

**Purdue Pharma**  
**Trade Inventory Summary**

<b>OxyContin</b>			
	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	<u>\$ 535,686</u>	<u>\$ 683,852</u>	<u>\$ 690,038</u>
Wholesaler - Ending MOH (1)	1.0	0.8	
Pharmacy - Ending MOH (2)	1.6	2.3	
Hospital/Other - Ending MOH	0.0	0.0	
Total Months on Hand - July 31, 2012	<u>2.6</u>	<u>3.1</u>	
YTD inventory change	\$ (40,870)	\$ 14,071	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (54,941)</u>	
<b>Butrans</b>			
	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	<u>\$ 16,365</u>	<u>\$ 20,119</u>	<u>\$ 22,583</u>
Wholesaler - Ending MOH (1)	1.0	1.1	
Pharmacy - Ending MOH (2)	1.0	1.1	
Hospital/Other - Ending MOH	0.0	0.0	
Total Months on Hand - July 31, 2012	<u>2.0</u>	<u>2.2</u>	
YTD inventory change	\$ (1,513)	\$ 2,619	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,132)</u>	
<b>Intermezzo</b>			
	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	<u>\$ 12,081</u>	<u>\$ 16,579</u>	<u>\$ 17,923</u>
Months on Hand	N/A	N/A	
YTD inventory change	\$ 12,081	\$ 16,579	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,498)</u>	

**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.

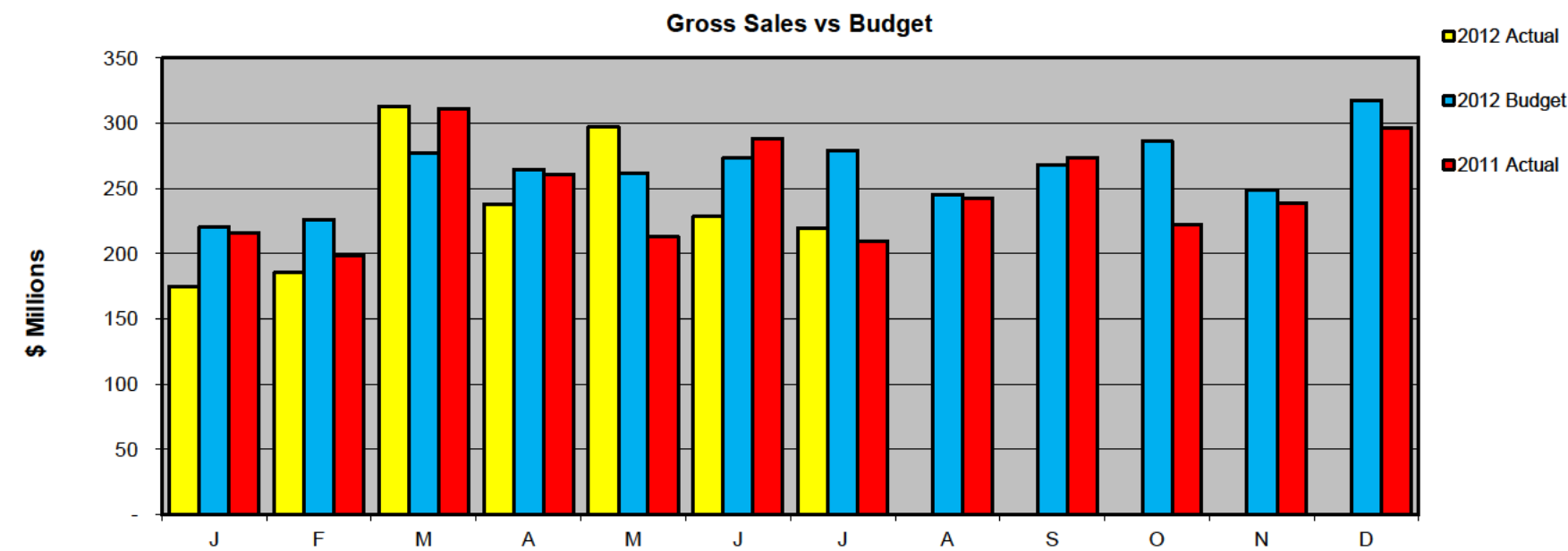
**Footnotes**

- (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 %
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%	

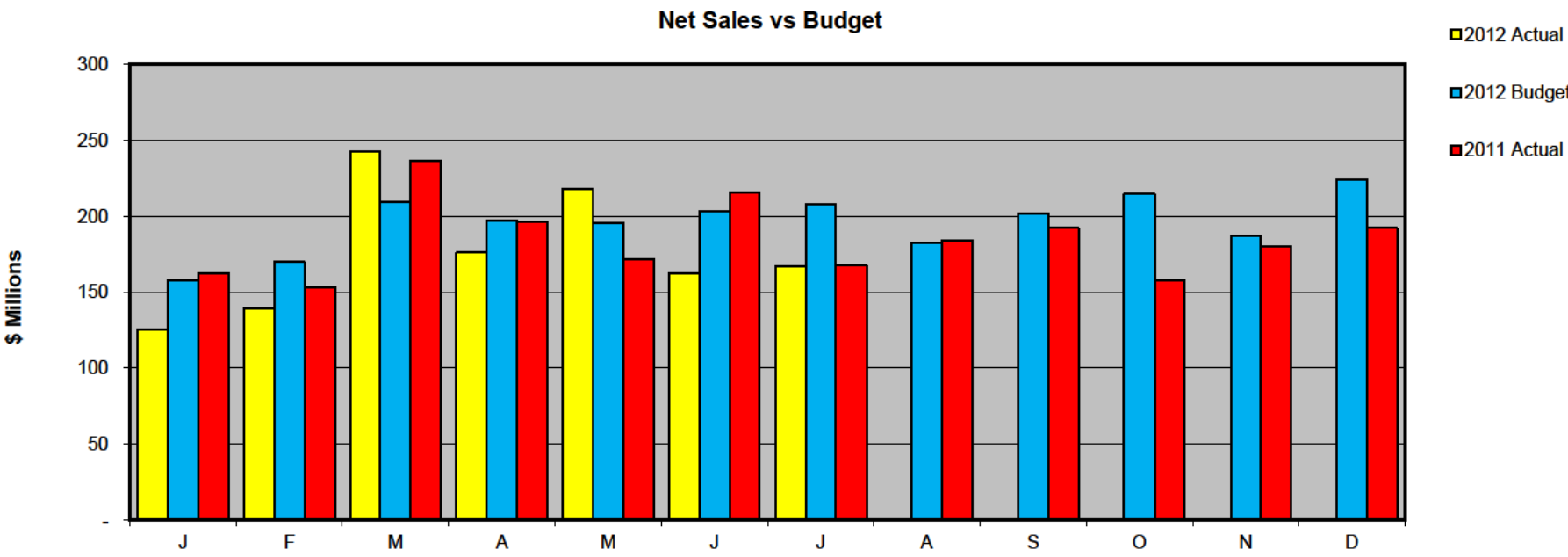


Note: The above net sales includes the impact of the proposed final rule for Medicaid rebates.

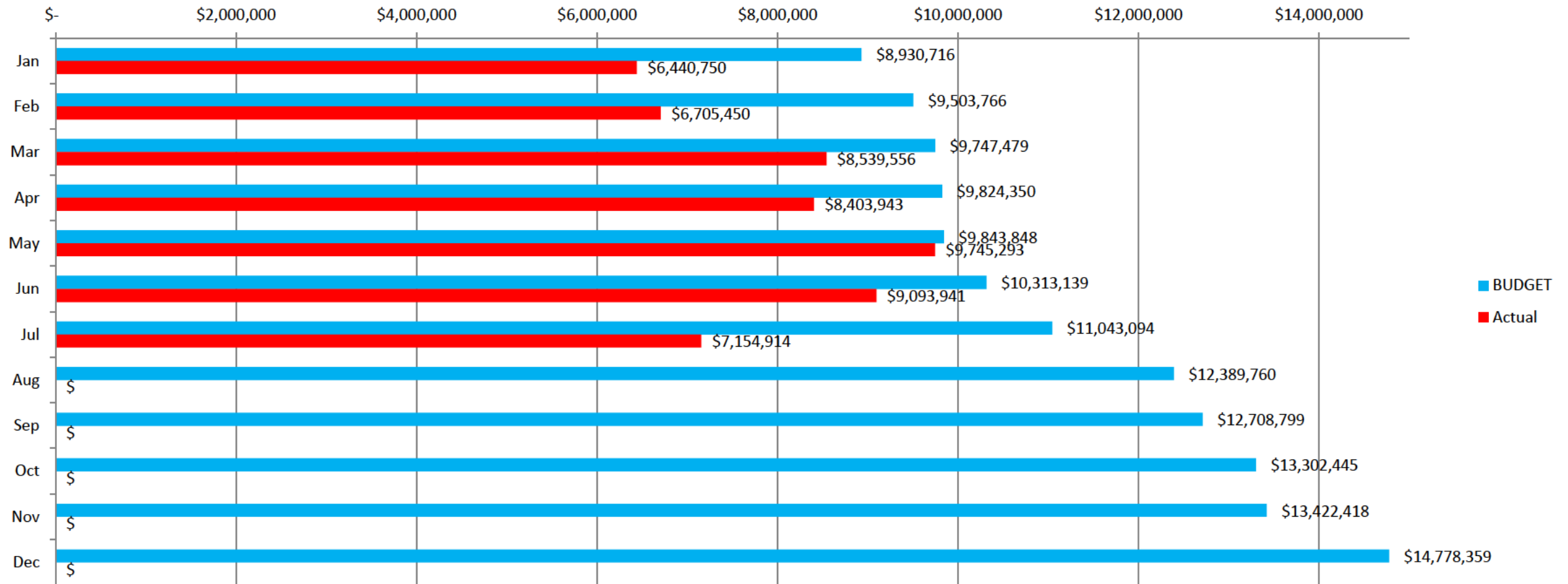
Purdue Pharma

Net Sales by Month

(\$ mm)	2012		2011		2010		Monthly	
							2012 %	2012 %
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

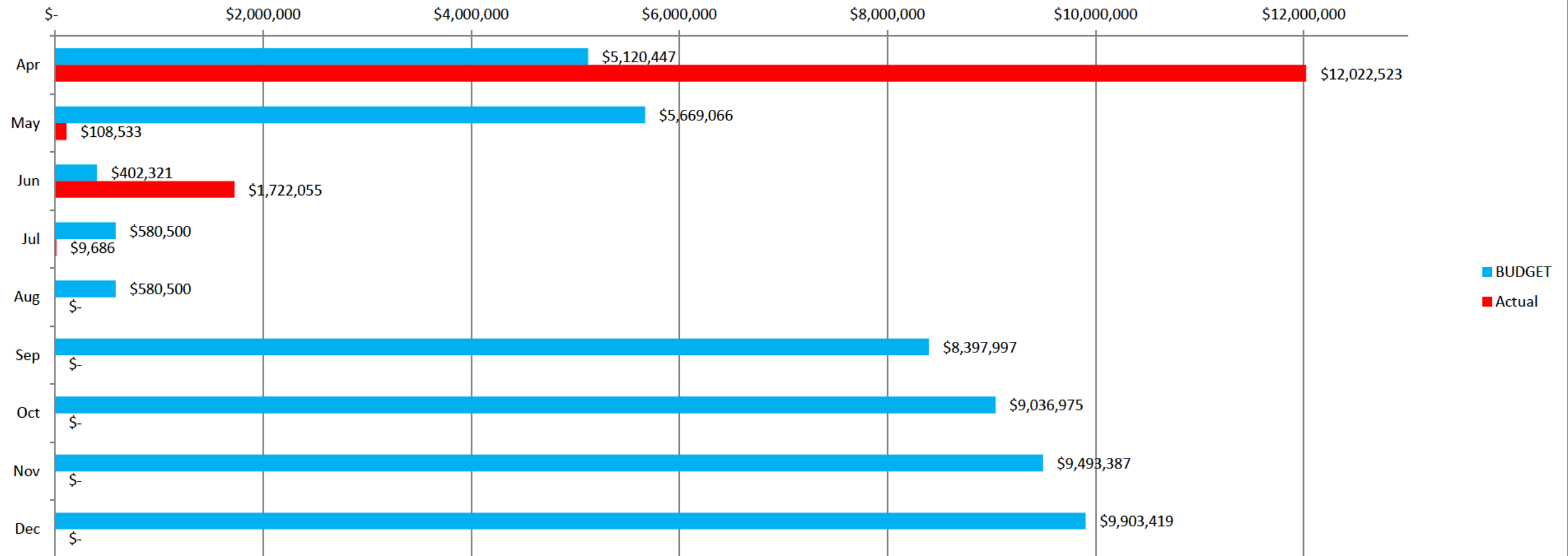


Product	Jul YTD Sales			Jul YTD Units			Jul YTD Average Sales Price		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
BUP405	\$ 8,021,902	\$ 11,459,528	\$ (3,437,626)	61,121	86,435	(25,314)	\$ 131.25	\$ 132.58	\$ (1.33)
BUP410	22,117,906	27,871,126	(5,753,220)	111,970	140,153	(28,183)	197.53	198.86	(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.

Message

**From:** Kastor, Beatrix  
on behalf of Mahony, Edward  
**Sent:** 8/9/2012 1:03:44 PM  
**To:** Boer, Peter; Lewent, Judy; Pickett, Ceci; 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; Weinstein, Bert; Sackler, David; Costa, Paulo; Snyderman, Ralph  
**CC:** Rosen, David (Sales and Marketing); Lowne, Jon  
**BCC:** Stewart, John H. (US)  
**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<sup>[1]</sup> finance report.

Net Sales

– Year-to-date net sales were \$1.2 billion – which is 92% of budget.

<sup>[1]</sup> 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.

- 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

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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. <sup>(1)</sup>	\$ (54.9)	
• Lower OxyContin demand as Rx's are running ~5% below budget and would need to increase by ~11+% above current levels to achieve the sales target. <sup>(1)</sup>	(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.

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Months on Hand	2.6	3.1	
YTD inventory change	\$ (40,870)	\$ 14,071	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (54,941)</u>	

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Months on Hand	2.0	2.2	
YTD inventory change	\$ (1,513)	\$ 2,619	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,132)</u>	

	Intermezzo		
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Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,498)</u>	

**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**

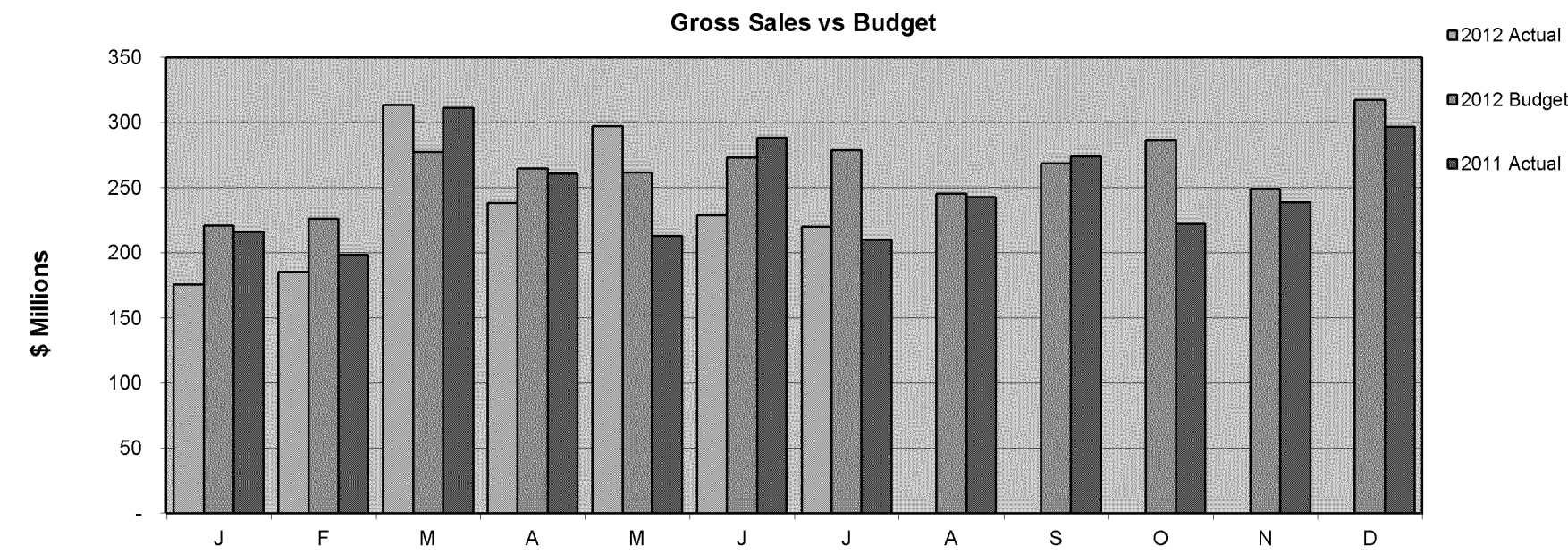
(1) - **Wholesaler** - Includes inventory held by the wholesaler derived from the Value Centric system.

(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%

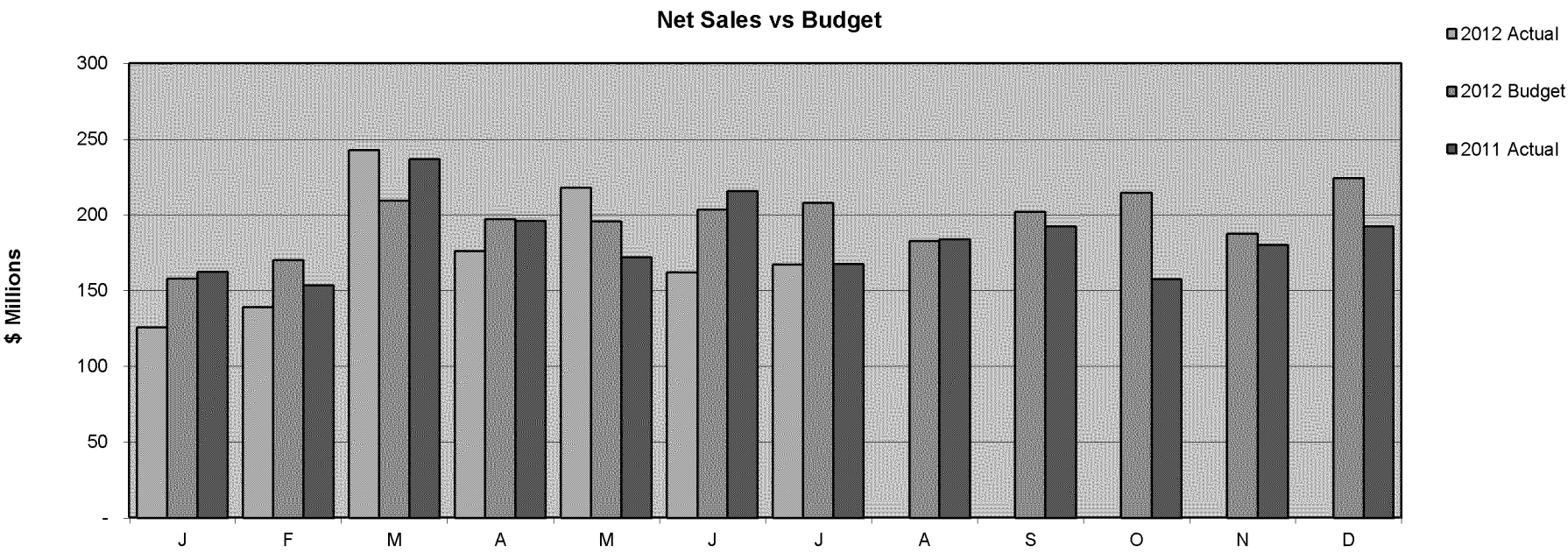


Note: The above net sales includes the impact of the proposed final rule for Medicaid rebates.

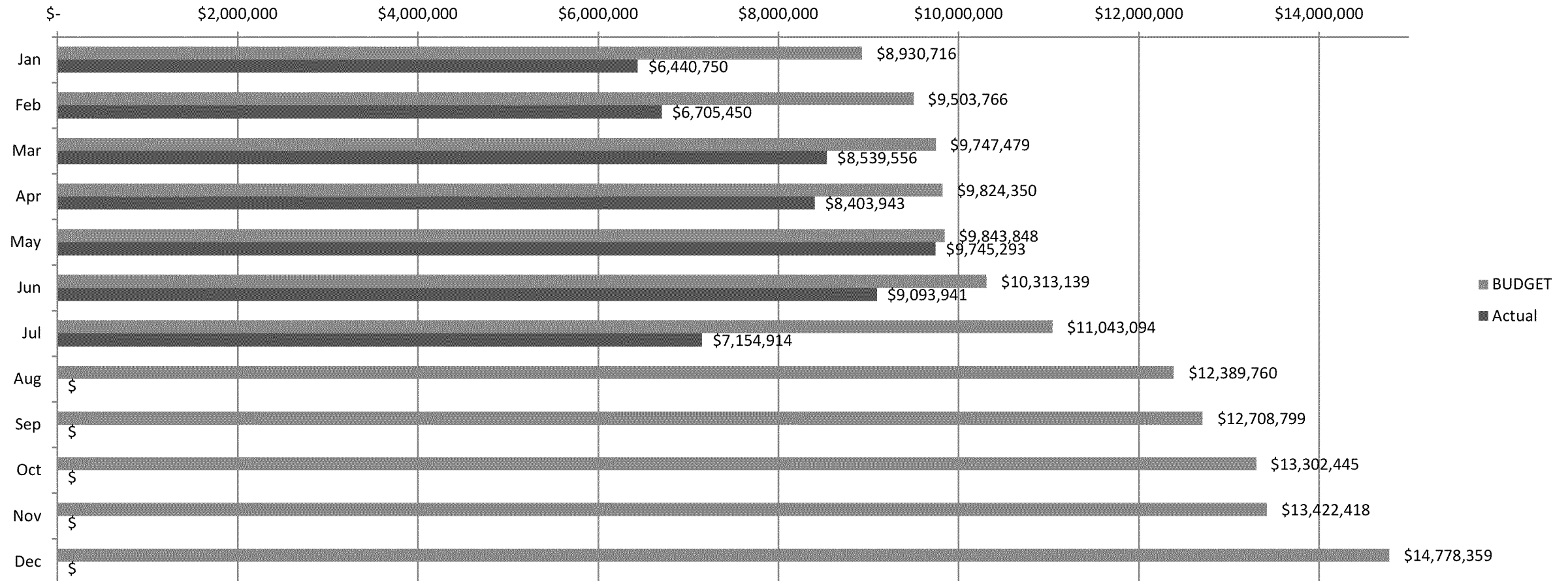
Purdue Pharma

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

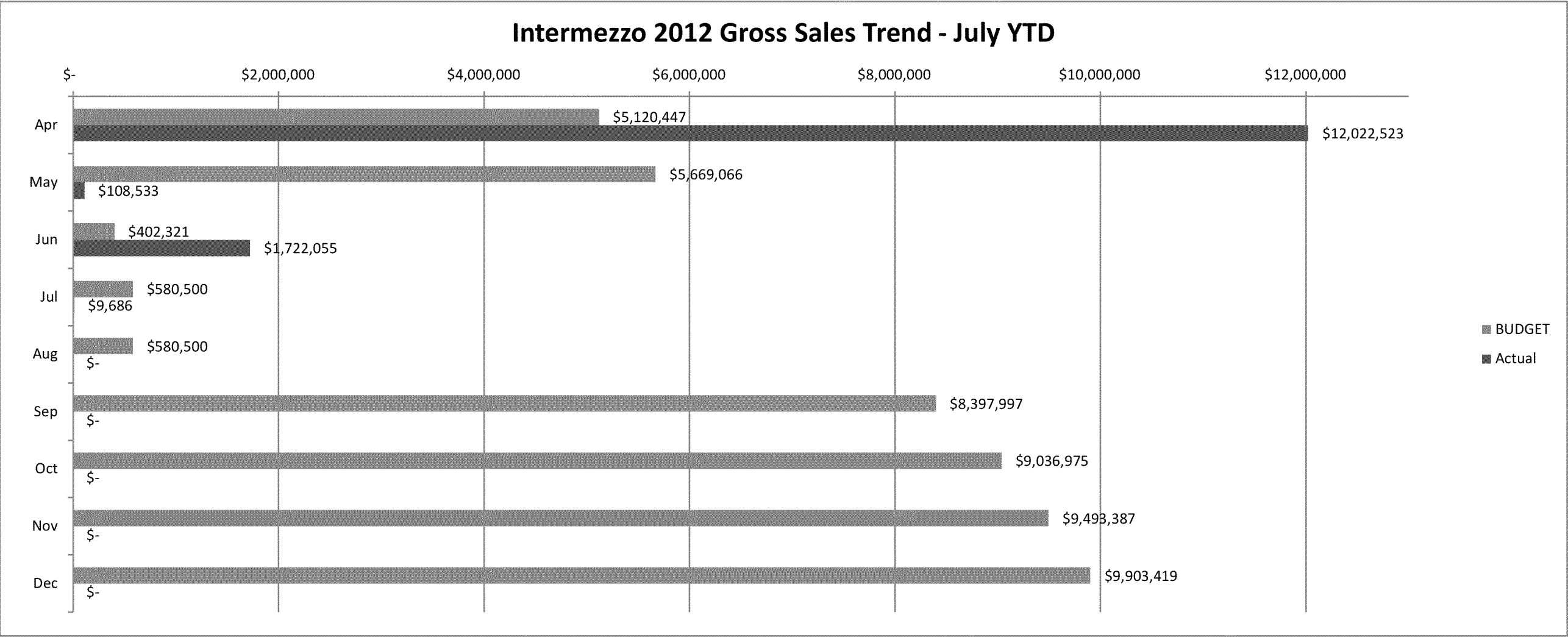


Product	Jul YTD Sales			Jul YTD Units			Jul YTD Average Sales Price		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
BUP405	\$ 8,021,902	\$ 11,459,528	\$ (3,437,626)	61,121	86,435	(25,314)	\$ 131.25	\$ 132.58	\$ (1.33)
BUP410	22,117,906	27,871,126	(5,753,220)	111,970	140,153	(28,183)	197.53	198.86	(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 1<sup>st</sup> 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)

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

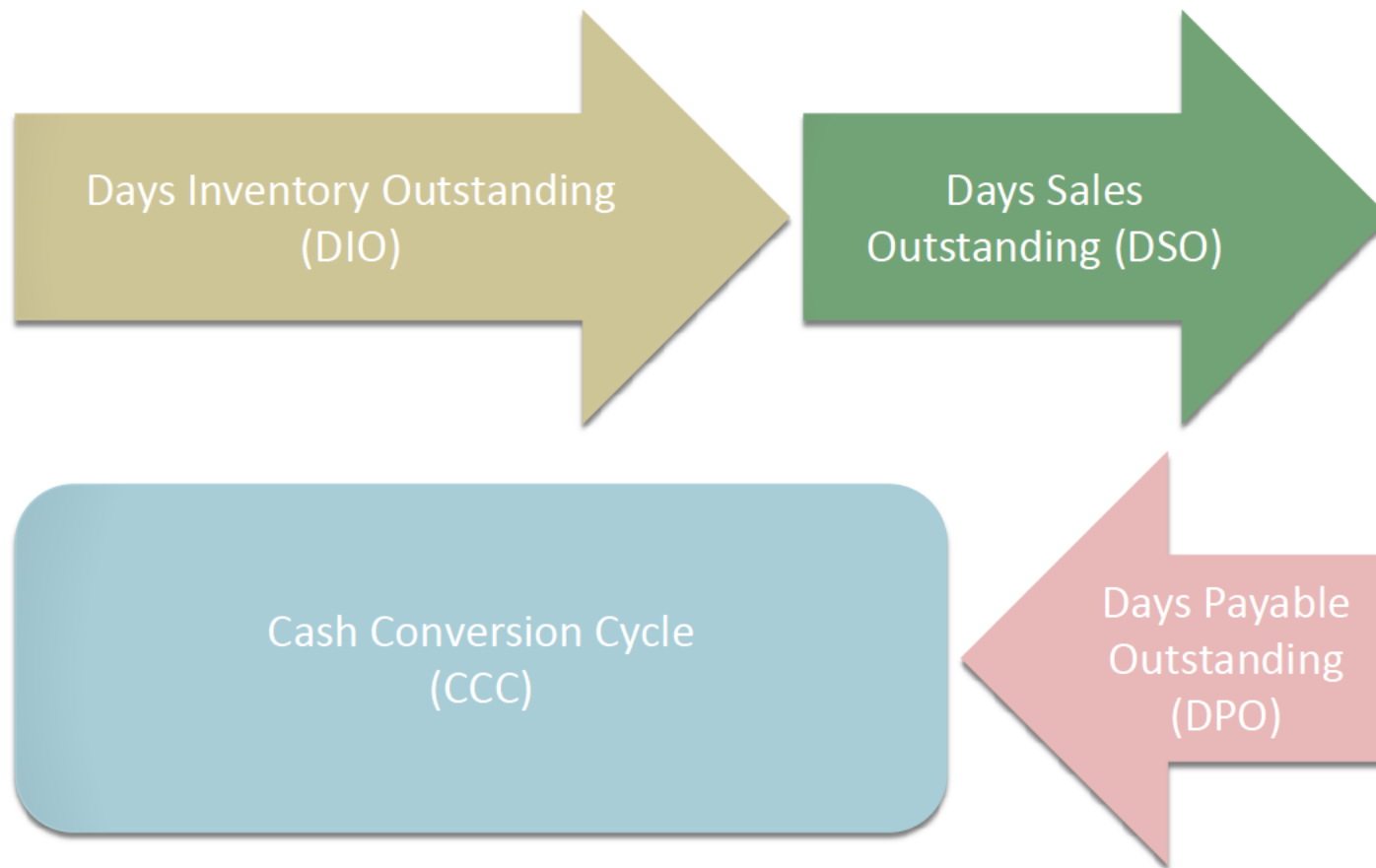
## ■ Current Ratio = Current Assets / Current Liabilities

## ■ 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)

<b>Cash Conversion Cycle</b>			(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

<b>Other Working Capital Ratios</b>				
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.

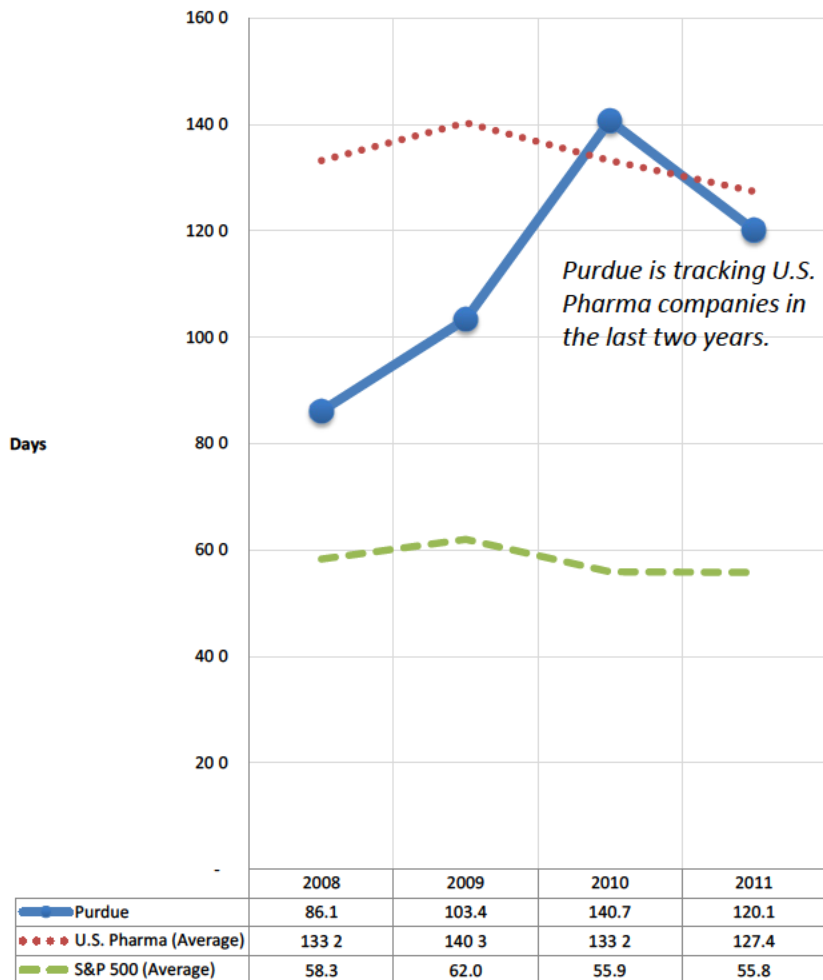
For Purdue, DPO is published by Finance from internal reporting. DIO is published by Cost Accounting. Purdue DSO is from internal financial reporting. Excluded rebates.

(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.

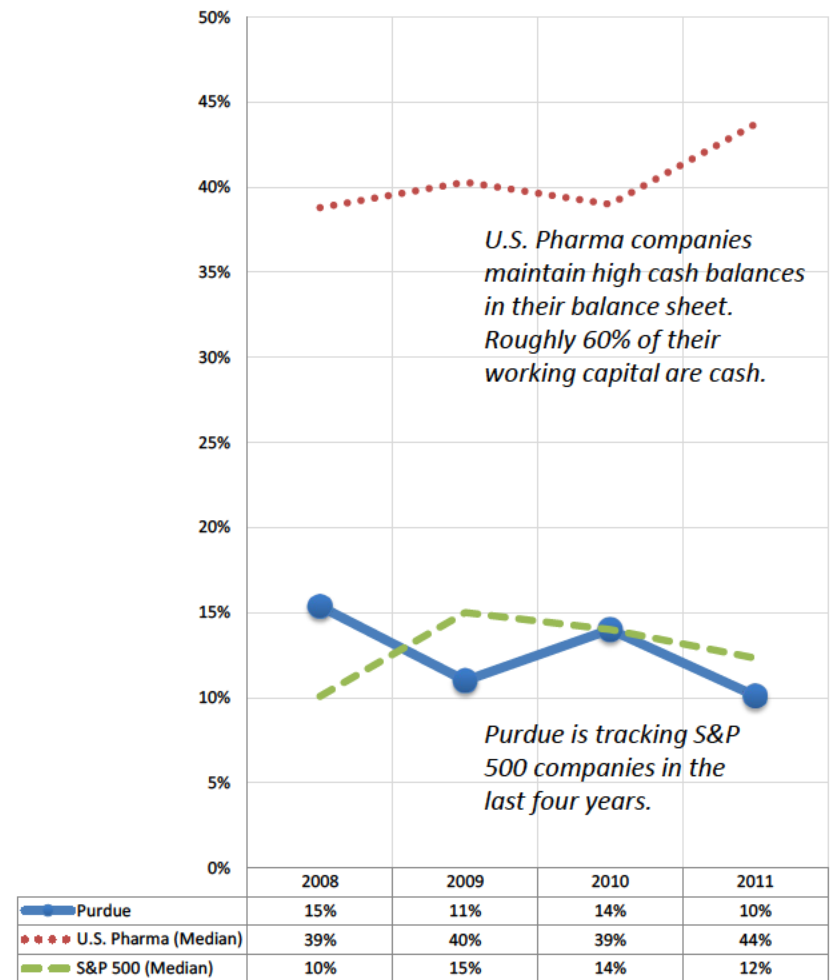
# 4-Year Trends

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

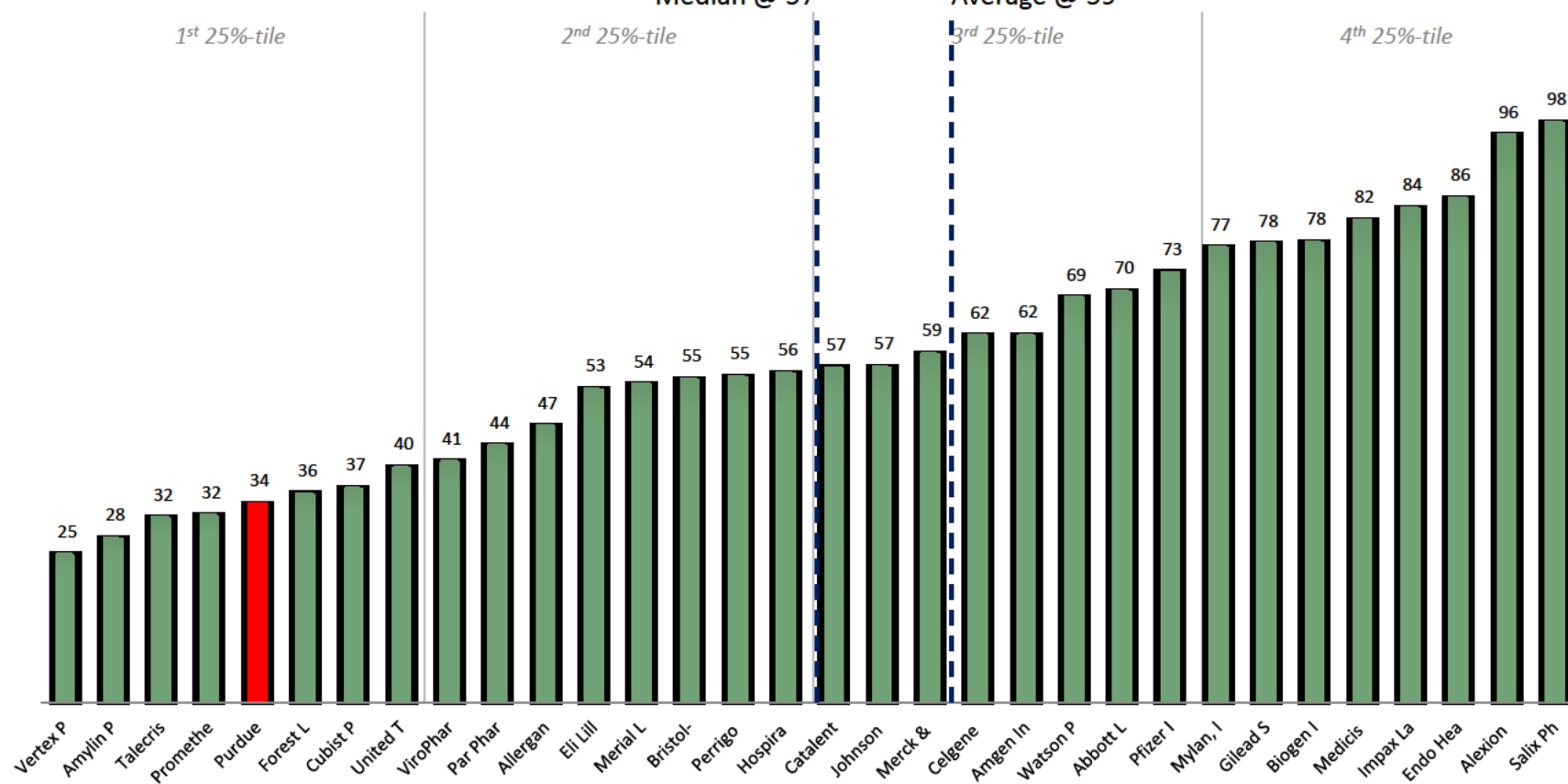
Average @ 59

1<sup>st</sup> 25%-tile

2<sup>nd</sup> 25%-tile

3<sup>rd</sup> 25%-tile

4<sup>th</sup> 25%-tile



# Days Inventory Outstanding (DIO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

Days

Median @ 135

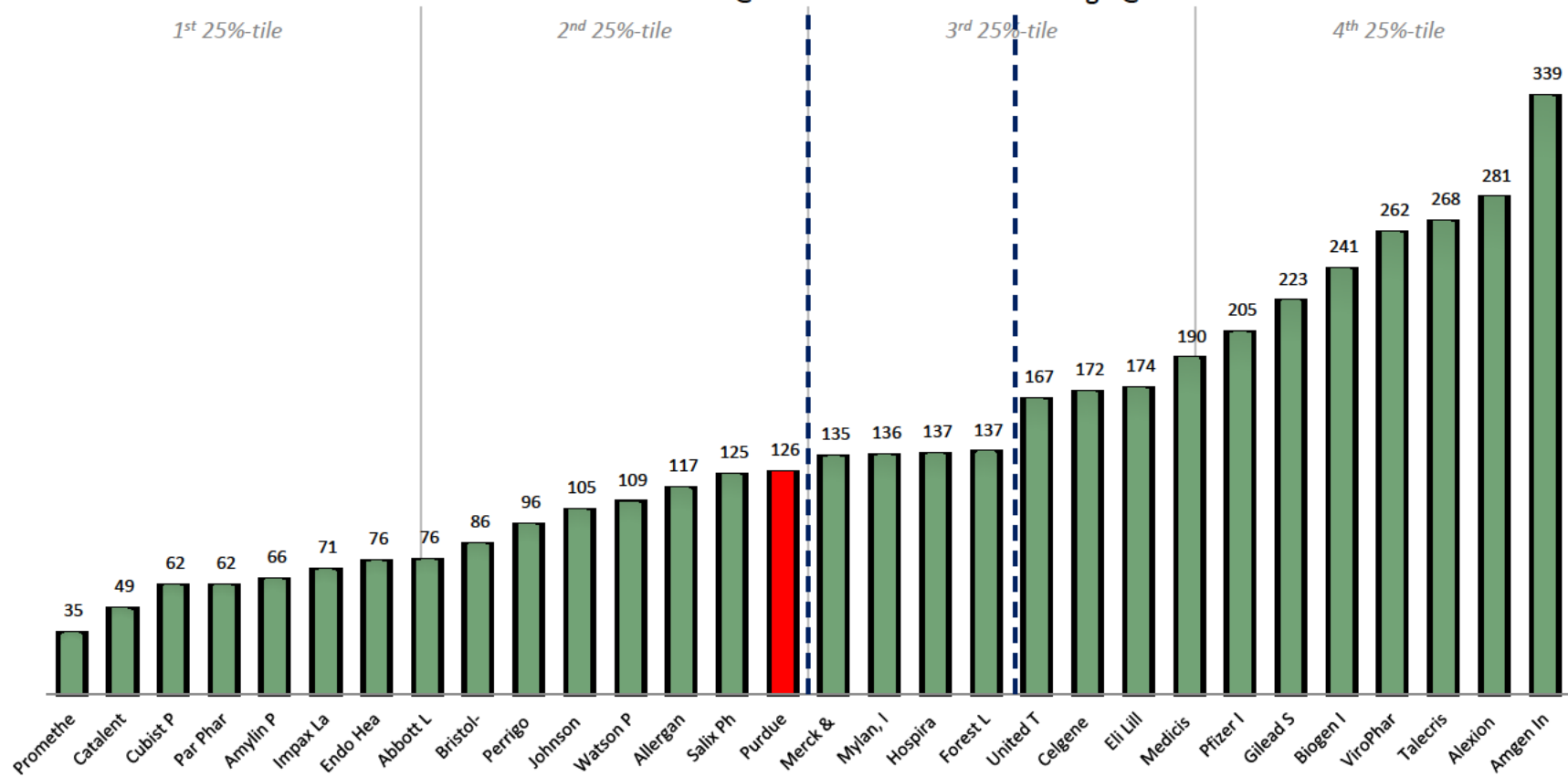
Average @ 145

1<sup>st</sup> 25%-tile

2<sup>nd</sup> 25%-tile

3<sup>rd</sup> 25%-tile

4<sup>th</sup> 25%-tile



# Days Payable Outstanding (DPO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Higher the Better (if no discount)

Days

Median @ 62

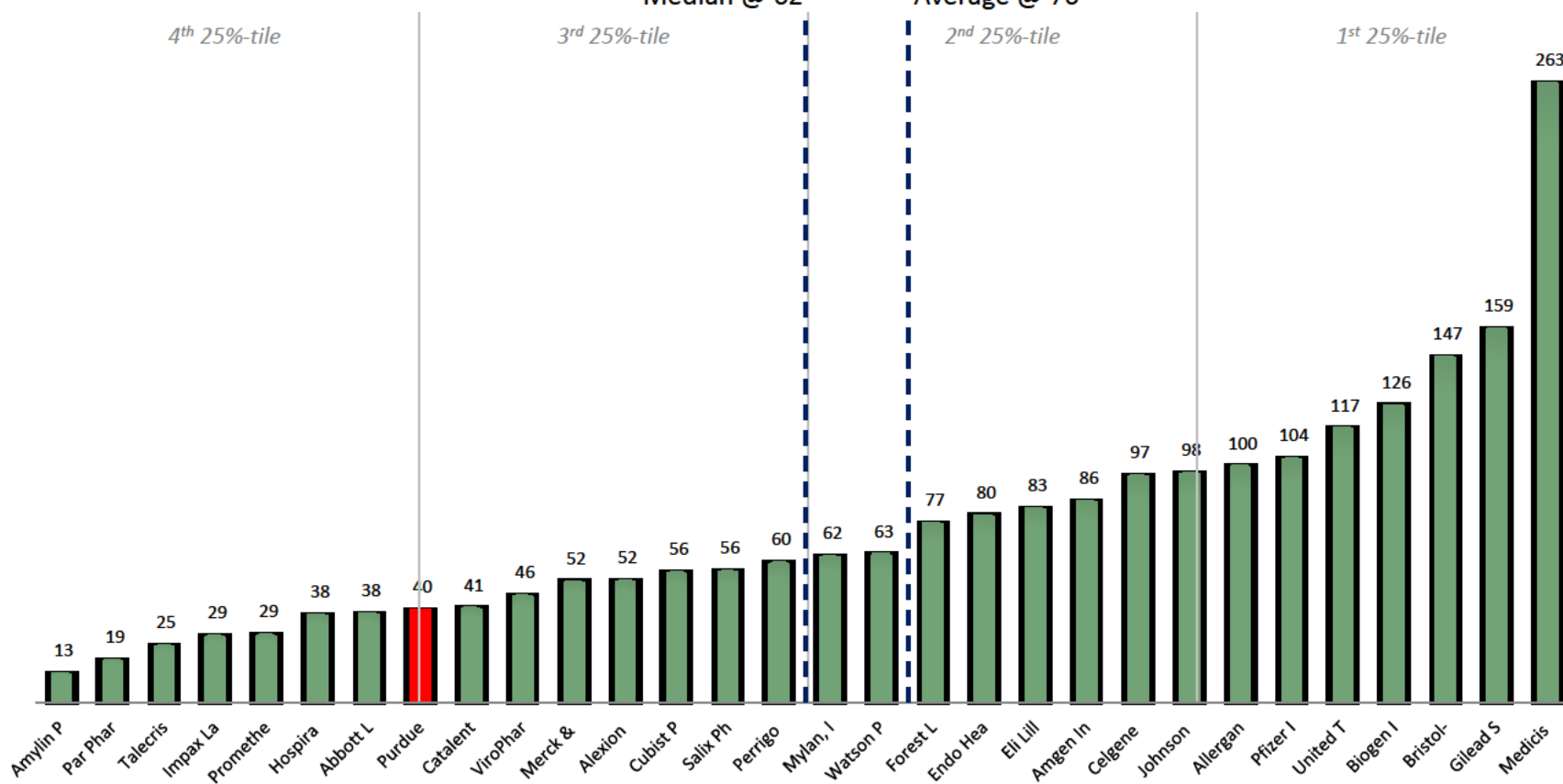
Average @ 76

4<sup>th</sup> 25%-tile

3<sup>rd</sup> 25%-tile

2<sup>nd</sup> 25%-tile

1<sup>st</sup> 25%-tile



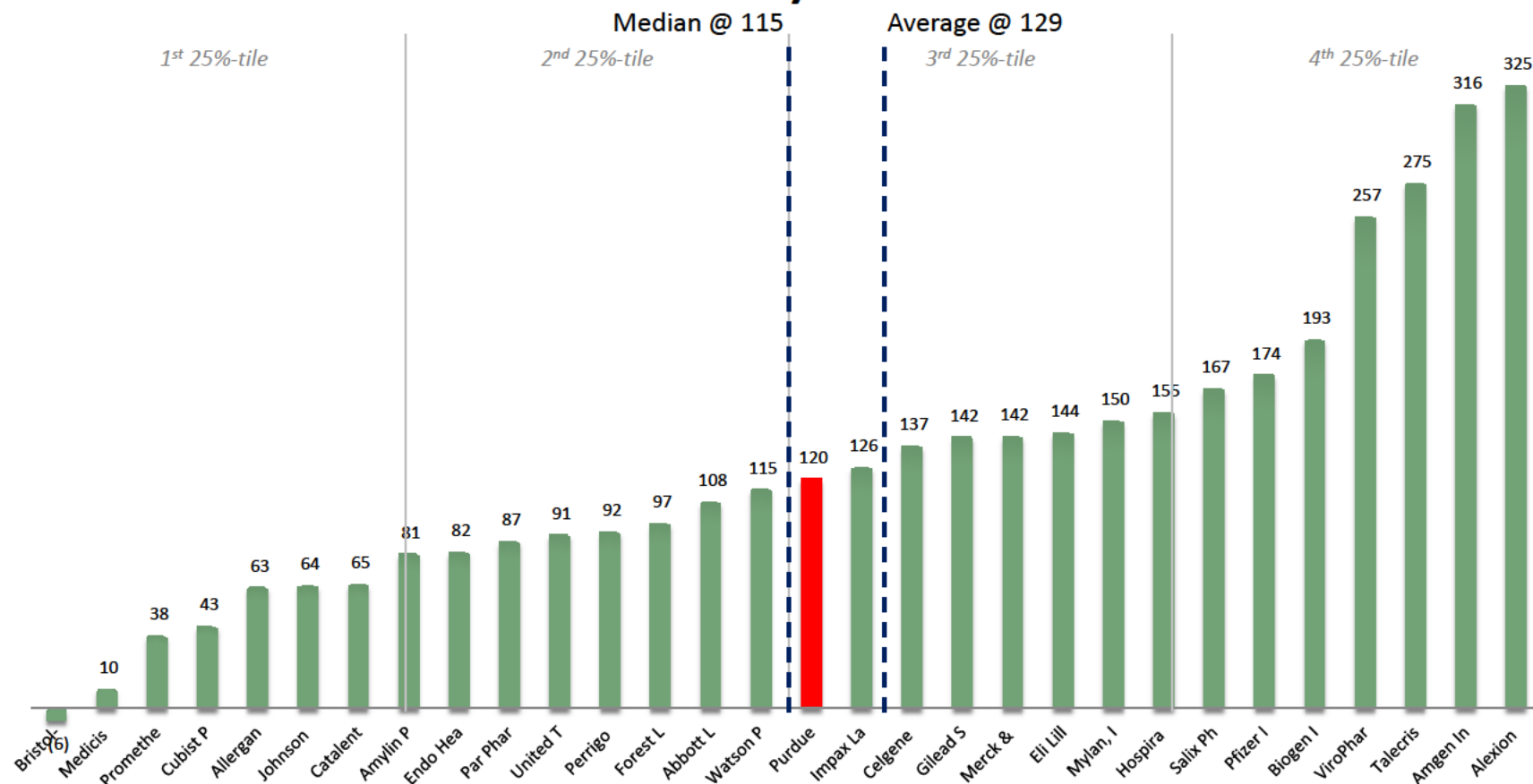


# Cash Conversion Cycle (CCC)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

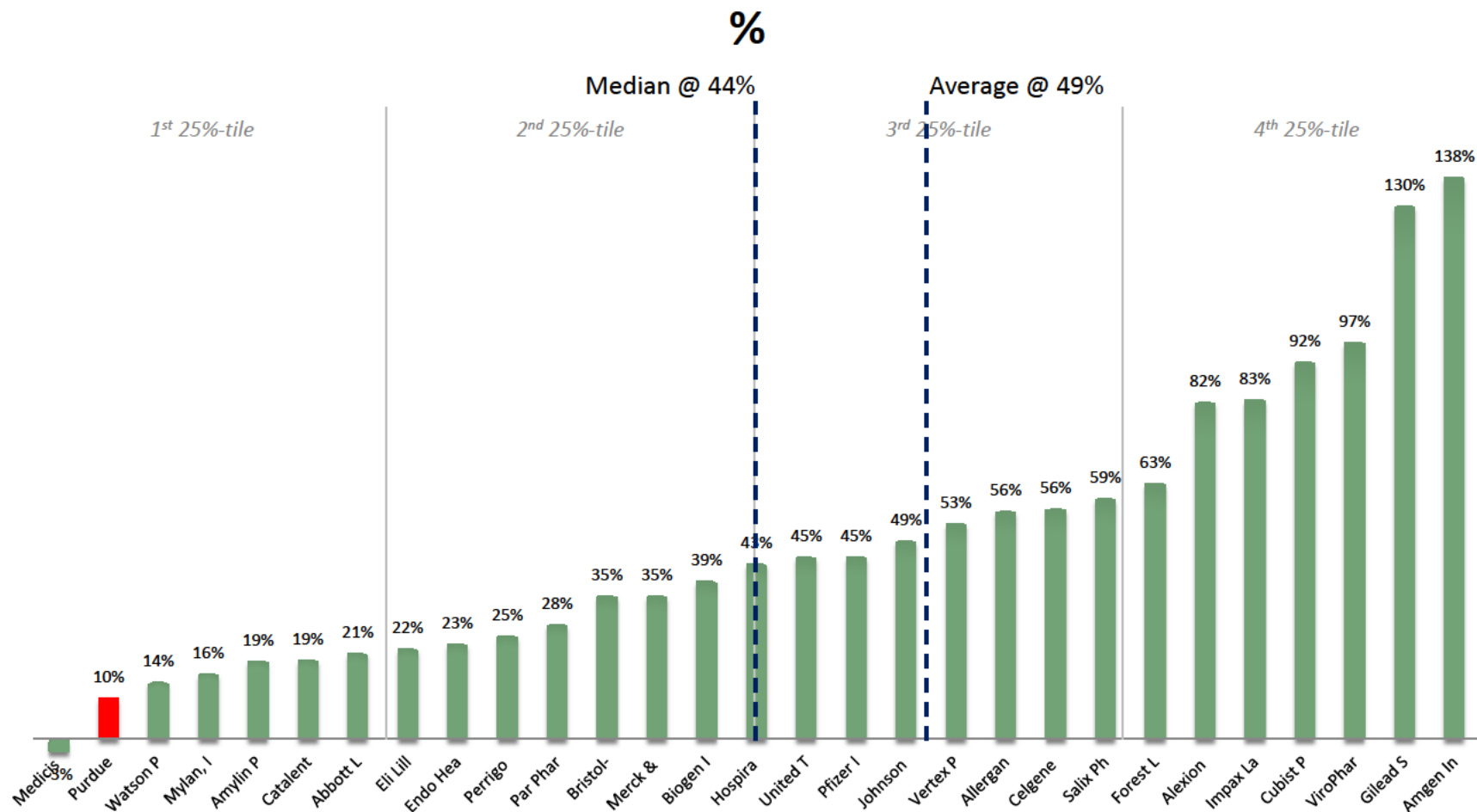
Days



# 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

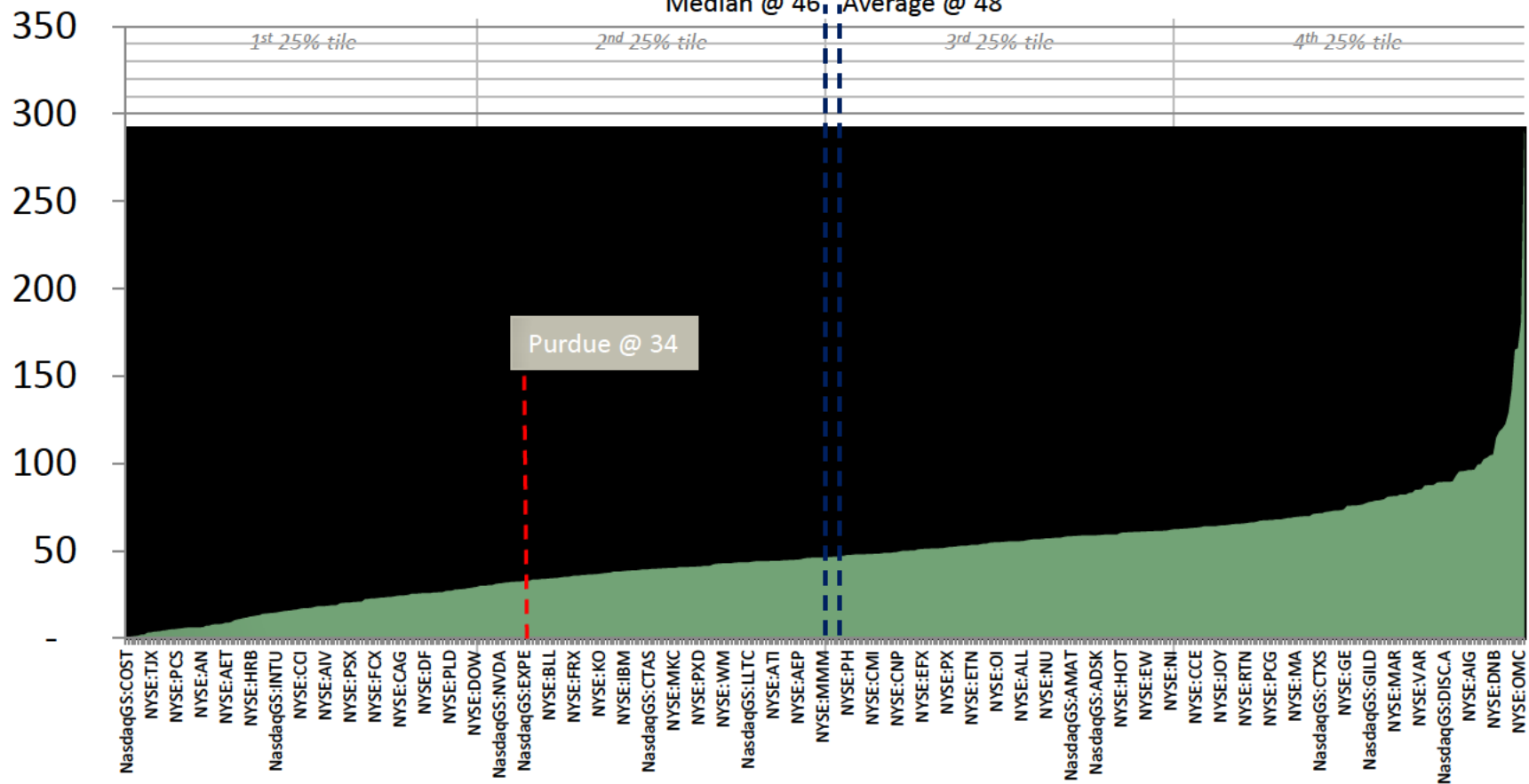
# Days Sales Outstanding (DSO)

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

Lower the Better

Days

Median @ 46, Average @ 48



# Days Inventory Outstanding (DIO)

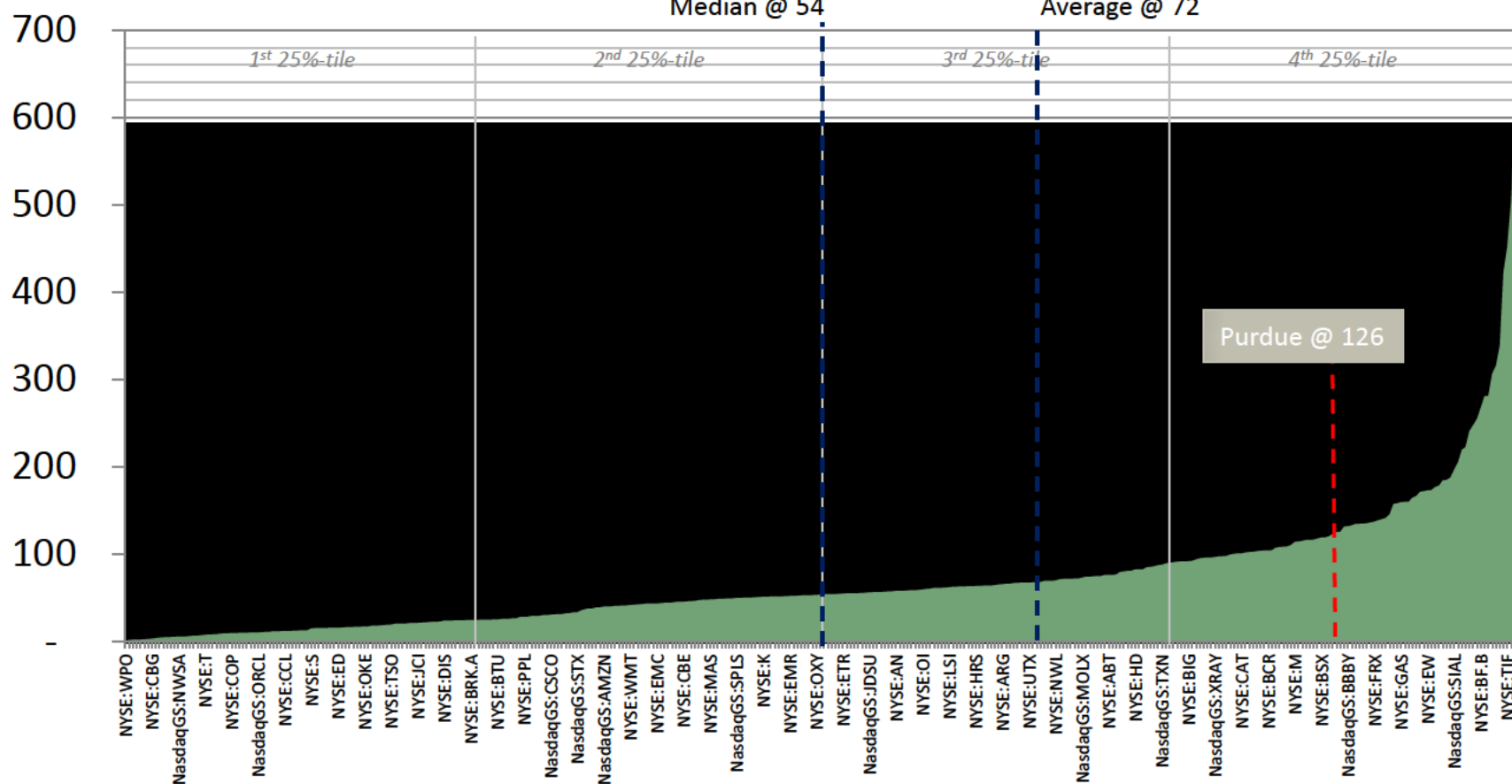
Purdue Compares with U.S. S&P 500 Index Companies

Lower the Better

Days

Median @ 54

Average @ 72

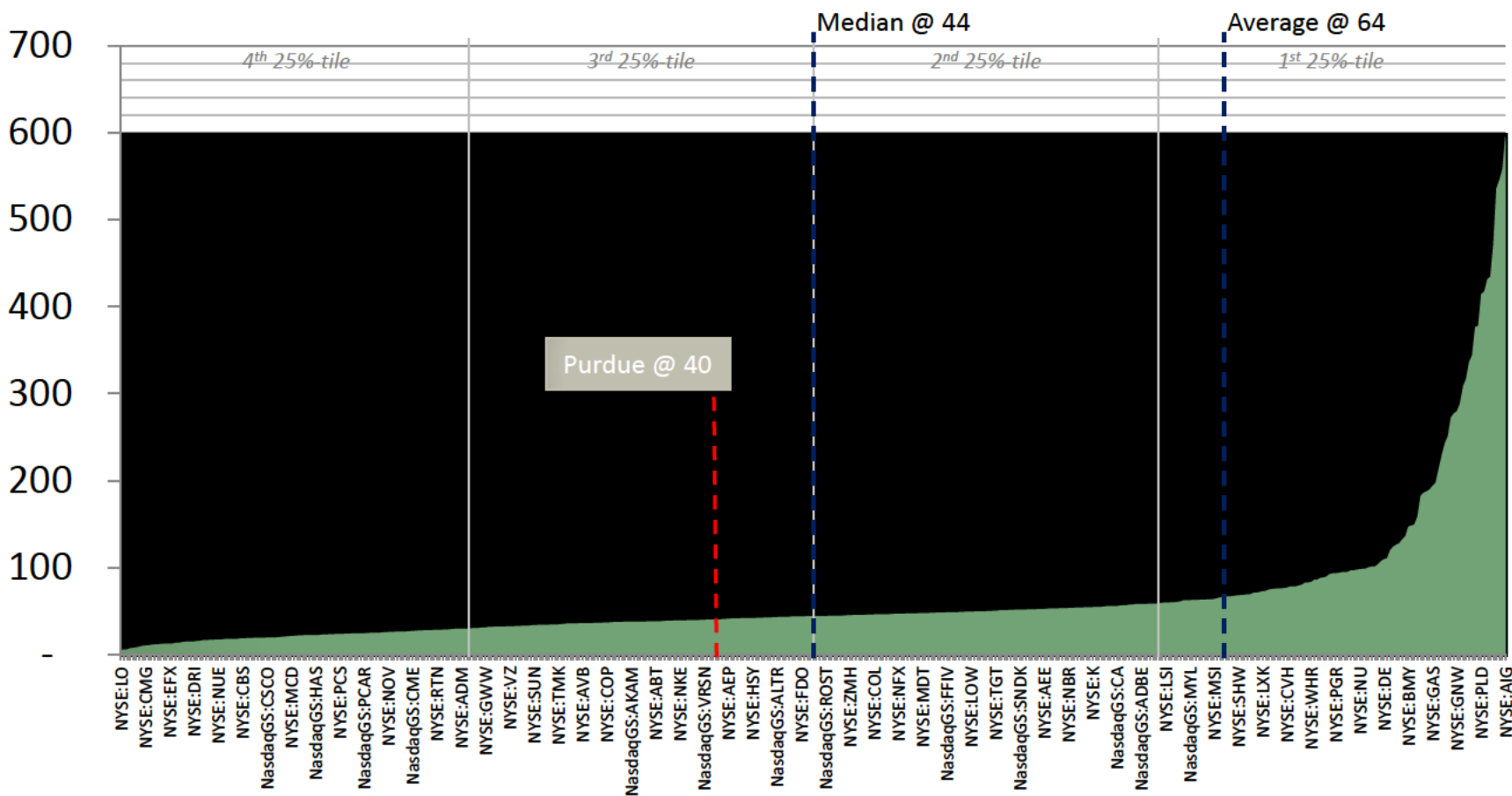


# Days Payable Outstanding (DPO)

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

Higher the Better (if no discount)

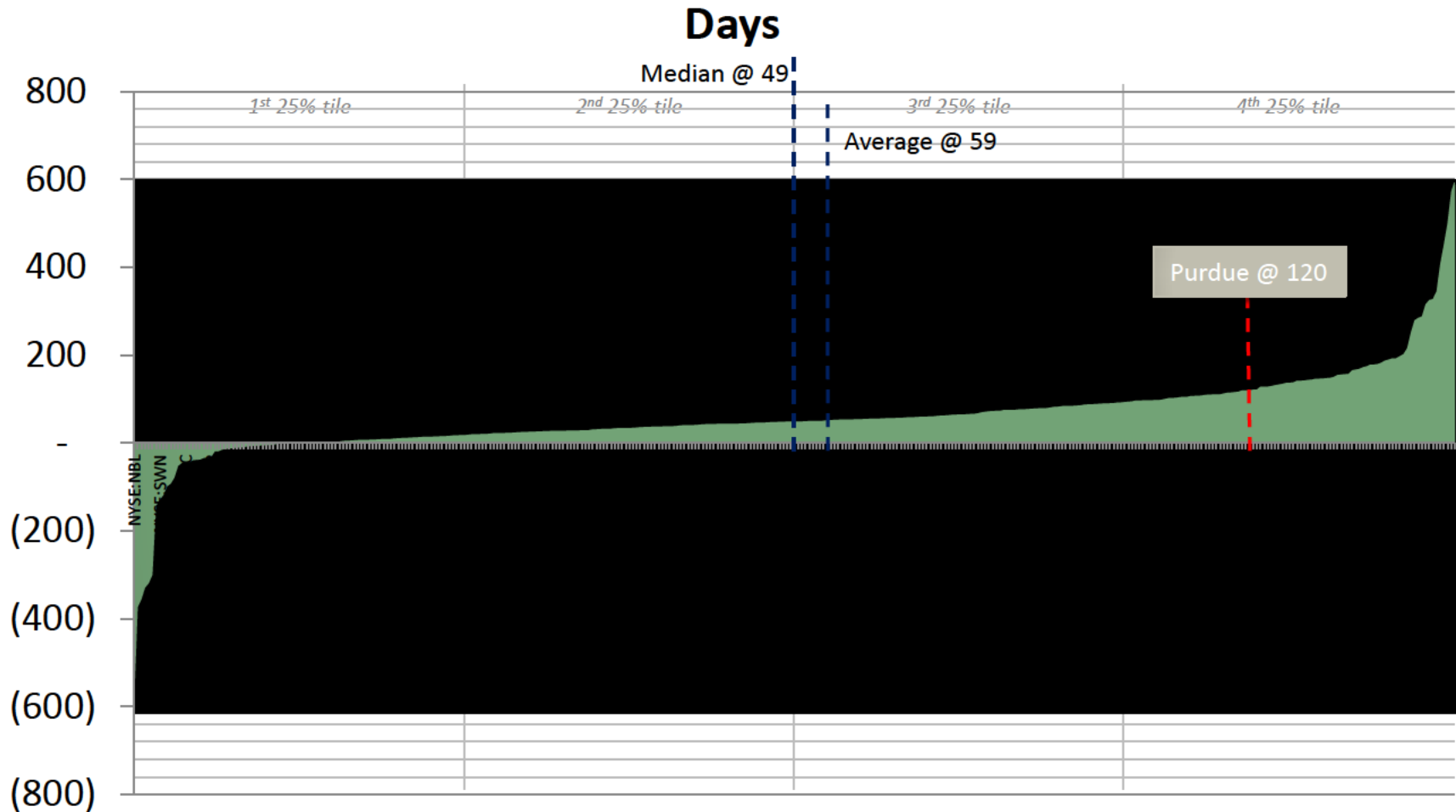
Days



# Cash Conversion Cycle (CCC)

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

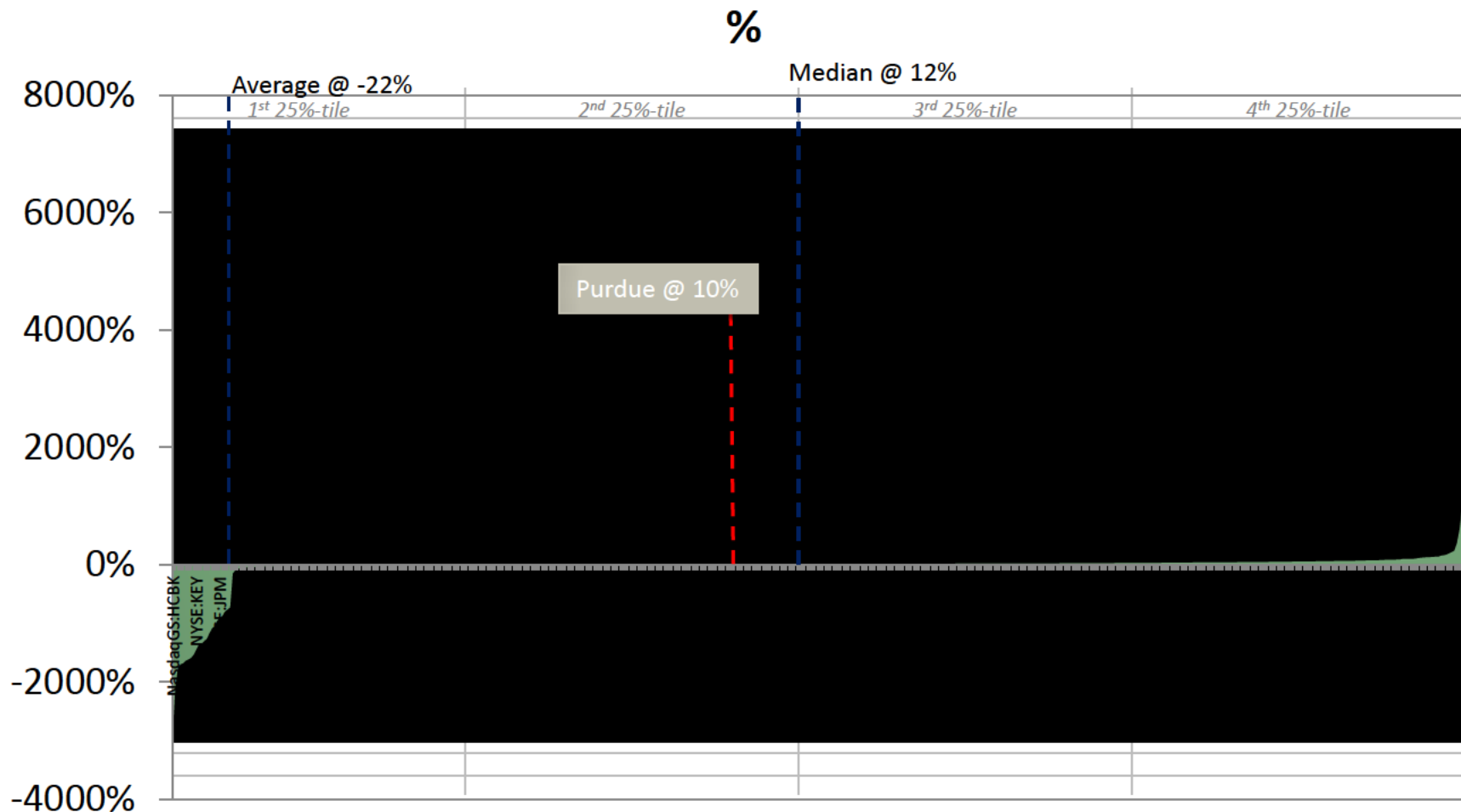
Lower the Better



# 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)

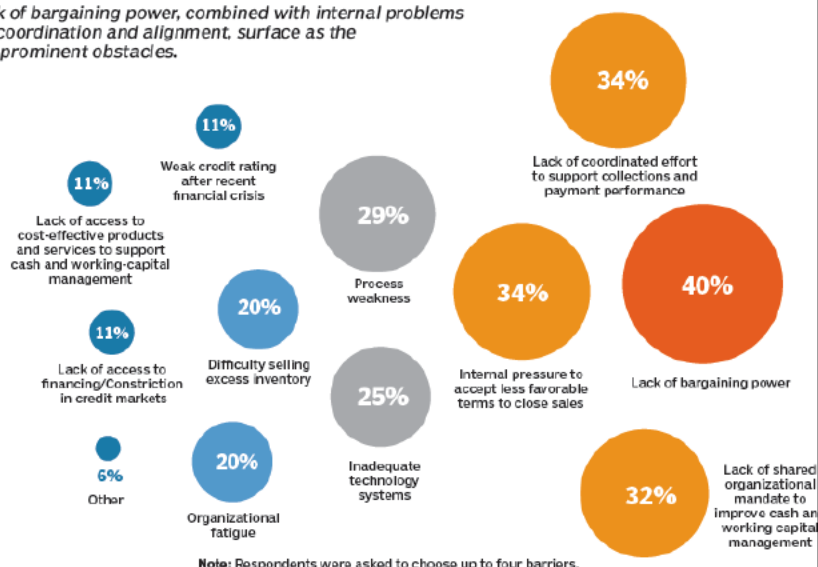
Techniques	Utilized by Purdue
Enhanced forecast accuracy and demand planning – accuracy reduces unnecessary stock cushion and improve ability to deliver	✓
Advanced delivery and logistic concepts, such as vendor-managed inventory, just-in-time manufacturing, or close collaboration with suppliers	✓
Optimize 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

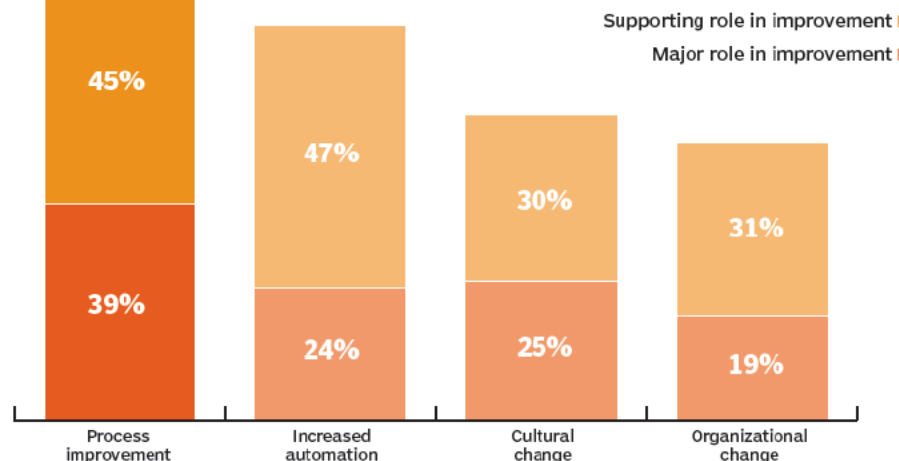
**Figure 9. What stands in the way of cash and working-capital improvement at small and midsize companies?**

*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
<b>Diligence</b>	“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	✓
<b>Consistency</b>	“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	✓
<b>(Smart) Focus</b>	“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	✓
<b>Speed</b>	“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	✓
<b>Engagement</b>	“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	✓
<b>Accountability</b>	“Develop measurable objectives—hold employees accountable for achievement across the organization.” –CFO OF A MIDSIZE HEALTHCARE FIRM	✓
<b>Fiscal Conservatism</b>	“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
<b><i>OxyContin</i></b>							
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)
<b>OxyContin Net Sales</b>	<b>1,125,096</b>	<b>1,215,558</b>	<b>1,208,468</b>	<b>(90,463)</b>	<b>(83,372)</b>	<b>2,108,675</b>	<b>2,030,848</b>
<b><i>Butrans</i></b>							
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)
<b>Butrans Net Sales</b>	<b>46,886</b>	<b>56,052</b>	<b>32,030</b>	<b>(9,166)</b>	<b>14,856</b>	<b>95,942</b>	<b>55,935</b>
<b><i>Intermezzo</i></b>							
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)	-
<b>Intermezzo Net Sales</b>	<b>3,148</b>	<b>10,119</b>	<b>-</b>	<b>(6,971)</b>	<b>3,148</b>	<b>43,441</b>	<b>-</b>
<b><i>Other Products</i></b>							
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)
<b>Other Products Net Sales</b>	<b>55,876</b>	<b>59,183</b>	<b>63,368</b>	<b>(3,307)</b>	<b>(7,492)</b>	<b>103,430</b>	<b>123,332</b>
<b><i>Total for All Products</i></b>							
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)
<b>Total Net Sales</b>	<b>\$ 1,231,006</b>	<b>\$ 1,340,912</b>	<b>\$ 1,303,866</b>	<b>\$ (109,906)</b>	<b>\$ (72,860)</b>	<b>\$ 2,351,488</b>	<b>\$ 2,210,115</b>

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)	Year to Date July 2012			Full Year							
Group	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	Variance to Prior Year
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. <sup>(1)</sup>	\$ (54.9)	
• Lower OxyContin demand as Rx's are running ~5% below budget and would need to increase by ~11+% above current levels to achieve the sales target. <sup>(1)</sup>	(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**

<b>OxyContin</b>			
	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	<u>\$ 535,686</u>	<u>\$ 683,852</u>	<u>\$ 690,038</u>
Wholesaler - Ending MOH (1)	1.0	0.8	
Pharmacy - Ending MOH (2)	1.6	2.3	
Hospital/Other - Ending MOH	0.0	0.0	
Total Months on Hand - July 31, 2012	<u>2.6</u>	<u>3.1</u>	
YTD inventory change	\$ (40,870)	\$ 14,071	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (54,941)</u>	
<b>Butrans</b>			
	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	<u>\$ 16,365</u>	<u>\$ 20,119</u>	<u>\$ 22,583</u>
Wholesaler - Ending MOH (1)	1.0	1.1	
Pharmacy - Ending MOH (2)	1.0	1.1	
Hospital/Other - Ending MOH	0.0	0.0	
Total Months on Hand - July 31, 2012	<u>2.0</u>	<u>2.2</u>	
YTD inventory change	\$ (1,513)	\$ 2,619	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,132)</u>	
<b>Intermezzo</b>			
	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	<u>\$ 12,081</u>	<u>\$ 16,579</u>	<u>\$ 17,923</u>
Months on Hand	N/A	N/A	
YTD inventory change	\$ 12,081	\$ 16,579	
Total (unfavorable)/favorable sales impact to YTD 2012		<u>\$ (4,498)</u>	

**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.

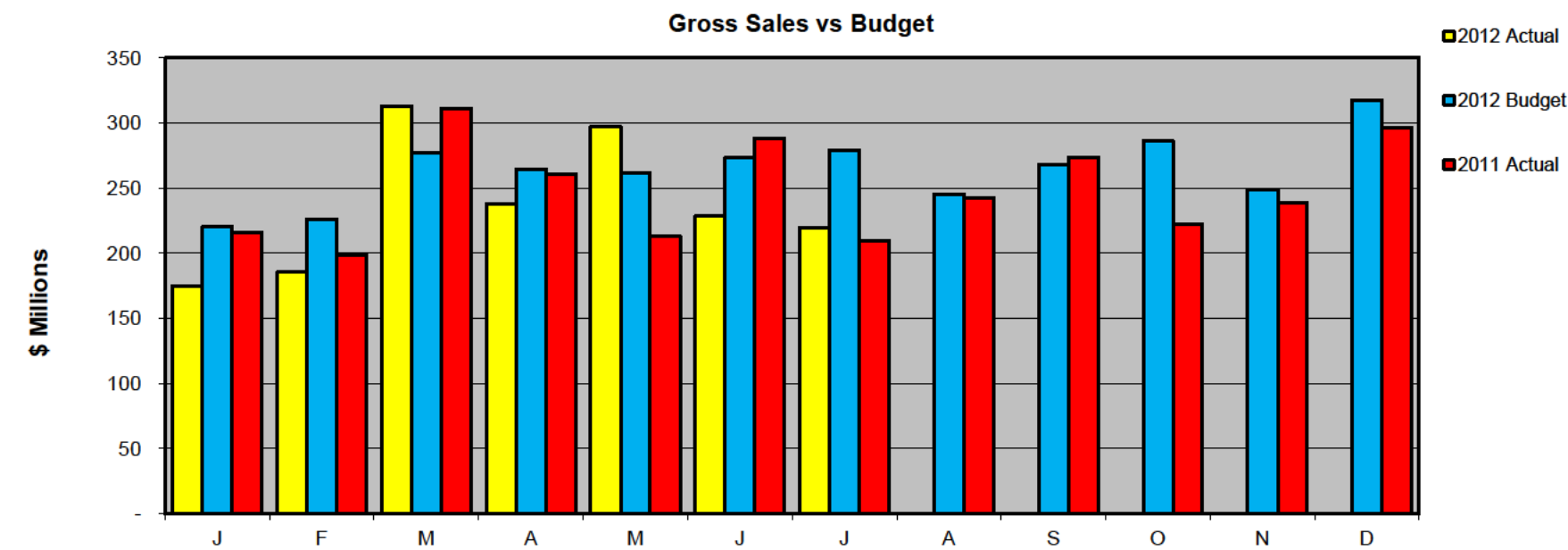
**Footnotes**

- (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 %
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%	

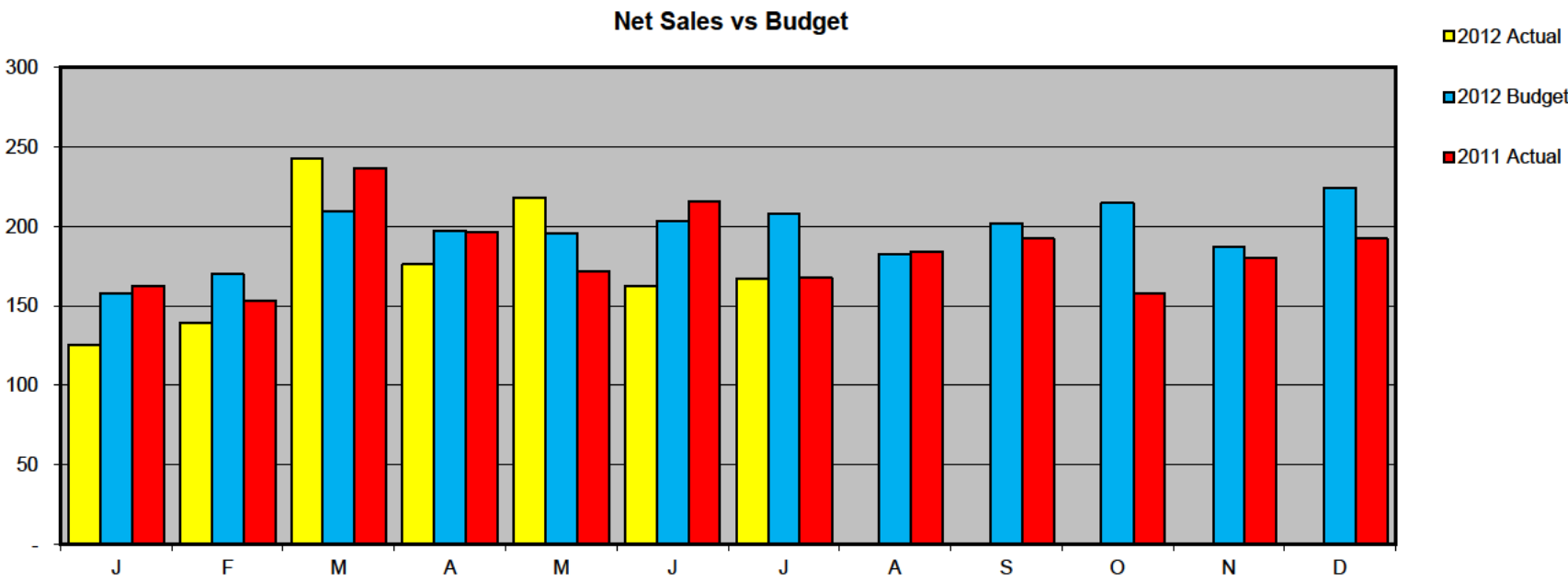


Note: The above net sales includes the impact of the proposed final rule for Medicaid rebates.

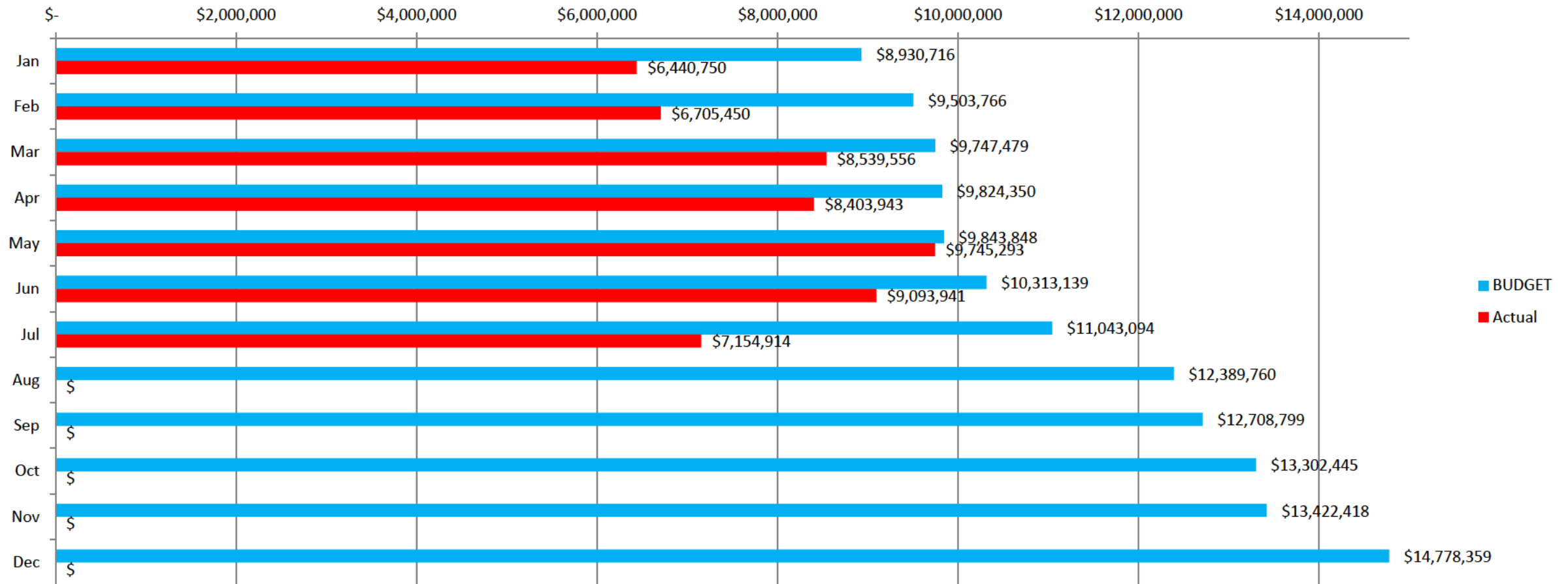
Purdue Pharma

Net Sales by Month

(\$ mm)	2012		2011		2010		Monthly	
							2012 %	2012 %
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



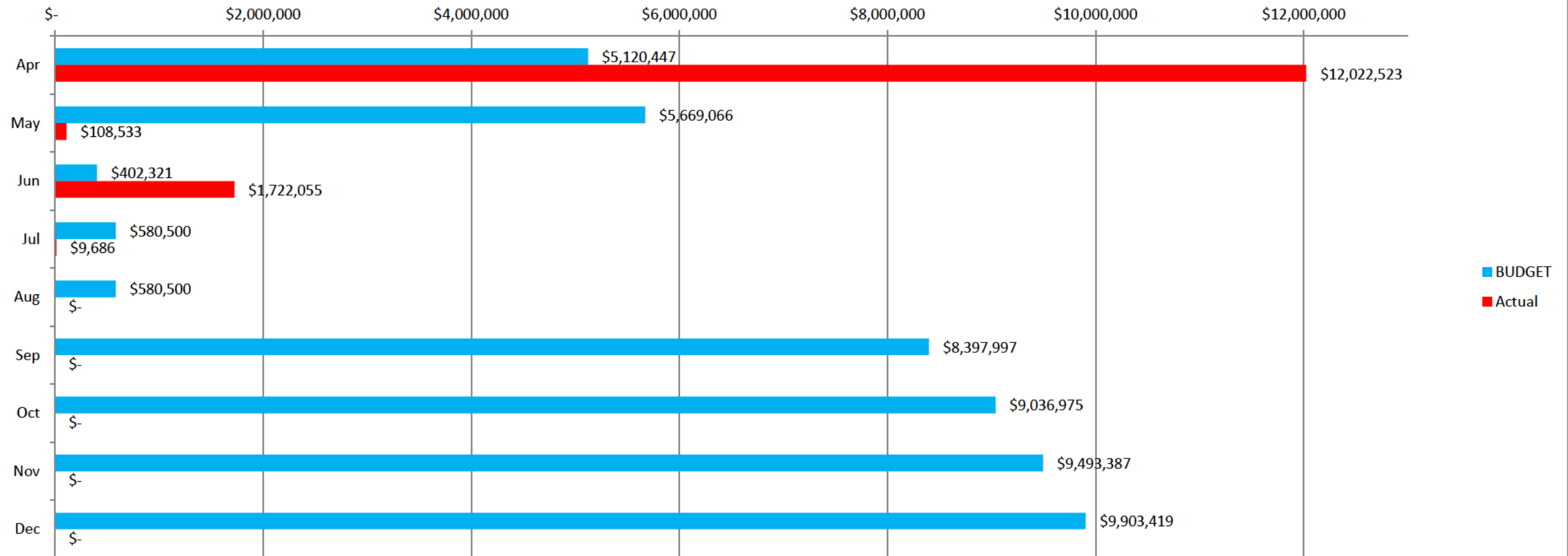
Product	Jul YTD Sales			Jul YTD Units			Jul YTD Average Sales Price		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
BUP405	\$ 8,021,902	\$ 11,459,528	\$ (3,437,626)	61,121	86,435	(25,314)	\$ 131.25	\$ 132.58	\$ (1.33)
BUP410	22,117,906	27,871,126	(5,753,220)	111,970	140,153	(28,183)	197.53	198.86	(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.



**To:** Sackler, Dr Richard [REDACTED]  
**Cc:** Stewart, John H. (US) [REDACTED]; Gasdia, [REDACTED]  
Russell [REDACTED] Innaurato, [REDACTED]  
Mike [REDACTED] Fisher [REDACTED]  
Windell [REDACTED]  
**From:** Rosen, David (Sales and Marketing)  
**Sent:** Thur 8/9/2012 1:11:19 PM  
**Subject:** OxyContin Market Events 8-9-12 with reveal.pptx  
Final - OxyContin Market Events 8-9-12 with reveal.pptx

Hi, Dr. Richard. Here is the updated OxyContin market event presentation as per your request.  
Please let me know if you have any questions or require any additional information.

-David

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

8/9/12 – FINAL

**FAMR**



# OxyContin Market Events

1. January 1995 Faulding Pharmaceuticals licenses rights to market Kadian to BMS
2. **December 1995** **OxyContin was launched by Purdue Pharma with 256 sales reps**
3. August 1996 Kadian was launched by Zeneca for Faulding Pharmaceuticals
4. Q1 1997 Purdue sales force expands to 323 sales reps
5. Q1 1998 Purdue sales force expands to 422 sales reps
6. Q1 1999 Purdue sales force expands to 532 sales reps
7. Q1 2000 Purdue sales force expands to 674 sales reps
8. January 2000 Time Magazine runs an article about OxyContin abuse & diversion
9. 2000 Purdue sales force expands to 770 sales reps and creates the Hospital Specialty Division (HSD)
10. Q1 2001 Newsweek and other publications run articles about OxyContin abuse & diversion
11. March 2001 Barry Meier's first article on OxyContin published in The New York Times
12. March 2001 New strengths of Kadian launched by Faulding Pharmaceuticals (30 & 60 mg)
13. April 2001 First OxyContin product liability lawsuit filed
14. December 2001 Alpharma acquires Faulding, including Kadian
15. June 2002 Avinza was launched by Ligand
16. **Redacted**
17. **October 2003** **Spectracef was launched by Purdue Pharma**
18. January 2004 First antitrust lawsuits filed
19. January 2004 1st OxyContin patent decision – Endo wins in district court
20. April 2004 Teva launches generic OxyContin (80 mg)
21. June 2004 Purdue sales force contracts to 550 sales reps

**FAMR**

2



# OxyContin Market Events

- |     |                      |  |
|-----|----------------------|--|
| 22. | January 2005         | Duragesic goes generic   |
| 23. | <b>February 2005</b> | <b>Palladone was launched by Purdue Pharma</b>                               |
| 24. | June 2005            | lvax and Endo launch generic OER (all strengths)                             |
| 25. | June 2005            | Purdue sales force contracts to 250 sales reps                               |
| 26. | November 2005        | Watson launches (authorized) generic OER (all strengths)                     |
| 27. | December 2005        | Teva and Dava/Impax launch generic OER (all strengths)                       |
| 28. | January 2006         | OxyContin placed on most Medicare Part D plans                               |
| 29. | <b>February 2006</b> | <b>Purdue Pharma wins Patent appeal</b>                                      |
| 30. | July 2006            | Opana ER launched by Endo  |
| 31. | July 2006            | Settlement of product liability insurance coverage litigation                |
| 32. | <b>July 2006</b>     | <b>Purdue Pharma voluntarily removes Palladone from the market</b>           |
| 33. | August 2006          | Licensing agreement with Endo & Teva regarding OxyContin patent infringement |
| 34. | October 2006         | Agreement in principle to settle WDVA investigation                          |
| 35. | November 2006        | New strengths of Kadian launched by Alpharma (80 mg)                         |
| 36. | December 2006        | First mass settlement of product liability claims                            |
| 37. | February 2007        | Watson (authorized) generic OER ceases production                            |
| 38. | February 2007        | Avinza sold to King Pharmaceuticals from Ligand                              |
| 39. | April 2007           | New strengths of Kadian launched by Alpharma (200 mg)                        |
| 40. | April 2007           | Settlement agreement with Impax  |
| 41. | May 2007             | Multistate attorney general settlement                                       |

**Redacted**

- |     |                |  |
|-----|----------------|--|
| 45. | September 2007 | New strengths of Kadian launched by Alpharma (10 mg) |
|-----|----------------|--|

**FAMR**

3



# OxyContin Market Events

46.	February 2008	OxyContin launches three new strengths (15, 30 & 60 mg)
47.	April 2008	New strengths of Opana ER launched by Endo (7.5, 15 & 30 mg)
Redacted		
49.	December 2008	Actavis acquires Kadian from Alpharma
50.	December 2008	FDA rejects Remoxy NDA from King Pharmaceuticals
51.	December 2008	OxyContin removed from Humana
52.	Q1 2009	Purdue sales force expands to 350 sales reps
53.	January 2009	OxyContin removed from Humana Medicare Part D
54.	February 2009	New strengths of Avinza launched by King Pharmaceuticals (45 & 75 mg)
55.	May 2009	Ryzolt was launched by Purdue Pharma
Redacted		
58.	September 2009	Embeda was launched by King Pharmaceuticals
Redacted		
61.	Q1 2010	Purdue sales force expands to 400 sales reps
Redacted		
63.	April 2010	Approval of OxyContin Reformulation
64.	April 2010	Exalgo was launched by Covidien
65.	April 2010	Kadian patent expired
66.	August 2010	OxyContin Reformulation launched by Purdue Pharma
67.	November 2010	Pfizer to acquire King Pharmaceuticals
68.	November 2010	FDA requests withdrawal of all propoxyphene products (Darvon, Darvocet, and generics containing propoxyphene) due to serious potential heart risks

FAMR

4



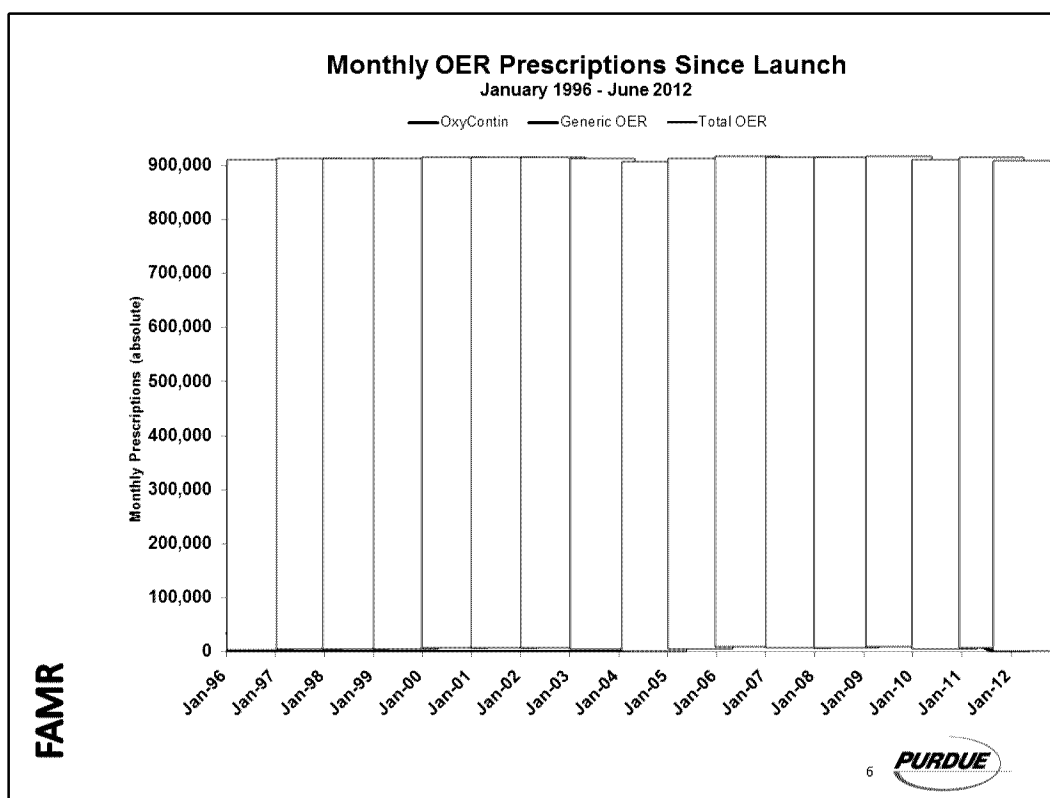
# OxyContin Market Events

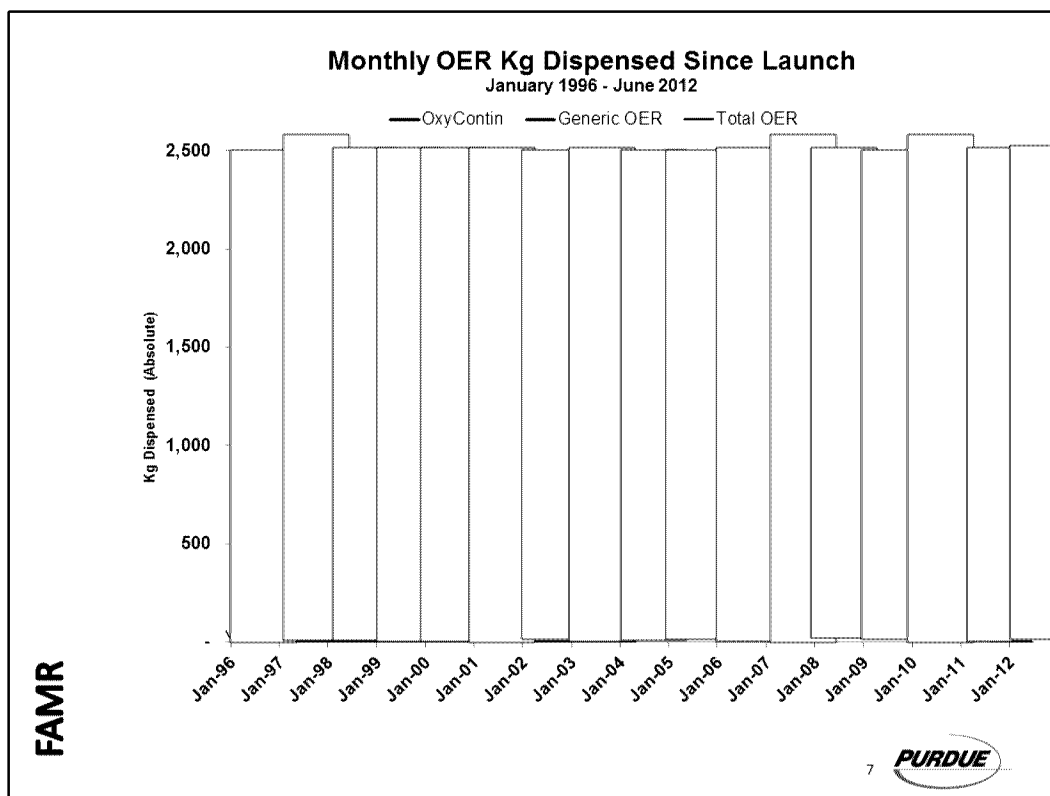
69.	Q1 2011	Purdue sales force expands to 525 sales reps
70.	January 2011	<b>Butrans was launched by Purdue Pharma</b>
71.	January 2011	OxyContin removed from Caremark (SilverScript) Medicare Part D
72.	January 2011	OxyContin removed from Aetna Medicare Part D
73.	January 2011	OxyContin removed from Wellpoint Medicare Part D
74.	March 2011	Embeda was voluntarily recalled by King Pharmaceuticals because a pre-specified stability requirement was not met during routine testing.
<b>Redacted</b>		
76.	June 2011	FDA rejects Remoxy NDA from Pfizer & King Pharmaceuticals
77.	July 2011	Florida law goes into effect that bars most physicians from dispensing controlled substances from their offices
78.	September 2011	Florida starts state monitoring database that tracks retail sales of controlled substances
79.	September 2011	Nucynta ER was launched by Janssen
80.	November 2011	Kadian generics are available
81.	November 2011	OxyContin added back to Caremark (SilverScript) Medicare Part D
82.	January 2012	Endo Pharmaceuticals temporarily suspends production of several products due to errors in the packaging of the tablets. Products include: Opana (Endo), Opana ER (Endo), Percodan, Endocet, Oxymorphone (Endo), Percocet, Zydane, Endodan, Morphine
83.	January 2012	National Sales Meeting
84.	January 2012	"Individualize the Dose" campaign introduced with refined messages focused specifically on Managed Care coverage and the Savings Card Program
85.	January 2012	Reps went from calling on 0 to 20 OxyContin core prescribers (reps have a total of 100 core prescribers they call on)
86.	February 2012	The Regence Group with 1.5M commercial lives moved OxyContin from Tier 3 unrestricted to Tier 3 with a Prior Auth.
87.	March 2012	5% price increase for OxyContin
88.	March 2012	Relay Health eVoucher Program was initiated
89.	April 2012	Opana ER TR formulation is launched by Endo

**FAMR**

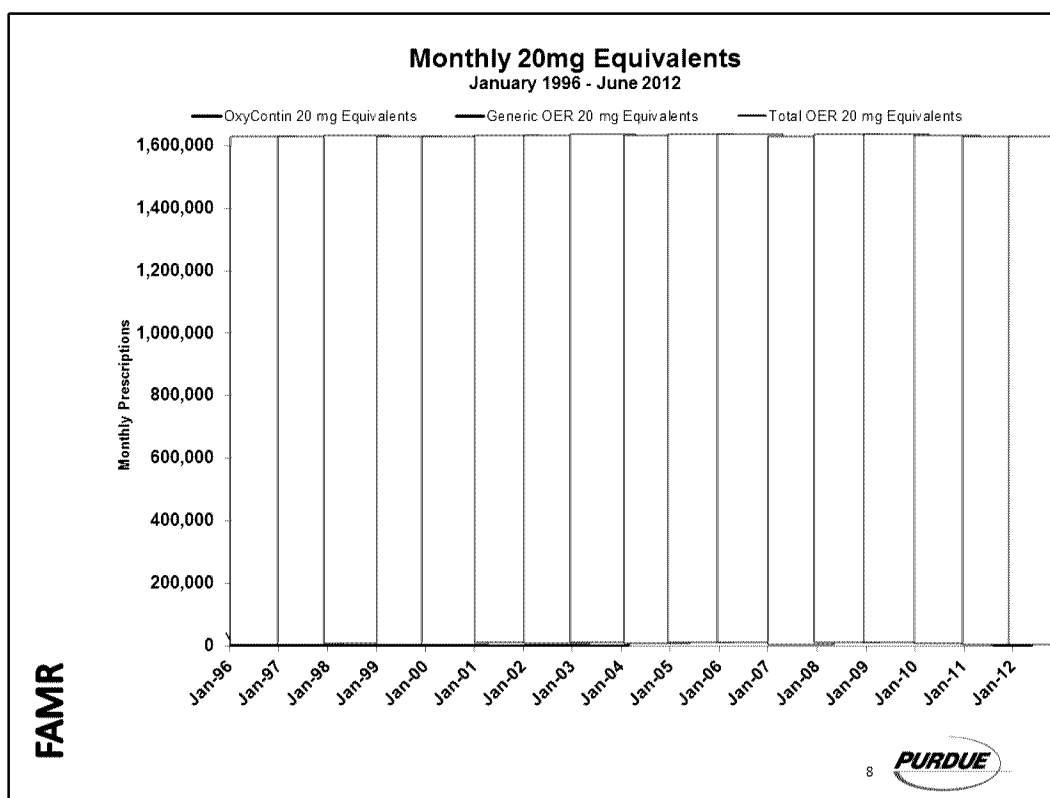
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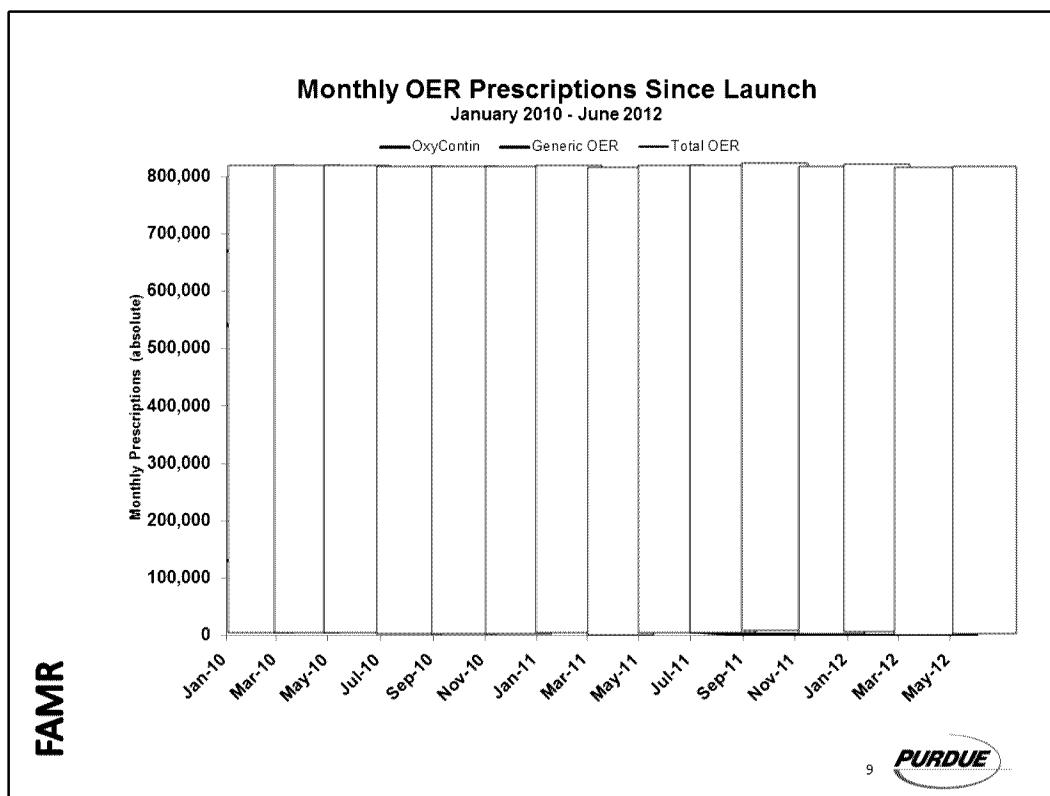


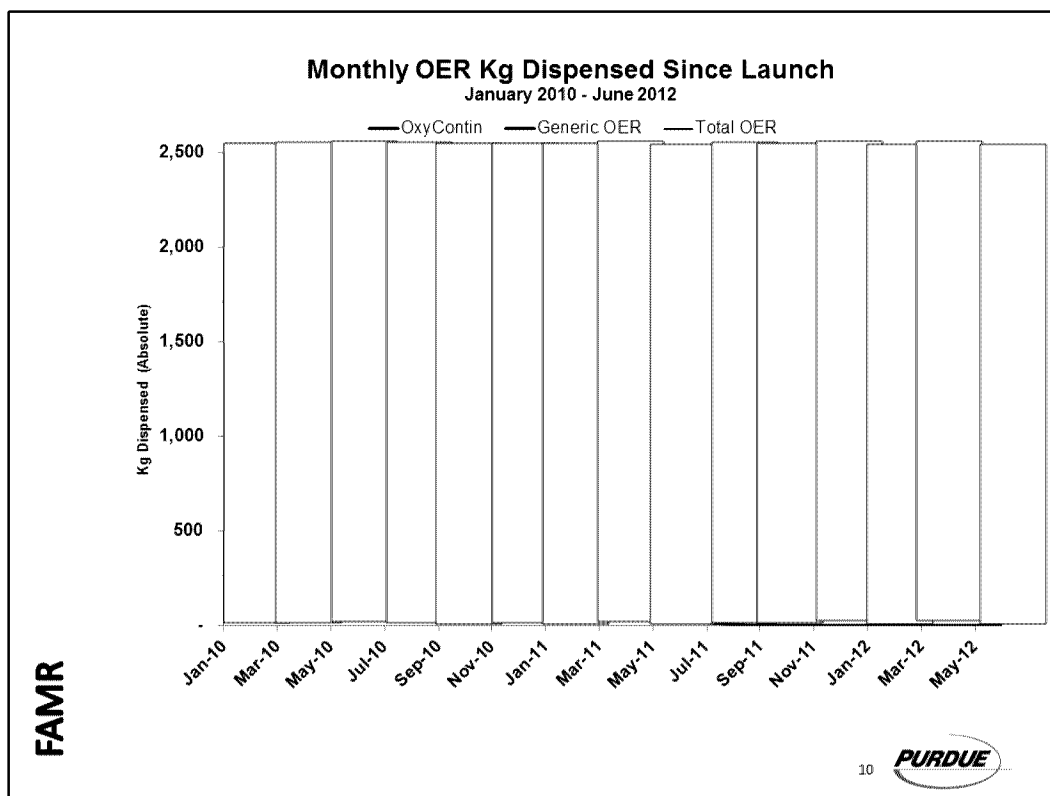


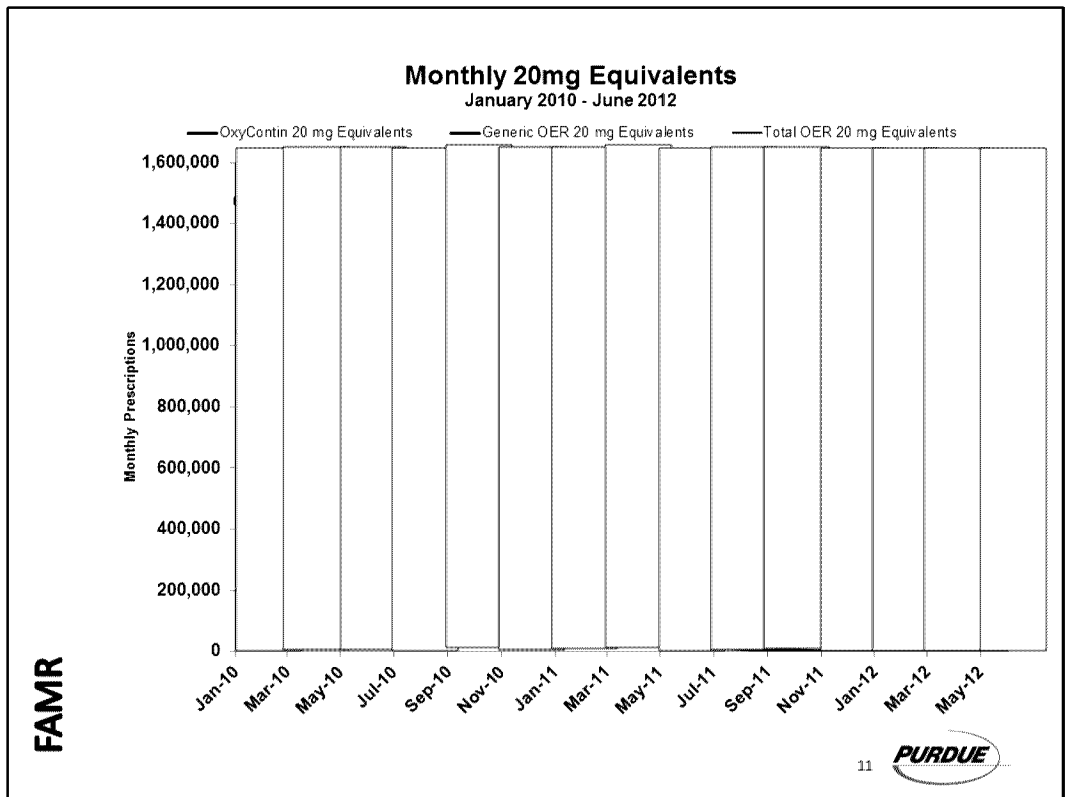












Message

**From:** Kastor, Beatrix [REDACTED]  
on behalf of Mahony, Edward [REDACTED]

**Sent:** 8/9/2012 2:41:06 PM

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

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

**BCC:** Stewart, John H. (US) [REDACTED]

**Subject:** June Finance Year-to-Date Flash Report

**Attachments:** July Flash Sales Report.xlsx; Working Capital Ratios 20120725.pptx

Colleagues,

Following is Purdue's July flash<sup>[1]</sup> 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.

<sup>[1]</sup> 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.

- 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

[illegible]

**Produced Natively**



**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 1<sup>st</sup> 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)

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

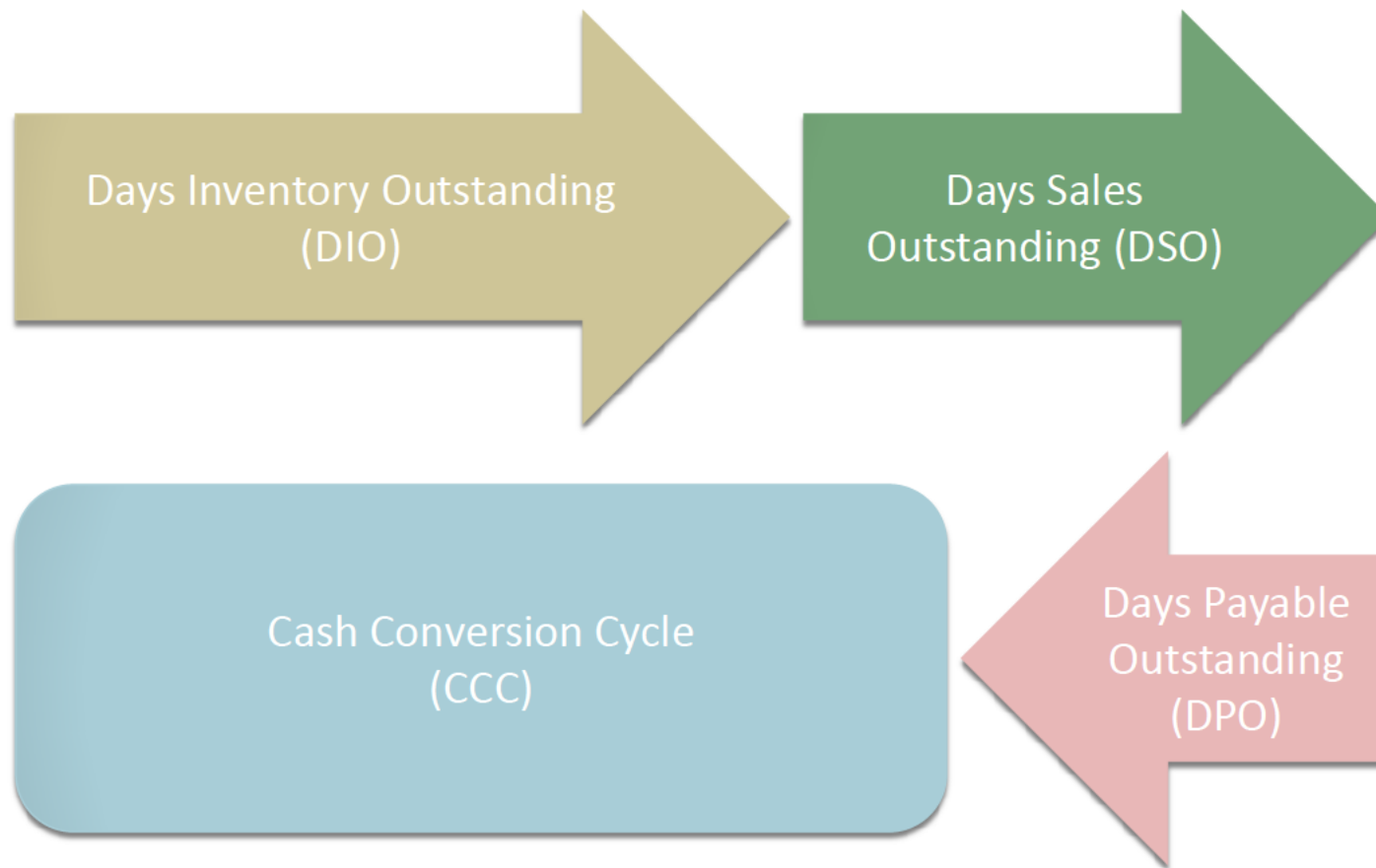
## ■ Current Ratio = Current Assets / Current Liabilities

## ■ 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)

<b>Cash Conversion Cycle</b>			(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

<b>Other Working Capital Ratios</b>				
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.

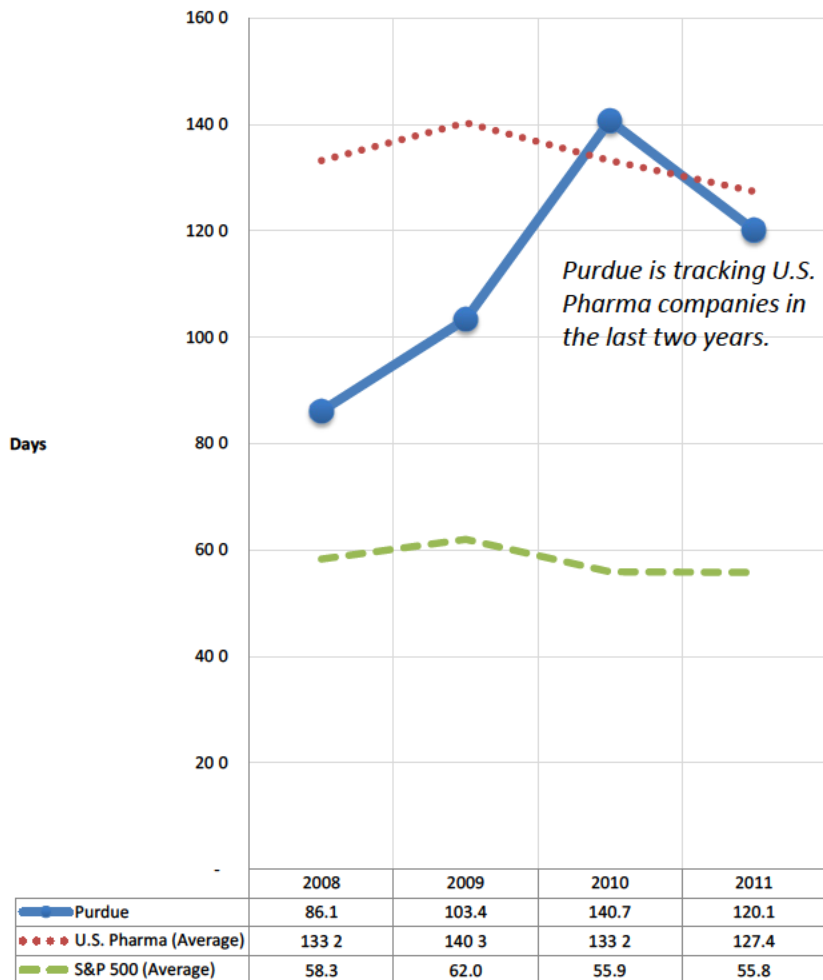
For Purdue, DPO is published by Finance from internal reporting. DIO is published by Cost Accounting. Purdue DSO is from internal financial reporting. Excluded rebates.

(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.

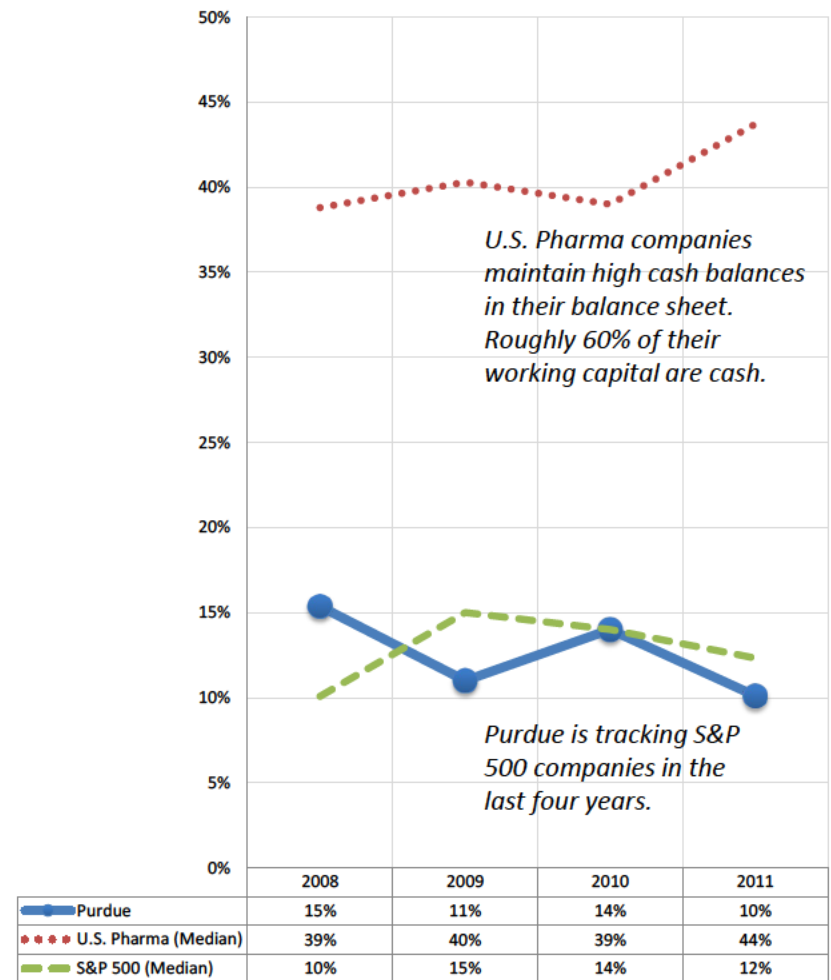
# 4-Year Trends

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

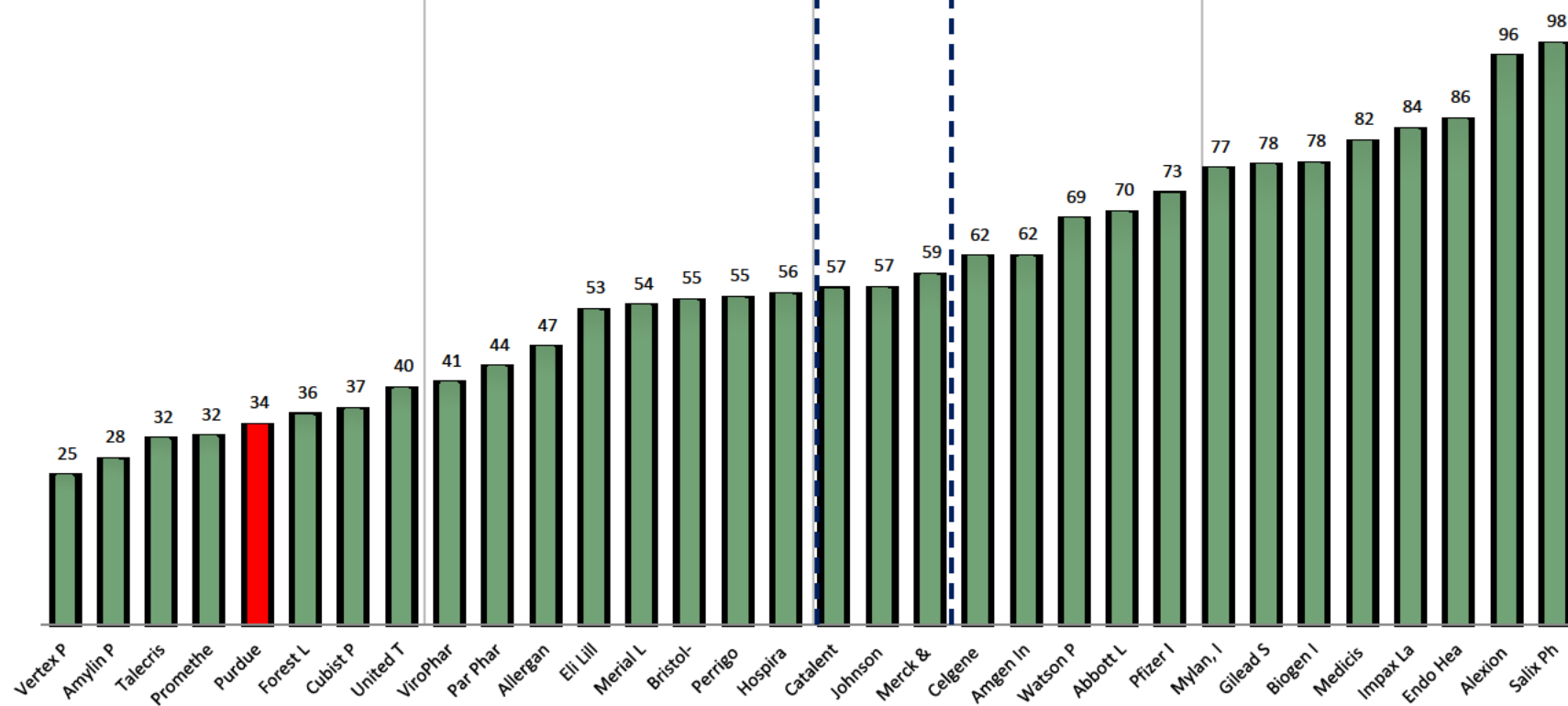
Average @ 59

1<sup>st</sup> 25%-tile

2<sup>nd</sup> 25%-tile

3<sup>rd</sup> 25%-tile

4<sup>th</sup> 25%-tile



# Days Inventory Outstanding (DIO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

Days

Median @ 135

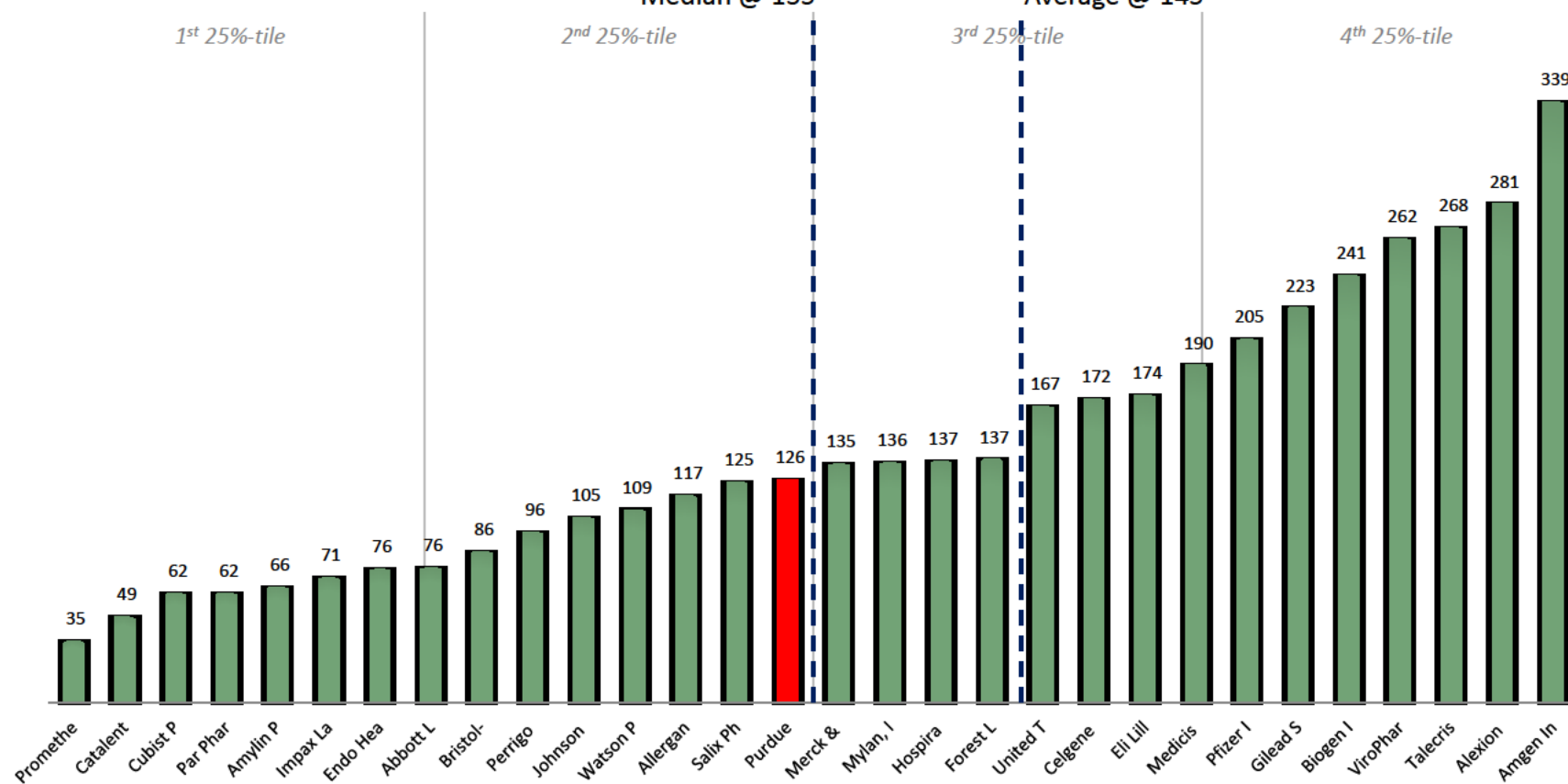
Average @ 145

1<sup>st</sup> 25%-tile

2<sup>nd</sup> 25%-tile

3<sup>rd</sup> 25%-tile

4<sup>th</sup> 25%-tile



# Days Payable Outstanding (DPO)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Higher the Better (if no discount)

Days

Median @ 62

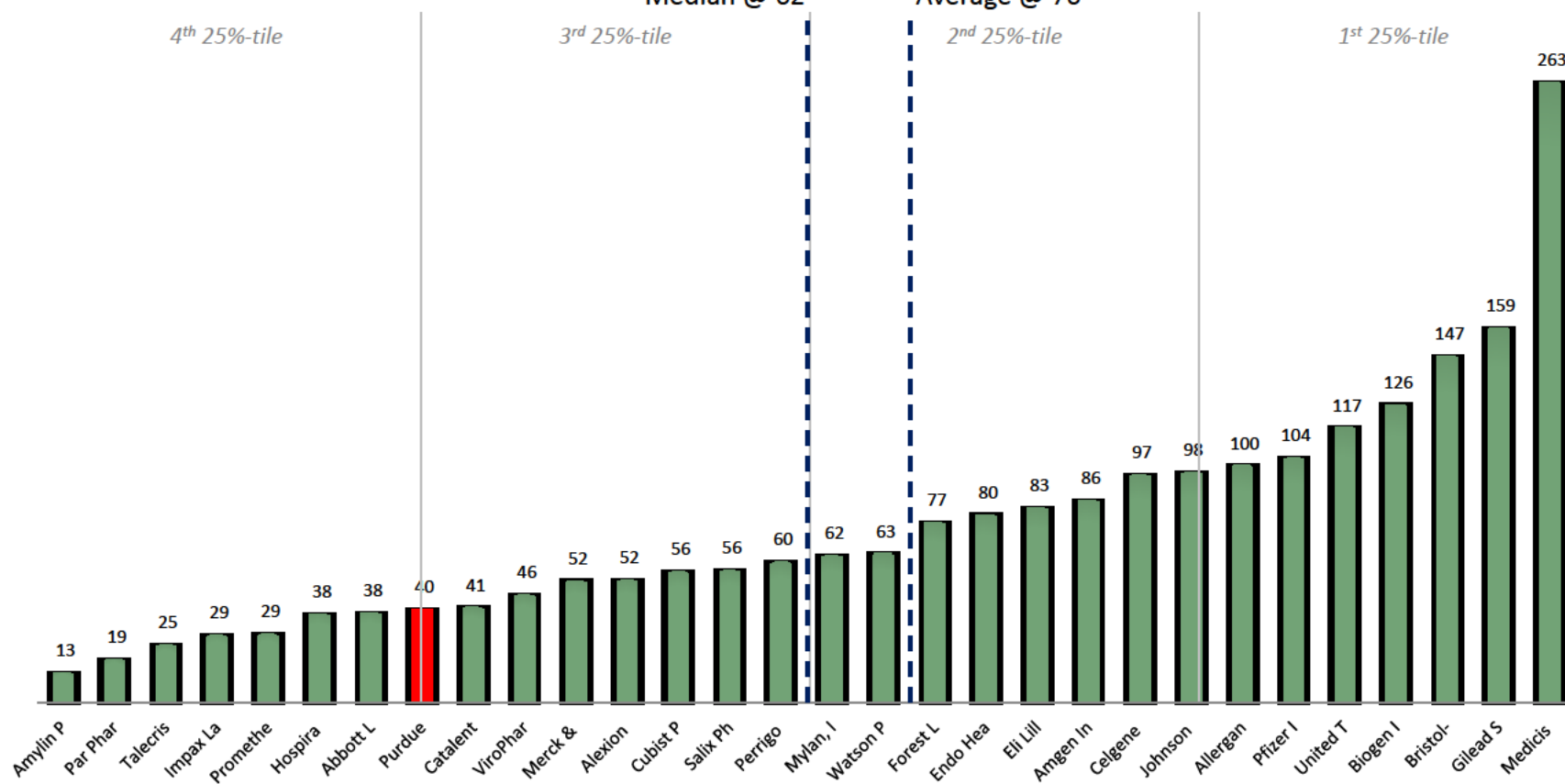
Average @ 76

4<sup>th</sup> 25%-tile

3<sup>rd</sup> 25%-tile

2<sup>nd</sup> 25%-tile

1<sup>st</sup> 25%-tile

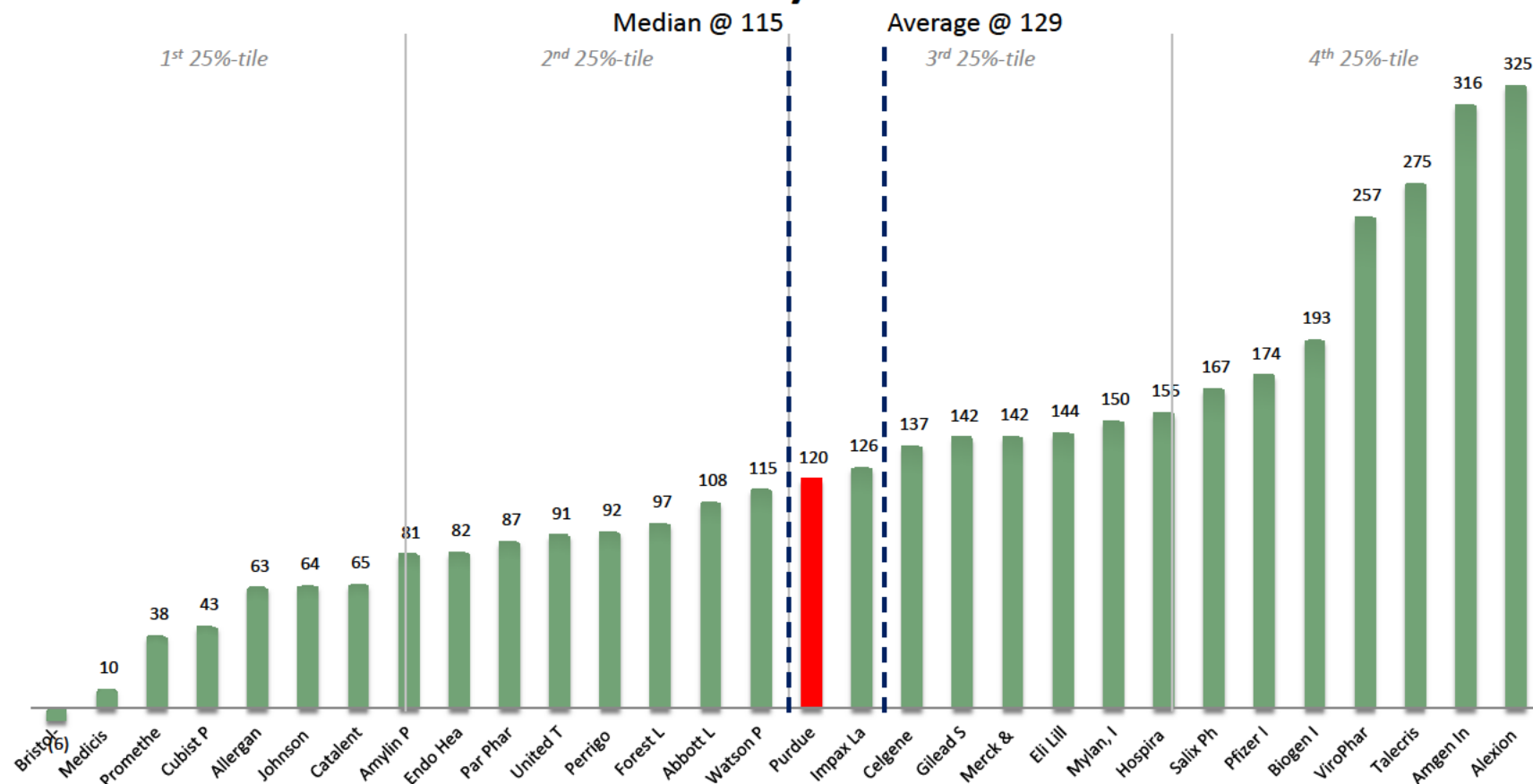


# Cash Conversion Cycle (CCC)

Purdue Compares with U.S. Pharmaceutical and Biotech Companies

Lower the Better

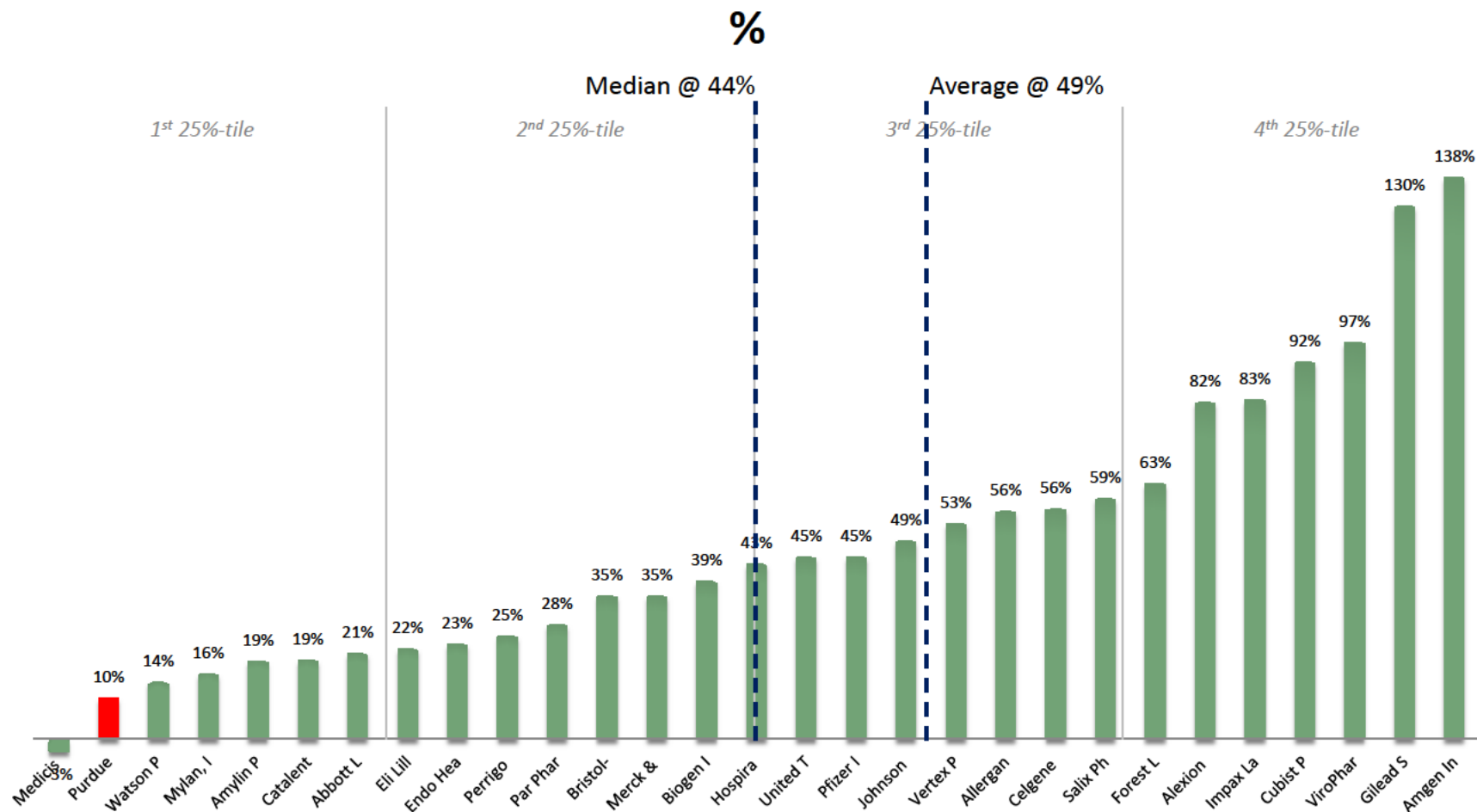
Days



# 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

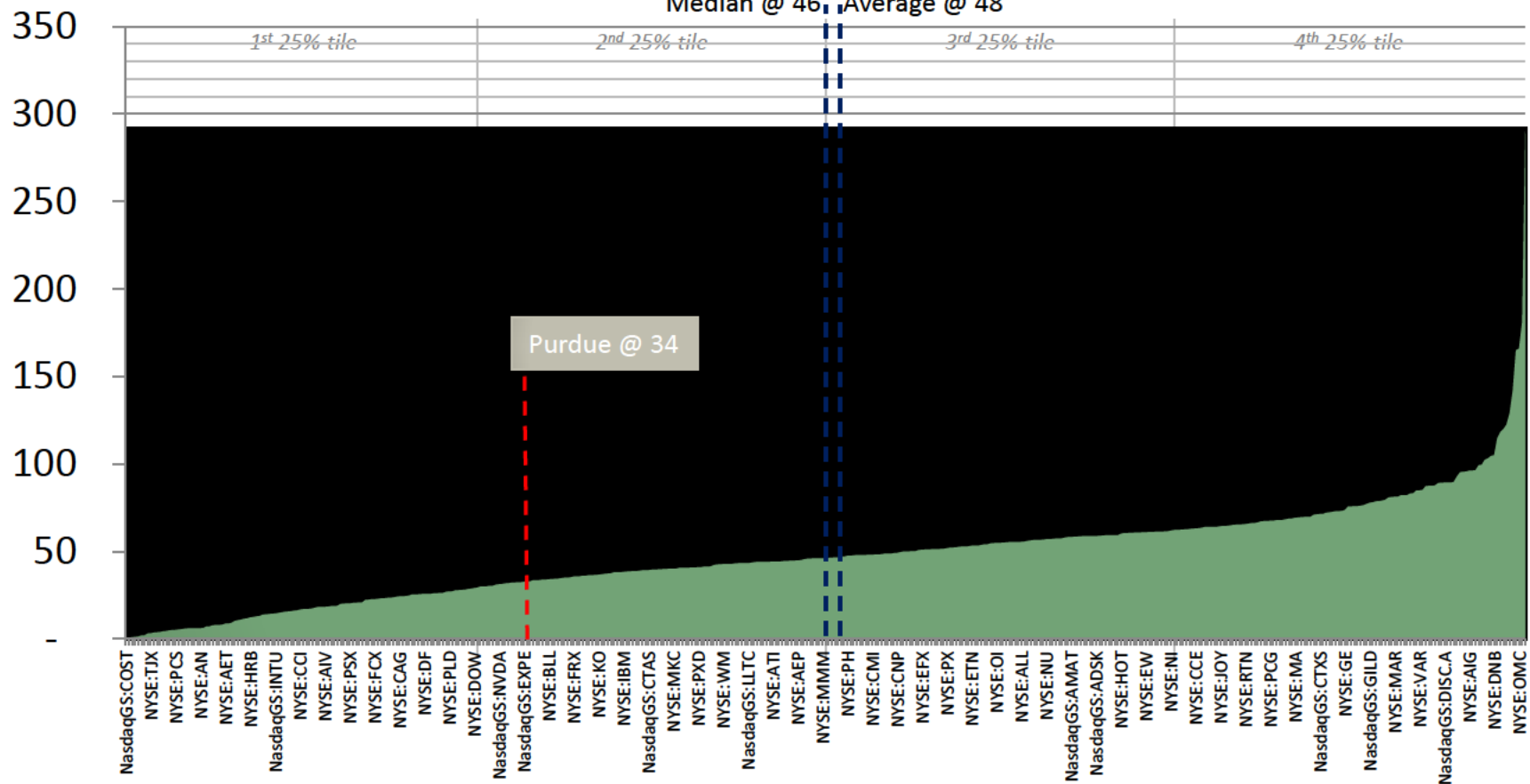
# Days Sales Outstanding (DSO)

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

Lower the Better

Days

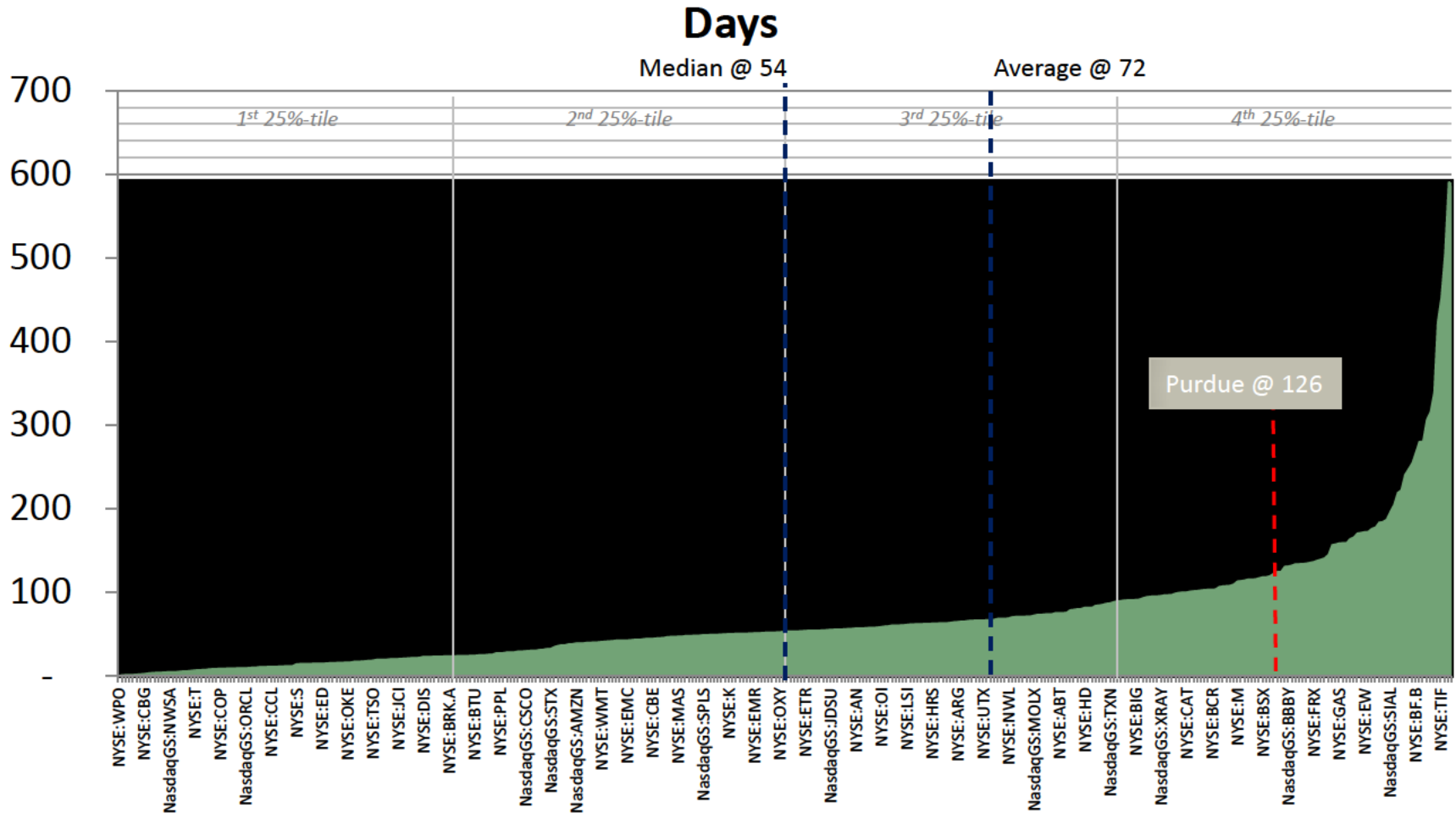
Median @ 46, Average @ 48



# Days Inventory Outstanding (DIO)

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

Lower the Better



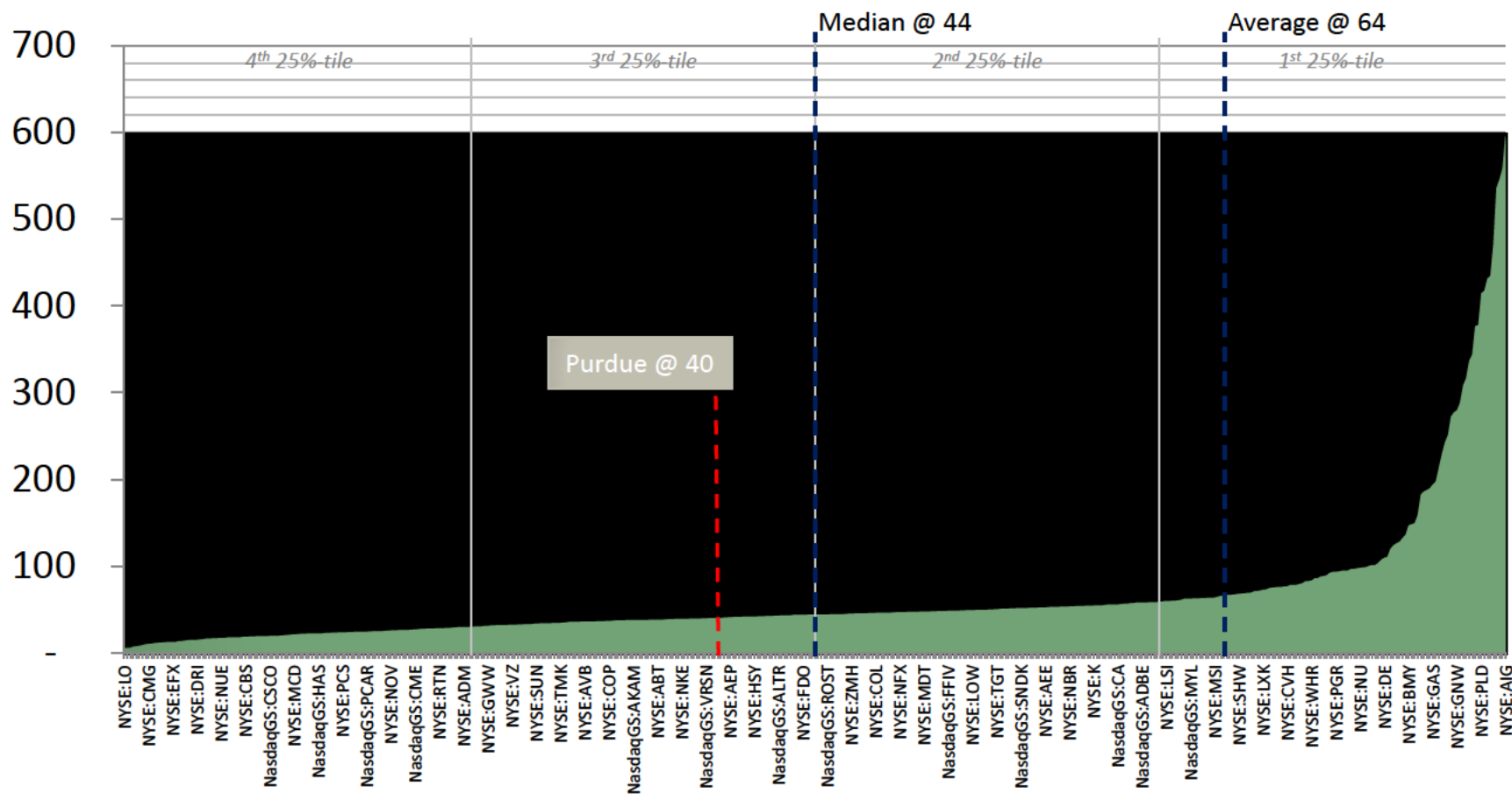


# Days Payable Outstanding (DPO)

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

Higher the Better (if no discount)

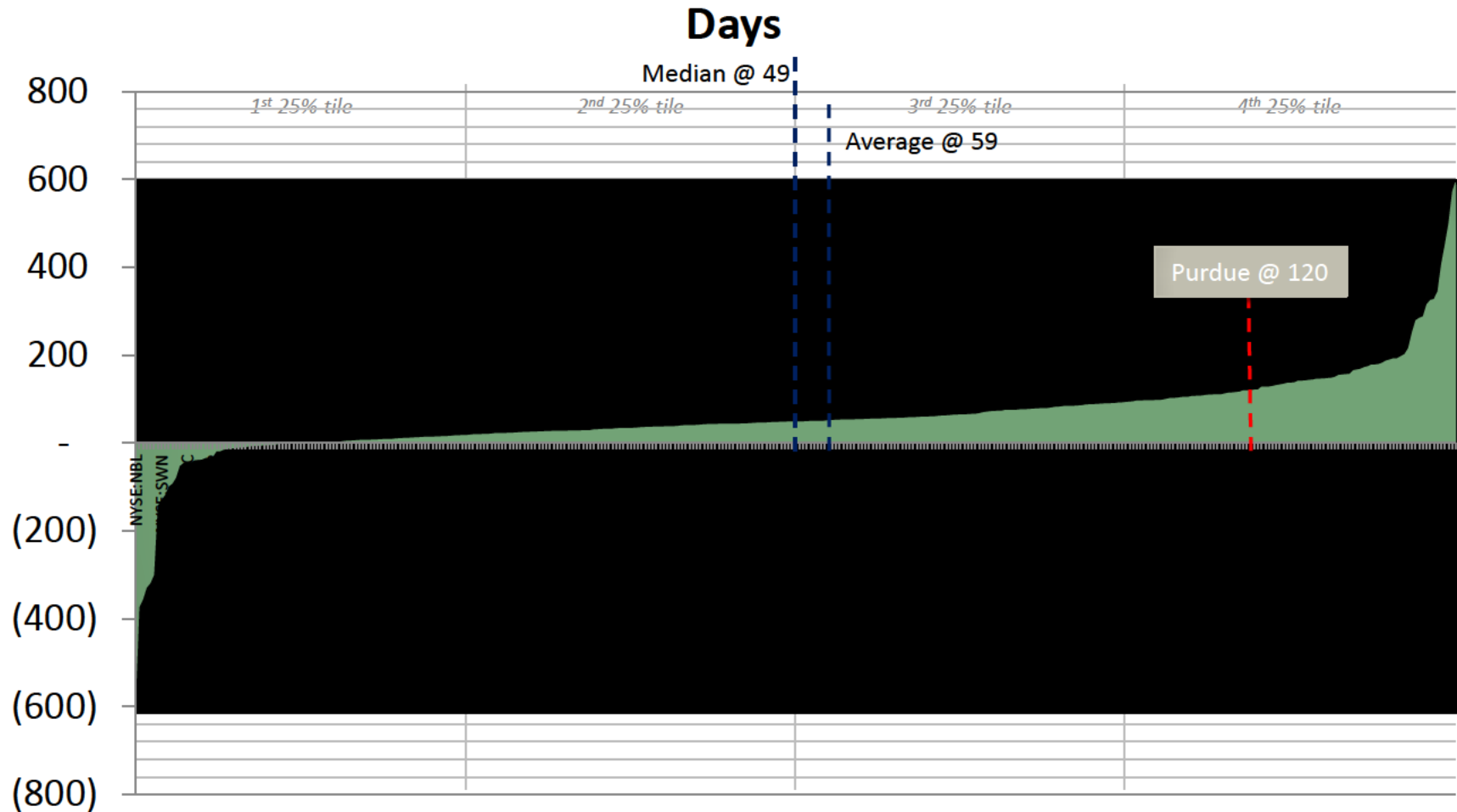
Days



# Cash Conversion Cycle (CCC)

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

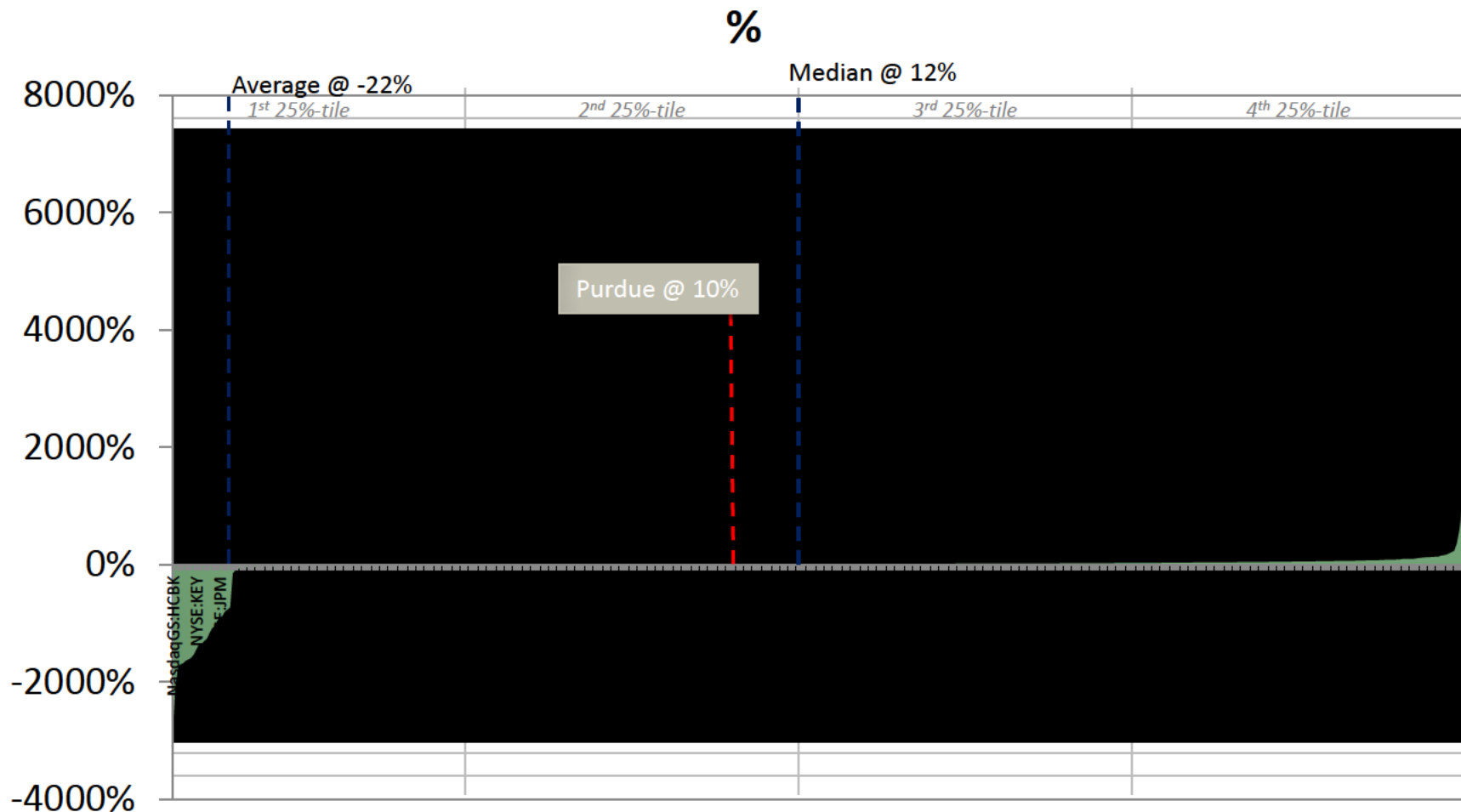
Lower the Better



# 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	✓

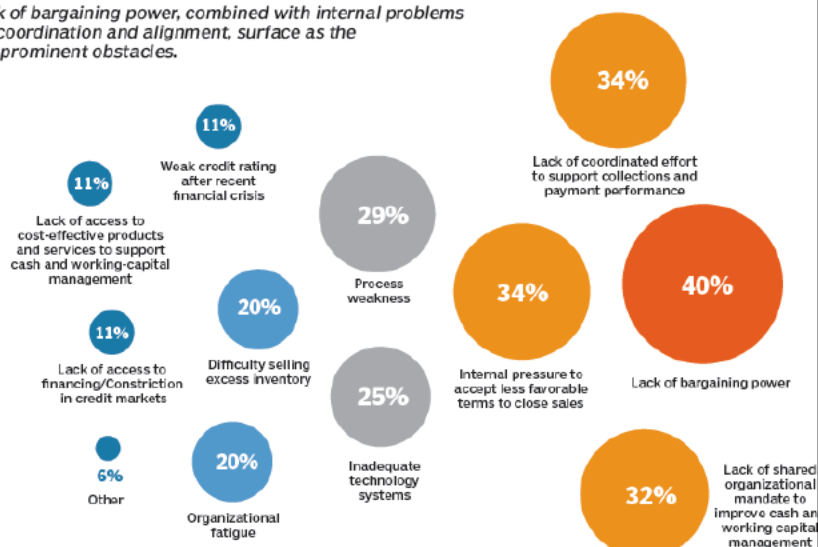


# Cash and Working-Capital Discipline

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?**

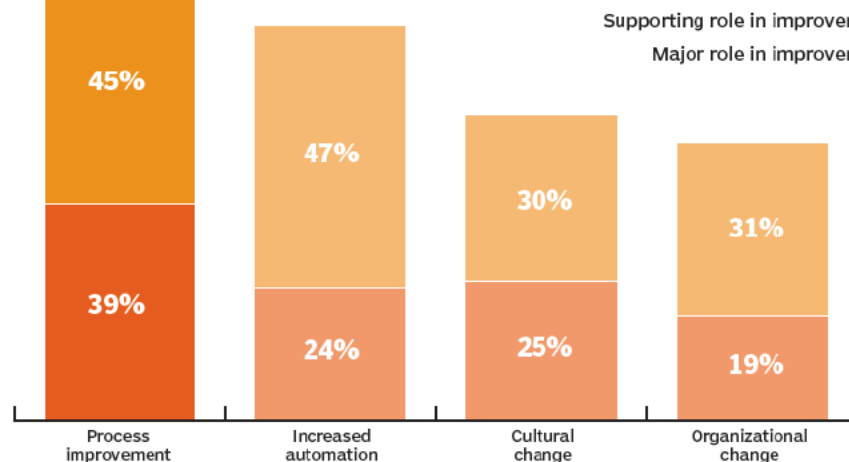
*A lack of bargaining power, combined with internal problems with coordination and alignment, surface as the most prominent obstacles.*



**Note:** Respondents were asked to choose up to four barriers.

**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
<b>Diligence</b>	“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	✓
<b>Consistency</b>	“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	✓
<b>(Smart) Focus</b>	“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	✓
<b>Speed</b>	“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	✓
<b>Engagement</b>	“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	✓
<b>Accountability</b>	“Develop measurable objectives—hold employees accountable for achievement across the organization.” –CFO OF A MIDSIZE HEALTHCARE FIRM	✓
<b>Fiscal Conservatism</b>	“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.**

Message

**From:** Sackler, Dr Richard [REDACTED]  
**Sent:** 8/10/2012 4:16:27 AM  
**To:** Sackler, David A. [REDACTED] Ralph Snyderman  
[REDACTED]@mc.duke.edu]  
**Subject:** FW: 2Q 2012 PURDUE Report to the Board  
**Attachments:** 2Q 2012 PURDUE Report to the Board.docx

You are both new and seem to have been missed.

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**From:** <Long>, David Long <[REDACTED]@pharma.com>  
**To:** Chadbourne SDB [REDACTED]@chadbourn.com>, Peter Boer <[REDACTED]@pharma.com>, James Dolan  
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"Sackler, Jonathan" <[REDACTED]@pharma.com>, Mortimer Sackler <[REDACTED]@pharma.com>, John Stewart  
<[REDACTED]@pharma.com>, [REDACTED]@pharma.com>, Bert Weinstein  
<[REDACTED]@pharma.com>  
**Subject:** FW: 2Q 2012 PURDUE Report to the Board

All,

Please find attached the Purdue 2<sup>nd</sup> Quarter 2012 Report to the Board. You will find within the report an update of results against objectives as well as issues being addressed by the organization. Any questions or suggestions are, as always, most welcome.

Regards,  
David

David E. Long  
Senior Vice President, Human Resources  
Purdue Pharma L.P.

**Redacted**

[REDACTED]@pharma.com