0%	71	3.9%
% of X-FTE's				18.3%		5.6%	76.1%			

S&P TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
Sales Force	463	5	0	4	9	459		
Sales Force	2	0	0	0	0	2		
Managed Care Sales	18	0	0	0	0	18		
Managed Health Strat	0	0	0	0	0	3		
National Accounts	7	0	0	0	0	7		
ibtotal	490	5	0	4	9	489	6.0%	
Marketing	18	0	0	0	0	17		
Marketing - PP	3	0	0	0	0	3		
Creative Services	7	0	0	0	0	7		
FA & Market Research	14	0	0	0	0	15		
NG - Subtotal	42	0	0	0	0	42	6.7%	
Sales Operations	10	0	0	0	0	12		
Sales Training	13	0	0	0	0	13		
PPORT - Subtotal	23	0	0	0	0	25	8.7%	
Mgd Mkt Cont. & Ops	12	0	0	0	0	14		
S, SUPPORT & ADMIN	12	0	0	0	0	14	20.0%	
CENTERS	567	5	0	4	9	570	6.4%	
<i>% of X-FTE's</i>		<i>55.6%</i>	<i>0.0%</i>	<i>44.4%</i>				

G&A TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
Admin. Services	32	0	0	0	0	32		
Administrative Services	32	0	0	0	0	32	0.0%	
Lic. & Bus. Dev.	7	0	0	0	0	7		
Development Subtotal	7	0	0	0	0	7	0.0%	
Corp. Compliance	7	0	0	0	0	8		
Compliance Subtotal	7	0	0	0	0	8	0.0%	
EHS - Corporate	5	0	0	0	0	5		
Environmental Health & Safety Subtotal	5	0	0	0	0	5	0.0%	
Ex. Admin	7	1	0	0	1	7		
Ex. Admin - RRS	1	0	0	0	0	1		
Ex. Admin - MDS	1	0	0	0	0	1		
Executive Administration-MDAS	1	1	0	0	1	0		
Ex. Admin - TE	5	0	0	0	0	5		
Administration Subtotal	15	2	0	0	2	14	9.1%	
Public Affairs	4	0	0	0	0	4		
Fed. Gov't Affairs	2	0	0	0	0	2		
State Gov't Affairs	9	0	0	0	0	9		
Affairs - Subtotal	15	0	0	0	0	15	0.0%	
Finance	53	1	0	0	1	54		
Finance	6	0	0	0	0	7		
Finance Subtotal	53	1	0	0	1	54	0.0%	
DEA Compliance	2	0	0	0	0	2		
General Counsel	32	0	0	0	0	32		
Litigation Support	12	0	0	0	0	12		
Records Management	4	0	0	0	0	4		
Internal Audit	2	0	0	0	0	2		
Legal Counsel Subtotal	52	0	0	0	0	52	0.0%	
Human Resources	21	0	0	0	0	21		
Human Resources - Subtotal	21	0	0	0	0	21	0.0%	

G&A TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
SAP Systems	21	1	0	0	1	20		
IT Administration	7	0	0	0	0	7		
IT Plan Cmpl & Res M	5	0	0	0	0	5		
Sales & Mkt Sys	11	0	0	0	0	11		
R&D Systems	6	0	0	0	0	6		
TSO Production	21	0	0	0	0	21		
Client Services	6	0	0	0	0	6		
IT Sec & Collab Svcs	9	0	0	0	0	9		
Technology Subtotal	86	1	0	0	1	85	2.2%	
Corp. Procurement	15	0	0	0	0	15		
at Subtotal	15	0	0	0	0	15	0.0%	
Corporate QA	14	0	0	0	0	14		
RQA - Cranbury	4	0	0	0	0	4		
RQA - Stamford	3	0	0	0	0	3		
QA Subtotal	21	0	0	0	0	21	0.0%	
Security - Corporate	8	0	0	0	0	8		
Security -Stamford	1	0	0	0	0	1		
LELE	6	0	0	0	0	6		
	15	0	0	0	0	15	6.3%	
IT CENTERS	344	4	0	0	4	344	1.1%	
<i>% of X-FTE's</i>		<i>100.0%</i>	<i>0.0%</i>	<i>0.0%</i>				

R&D TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
Discovery Admin.	37	0	0	0	0	38		
Cranbury Support	4	0	0	0	0	4		
Security - Discovery	1	0	0	0	0	1		
Cranbury Facilities	5	0	0	0	0	5		
RY - Subtotal	47	0	0	0	0	48	2.2%	
Drug Sfty. & Pharma	33	0	0	0	0	34		
ETY - Subtotal	33	0	0	0	0	34	0.0%	
Health Policy	2	0	0	0	0	2		
Risk Management	8	0	0	0	0	7		
HC Ed. & Liaison Pro	11	0	0	0	0	11		
Library & Info Serv.	7	0	0	0	0	7		
Medical Services	8	0	0	0	0	8		
Med. Education	4	0	0	0	0	5		
POLICY - Subtotal	40	0	0	0	0	40	0.0%	
Medical Research	48	0	0	2	2	48		
Medical Research	5	0	0	0	0	5		
RESRCH - Subtotal	53	0	0	2	2	53	2.7%	
PKDM/Toxicology	8	0	0	0	0	8		
Transderm Dev & Clin	6	0	0	0	0	6		
Transdermal Dev Pkg.	2	0	0	0	0	2		
Pharmaceutics	9	0	0	0	0	10		
Analytics	16	2	0	0	2	14		
CAL R&D - Subtotal	41	2	0	0	2	40	0.0%	
Program Mgmt	19	0	0	0	0	19		
Program Mgmt	2	0	0	0	0	2		
MGMT - Subtotal	21	0	0	0	0	21	4.5%	
US Reg. Affairs	18	0	0	0	0	18		
ORY AFFAIRS - Subto	18	0	0	0	0	18	4.3%	

R&D TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
Γ CENTERS	200	2	0	2	4	254	1.7%	
<i>% of X-FTE's</i>		<i>50.0%</i>	<i>0.0%</i>	<i>50.0%</i>				

MANUFACTURING TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
DEA Comp - Totowa	1	0	0	0	0	1		
Plant IT Sys - Tot	1	0	0	0	0	1		
Security - Totowa	1	0	0	0	0	1		
Logistics - Wilson	4	0	0	0	0	4		
Production - Totowa	2	0	0	0	0	2		
QC - Totowa	3	0	0	0	0	3		
QA - Totowa	2	0	0	0	0	2		
Prod Eng. - Totowa	3	0	0	0	0	3		
Mat. Mgmt - Totowa	1	0	0	0	0	1		
Plant Maint - Totowa	3	0	0	0	0	3		
Distrib. - Totowa	1	0	0	0	0	1		
ALARIED - Subtotal	22	0	0	0	0	22	0.0%	
M&SC - Pkg Des & Dev	6	0	0	0	0	6		
M&SC - Admin	1	0	0	0	0	1		
M&SC - HR	1	0	0	0	0	1		
M&SC - Supplier Qual	17	0	0	1	1	17		
M&SC - IT SAP	7	0	0	0	0	7		
M&SC Plan & Compl	6	0	0	0	0	6		
M&SC - Tech Services	2	0	0	0	0	2		
M&SC - Supply Chain	13	0	0	0	0	13		
M&SC - cGMP Training	3	0	0	0	0	3		
M&SC - Cent Eng.	2	0	0	0	0	2		
ST - Subtotal	58	0	0	1	1	58	0.0%	
Mfg - Wilson	29	0	0	0	0	30		
Pkg - Wilson	21	2	0	0	2	18		
Ex. Admin. - Wilson	7	0	0	0	0	7		
CSA Comp. - Wilson	12	0	0	0	0	13		
Plant IT Sys -Wilson	8	0	0	0	0	8		
HR - Wilson	2	0	0	0	0	2		
Security - Wilson	2	0	0	0	0	1		
Production - Wilson	11	0	0	0	0	11		
QC - Wilson	25	0	0	0	0	25		
QA - Wilson	28	0	0	0	0	28		
Plant Eng. - Wilson	7	0	0	0	0	7		
Plant Maint - Wilson	10	0	0	0	0	10		
EHS - Wilson	1	0	0	0	0	1		
Distribution -Wilson	11	0	0	0	0	11		
Pharm Tech-Wilson	8	0	0	0	0	8		
NC - Subtotal	182	2	0	0	2	180	6.9%	
TC CENTERS	262	2	0	1	3	260	5.0%	
<i>% of X-FTE's</i>		<i>66.7%</i>	<i>0.0%</i>	<i>33.3%</i>				

RHODES TURNOVER TREND

January YTD 2010

	Begin Count	Termina- tions	Retired	Resigna- tions	TOTAL x-FTE's	End Count	March YTD Turnover % Rate	Est. Annual % Rate > 10%
Mfg - Rhodes	30	0	0	0	0	30		
Ex. Admin. - Rhodes	7	0	0	0	0	7		
HR - Rhodes	3	0	0	0	0	3		
Prod Dev - Rhodes Ph	9	0	0	1	1	7		
Production - Rhodes	10	0	0	0	0	11		
QC - Rhodes	11	0	0	0	0	11		
Plant Eng. - Rhodes	15	0	0	0	0	15		
Mat Mangment -Rhodes	4	0	0	0	0	4		
Security - Rhodes	2	0	0	0	0	2		
EHS - Rhodes	4	0	0	0	0	3		
TECHNOLOGIES - Subto	95	0	0	1	1	93	1.4%	
Executive Admin RP	2	0	0	0	0	2		
Prod. Dev. - Rhodes	23	0	0	0	0	25		
QA - Rhodes	6	0	0	0	0	6		
Prod. Eng. - Rhodes	7	0	0	0	0	10		
Sales & Promo RP	1	0	0	0	0	3		
HARMA - Subtotal	39	0	0	0	0	46	#REF!	
IT CENTERS	134	0	0	1	1	139	1.8%	
<i>% of X-FTE's</i>		<i>0.0%</i>	<i>0.0%</i>	<i>100.0%</i>				

Projected Turnover Report
For the period 01/01/2004Through 03/31/2004
Regular / Full-Time

Department	Begin	Terms	RET	Resigned	End	
1901219	29				30	Mfg - Wilson
1901227	30				30	Mfg - Rhodes
1902219	21	2			18	Pkg - Wilson
2100208	7	1			7	Ex. Admin
2100219	7				7	Ex. Admin. - Wilson
2100250	2				2	Executive Admin RP
2100227	7				7	Ex. Admin. - Rhodes
2100504	5				5	Ex. Admin - TE
2102208	1				1	Ex. Admin - RRS
2103208	1				1	Ex. Admin - MDS
2105208	1	1			0	Executive Administration-MDAS
2130208	7				8	Corp. Compliance
2131208	2				2	DEA Compliance
2131219	12				13	CSA Comp. - Wilson
2131109	1				1	DEA Comp - Totowa
2153208	21	1			20	SAP Systems
2164208	6				6	M&SC - Pkg Des & Dev
2180208	7				7	Lic. & Bus. Dev.
2183208	4				4	Public Affairs
2185409	8				8	Security - Corporate
2187208	4				4	RQA - Cranbury
2188208	3				3	RQA - Stamford
2190208	14				14	Corporate QA
2200208	32				32	General Counsel
2201208	12				12	Litigation Support
2202208	4				4	Records Management
2203409	2				2	Internal Audit
2250208	2				2	Fed. Gov't Affairs
2251208	9				9	State Gov't Affairs
2301208	53	1			54	Finance
2301415	6				7	Finance
2350208	15				15	Corp. Procurement
2400208	7				7	IT Administration
2400109	1				1	Plant IT Sys - Tot
2400219	8				8	Plant IT Sys -Wilson
2402208	5				5	IT Plan Cmpl & Res M
2404208	11				11	Sales & Mkt Sys
2408208	6				6	R&D Systems
2410208	21				21	TSO Production
2450208	6				6	Client Services
2460208	9				9	IT Sec & Collab Svcs
2500208	21				21	Human Resources
2500219	2				2	HR - Wilson
2500227	3				3	HR - Rhodes
2510208	32				32	Admin. Services
2530409	1				1	Security -Stamford
2531409	1				1	Security - Totowa
2532409	2				1	Security - Wilson
2533409	2				2	Security - Rhodes
2539208	6				6	LELE

Projected Turnover Report
For the period 01/01/2004Through 03/31/2004
Regular / Full-Time

2550409	5				5	EHS - Corporate
2901219	4				4	Logistics - Wilson
4010208	18				18	US Reg. Affairs
4105208	37				38	Discovery Admin.
4107208	2				2	Health Policy
4108208	8				7	Risk Management
4109208	11				11	HC Ed. & Liaison Pro
4110208	19				19	Program Mgmt
4110241	2				2	Program Mgmt
4160227	23				25	Prod. Dev. - Rhodes
4160250	9		1		7	Prod Dev - Rhodes Ph
4232208	4				4	Cranbury Support
4300208	8				8	PKDM/Toxicology
4403409	1				1	Security - Discovery
4422208	5				5	Cranbury Facilities
4500208	6				6	Transderm Dev & Clin
4500241	2				2	Transdermal Dev Pkg.
4505208	9				10	Pharmaceutics
4601208	7				7	Library & Info Serv.
4713208	48		2		48	Medical Research
4713241	5				5	Medical Research
4716208	33				34	Drug Sfty. & Pharma
4718208	8				8	Medical Services
4800208	4				5	Med. Education
4900208	16	2			14	Analytics
6000109	2				2	Production - Totowa
6000219	11				11	Production - Wilson
6000227	10				11	Production - Rhodes
6100109	3				3	QC - Totowa
6100219	25				25	QC - Wilson
6100227	11				11	QC - Rhodes
6200109	2				2	QA - Totowa
6200219	28				28	QA - Wilson
6200227	6				6	QA - Rhodes
6300109	3				3	Prod Eng. - Totowa
6300227	7				10	Prod. Eng. - Rhodes
6400219	7				7	Plant Eng. - Wilson
6400227	15				15	Plant Eng. - Rhodes
6500109	1				1	Mat. Mgmt - Totowa
6500227	4				4	Mat Mangment -Rhodes
6600109	3				3	Plant Maint - Totowa
6600219	10				10	Plant Maint - Wilson
6651409	1				1	EHS - Wilson
6652409	4				3	EHS - Rhodes
6700109	1				1	Distrib. - Totowa
6700219	11				11	Distribution -Wilson
6900219	8				8	Pharm Tech-Wilson
6950208	1				1	M&SC - Admin
6951208	1				1	M&SC - HR
6952208	17		1		17	M&SC - Supplier Qual
6953208	7				7	M&SC - IT SAP

Regular / Full-Time

[illegible]

Month #	3
Month	March
#	4

1	January	12
2	February	6
3	March	4
4	April	3
5	May	2.4
6	June	2
7	July	1.7142857
8	August	1.5
9	September	1.3333333
10	October	1.2
11	November	1.0909091
12	December	1

Report

2100	2100208	2100208	7
2102	2102208	2102208	1
2103	2103208	2103208	1
2105	2105208	2105208	1
2130	2130208	2130208	6
2131	2131208	2131208	2
2153	2153208	2153208	21
2164	2164208	2164208	6
2180	2180208	2180208	6
2183	2183208	2183208	4
2185	2185409	2185409	8
2187	2187208	2187208	4
2188	2188208	2188208	3
2190	2190208	2190208	14
2200	2200208	2200208	33
2201	2201208	2201208	12
2202	2202208	2202208	4
2203	2203409	2203409	2
2250	2250208	2250208	2
2251	2251208	2251208	9
2301	2301208	2301208	59
2350	2350208	2350208	15
2400	2400208	2400208	7
2402	2402208	2402208	5
2408	2408208	2408208	15
2410	2410208	2410208	21
2450	2450208	2450208	17
2500	2500208	2500208	21
2510	2510208	2510208	32
2530	2530409	2530409	1
2539	2539208	2539208	6
2550	2550409	2550409	5
2901	2901109		
4055	4055208		
4105	4105208	4105208	37
4107	4107208	4107208	2
4108	4108208	4108208	8
4109	4109208	4109208	11
4110	4110208	4110208	21
4204			
4232	4232208	4232208	4
4300	4300208	4300208	8
4403	4403409	4403409	1
4422	4422208	4422208	5
4500	4500208	4500208	8
4505	4505208	4505208	9

4601	4601208 4601208	7
4713	4713208 4713208	54
4716	4716208 4716208	33
4718	4718208 4718208	8
4800	4800208 4800208	4
4900	4900208 4900208	16
6000	6000109 6000109	2
6100	6100109 6100109	3
6200	6200109 6200109	2
6300	6300109 6300109	3
6500	6500109 6500109	1
6600	6600109 6600109	3
6650	6650409	
6700	6700109 6700109	1
6900	6900109 6900219	8
6950	6950208 6950208	1
6951	6951208 6951208	1
6952	6952208 6952208	17
6953	6953208 6953208	7
6954	6954208	6
6955	6955208	2
6959	6959208 6959208	13
6962	6962208 6962208	3
6967	6967208 6967208	2
8000	8000208 8000208	18
8100	8100208 8100208	467
8110	8110208 8110208	12
8111	8111208 8111208	16
8130	8130213 8130213	3
8200	8200208 8200208	7
8500	8500208 8500208	10
8510	8510208 8510208	13
8800	8800208 8800208	14
8900	8900208 8900208	7
9000	9000208	
1901NC	1901219 1901219	29
1901RT	1901227 1901227	30
1901UN	1901109	
1902NC	1902219 1902219	21
1902UN	1902109	
2100NC	2100219 2100219	7
2100RP	2100250 2100250	3
2100RT	2100227 2100227	11
2100TE	2100504 2100504	5
2131NC	2131219 2131219	12
2131PL	2131109 2131109	1
2400MS	2400109 2400109	1

2400NC	2400219 2400219	8
2500NC	2500219 2500219	2
2500PL	2500109	
2500RT	2500227 2500227	3
2531PL	2531409 2531409	1
2532NC	2532409 2532409	2
2533RT	2533409 2533409	2
4010MC	2901219 2901219	4
4010US	4010208 4010208	19
4160RP	4160250 4160250	9
4160RT	4160227 4160227	23
6000NC	6000219 6000219	11
6000RT	6000227 6000227	10
6000UN		
6100NC	6100219 6100219	25
6100RP		
6100RT	6100227 6100227	11
6200NC	6200219 6200219	28
6200RP		
6200RT	6200227 6200227	6
6200UN		
6300RP		
6300RT	6300227 6300227	8
6400NC	6400219 6400219	7
6400RT	6400227 6400227	15
6500UN		
6600NC	6600219 6600219	10
6600UN		
6651NC	6651409 6651409	1
6652RT	6652409 6652409	4
6700NC	6700219 6700219	11
6700UN		
6900NC	6900219	
8000PP	8000307 8000307	3
8100NF		
8111NF		
8900NF		1571

Produced Natively

(\$mm)	2012 Mid- year Update	2012 Budget	Variance FAV/ADV	Variance FAV/ADV %
Gross Branded Product Sales	\$3,019.0	\$3,167.9	(\$148.9)	-4.7%
Net Branded Sales	\$2,237.9	\$2,351.5	(\$113.6)	-4.8%
Operating Margin (before Incentive, Settlements & Other Items)	\$1,018.2	\$1,133.6	(\$115.4)	-10.2%
Operating Margin % Net Branded Sales	45.5%	48.2%	-2.7%	-5.6%
Pre-Tax Profit (Loss)	\$922.7	\$1,038.1	(\$115.4)	-11.1%
EBITDA	\$953.4	\$1,072.0	(\$118.6)	-11.1%
Tax Distributions	\$418.4	\$429.2	(\$10.8)	-2.5%
Non-Tax Distributions	\$381.5	\$448.0	(\$66.5)	-14.8%
Total Equity (all Companies in Pharmaceutical Group reported to Management Revisions)	\$621.5	\$661.2	(\$39.7)	-6.0%
Total Equity (US Operating Companies – Bank Reporting Group)	\$600.0	\$600.0	\$0.0	0.0%
Unrestricted Cash	\$701.9	\$771.2	(\$69.3)	-9.0%

Produced Natively

	June Year-to-Date			Full Year	
	2012 YTD Actual	2012 YTD Budget	2011 YTD Actual	2012 Budget	2011 Actual
<u>Expressed in 000's</u>					
Net Branded Revenues	1,063,833	1,133,253	1,136,433	2,351,488	2,210,115
Operating Margin	483,770	512,861	631,843	1,094,217	1,186,089
EBITDA	482,061	497,737	619,498	1,070,182	1,173,772
Net Profit Before Tax	468,123	484,823	605,427	1,038,083	1,145,824
Owner's Equity	624,308	696,423	681,176	661,224	491,636
Non-tax Distributions	129,543	242,000	210,546	448,000	575,246
Days Sales Outstanding	35.4	35.0	35.1	35.0	33.9
Accounts Receivable Outstanding > 90 Days Past Due	< 1%	< 1%	< 1%	< 1%	< 1%
Capital Spending YTD	13,203	17,750	8,999	35,500	26,823
Unrestricted Cash on Hand	788,096	734,400	602,889	771,202	606,494
Available Liquidity	788,096	734,400	602,889	771,202	606,494
Available Liquidity - Average Months Sales	3.7	3.2	2.7	3.9	3.3
Headcount	1,672	1,730	1,630	1,788	1,633

Produced Natively

	Betadine	Colace	Dilaudid	MS Contin	Senokot	Ryzolt	PeriColace	SlowMag
2Q12	309	698	89	54	465	10	85	186
2Q11	310	554	54	33	428	23	73	185

Produced Natively

	Butrans	Intermezzo	OxyContin
2Q12	1665	972	866
1Q11	2280		1,661

To: Sackler, Dr Richard [REDACTED]
Cc: Stewart, John H. (US) [REDACTED] Gasdia,
Russell [REDACTED] Fisher,
Winder [REDACTED] Innaurato,
Mike [REDACTED]
From: Rosen, David (Sales and Marketing)
Sent: Mon 7/30/2012 8:16:28 PM
Subject: Intermezzo = 789; Butrans=9,284

Hi, Dr. Richard. Largely flat trend. Pull through is starting in earnest this week on our Butrans formulary wins, so we will be monitoring the trends in those plans and overall trends closely for progress.

Butrans

Rx Increase from last week	1.2%
Share	1.84%
Share last week	1.79%

Intermezzo

Rx Increase from last week	-2.4%
Share	0.058%
Share last week	0.058%

-David

David Rosen | Executive Director, Forecasting, Analytics and Market Research | Purdue Pharma | One
Stamford Forum Stamford CT 06901 [REDACTED]@pharma.com | [REDACTED]

[REDACTED]

Redacted

To: Sackler, Dr Richard [REDACTED]
Cc: Stewart, John H. (US) [REDACTED] Gasdia,
Russell [REDACTED] Innaurato,
Mike [REDACTED] Fisher,
Windell [REDACTED]
From: Rosen, David (Sales and Marketing)
Sent: Fri 8/3/2012 8:37:51 AM
Subject: Butrans graphs
[Butrans Weekly Report 7-20-12.xlsm](#)

Hi, Dr.Richard. Here are the Butrans graphs. Intermezzo will follow shortly.

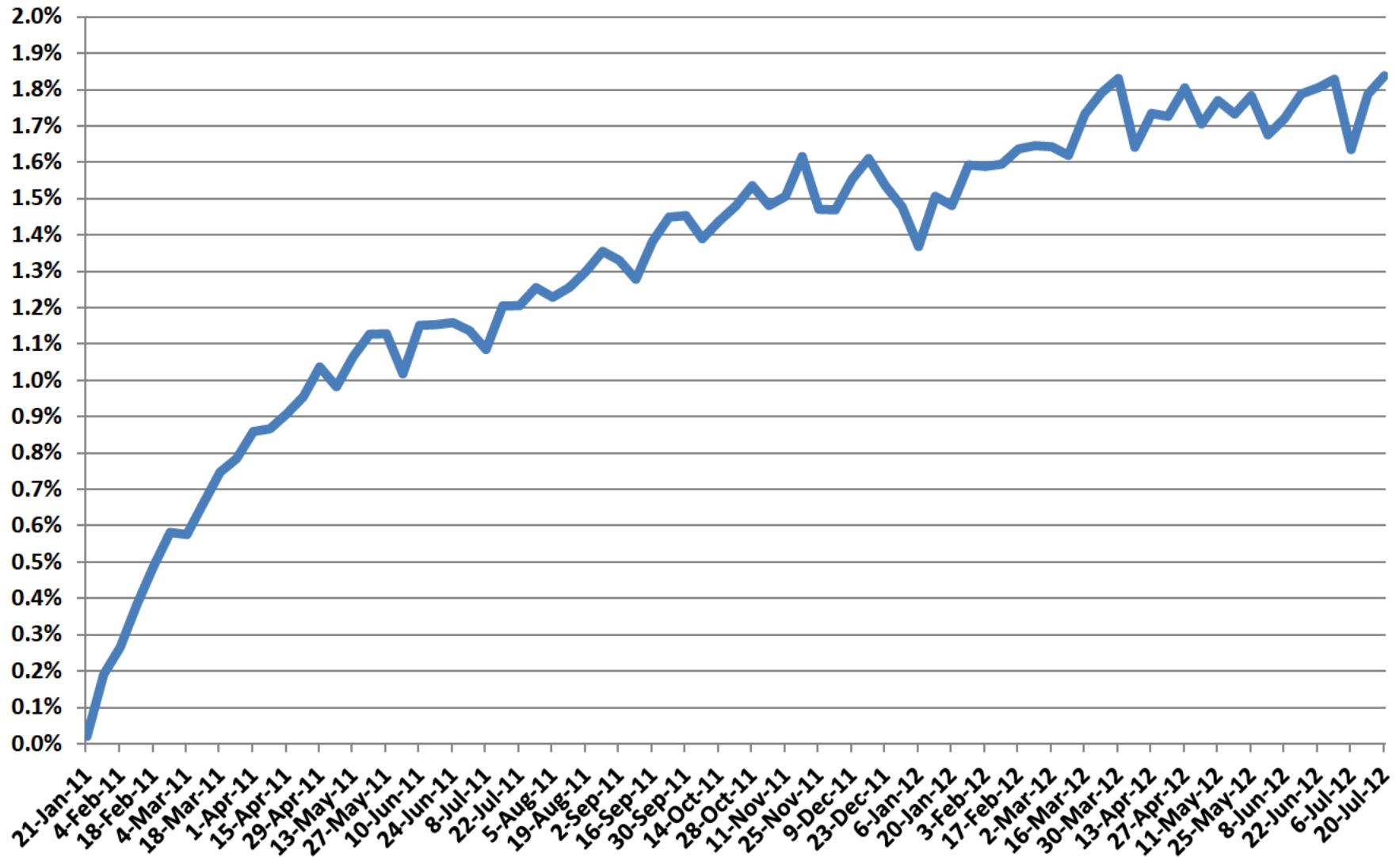
-David

Produced Natively

Butrans Weekly Extended Release Opioid Rx Share

(Source: IMS National Prescription Audit; includes both brand and generic opioids)

Weekly TRx Share





[NRx, RRx and TRx by Strength](#)
[Distribution of Rx by Strength](#)
[Distribution of NRx, RRx and TRx by Strength](#)
[Weekly Growth in Butrans TRxs](#)

		Butrans New, Refill and Total Prescriptions by Strength													
		Total			5 mcg/hour			10 mcg/hour			20 mcg/hour			Total	
<u>Week #</u>	<u>Week Ending</u>	<u>NRx</u>	<u>RRx</u>	<u>TRx</u>	<u>NRx</u>	<u>RRx</u>	<u>TRx</u>	<u>NRx</u>	<u>RRx</u>	<u>TRx</u>	<u>NRx</u>	<u>RRx</u>	<u>TRx</u>	<u>NRx</u>	<u>RRx</u>
Week 45	25-Nov-11	5,305	1,255	6,560	1,626	305	1,931	2,363	573	2,936	1,316	377	1,693	80.9%	19.1%
Week 46	2-Dec-11	6,390	1,498	7,888	1,909	336	2,245	2,860	718	3,578	1,621	444	2,065	81.0%	19.0%
Week 47	9-Dec-11	6,461	1,479	7,940	1,933	360	2,293	3,031	677	3,708	1,497	442	1,939	81.4%	18.6%
Week 48	16-Dec-11	6,712	1,594	8,306	2,009	477	2,486	3,070	659	3,729	1,633	458	2,091	80.8%	19.2%
Week 49	23-Dec-11	6,419	1,505	7,924	1,967	382	2,349	2,875	671	3,546	1,577	452	2,029	81.0%	19.0%



		Distribution of Butrans Prescriptions by Strength									Distribution of Butrans New Prescriptions by Strength					
Week #	Week Ending	5 mcg/hour				10 mcg/hour			20 mcg/hour			Total			5 mcg/hour	
		TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx
Week 45	25-Nov-11	100.0%	24.8%	4.6%	29.4%	36.0%	8.7%	44.8%	20.1%	5.7%	25.8%	80.9%	19.1%	100.0%	84.2%	15.8%
Week 46	2-Dec-11	100.0%	24.2%	4.3%	28.5%	36.3%	9.1%	45.4%	20.6%	5.6%	26.2%	81.0%	19.0%	100.0%	85.0%	15.0%
Week 47	9-Dec-11	100.0%	24.3%	4.5%	28.9%	38.2%	8.5%	46.7%	18.9%	5.6%	24.4%	81.4%	18.6%	100.0%	84.3%	15.7%
Week 48	16-Dec-11	100.0%	24.2%	5.7%	29.9%	37.0%	7.9%	44.9%	19.7%	5.5%	25.2%	80.8%	19.2%	100.0%	80.8%	19.2%
Week 49	23-Dec-11	100.0%	24.8%	4.8%	29.6%	36.3%	8.5%	44.8%	19.9%	5.7%	25.6%	81.0%	19.0%	100.0%	83.7%	16.3%



		w, Refill and Total Prescriptions by Strength							Weekly Growth in Butrans New, Refill and Total Presc							
Week #	Week Ending	10 mcg/hour			20 mcg/hour			Total			5 mcg/hour			10 mcg/hou		
		TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx	TRx	NRx	RRx
Week 45	25-Nov-11	100.0%	80.5%	19.5%	100.0%	77.7%	22.3%	100.0%	-21.8%	-12.2%	-20.2%	-21.4%	-18.9%	-21.1%	-24.0%	-9.0%
Week 46	2-Dec-11	100.0%	79.9%	20.1%	100.0%	78.5%	21.5%	100.0%	20.5%	19.4%	20.2%	17.4%	10.2%	16.3%	21.0%	25.3%
Week 47	9-Dec-11	100.0%	81.7%	18.3%	100.0%	77.2%	22.8%	100.0%	1.1%	-1.3%	0.7%	1.3%	7.1%	2.1%	6.0%	-5.7%
Week 48	16-Dec-11	100.0%	82.3%	17.7%	100.0%	78.1%	21.9%	100.0%	3.9%	7.8%	4.6%	3.9%	32.5%	8.4%	1.3%	-2.7%
Week 49	23-Dec-11	100.0%	81.1%	18.9%	100.0%	77.7%	22.3%	100.0%	-4.4%	-5.6%	-4.6%	-2.1%	-19.9%	-5.5%	-6.4%	1.8%



Prescriptions by Strength

<u>Week #</u>	<u>Week Ending</u>	20 mcg/hour			
		<u>TRx</u>	<u>NRx</u>	<u>RRx</u>	<u>TRx</u>
Week 45	25-Nov-11	-21.5%	-18.1%	-11.1%	-16.6%
Week 46	2-Dec-11	21.9%	23.2%	17.8%	22.0%
Week 47	9-Dec-11	3.6%	-7.6%	-0.5%	-6.1%
Week 48	16-Dec-11	0.6%	9.1%	3.6%	7.8%
Week 49	23-Dec-11	-4.9%	-3.4%	-1.3%	-3.0%



[Butrans 10mcg Equivalents](#)
[Distribution of 10mcg Equivalents](#)
[Weekly Growth in 10mcg Equivalents](#)

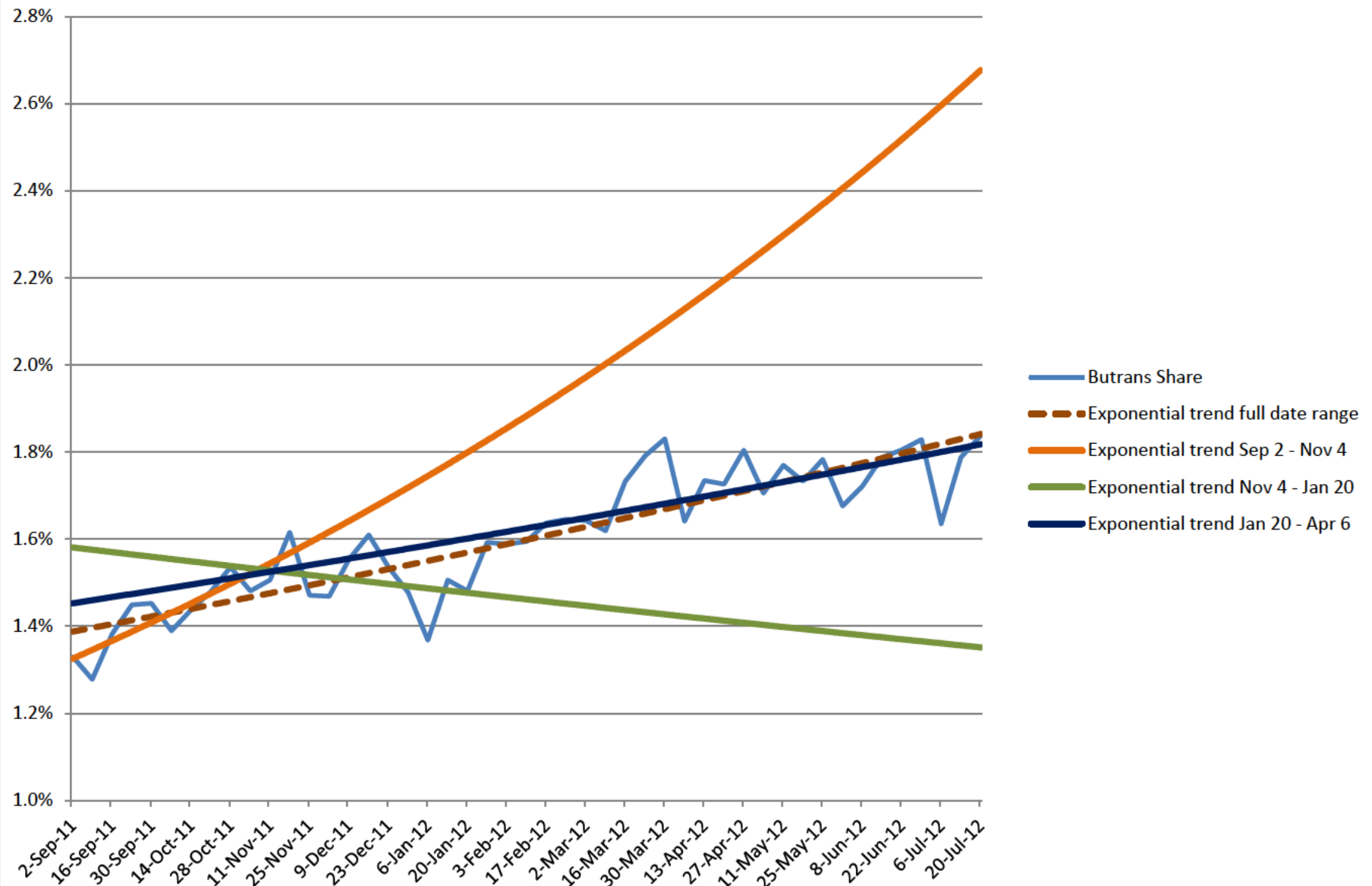
		Butrans 10mcg Equivalents				Trend Line Sept 1	Trend Line Jan 20	Distrib
<u>Week #</u>	<u>Week Ending</u>	<u>Total</u> <u>TRx</u>	<u>5 mcg/hour</u> <u>TRx</u>	<u>10 mcg/hour</u> <u>TRx</u>	<u>20 mcg/hour</u> <u>TRx</u>	<u>Total</u> <u>TRx</u>	<u>Total</u> <u>TRx</u>	<u>Total</u> <u>TRx</u>
Week 44	18-Nov-11	9,023	1,223	3,740	4,060	9,023		100.0%
Week 45	25-Nov-11	7,288	966	2,936	3,386	7,288		100.0%



Conversion of Butrans 10mcg Equivalents		
5 mcg/hour	10 mcg/hour	20 mcg/hour
<u>TRx</u>	<u>TRx</u>	<u>TRx</u>
13.6%	41.4%	45.0%
13.2%	40.3%	46.5%

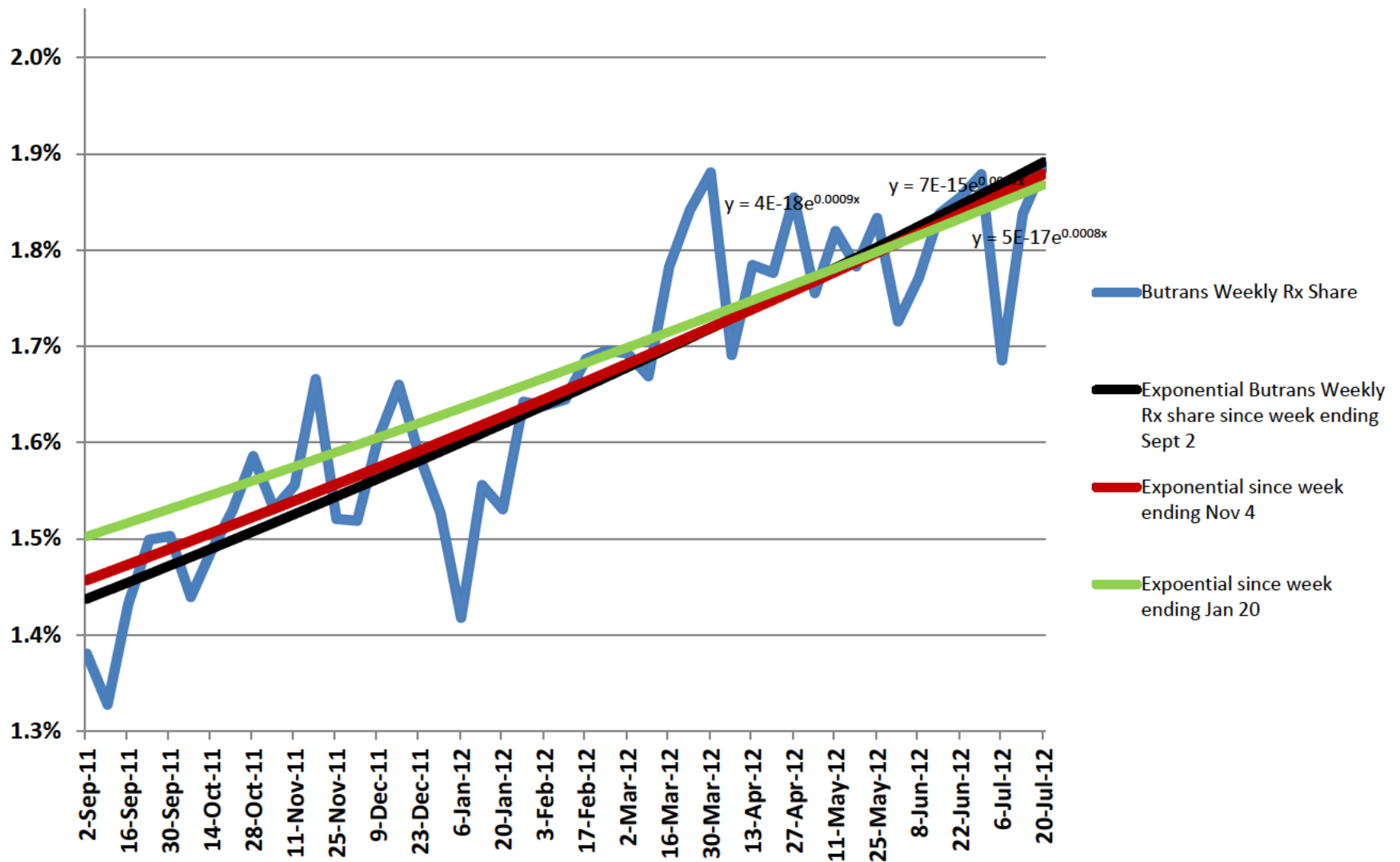
<u>Week #</u>	<u>Week Ending</u>
Week 44	18-Nov-11
Week 45	25-Nov-11

Detailed Butrans Weekly Extended Release Opioid Market Share
(Source: IMS National Prescription Audit; includes both branded and generic opioids)



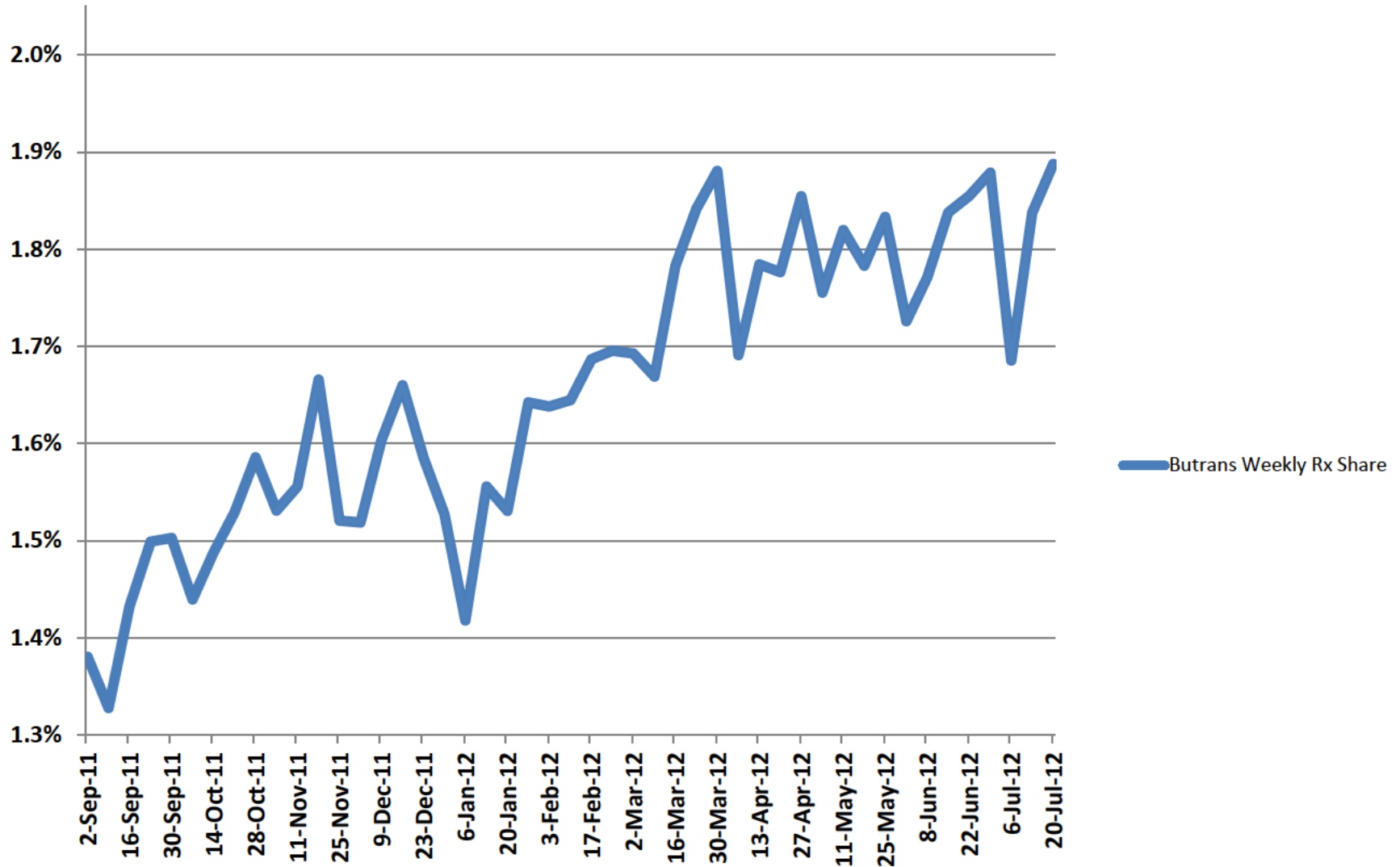
Detailed Butrans Weekly Extended Release Opioid Market Share

(Source: IMS National Prescription Audit; includes both branded and generic opioids)

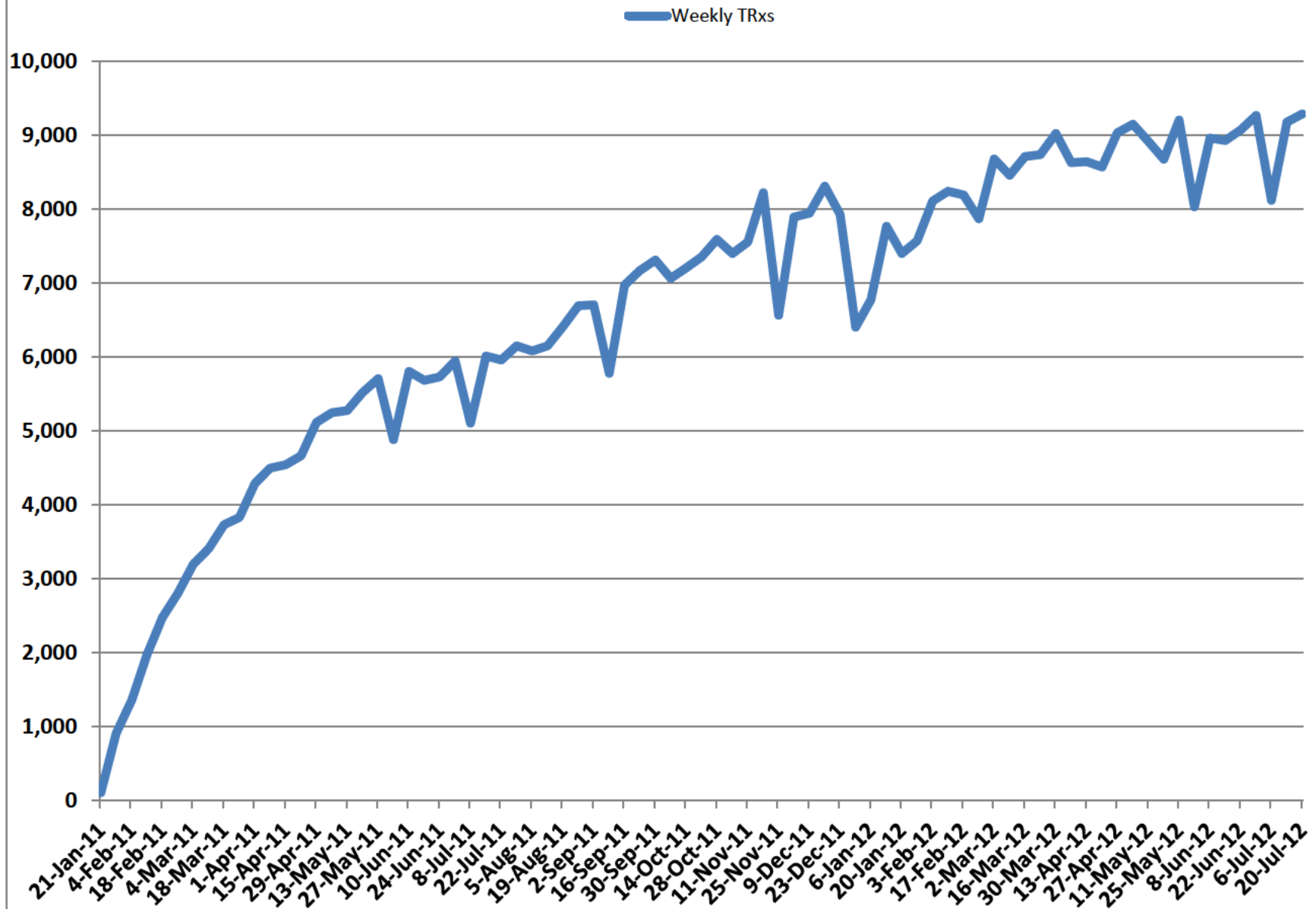


Detailed Butrans Weekly Extended Release Opioid Market Share

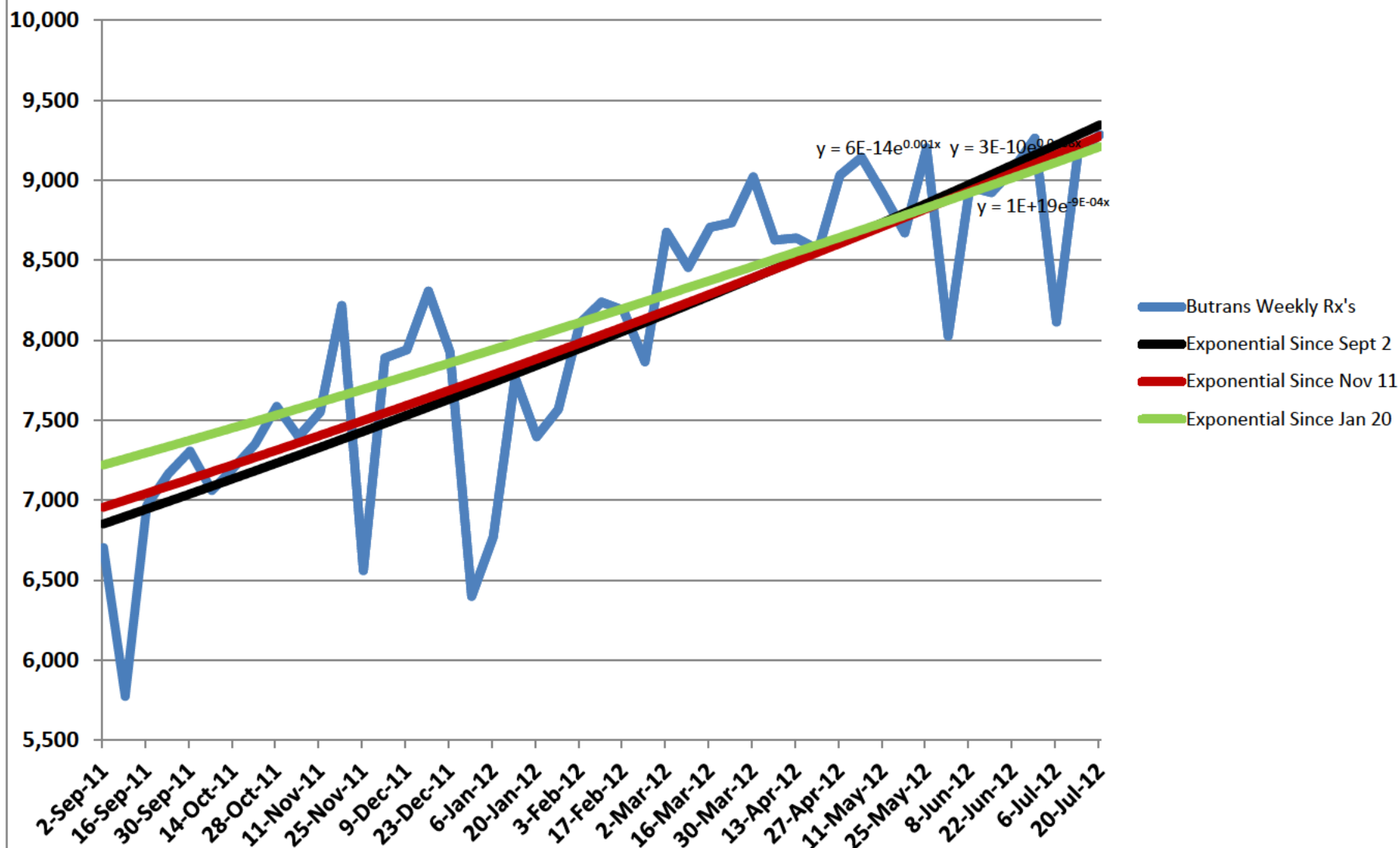
(Source: IMS National Prescription Audit; includes both branded and generic opioids)



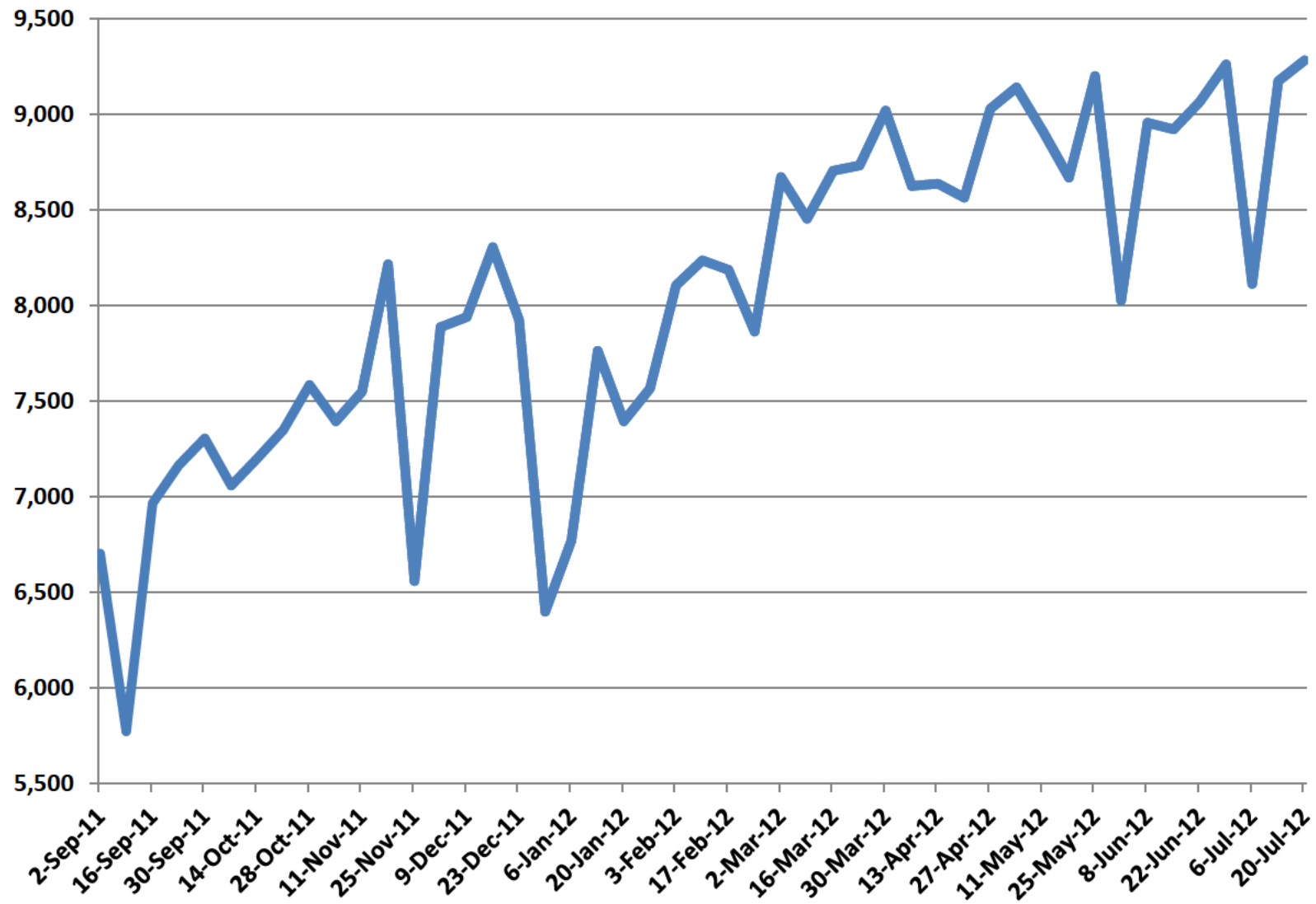
Butrans Weekly Rx Graph (Source: IMS National Prescription Audit)



Detailed Butrans Weekly Rx's (Source: IMS National Prescription Audit)

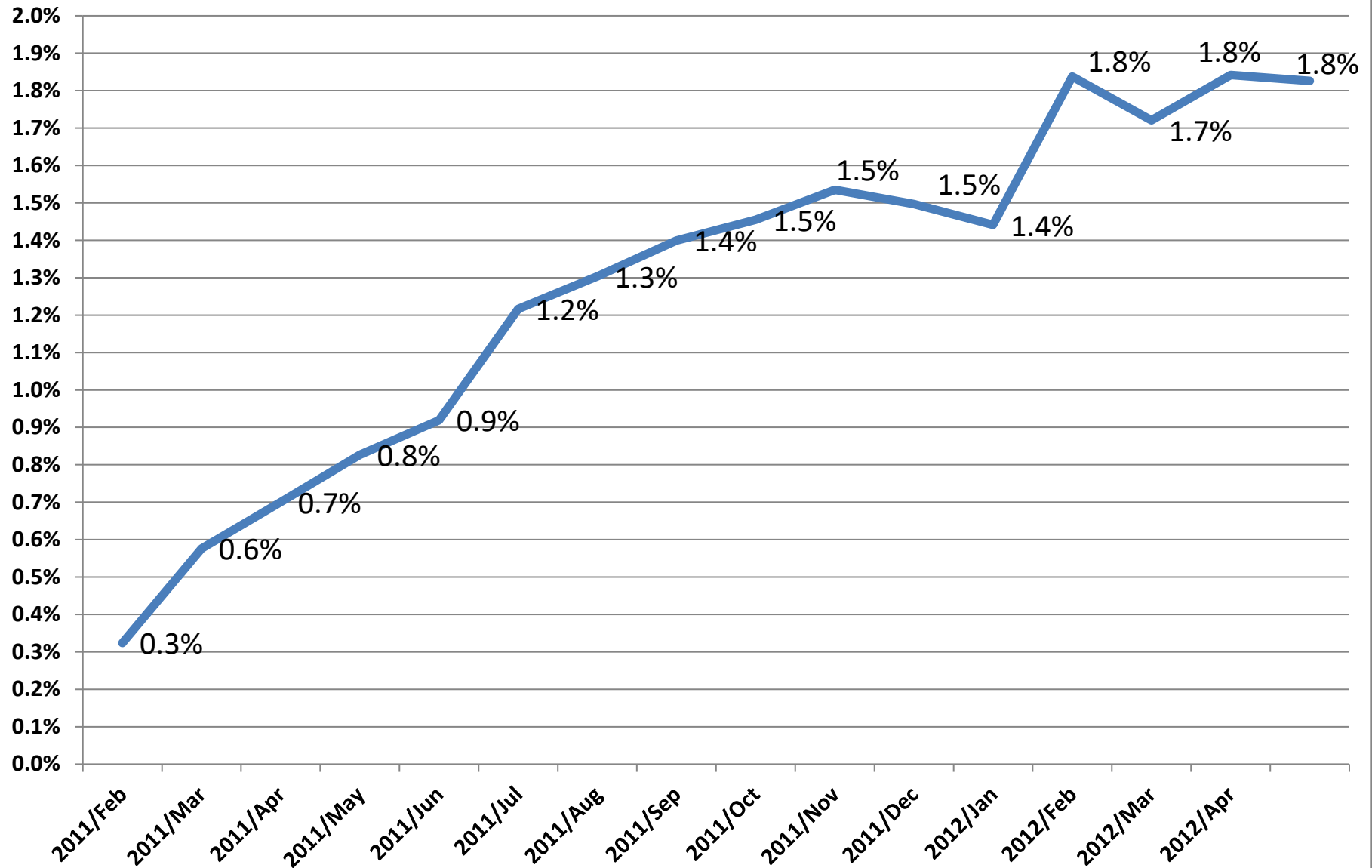


Detailed Butrans Weekly Rx's (Source: IMS National Prescription Audit)

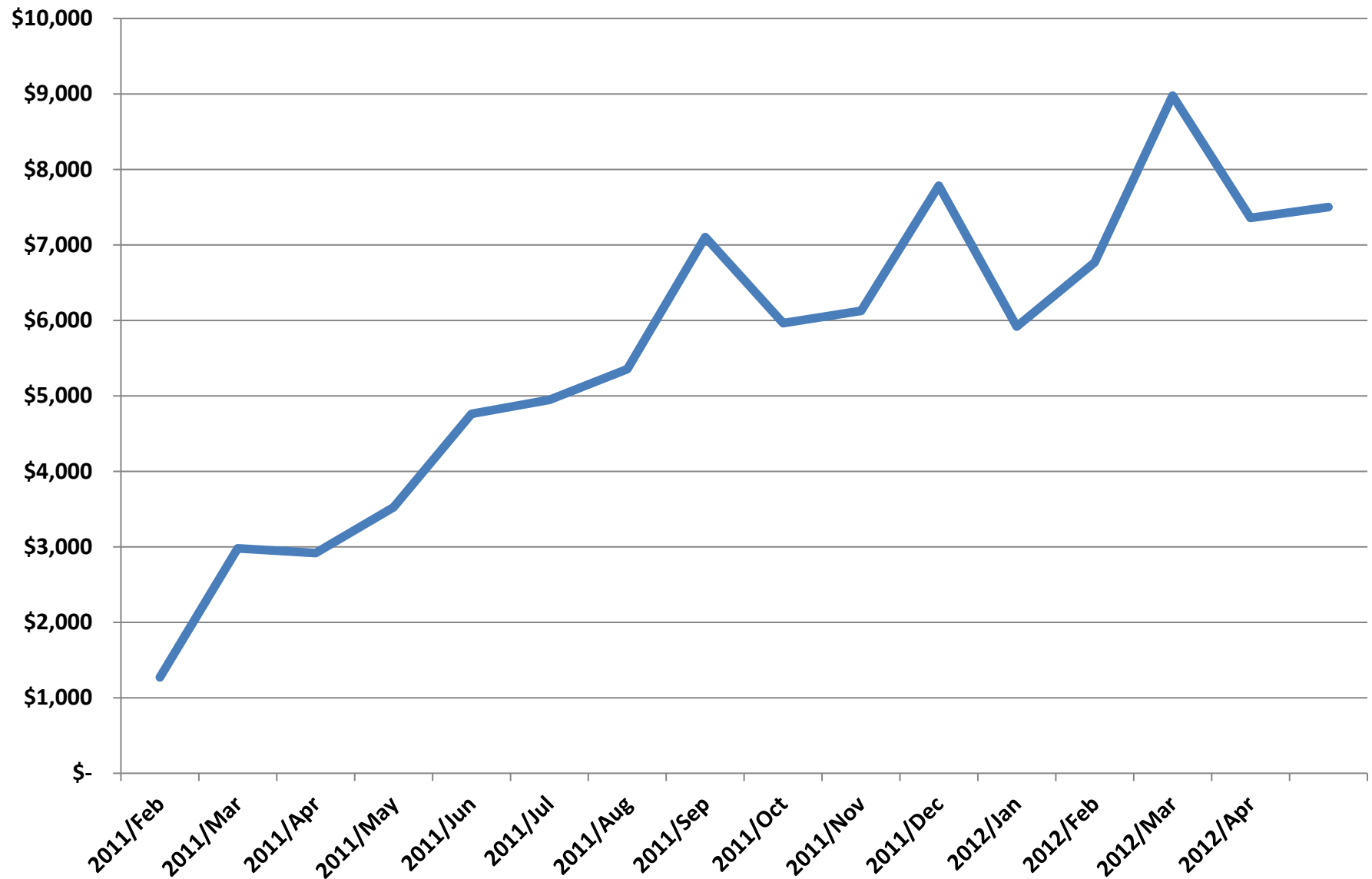


Butrans US Dollar Share of the Extended Release Opioid Market

(Source: IMS National Sales Perspective; includes branded and generic opioids)



Butrans monthly US Dollars Sold -- Wholesaler to Retailer --Excluding Jan Stocking (source: IMS National Sales Perspective)



To: Sackler, Dr Richard [REDACTED]
Cc: Stewart, John H. (US) [REDACTED] Gasdia,
Russell [REDACTED] Fisher,
Windel [REDACTED] Innaurato,
Mike [REDACTED]
From: Rosen, David (Sales and Marketing)
Sent: Tue 8/7/2012 2:15:47 PM
Subject: Intermezzo = 818; Butrans=8,995

Hi, Dr. Richard. Slight better week for Intermezzo. Butrans is continuing the largely flat trend.

Butrans

Rx Increase from last week	-3.1%
Share	1.81%
Share last week	1.84%

Intermezzo

Rx Increase from last week	3.7%
Share	0.062%
Share last week	0.058%

-David

David Rosen | Executive Director, Forecasting, Analytics and Market Research | Purdue Pharma | One
Stamford Forum Stamford CT 06901 | [REDACTED]@pharma.com

Redacted

Redacted

From: [REDACTED] on behalf of Mahony, Edward

Sent: Thursday, August 09, 2012 1:04 PM

To: Boer, Peter; Lewent, Judy; Pickett, Cecil; Costa, Paulo; Sackler, Beverly; Sackler, Jonathan; Sackler, Dr Kathe; Sackler, Mortimer D.A.; Sackler, Dr Raymond R; Sackler, Dr Richard; Sackler, Dame Theresa; Sackler Lefcourt, Ilene; Baker, Stuart D.; Stewart, John H. (US); Dolan, James; Gasdia, Russell; Landau, Dr. Craig; Long, David; Mallin, William; [REDACTED]; Weinstein, Bert; Sackler, David; Costa, Paulo; Snyderman, Ralph

CC: Rosen, David (Sales and Marketing); Lowne, Jon; [REDACTED]

Subject: June Finance Year-to-Date Flash Report

Attachments: July Sales Analysis Monthly Package Publication Version.pdf, Working Capital Ratios 20120725.pptx; July Flash Sales Report.xlsx

Colleagues,

Following is Purdue's July flash^[1] finance report.

Net Sales

- Year-to-date net sales were \$1.2 billion – which is 92% of budget.
- OxyContin net sales were 7% - or \$90 million – below budget, due to demand running 5-7% behind budget and to the trade reducing their inventory holdings.
- Butrans net sales were \$46 million, which is 16% - or \$9 million – below budget. This is a result of demand being below budget, partially offset by a greater percentage of prescriptions being for the higher strengths than projected.
- Intermezzo gross sales are \$13.8 million – this higher than budget due to strong stocking of product. The Rx demand, however, is only about \$2.0 million since launch. Intermezzo gross sales are reduced by a \$9 million returns reserve and other deductions, to arrive at net sales of \$3.1 million year-to-date.
- The mid-year update – presented in June - forecasted for 2012 net sales of OxyContin is at about 95% of original budget - a \$113 million reduction. At mid-year we did not change the 2012 LE for Butrans or Intermezzo. At this point, 2012 net sales could be up to an additional \$60 million lower than budget due to Butrans (- \$10 million), Intermezzo (- \$ 30 million) and reduced OxyContin trade inventory (- \$20 million).
- Sales & Marketing has undertaken numerous initiatives to grow sales from current levels, most recently OxyContin primary sales calls were increased by almost 60% - from 10,000 per month to almost 16,000 per month.
- The sales report is attached.

Cash

- At 7/31/12 Purdue's unrestricted cash balance was \$823 million. This cash balance is within 3% of our monthly cash forecast. By year-end we forecast unrestricted cash balance to be \$702 million, after taking into consideration \$203 million of tax distributions in September and December and \$138 million of non-tax distributions in October.

Infinity

- Purdue's budget and mid-year update did not anticipate the restructuring of the Infinity collaboration. The impact of the restructure will be:
 - A. The \$50 million loan receivable from Infinity was converted into shares at a price 15% below the 8/7/12 market price.
 - B. Purdue purchased an additional \$27.5 million in shares at a price 15% below the 8/7/12 market price.
 - C. Cash of \$29.7 million will be made available for additional non-tax distribution.

Working Capital

- Purdue's working capital and cash conversion cycle benchmark report was recently completed. The following is a summary of the results:
 - A. Purdue's days sales outstanding is in the top 25%-tile of the pharmaceutical industry peers.
 - B. Purdue's day's inventory on-hand performance is at the median of the pharmaceutical industry peers. (This is a good performance as manufacturing operations must balance between managing inventory, working with uneven DEA quota allowances and must minimize the risk of supply disruption.)
 - C. Purdue's days payable outstanding (DPO) is 40 days. Purdue takes early payment discounts when available and pays vendors on time to maintain good relationships. Purdue does not stretch payments beyond their due date.
 - D. The overall Purdue's Cash Conversation Cycle is in the top 25%-tile among the pharmaceutical industry peers, when adjusted for DPO.

- E. Purdue's working capital as % of net sales performance is in the top 25%-tile and top 50%-tile of pharmaceutical industry peers and S&P 500 companies, respectively.
- F. The bench mark report is attached.

Regards,

Ed Mahony

[1] Flash Finance report includes sales, cash and any finance significant events. Full financial statements are issued at least five times per year – March, May, June, September and December.

Purdue Sales versus Budget
July 2012
Flash Report

(\$000)											
Group	Year to Date July 2012			Full Year							Variance to Prior Year
	Actual	Budget	Var. to Budget	2012 Budget	2012 Mid Year Update	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2011 July Year to Date Actual	
10mg	\$ 83,195	\$ 88,979	\$ (5,784)	\$ 156,075	\$ 150,922	\$ 146,784	\$ 121,344	\$ 133,629	\$ 118,134	\$ 82,876	\$ 319
15mg	17,653	15,003	2,650	26,007	32,101	27,136	23,620	16,548	10,432	14,691	2,962
20mg	222,557	235,830	(13,273)	408,862	402,818	404,149	361,266	369,289	388,132	232,752	(10,195)
30mg	109,910	100,808	9,102	174,780	196,103	171,730	161,048	114,431	57,716	93,999	15,911
40mg	344,052	374,143	(30,091)	648,781	620,219	633,738	682,972	708,279	650,395	361,280	(17,229)
60mg	185,360	184,539	821	319,936	330,874	300,721	315,742	226,251	106,119	168,555	16,805
80mg	573,159	658,971	(85,812)	1,142,920	1,004,280	1,096,763	1,331,784	1,320,222	1,105,694	639,380	(66,222)
160mg	-	-	-	-	-	(3)	-	-	(4)	-	-
OxyContin	1,535,886	1,658,272	(122,386)	2,877,361	2,737,318	2,781,018	2,997,775	2,888,649	2,436,618	1,593,534	(57,647)
Butrans	56,084	69,206	(13,123)	135,808	135,808	73,531	-	-	-	37,637	18,447
Intermezzo	13,863	11,772	2,090	49,185	49,185	-	-	-	-	-	13,863
Dilaudid Injectibles	3,187	1,146	2,040	1,932	6,791	4,622	6,903	4,038	3,115	614	2,572
Dilaudid HP	1,538	1,645	(107)	2,698	2,311	2,724	9,448	3,823	9,947	1,480	58
Dilaudid Tablets	8,248	10,915	(2,667)	19,108	15,552	17,495	18,730	24,977	14,472	10,393	(2,145)
Dilaudid	12,972	13,706	(734)	23,738	24,654	24,842	35,081	32,838	27,535	12,487	485
MS Contin	7,406	7,992	(586)	13,620	11,547	13,339	15,101	16,860	17,996	7,244	162
Ryzolt	(6,539)	1,476	(8,014)	391	(7,250)	11,168	16,510	10,842	-	7,415	(13,953)
Betadine First Aid	2,356	2,527	(171)	4,314	3,929	4,164	4,249	3,858	3,664	2,555	(199)
Betadine Hospital	2,639	2,421	218	4,144	4,589	4,412	4,196	3,864	4,082	2,415	224
Betadine Veterinary	532	500	32	861	793	793	765	729	747	476	56
Betadine	5,527	5,448	80	9,319	9,311	9,369	9,210	8,451	8,493	5,447	80
Betasept	1,083	971	112	1,656	1,664	1,753	1,715	1,500	1,729	925	159
Colace	14,403	13,610	792	23,725	25,623	23,729	22,250	22,889	22,996	13,447	956
Peri-Colace	2,624	2,373	251	4,068	4,502	3,968	3,637	3,058	4,665	2,379	245
Colace / Peri-Colace	17,027	15,983	1,043	27,793	30,125	27,697	25,887	25,947	27,661	15,826	1,201
Senokot	5,747	6,096	(349)	10,450	10,090	10,428	9,894	7,272	13,417	5,962	(215)
Senokot - S	6,413	7,939	(1,526)	13,610	11,638	13,010	12,360	11,357	17,127	7,656	(1,243)
Senokot	12,160	14,035	(1,875)	24,059	21,728	23,437	22,253	18,629	30,545	13,618	(1,458)
Slow-Mag	2,328	2,881	(553)	4,940	4,940	5,352	4,585	4,703	4,523	3,124	(796)
Discontinued Products	(67)	-	(67)	-	(44)	(344)	(243)	3,725	4,374	(291)	224
Gross Branded Sales	\$ 1,657,731	\$ 1,801,743	\$ (144,012)	\$ 3,167,870	\$ 3,018,985	\$ 2,971,161	\$ 3,127,873	\$ 3,012,143	\$ 2,559,475	\$ 1,696,964	\$ (39,233)
Fee-for-Service	\$ (42,005)	\$ (45,449)	\$ 3,444	(79,812)	(76,465)	(74,507)	\$ (79,237)	\$ (76,215)	\$ (60,355)	\$ (40,882)	\$ (1,123)
Disc. & Allowances	(27,059)	(30,349)	3,290	(72,341)	(74,450)	(56,383)	(45,966)	(51,937)	(57,406)	(22,080)	(4,980)
Ryzolt Returns Reserve	6,968	-	6,968	(1,158)	7,135	161	-	-	-	-	6,968
Intermezzo Returns Reserve	(9,001)	-	(9,001)	-	(4,882)	-	-	-	-	-	(9,001)
Ryzolt Samples	-	-	-	-	-	-	(2,826)	(3,625)	-	-	-
Savings Card Discount	(13,356)	(16,902)	3,546	(30,411)	(30,061)	(15,572)	(15,691)	(17,131)	(13,444)	(8,405)	(4,950)
Rebates	(307,219)	(324,137)	16,918	(557,823)	(538,727)	(545,891)	(621,633)	(455,092)	(342,153)	(280,579)	(26,640)
Proposed regulation adj for Medi	(35,052)	(43,993)	8,941	(74,836)	(63,618)	(68,854)	(40,041)	-	-	(41,151)	6,099
Less: Deductions Subtotal	\$ (426,725)	\$ (460,831)	\$ 34,106	\$ (816,382)	\$ (781,068)	\$ (761,046)	\$ (805,395)	\$ (604,000)	\$ (473,358)	\$ (393,098)	\$ (33,627)
Net Branded Sales	\$ 1,231,006	\$ 1,340,912	\$ (109,906)	\$ 2,351,488	\$ 2,237,917	\$ 2,210,115	\$ 2,322,478	\$ 2,408,143	\$ 2,086,116	\$ 1,303,866	\$ (72,860)

(\$ in millions)

Gross Sales

• Impact of trade inventories lower than budget. ⁽¹⁾	\$ (54.9)	
• Lower OxyContin demand as Rxs are running ~5% below budget and would need to increase by ~11+% above current levels to achieve the sales target. ⁽¹⁾	(67.4)	
Lower OxyContin Sales due to lower demand offset by higher trade inventory.		(122.4)
• Lower Butrans sales - see Sales Trend chart.		(13.1)
• Intermezzo sales - see Sales Trend chart.		2.1
• Ryzolt returns		(8.0)
• All Other		(2.6)
Sub-Total Gross Sales Variance		(144.0)

Deductions

• Lower Fee for Service due to lower sales (\$3.6MM) offset by prior quarter adjustments (\$0.2MM).	\$ 3.4	
• Lower Discounts and Allowances primarily due to change in Ryzolt return reserve (\$7.0MM) and lower sales/other (\$3.2MM) offset by Intermezzo Returns Reserve (\$9.0MM).	1.3	
• Lower Savings Card Discount due to lower OxyContin sales and redemption rates (\$2.2MM), lower Butrans sales (\$1.1MM) and all other (\$0.2MM).	3.5	
• Lower Rebates due to lower sales, partially offset by higher Medicare Part D Coverage Gap and Tricare program utilization.	16.9	
• Lower Proposed regulation adjustment primarily due to lower Medicaid sales.	8.9	

Sub-Total Deductions variance 34.1

Net Branded Sales Variance to Budget

\$ (109.9)

(1) Each of these factors is based on estimates provided by IMS and customers.

Purdue Pharma
Trade Inventory Summary

OxyContin			
YTD 2012		FY 2012	
Actual	Budget	Budget	
Total Trade Inventory - BOY	\$ 576,556	\$ 669,780	\$ 669,780
Wholesaler - Ending (1)	210,751	173,250	173,250
Pharmacy - Ending (2)	321,641	507,215	513,401
Hospital/Other - Ending	3,294	3,387	3,387
Total Trade Inventory - July 31, 2012	\$ 535,686	\$ 683,852	\$ 690,038
Months on Hand	2.6	3.1	
YTD inventory change	\$ (40,870)	\$ 14,071	
Total (unfavorable)/favorable sales impact to YTD 2012		\$ (54,941)	
Butrans			
YTD 2012		FY 2012	
Actual	Budget	Budget	
Total Trade Inventory - BOY	\$ 17,878	\$ 17,500	\$ 17,500
Wholesaler - Ending (1)	7,744	9,700	9,700
Pharmacy - Ending (2)	7,927	10,338	12,679
Hospital/Other - Ending	694	81	204
Total Trade Inventory - July 31, 2012	\$ 16,365	\$ 20,119	\$ 22,583
Months on Hand	2.0	2.2	
YTD inventory change	\$ (1,513)	\$ 2,619	
Total (unfavorable)/favorable sales impact to YTD 2012		\$ (4,132)	
Intermezzo			
YTD 2012		FY 2012	
Actual	Budget	Budget	
Total Trade Inventory - BOY	\$ -	\$ -	\$ -
Wholesaler - Ending (1)	7,315	6,568	6,568
Pharmacy - Ending (2)	4,766	10,011	11,355
Hospital/Other - Ending	-	-	-
Total Trade Inventory - July 31, 2012	\$ 12,081	\$ 16,579	\$ 17,923
Months on Hand	N/A	N/A	
YTD inventory change	\$ 12,081	\$ 16,579	
Total (unfavorable)/favorable sales impact to YTD 2012		\$ (4,498)	

Commentary:

- ❖ OxyContin trade inventory growth is below Budget by \$54.9MM.
- ❖ Butrans trade inventory growth has slightly underperformed Budget likely driven by YTD sales performance.
- ❖ Intermezzo trade inventory growth reflects initial stocking. Dollarized Rx's year to date approximately \$1.9MM.

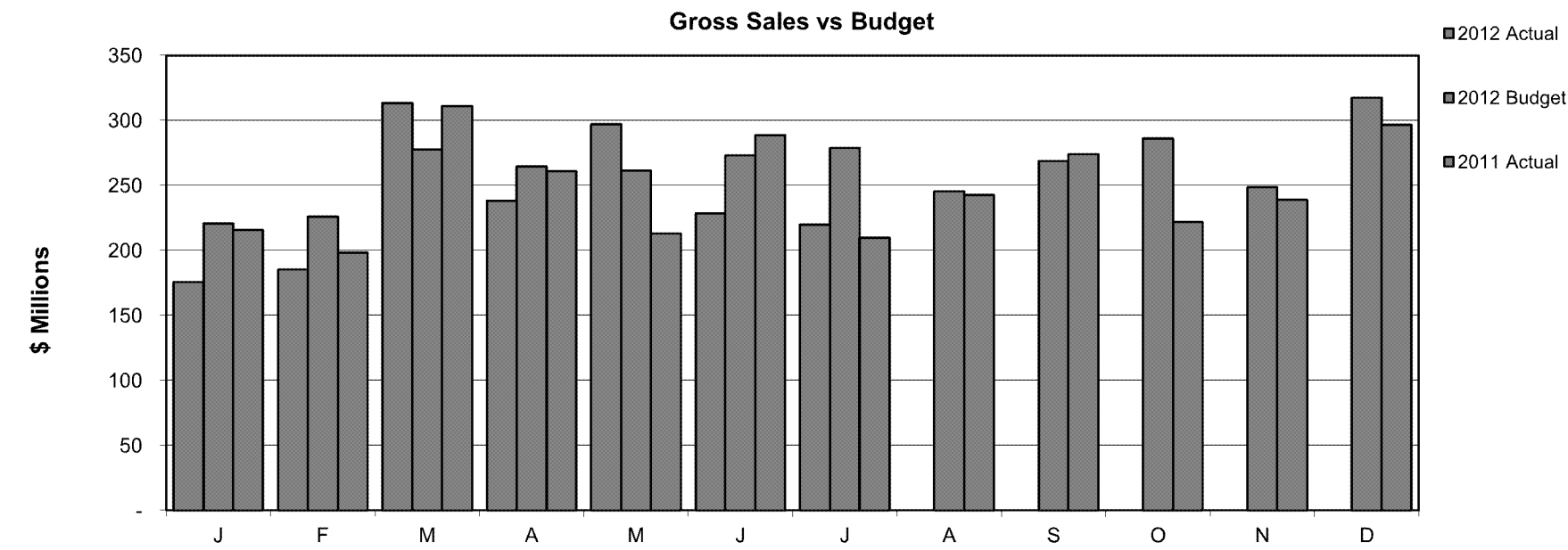
Footnotes

- (1) - **Wholesaler** - Includes inventory held by the wholesaler derived from the Value Centric system.
- (2) - **Pharmacy** - assumes the pharmacies maintain stocking levels.

Purdue Pharma

Gross Sales by Month

(\$ mm)	2012		2011	2010	Monthly		
					2012 %	2012 %	2012 %
Month	Actual	Budget	Actual	Actual	Budget	of 2011	of 2010
January	\$ 175.4	\$ 220.6	\$ 215.8	\$ 197.1	79.5%	81.3%	89.0%
February	185.4	226.0	198.5	218.8	82.1%	93.4%	84.7%
March	313.2	277.4	310.9	277.3	112.9%	100.7%	113.0%
Q1	674.0	724.0	725.2	693.2	93.1%	92.9%	97.2%
April	238.2	264.4	260.8	301.0	90.1%	91.3%	79.2%
May	297.3	261.4	212.9	238.4	113.7%	139.6%	124.7%
June	228.4	273.1	288.5	261.8	83.6%	79.2%	87.3%
Q2	764.0	798.9	762.2	801.2	95.6%	100.2%	95.4%
July	219.7	278.9	209.5	258.5	78.8%	104.9%	85.0%
August		245.5	242.7	354.7			
September		268.5	274.1	301.6			
Q3	-	792.8	726.3	914.9			
October		286.1	221.8	255.8			
November		248.7	238.8	200.4			
December		317.3	296.8	262.4			
Q4	-	852.2	757.4	718.7			
Total	\$ 1,657.7	\$ 3,167.9	\$ 2,971.2	3,127.9	52.3%	55.8%	53.0%
YTD Cumulative	\$ 1,657.7	\$ 1,801.7	\$ 1,697.0	\$ 1,752.9	92.0%	97.7%	94.6%

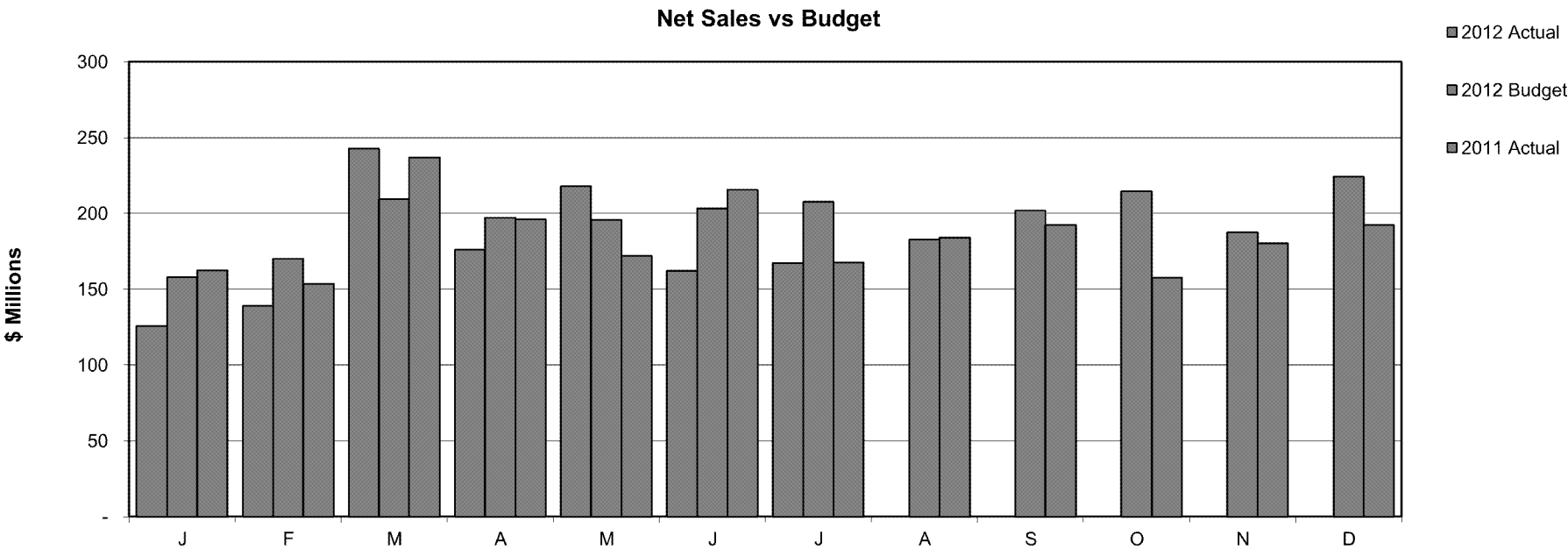


Note: The above net sales includes the impact of the proposed final rule for Medicaid rebates.

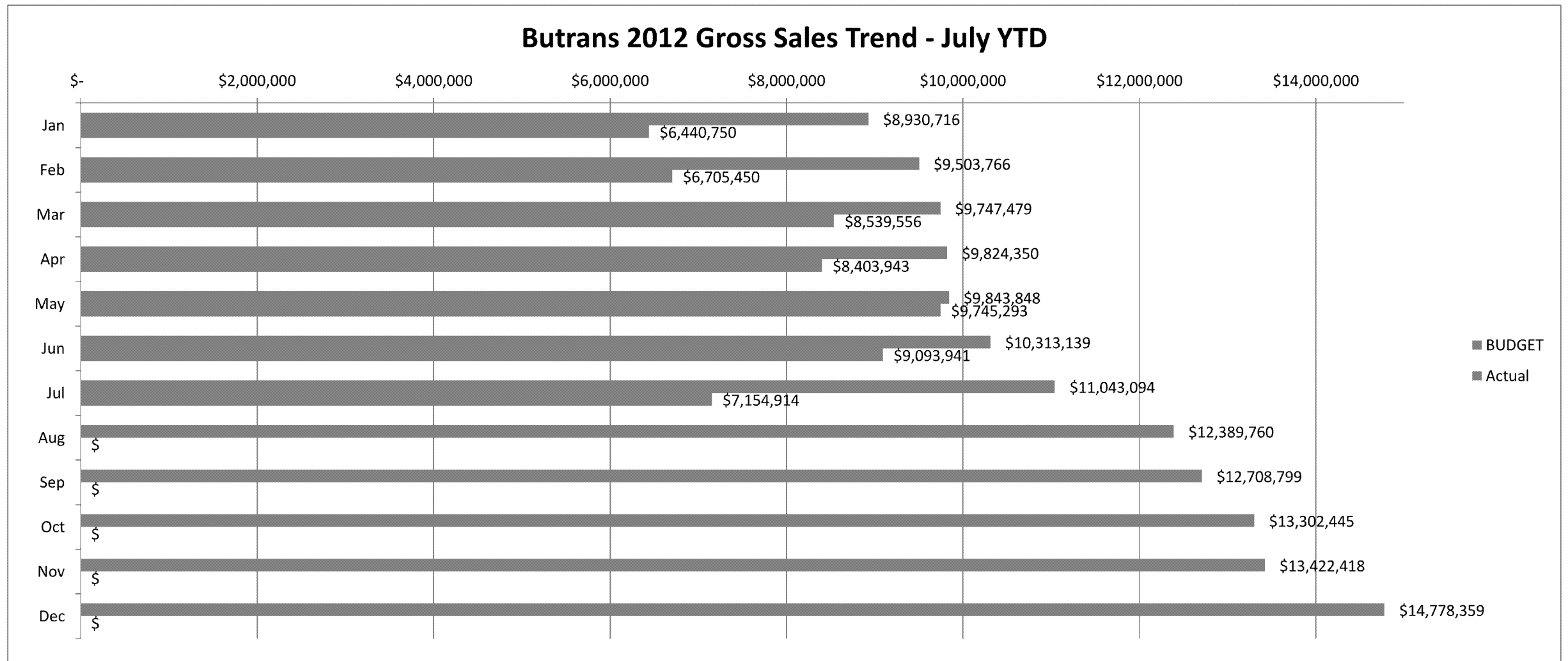
Purdue Pharma

Net Sales by Month

(\$ mm)	2012		2011	2010	Monthly		
					2012 %	2012 %	2012 %
Month	Actual	Budget	Actual	Actual	Budget	of 2011	of 2010
January	\$ 125.6	\$ 158.0	\$ 162.3	\$ 186.7	79.5%	77.4%	67.3%
February	139.2	169.9	153.5	143.4	82.0%	90.7%	97.1%
March	242.7	209.3	236.9	209.8	115.9%	102.4%	115.6%
Q1	507.5	537.1	552.7	540.0	94.5%	91.8%	94.0%
April	176.2	197.2	196.0	248.0	89.4%	89.9%	71.0%
May	218.1	195.7	172.0	185.3	111.5%	126.8%	117.7%
June	162.0	203.2	215.7	196.1	79.7%	75.1%	82.6%
Q2	556.4	596.1	583.7	629.4	93.3%	95.3%	88.4%
July	167.2	207.7	167.4	203.2	80.5%	99.8%	82.3%
August		182.6	184.1	268.3			
September		201.8	192.1	204.1			
Q3	-	592.0	543.7	675.5			
October		214.5	157.5	193.2			
November		187.4	180.2	158.5			
December		224.3	192.2	125.8			
Q4	-	626.2	530.0	477.6			
Total	\$ 1,231.0	\$ 2,351.5	\$ 2,210.1	\$ 2,322.5	52.4%	55.7%	53.0%
YTD Cumulative	\$ 1,231.0	\$ 1,340.9	\$ 1,303.9	\$ 1,372.5	91.8%	94.4%	89.7%



Butrans 2012 Gross Sales Trend - July YTD

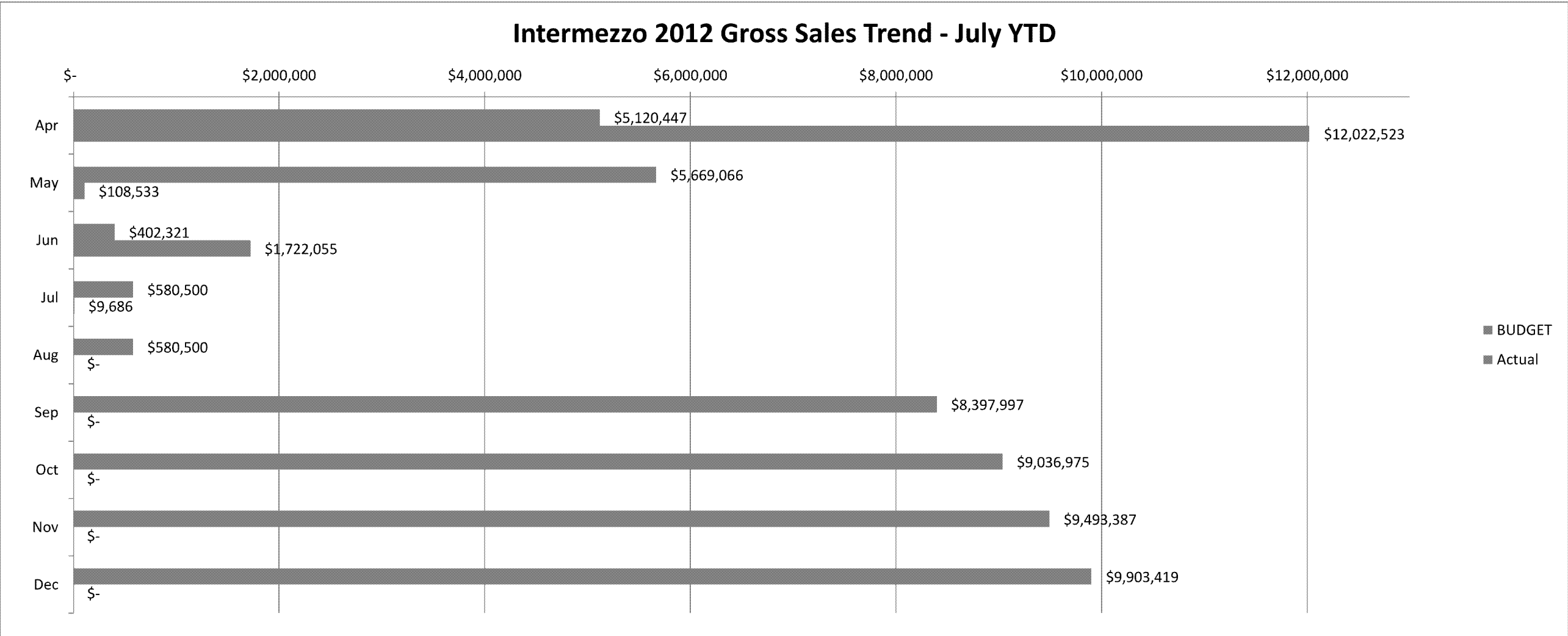


Product	Jul YTD Sales			Jul YTD Units			Jul YTD Average Sales Price		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
BUP405	\$ 8,021,902	\$ 11,459,528	\$ (3,437,626)	61,121	86,435	(25,314)	\$ 131.25	\$ 132.58	\$ (1.33)
BUP410	22,117,906	27,871,126	(5,753,220)	111,970	140,153	(28,183)	197.53	198.86	(1.33)
BUP420	27,144,839	29,875,738	(2,730,899)	77,575	84,863	(7,287)	349.92	352.05	(2.13)
Sub-Total	57,284,647	69,206,392	(11,921,744)	250,667	311,451	(60,784)	228.53	222.21	6.32
Sales Cut-off Adj	(1,200,800)	-	(1,200,800)	(5,456)	-	(5,456)			
Total Sales	\$ 56,083,847	\$ 69,206,392	\$ (13,122,544)	245,211	311,451	(66,240)	\$ 228.72	\$ 222.21	\$ 6.51

As of July month end, Butrans sales are below budget.

- ❖ Sales are below budget by \$13.1MM, or 19.0%.
- ❖ Sales unit volume is 21.3% below budget.
- ❖ In order to achieve the full year budget, sales levels will have to average \$15.9MM per month for the remainder of 2012.
- ❖ The current Rx growth rate is 1.5% week over week in 2012.
- ❖ At current Rx growth rate of 1.5% week over week, total demand for 2012 is \$114.4MM.

Intermezzo 2012 Gross Sales Trend - July YTD



Product	Jul YTD Sales			Jul YTD Units			Jul YTD Average Sales Price		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
INTERMEZZO 1.75MG TABLETS 30s	\$ 8,240,401	\$ 8,300,747	\$ (60,346)	43,918	42,898	1,020	\$ 187.63	\$ 193.50	\$ (5.87)
INTERMEZZO 3.5MG TABLETS 30s	5,627,040	3,471,587	2,155,454	29,987	17,941	12,046	187.65	193.50	(5.85)
Sub-Total	13,867,441	11,772,334	2,095,108	73,905	60,839	13,066	187.64	193.50	(5.86)
Sales Cut-off Adj	(4,644)	-	(4,644)	(24)	-	(24)			
Total Sales	\$ 13,862,797	\$ 11,772,334	\$ 2,090,464	73,881	60,839	13,042	\$ 187.64	\$ 193.50	\$ (5.86)

- As of July month end, Intermezzo sales are favorable to budget.
- ❖ Sales are above budget by \$2.1MM, or 17.8% due to initial stocking.
 - ❖ Sales unit volume is 21.4% above budget.
 - ❖ In order to achieve the full year budget, sales levels will have to average \$7.1MM per month for the remainder of 2012.
 - ❖ Rx dollarized through July total \$1.9MM.

Produced Natively

Working Capital Ratios

Benchmarking Review

July 24, 2012
Confidential

Executive Summary

		Performance Quartile	
Working Capital Metrics	2011 Purdue	Versus Pharmaceutical Industry Peers	Versus S&P 500 Companies
Days Sales Outstanding (DSO)	33.9	1	2
Days Inventory Outstanding (DIO)	125.9	2	4
Days Payable Outstanding (DPO)	39.6	4	3
Cash Conversion Cycle (CCC)	120.1	3	4
Working Capital as % of Net Sales	10%	1	2

WHAT-IF SCENARIO: If Purdue's DPO is the same as the Pharmaceutical Industry peers' average, then Purdue's Cash Conversion Cycle would be at the 1st performance quartile.

Color Keys:

Better than others

Neutral vs others

Worse than others

Purdue takes early payment discounts when discounts are available. U.S. pharmaceutical companies as well as S&P 500 companies have significantly higher days payable outstanding, i.e. averages at 76 and 64 respectively. Pas Accounts Payable industry conferences mentioned that public companies often practice delaying of vendor payments near quarter-ends in order to enhance their working capital metrics while smaller vendors reluctantly accept this window-dressing practice since the delays happen only four times a year in order to keep the supplier relationships with the bigger companies.

Definitions of Key Measures

■ Cash Conversion Cycle (CCC)

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

- A metric that expresses the length of time, in days, that it takes for a company to convert resource inputs into cash flows. The cash conversion cycle attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. This metric looks at the amount of time needed to sell inventory, the amount of time needed to collect receivables and the length of time the company is afforded to pay its bills without incurring penalties.

■ DIO (Days Inventory Outstanding)

- $\text{Average Inventory} / \text{Cost of Sales} \times 365$

■ DSO (Days Sales Outstanding)

- $\text{Average Accounts Receivable} / \text{Annual Credit Sales} \times 365$

■ DPO (Days Payable Outstanding)

- $\text{Average Accounts Payable} / (\text{Cost of Sales} + \text{Purchases}) \times 365$

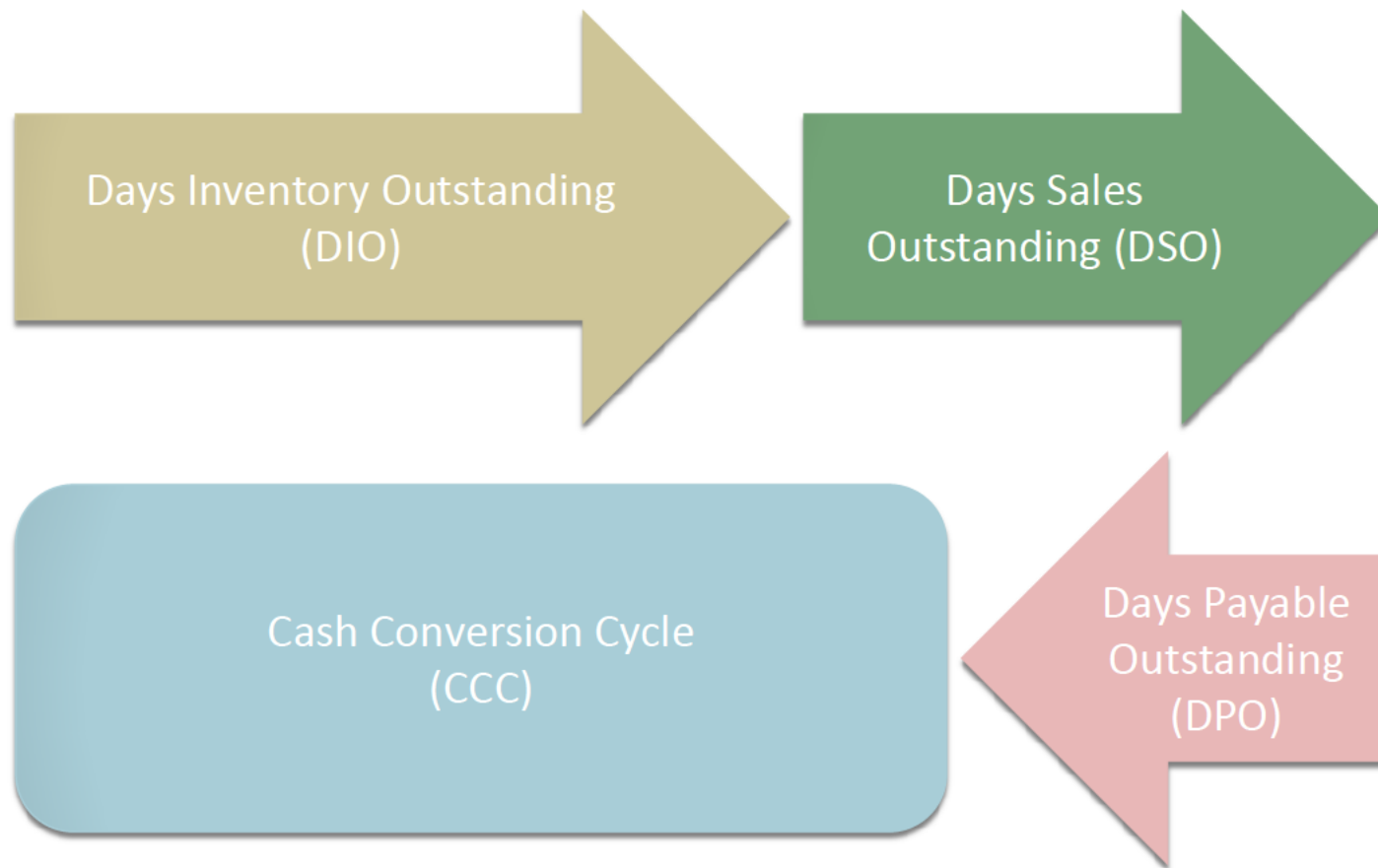
■ Current Ratio = Current Assets / Current Liabilities

■ Quick Ratio = Cash and Short-term Investments / Current Liabilities

■ Working Capital = Current Assets – Current Liabilities

Illustration - Cash Conversion Cycle

The cycle measures the average number of days that working capital is invested in the operating cycle. It starts by adding days inventory outstanding (DIO) to days sales outstanding (DSO). This is because a company "invests" its cash to acquire/build inventory, but does not collect cash until the inventory is sold and the accounts receivable are finally collected. Receivables are essentially loans extended to customers that consume working capital; therefore, greater levels of DIO and DSO consume more working capital. Days payable outstanding (DPO), which essentially represent loans from vendors to the company, are subtracted to help offset working capital needs.



Cash Conversion Cycle (CCC)

Cash Conversion Cycle			(Average)	(Average)
Data as of 12/31/2011			U.S.	S&P
		Purdue	Pharma	500
Days Inventory Outstanding (DIO)	+	125.9	144.8	71.8
Days Sales Outstanding (DSO)	+	33.9	58.8	48.1
Days Payable Outstanding (DPO)	-	(a) 39.6	76.2	64.1
Cash Conversion Cycle (CCC)	=	120.1	127.4	55.8

Other Working Capital Ratios				
Current Ratio		1.3	2.8	2.0
Quick Ratio		0.8	2.2	1.3
Working Capital as % of Sales (peers @ median)		10%	44%	12%
Cash & Equivalents (unrestricted) @ Average Month's Sales		3.3	3.3	2.4

Notes

U.S. Pharma is defined as:

- 1) Industry Classifications: Biotechnology (Primary) OR Pharmaceuticals (Primary)
- 2) Total Revenue [Latest Annual] (\$USDmm, Historical rate): is greater than \$500mm.
- 3) Geographic Locations: United States of America (Primary)

Total 28 companies selected by Capital IQ.

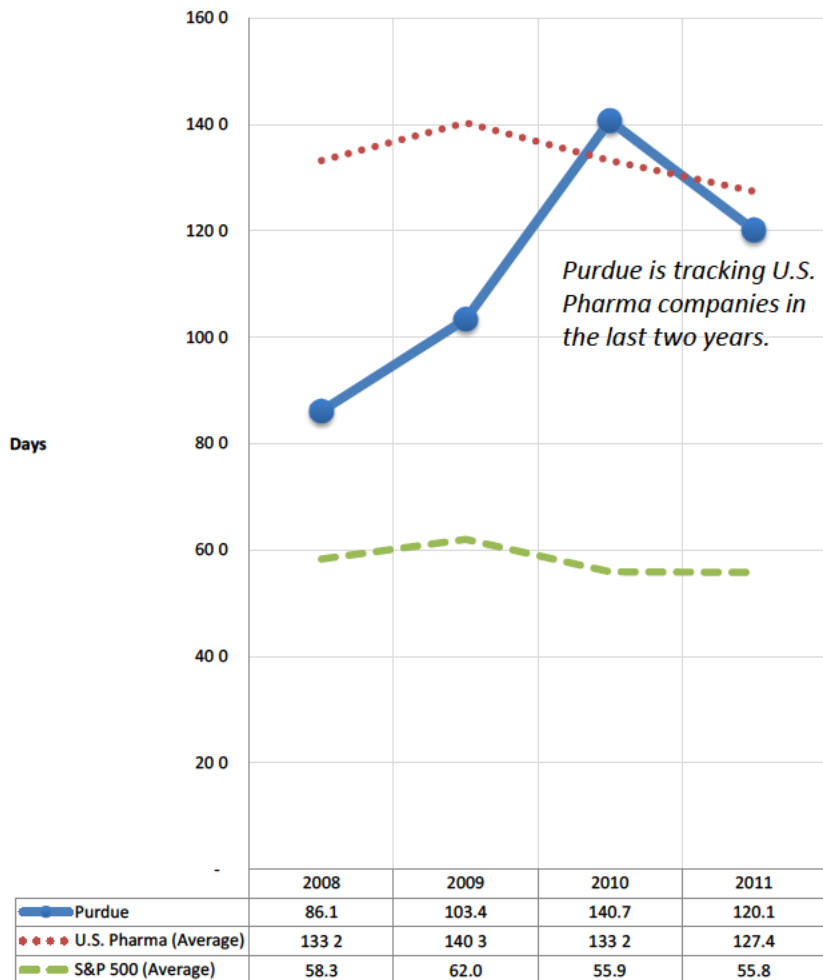
For Purdue, DPO is published by Finance from internal reporting. DIO is published by Cost Accounting. Purdue DSO is from internal financial reporting. Excluded rebates.

(a) Industry's DPO average is not comparable to Purdue because Purdue's cost of goods is de minimis comparing with others. Purdue number excluded rebates DPO.

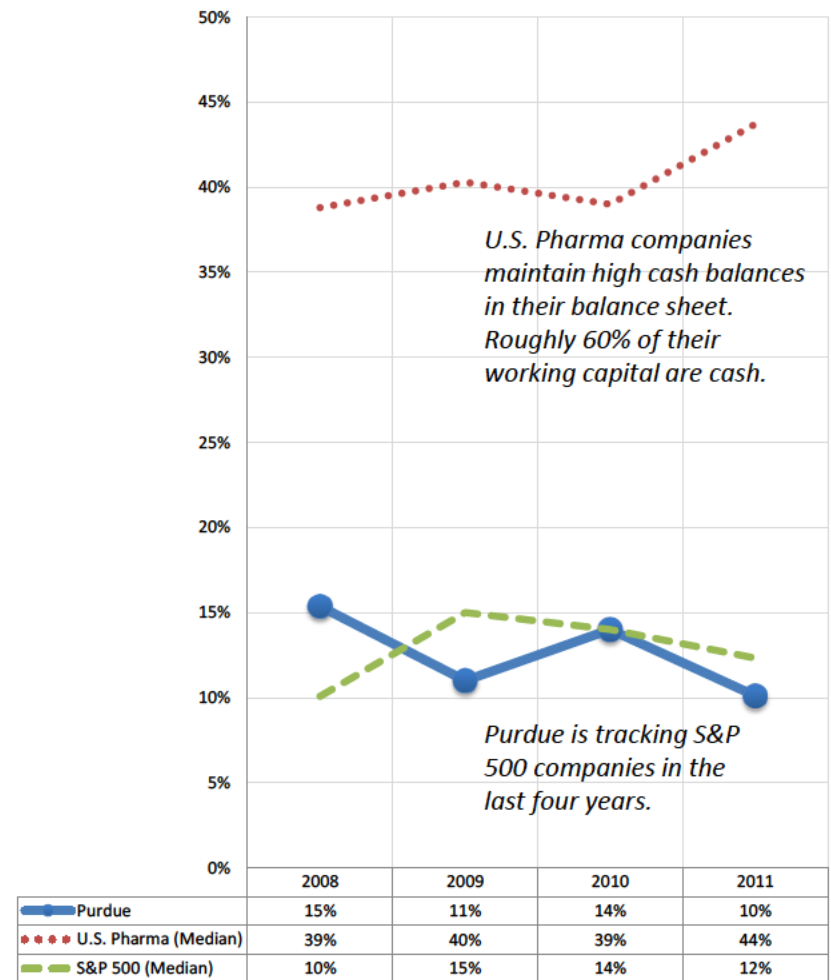
4-Year Trends

Cash Conversion Cycle ♦ Working Capital as % of Net Sales

Cash Conversion Cycle



Working Capital as % of Net Sales



Purdue vs. U.S. Pharmaceuticals and Biotechnology

- DSO
- DIO
- DPO
- CCC
- Working Capital

Days Sales Outstanding (DSO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

Days

Median @ 57

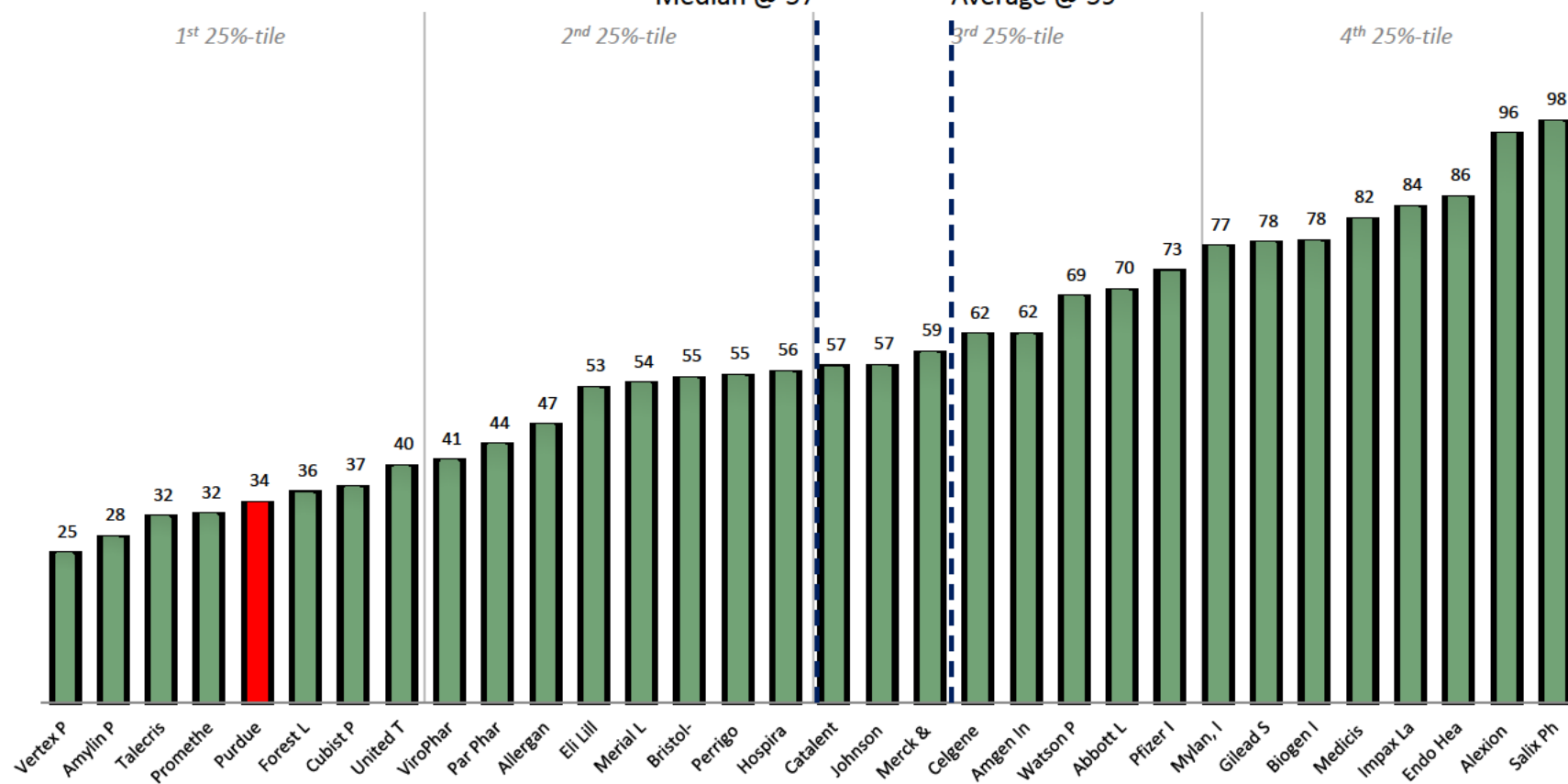
Average @ 59

1st 25%-tile

2nd 25%-tile

3rd 25%-tile

4th 25%-tile



Days Inventory Outstanding (DIO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

Days

Median @ 135

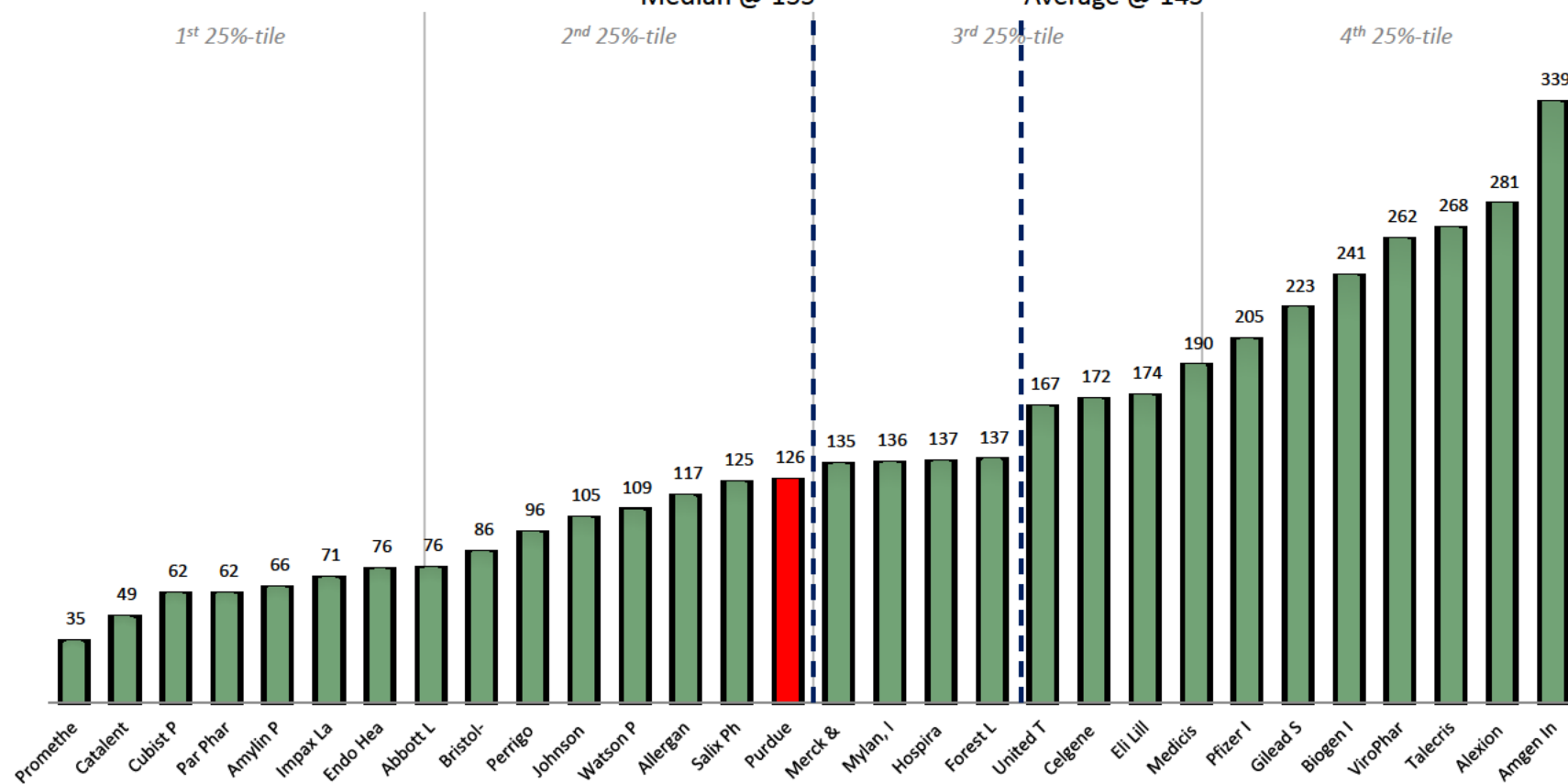
Average @ 145

1st 25%-tile

2nd 25%-tile

3rd 25%-tile

4th 25%-tile



Days Payable Outstanding (DPO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Higher the Better (if no discount)

Days

Median @ 62

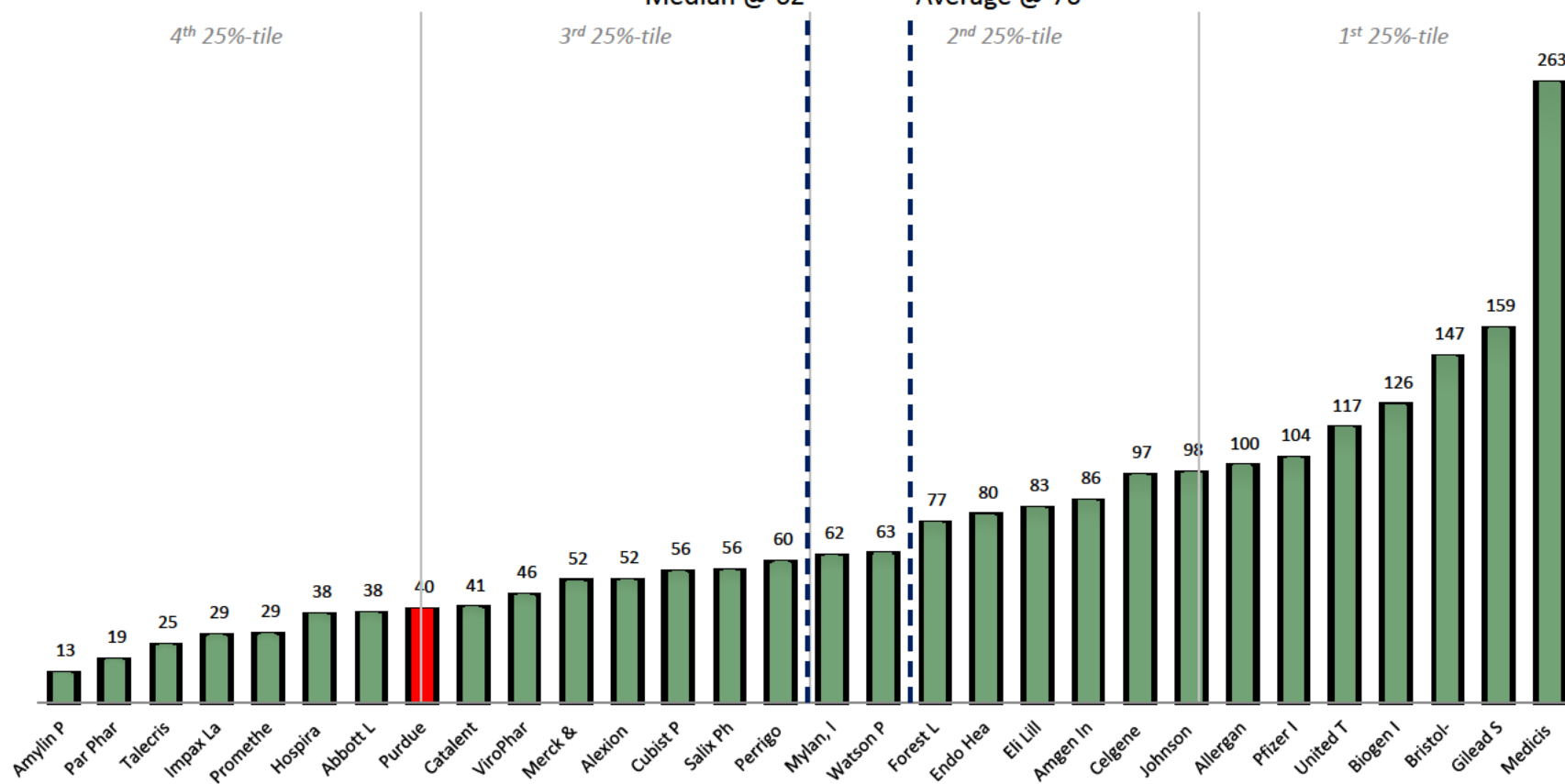
Average @ 76

4th 25%-tile

3rd 25%-tile

2nd 25%-tile

1st 25%-tile

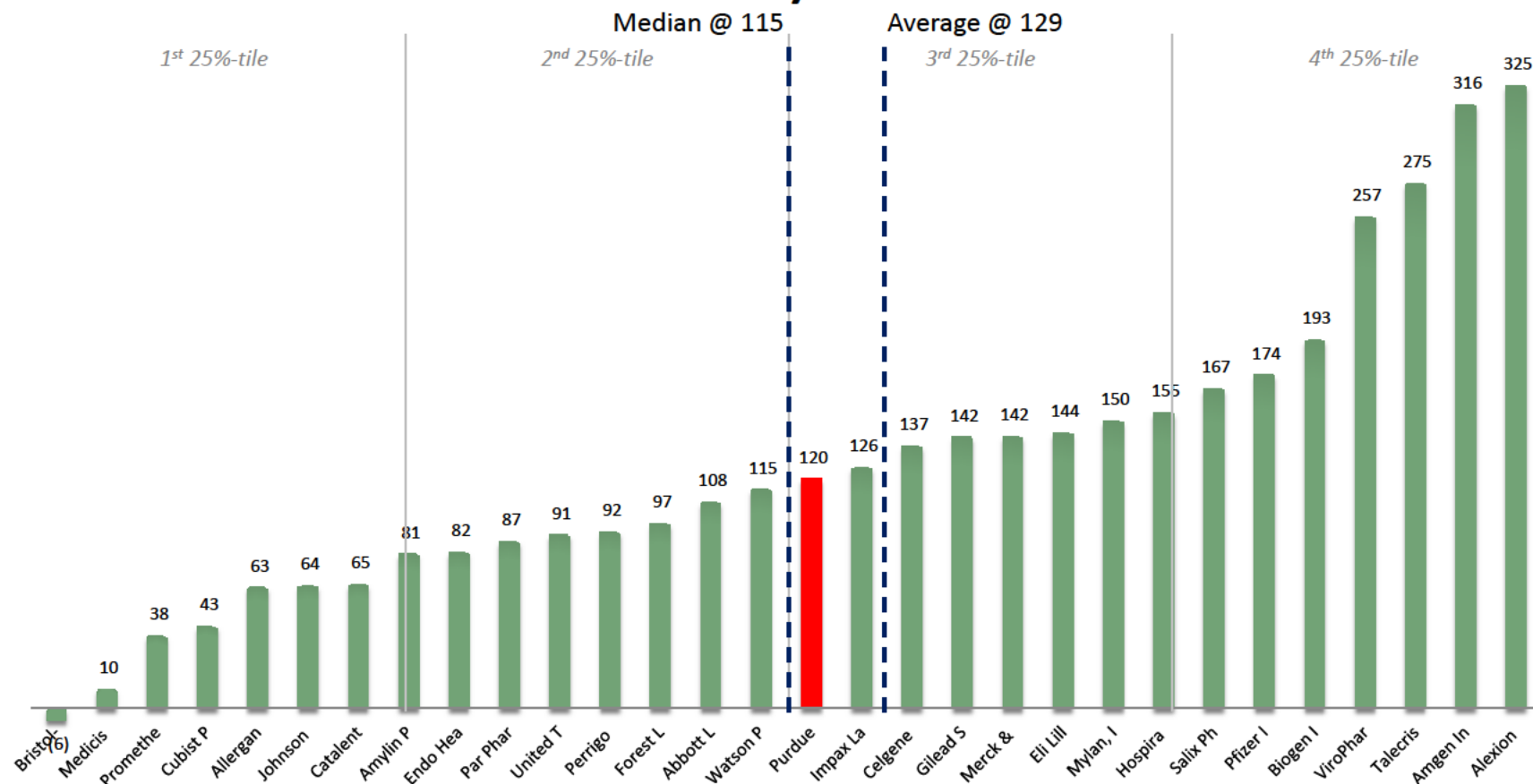


Cash Conversion Cycle (CCC)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

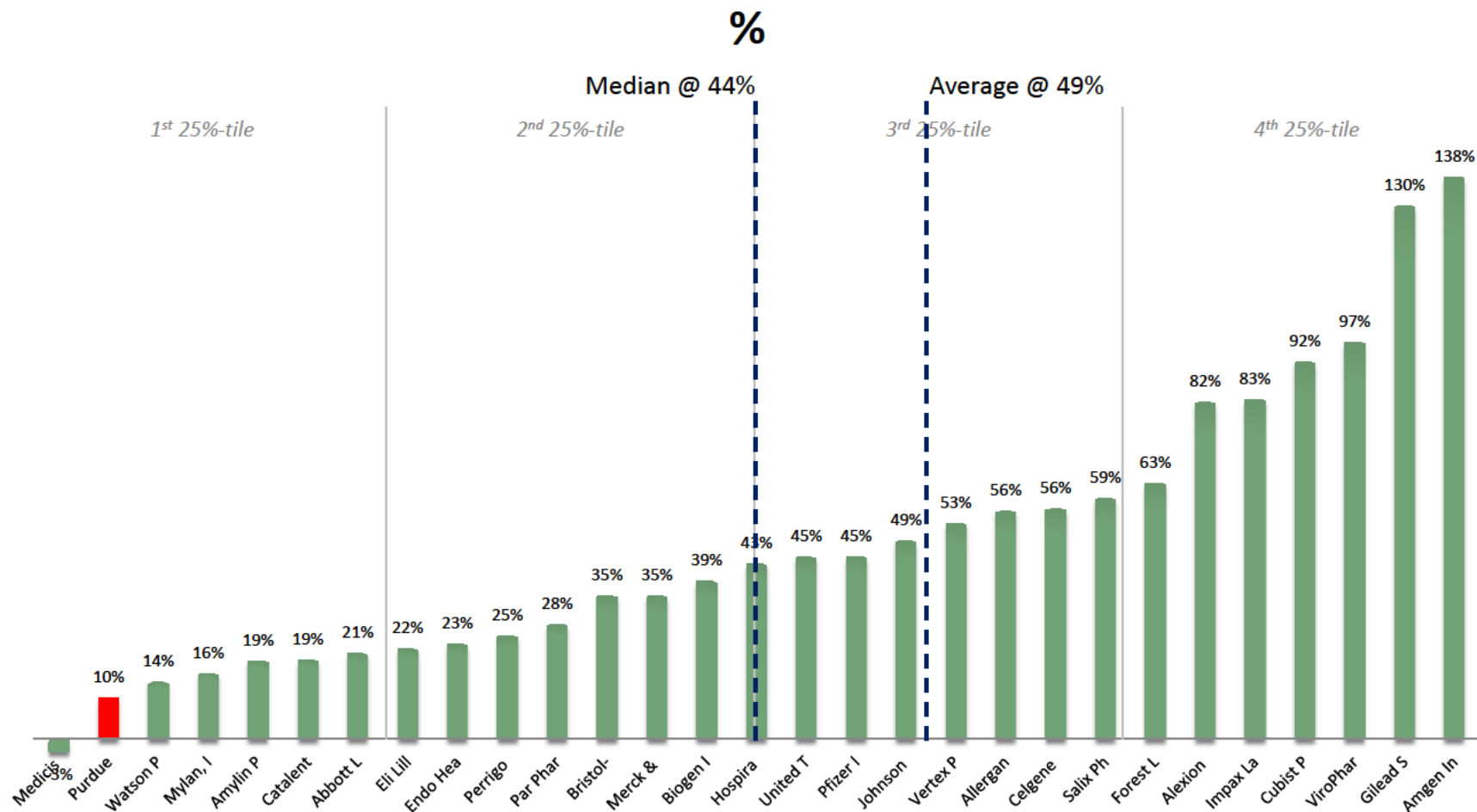
Days



Working Capital as % of Net Sales

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better



Purdue vs. S&P 500 Index Companies

- DSO
- DIO
- DPO
- CCC
- Working Capital

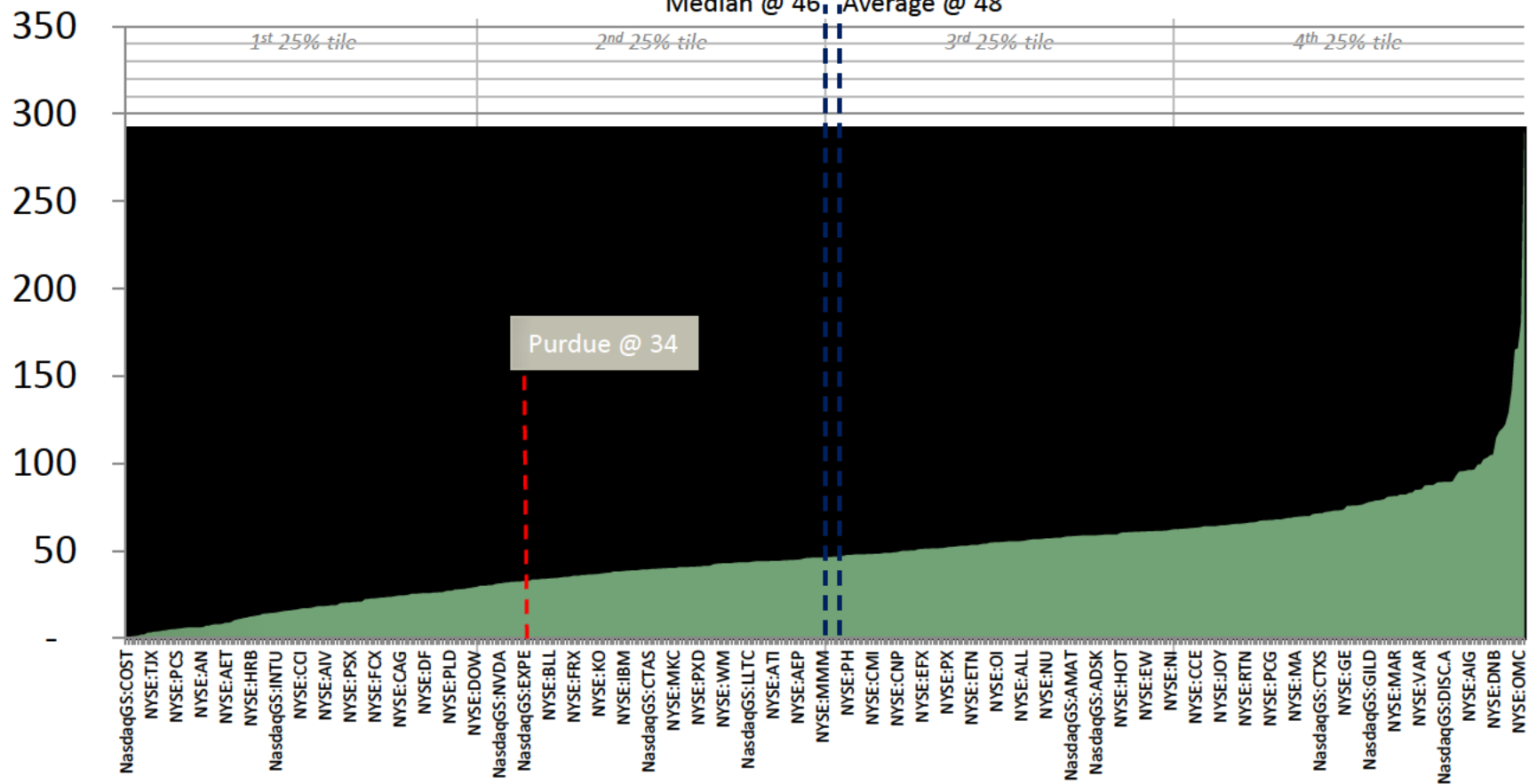
Days Sales Outstanding (DSO)

Purdue Compares with U.S. S&P 500 Index Companies

Lower the Better

Days

Median @ 46, Average @ 48



Days Inventory Outstanding (DIO)

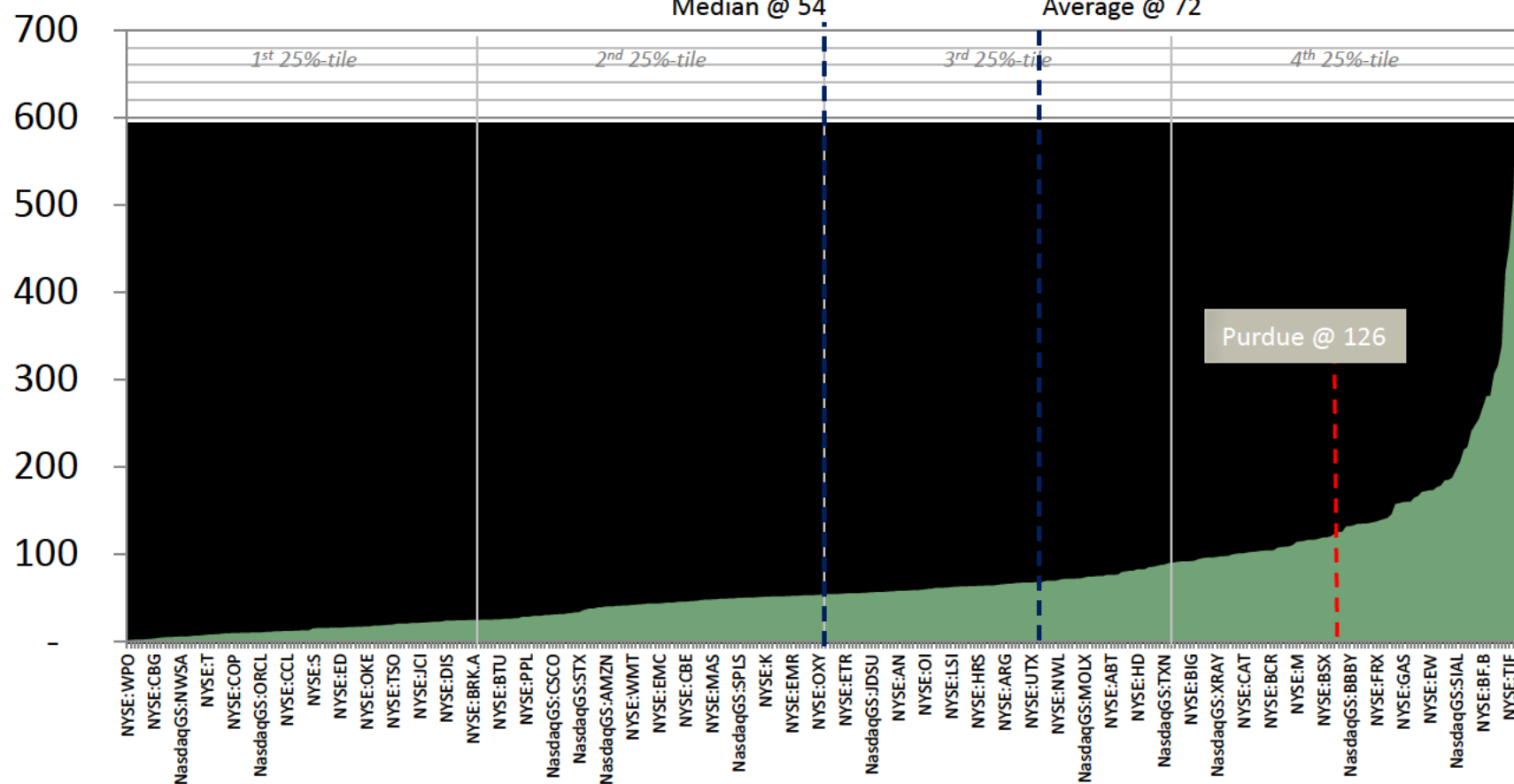
Purdue Compares with U.S. S&P 500 Index Companies

Lower the Better

Days

Median @ 54

Average @ 72

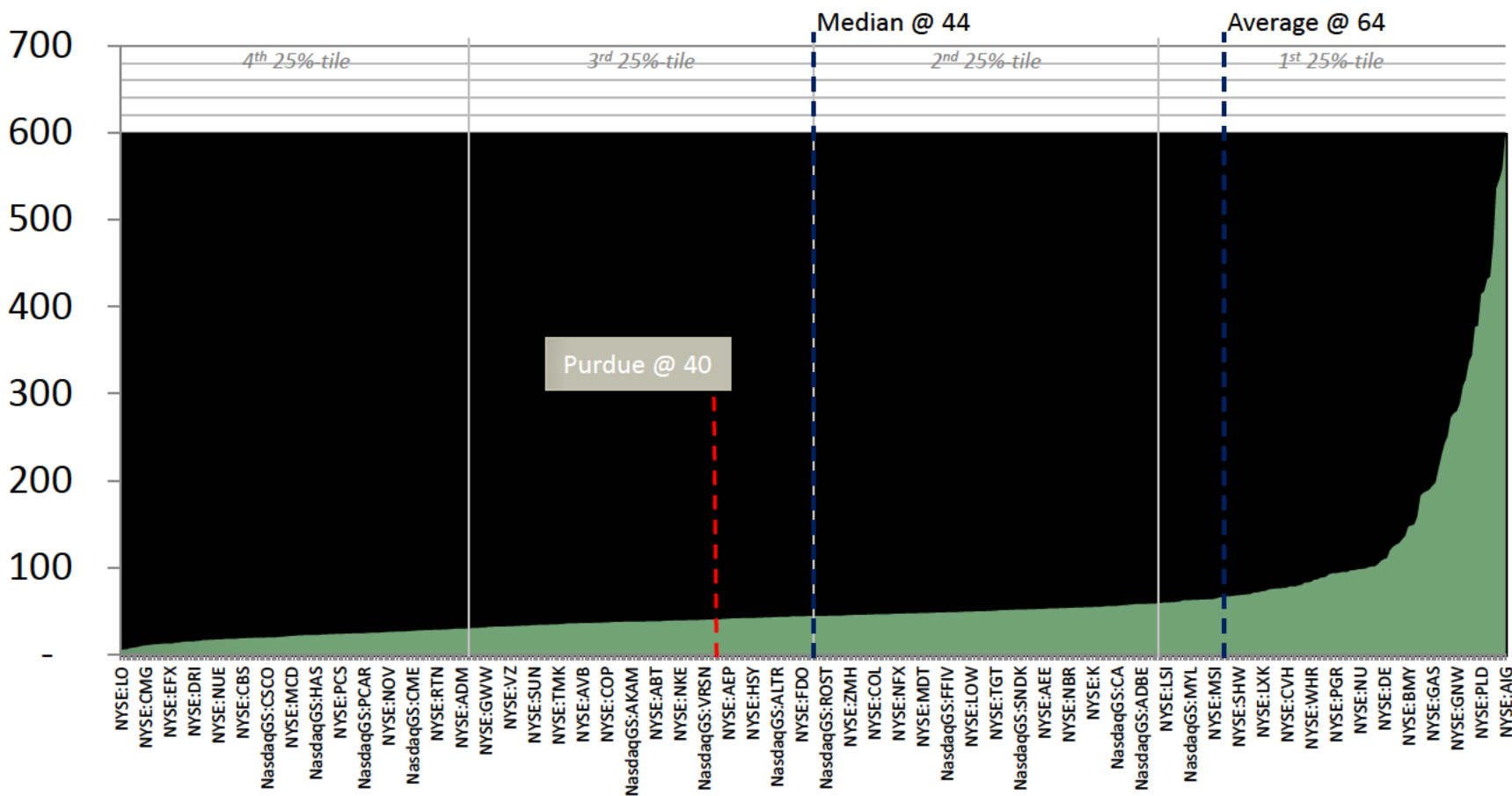


Days Payable Outstanding (DPO)

Purdue Compares with U.S. S&P 500 Index Companies

Higher the Better (if no discount)

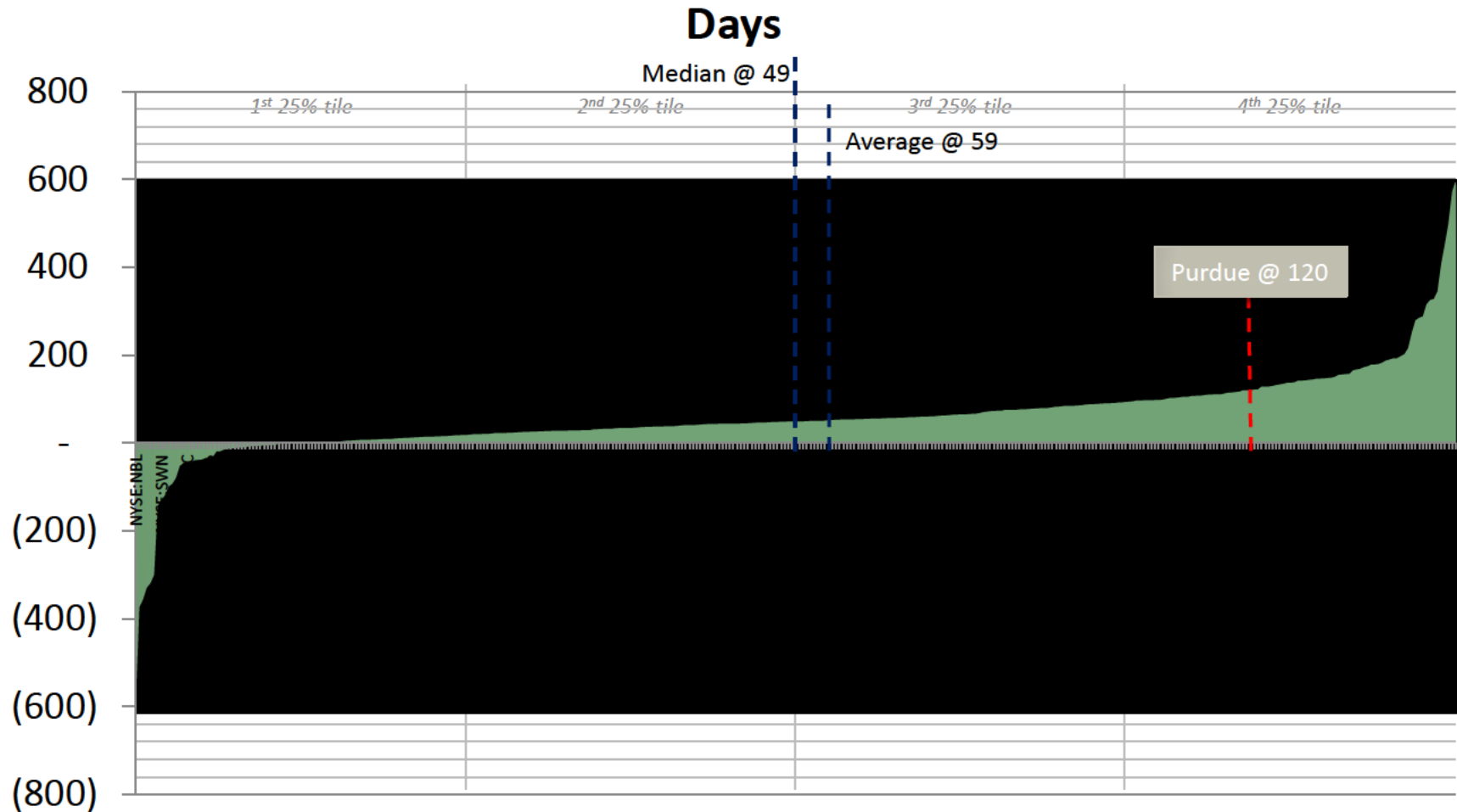
Days



Cash Conversion Cycle (CCC)

Purdue Compares with U.S. S&P 500 Index Companies

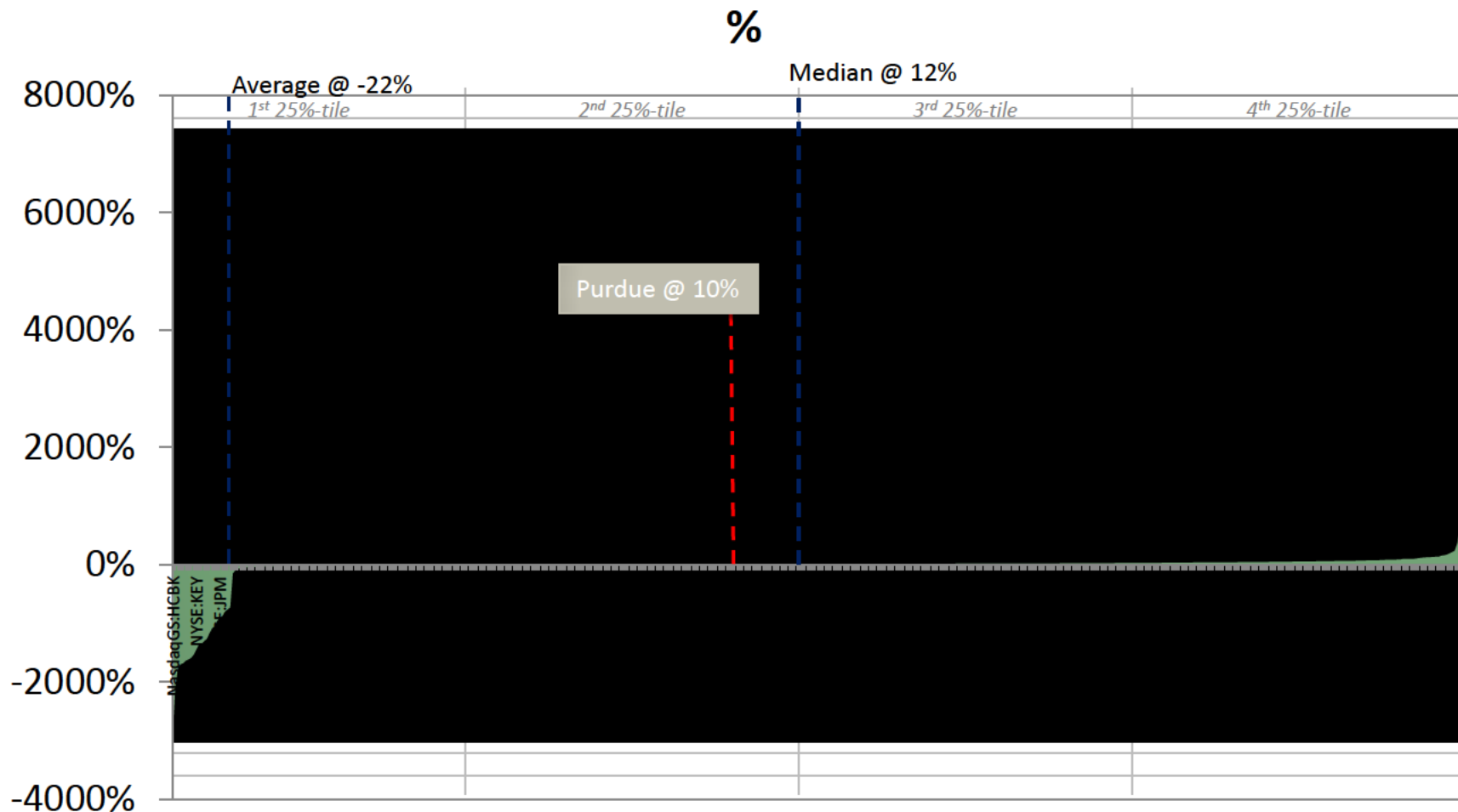
Lower the Better



Working Capital as % of Net Sales

Purdue Compares with U.S. S&P 500 Index Companies

Lower the Better



Effective Working Capital Management Techniques

- Receivable
- Payable
- Inventory

Core Tactics For Improving Working Capital

(Published by APQC, September 2008)

Techniques	Utilized by Purdue
Report and emphasize cash-related metrics (days sales outstanding, inventory turns, etc.)	✓
Optimize the entire customer order-to-cash process	✓
Reduce accounts receivable delays, complexity, and errors	✓
Simplify payment terms	✓
Segment customers by size, risk, and strategic value	✓
Speed billing processes and reduce invoicing errors (consider electronic invoicing and payment tools) [Top 20 customers used EDI.]	✓
Communicate collection issues and speed dispute resolution	✓
Review accounts payable policies for opportunities to stretch payment terms without damaging supplier relations	✓
Improve supply chain visibility and agility	✓
Adopt some form of dynamic forecasting and responsive inventory management, including cross-functional sales and operations planning	✓
Optimize spare-parts inventory	n/a

Effective Techniques for Improving DSO (Receivable)

Techniques	Utilized by Purdue
Close monitoring of customer accounts, aging receivables, and late payments	✓
Timely collections (e.g. early reminders and dunning notices)	✓
Prompt pay discounts to encourage on-time payments	✓
Prepayment / direct-debit for credit-trouble or late-paying customers	✓
Efficient / prompt invoicing cycles (e.g. multiple) to get invoices to customers timely	✓
Optimize / renegotiate payment terms (if not on par with standard)	✓

Effective Techniques for Improving DPO (Payable)

Techniques	Utilized by Purdue
Payment cycles – limited to the required frequency	✓
Take early payment discounts, if discounts are ROI-justified	✓
Avoid early payments, if prompt-pay discounts are not ROI-justified	✓
Renegotiate payment terms – migrate to industry benchmarks or best available alternative, if current payment terms are short	✓
Product acceptance condition – connect settlement of payables to the fulfillment of all contractual obligations such as quantity, quality, delivery dates, etc.	✓
Migrate checks into e-payments for more precised payment timing	✓
Back-to-back agreements—balancing the due dates of receivables and payables helps to minimize costs in managing cash flows	Ongoing Review

Effective Techniques for Improving DIO (Inventory)

Techniques	Utilized by Purdue
Enhanced forecast accuracy and demand planning – accuracy reduces unnecessary stock cushion and improve ability to deliver	✓
Advanced delivery and logistic concepts, such as vendor-managed inventory, just-in-time manufacturing, or close collaboration with suppliers	✓
Optimize production processes	✓
Variance management – reducing product complexity and carefully tracking demand of product variants	✓
Balance the need to prevent stock-out while minimize inventory days	✓

Cash and Working-Capital Discipline

A report prepared by CFO Research Services
in collaboration with American Express, March 2012

Figure 9. What stands in the way of cash and working-capital improvement at small and midsize companies?

A lack of bargaining power, combined with internal problems with coordination and alignment, surface as the most prominent obstacles.

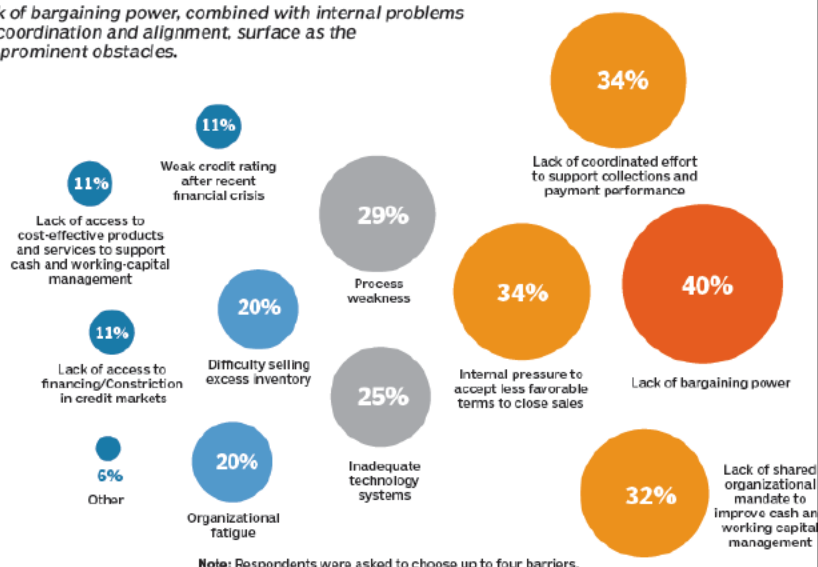
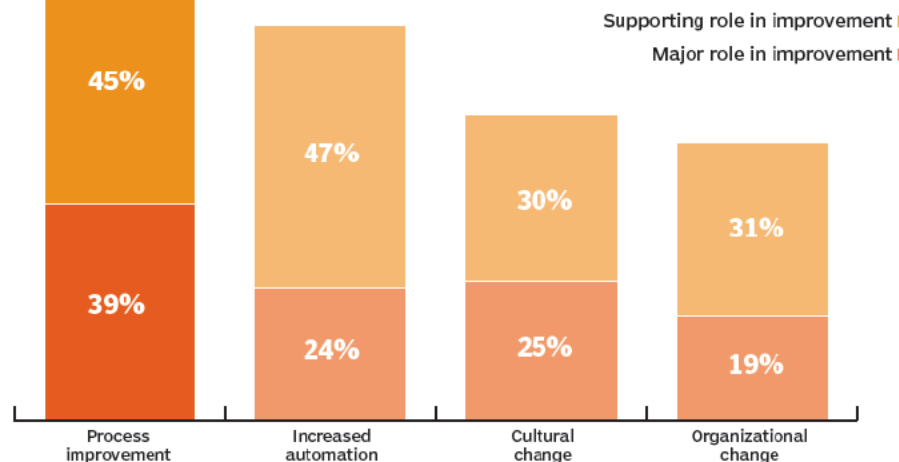


Figure 10. What broad types of cash and working-capital improvements will small and midsize firms pursue?

Process improvement outpaces other broad improvement categories, including increased automation and cultural and organizational change.



Cash and Working-Capital Discipline

A report prepared by CFO Research Services
in collaboration with American Express, March 2012 (cont.)

Keys to Working-Capital Improvement	Comments from the CFO Research Paper	Utilized by Purdue
Diligence	“Diligence is key to improving working capital management—key to running a successful business. You must focus on both sides of the working-capital equation, and your improvement efforts have to be top-to-bottom in the organization. It’s difficult to do, but it can change your company.” –CFO OF A MIDSIZE WHOLESALE/RETAIL TRADE FIRM	✓
Consistency	“Have an honest conversation with your vendors about the need to extend payment terms. Then never miss a payment date.” –CFO OF A MIDSIZE NONPROFIT FIRM	✓
(Smart) Focus	“Focus on the largest buckets of cash—not necessarily the biggest problem areas.” –CFO OF A MIDSIZE PROFESSIONAL SERVICES FIRM. “Keep a keen eye on the details: due dates on payables and regular progress reports on receivables throughout the reporting period.” –CFO OF A MIDSIZE FINANCIAL SERVICES FIRM	✓
Speed	“Develop a weekly routine of positive communication with customers relating to accounts-receivable aging status. If you identify quality problems with your deliverables, develop an instant feedback loop between the customer and your quality control, sales management, operations, and finance functions so that quality issues are addressed in the first 10 days of aging—not when the account is past due.” –CFO OF A MIDSIZE AEROSPACE/DEFENSE FIRM	✓
Engagement	“Create internal agreement on how to increase cash flow and increase understanding of why cash flow is important to the company as a whole. Generate buy-in from the sales force and other internal stakeholders.” –CFO OF A MIDSIZE MANUFACTURING FIRM	✓
Accountability	“Develop measurable objectives—hold employees accountable for achievement across the organization.” –CFO OF A MIDSIZE HEALTHCARE FIRM	✓
Fiscal Conservatism	“If you strengthen your balance sheet, you can get the operating cash you need (i.e., if you’re profitable, make very limited distributions to shareholders). Bad times are coming—see the problems with the Euro!” –CFO OF A MIDSIZE CONSTRUCTION COMPANY	✓ Timely forecasts

Backup: Accounts Payable (DPO)

Industry Benchmarks

- Industry data are calculated based on the standard DPO formula of using average accounts payable balance and cost of sales. Accrued expenses are not included—since they are usually separately listed in the balance sheet.

Purdue

- Purdue's DPO calculation is to exclude a number of items that Finance cannot influence. These include, for example, rebates, rents, liability settlements, taxes, partner distributions, mortgage payments, etc. Many of these items are probably recorded in accrued expenses and are moved to accounts payable when invoices are presented and paid. Thus, they clear through the accounts payable account quickly.
- Using Purdue's specialized formula yields a DPO of 40 for 2011. (This is used in the cash conversion cycle analysis herein.)
- Alternatively, if we use the industry standard formula to calculate DPO (and use 60% of Purdue operating expenses as non-payroll purchases), our DPO for 2011 would be ~44 days. The change of magnitude is not likely going to change the conclusion from the analysis.
- **Industry's DPO average is not comparable to Purdue because Purdue's cost of goods is de minimis comparing with others.**

Produced Natively

Sales Summary Gross to Net

Expressed in 000's

	July Year-to-Date			Variance 2012 YTD Actual versus		Full Year	
	2012 YTD Actual	2012 YTD Budget	2011 YTD Actual	2012 YTD Budget	2011 YTD Actual	2012 Budget	2011 Actual
<i>OxyContin</i>							
Gross Sales	\$ 1,535,886	\$ 1,658,272	\$ 1,593,534	\$ (122,386)	\$ (57,647)	\$ 2,877,360	\$ 2,780,968
Fee for Service	(39,559)	(42,469)	(26,512)	2,910	(13,047)	(73,631)	(70,993)
Sales Discounts and Allowances	(24,159)	(27,914)	(32,695)	3,756	8,537	(58,180)	(58,928)
Savings Cards Discounts	(9,318)	(11,572)	(6,641)	2,254	(2,677)	(19,890)	(10,935)
Rebates	(302,702)	(316,765)	(278,066)	14,063	(24,636)	(542,148)	(540,410)
Proposed Regulation Adjustment for Medicaid Rebates (1)	(35,052)	(43,993)	(41,151)	8,941	6,099	(74,836)	(68,854)
OxyContin Net Sales	1,125,096	1,215,558	1,208,468	(90,463)	(83,372)	2,108,675	2,030,848
<i>Butrans</i>							
Gross Sales	\$ 56,084	\$ 69,206	\$ 37,637	(13,123)	18,447	135,808	73,531
Fee for Service	(1,556)	(1,896)	(874)	340	(682)	(3,685)	(1,827)
Sales Discounts and Allowances	(1,012)	(1,091)	(1,666)	79	655	(16,123)	(8,254)
Savings Cards Discounts	(3,884)	(4,983)	(1,619)	1,099	(2,265)	(9,671)	(4,392)
Rebates	(2,746)	(5,184)	(1,448)	2,438	(1,298)	(10,387)	(3,123)
Butrans Net Sales	46,886	56,052	32,030	(9,166)	14,856	95,942	55,935
<i>Intermezzo</i>							
Gross Sales	\$ 13,863	\$ 11,772	\$ -	2,090	13,863	49,185	-
Fee for Service	(353)	(352)	-	(1)	(353)	(1,244)	-
Sales Discounts and Allowances	(9,920)	(277)	-	(9,644)	(9,920)	(1,000)	-
Savings Cards Discounts	(153)	(142)	-	(12)	(153)	(500)	-
Rebates	(289)	(883)	-	594	(289)	(3,000)	-
Intermezzo Net Sales	3,148	10,119	-	(6,971)	3,148	43,441	-
<i>Other Products</i>							
Gross Sales	\$ 51,898	\$ 62,492	\$ 65,793	(10,594)	(13,895)	105,516	116,662
Fee for Service	(537)	(731)	(194)	194	(343)	(1,252)	(1,687)
Sales Discounts and Allowances	5,998	(1,068)	(1,021)	7,066	7,019	1,805	10,960
Savings Cards Discounts	0	(205)	(145)	206	145	(350)	(245)
Rebates	(1,482)	(1,305)	(1,066)	(178)	(417)	(2,289)	(2,358)
Other Products Net Sales	55,876	59,183	63,368	(3,307)	(7,492)	103,430	123,332
<i>Total for All Products</i>							
Gross Sales	1,657,731	1,801,743	1,696,964	(144,012)	(39,233)	3,167,869	2,971,161
Fee for Service	(42,005)	(45,449)	(27,579)	3,444	(14,426)	(79,812)	(74,507)
Sales Discounts and Allowances	(29,093)	(30,349)	(35,382)	1,257	6,289	(73,498)	(56,222)
Savings Cards Discounts	(13,356)	(16,902)	(8,405)	3,546	(4,950)	(30,411)	(15,572)
Rebates	(307,219)	(324,137)	(280,579)	16,918	(26,640)	(557,824)	(545,891)
Proposed Regulation Adjustment for Medicaid Rebates (1)	(35,052)	(43,993)	(41,151)	8,941	6,099	(74,836)	(68,854)
Total Net Sales	\$ 1,231,006	\$ 1,340,912	\$ 1,303,866	\$ (109,906)	\$ (72,860)	\$ 2,351,488	\$ 2,210,115

Other products Gross Sales is under budget primarily due to Ryzolt returns following entry of generics. Other products Sales Discounts and Allowances includes reversal of prior year Ryzolt returns reserves which offset the lower Ryzolt Gross Sales.

Purdue Sales versus Budget
July 2012
Flash Report

(\$000)											
Group	Year to Date July 2012			Full Year						2011 July Year to Date Actual	Variance to Prior Year
	Actual	Budget	Var. to Budget	2012 Budget	2012 Mid Year Update	2011 Actual	2010 Actual	2009 Actual	2008 Actual		
10mg	\$ 83,195	\$ 88,979	\$ (5,784)	\$ 156,075	\$ 150,922	\$ 146,784	\$ 121,344	\$ 133,629	\$ 118,134	\$ 82,876	\$ 319
15mg	17,653	15,003	2,650	26,007	32,101	27,136	23,620	16,548	10,432	14,691	2,962
20mg	222,557	235,830	(13,273)	408,862	402,818	404,149	361,266	369,289	388,132	232,752	(10,195)
30mg	109,910	100,808	9,102	174,780	196,103	171,730	161,048	114,431	57,716	93,999	15,911
40mg	344,052	374,143	(30,091)	648,781	620,219	633,738	682,972	708,279	650,395	361,280	(17,229)
60mg	185,360	184,539	821	319,936	330,874	300,721	315,742	226,251	106,119	168,555	16,805
80mg	573,159	658,971	(85,812)	1,142,920	1,004,280	1,096,763	1,331,784	1,320,222	1,105,694	639,380	(66,222)
160mg	-	-	-	-	-	(3)	-	-	(4)	-	-
OxyContin	1,535,886	1,658,272	(122,386)	2,877,361	2,737,318	2,781,018	2,997,775	2,888,649	2,436,618	1,593,534	(57,647)
Butrans	56,084	69,206	(13,123)	135,808	135,808	73,531	-	-	-	37,637	18,447
Intermezzo	13,863	11,772	2,090	49,185	49,185	-	-	-	-	-	13,863
Dilaudid Injectibles	3,187	1,146	2,040	1,932	6,791	4,622	6,903	4,038	3,115	614	2,572
Dilaudid HP	1,538	1,645	(107)	2,698	2,311	2,724	9,448	3,823	9,947	1,480	58
Dilaudid Tablets	8,248	10,915	(2,667)	19,108	15,552	17,495	18,730	24,977	14,472	10,393	(2,145)
Dilaudid	12,972	13,706	(734)	23,738	24,654	24,842	35,081	32,838	27,535	12,487	485
MS Contin	7,406	7,992	(586)	13,620	11,547	13,339	15,101	16,860	17,996	7,244	162
Ryzolt	(6,539)	1,476	(8,014)	391	(7,250)	11,168	16,510	10,842	-	7,415	(13,953)
Betadine First Aid	2,356	2,527	(171)	4,314	3,929	4,164	4,249	3,858	3,664	2,555	(199)
Betadine Hospital	2,639	2,421	218	4,144	4,589	4,412	4,196	3,864	4,082	2,415	224
Betadine Veterinary	532	500	32	861	793	793	765	729	747	476	56
Betadine	5,527	5,448	80	9,319	9,311	9,369	9,210	8,451	8,493	5,447	80
Betasept	1,083	971	112	1,656	1,664	1,753	1,715	1,500	1,729	925	159
Colace	14,403	13,610	792	23,725	25,623	23,729	22,250	22,889	22,996	13,447	956
Peri-Colace	2,624	2,373	251	4,068	4,502	3,968	3,637	3,058	4,665	2,379	245
Colace / Peri-Colace	17,027	15,983	1,043	27,793	30,125	27,697	25,887	25,947	27,661	15,826	1,201
Senokot	5,747	6,096	(349)	10,450	10,090	10,428	9,894	7,272	13,417	5,962	(215)
Senokot - S	6,413	7,939	(1,526)	13,610	11,638	13,010	12,360	11,357	17,127	7,656	(1,243)
Senokot	12,160	14,035	(1,875)	24,059	21,728	23,437	22,253	18,629	30,545	13,618	(1,458)
Slow-Mag	2,328	2,881	(553)	4,940	4,940	5,352	4,585	4,703	4,523	3,124	(796)
Discontinued Products	(67)	-	(67)	-	(44)	(344)	(243)	3,725	4,374	(291)	224
Gross Branded Sales	\$ 1,657,731	\$ 1,801,743	\$ (144,012)	\$ 3,167,870	\$ 3,018,985	\$ 2,971,161	\$ 3,127,873	\$ 3,012,143	\$ 2,559,475	\$ 1,696,964	\$ (39,233)
Fee-for-Service	\$ (42,005)	\$ (45,449)	\$ 3,444	(79,812)	(76,465)	(74,507)	\$ (79,237)	\$ (76,215)	\$ (60,355)	\$ (40,882)	\$ (1,123)
Disc. & Allowances	(27,059)	(30,349)	3,290	(72,341)	(74,450)	(56,383)	(45,966)	(51,937)	(57,406)	(22,080)	(4,980)
Ryzolt Returns Reserve	6,968	-	6,968	(1,158)	7,135	161	-	-	-	-	6,968
Intermezzo Returns Reserve	(9,001)	-	(9,001)	-	(4,882)	-	-	-	-	-	(9,001)
Ryzolt Samples	-	-	-	-	-	-	(2,826)	(3,625)	-	-	-
Savings Card Discount	(13,356)	(16,902)	3,546	(30,411)	(30,061)	(15,572)	(15,691)	(17,131)	(13,444)	(8,405)	(4,950)
Rebates	(307,219)	(324,137)	16,918	(557,823)	(538,727)	(545,891)	(621,633)	(455,092)	(342,153)	(280,579)	(26,640)
Proposed regulation adj for Medi	(35,052)	(43,993)	8,941	(74,836)	(63,618)	(68,854)	(40,041)	-	-	(41,151)	6,099
Less: Deductions Subtotal	\$ (426,725)	\$ (460,831)	\$ 34,106	\$ (816,382)	\$ (781,068)	\$ (761,046)	\$ (805,395)	\$ (604,000)	\$ (473,358)	\$ (393,098)	\$ (33,627)
Net Branded Sales	\$ 1,231,006	\$ 1,340,912	\$ (109,906)	\$ 2,351,488	\$ 2,237,917	\$ 2,210,115	\$ 2,322,478	\$ 2,408,143	\$ 2,086,116	\$ 1,303,866	\$ (72,860)

(\$ in millions)

Gross Sales

• Impact of trade inventories lower than budget. ⁽¹⁾	\$ (54.9)	
• Lower OxyContin demand as Rxs are running ~5% below budget and would need to increase by ~11+% above current levels to achieve the sales target. ⁽¹⁾	(67.4)	
Lower OxyContin Sales due to lower demand offset by higher trade inventory.		(122.4)
• Lower Butrans sales - see Sales Trend chart.		(13.1)
• Intermezzo sales - see Sales Trend chart.		2.1
• Ryzolt returns		(8.0)
• All Other		(2.6)
Sub-Total Gross Sales Variance		(144.0)

Deductions

• Lower Fee for Service due to lower sales (\$3.6MM) offset by prior quarter adjustments (\$0.2MM).	\$ 3.4	
• Lower Discounts and Allowances primarily due to change in Ryzolt return reserve (\$7.0MM) and lower sales/other (\$3.2MM) offset by Intermezzo Returns Reserve (\$9.0MM).	1.3	
• Lower Savings Card Discount due to lower OxyContin sales and redemption rates (\$2.2MM), lower Butrans sales (\$1.1MM) and all other (\$0.2MM).	3.5	
• Lower Rebates due to lower sales, partially offset by higher Medicare Part D Coverage Gap and Tricare program utilization.	16.9	
• Lower Proposed regulation adjustment primarily due to lower Medicaid sales.	8.9	

Sub-Total Deductions variance 34.1

Net Branded Sales Variance to Budget

\$ (109.9)

(1) Each of these factors is based on estimates provided by IMS and customers.