

Produced Natively

| (million) | Year-to-Date September | | | 2013 Mid- Year Update |
|---------------------------------|------------------------|--------------------|-----------|--------------------------|
| | Actual | Mid-year Update | Variance | |
| Oxycodone Nalaxone | \$ 59.0 | \$ 61.4 | \$ (2.4) | \$ 82.0 |
| Hydrocodone QD TR | 46.1 | 49.5 | (3.4) | 63.8 |
| Butrans | 10.8 | 21.5 | (10.7) | 50.2 |
| OxyContin (primarily pediatric) | 16.4 | 24.9 | (8.5) | 31.6 |
| Oxycodone IR TR | 9.9 | 10.2 | (0.3) | 13.9 |
| TRPV 1 (Purdue) | 9.4 | 13.4 | (4.0) | 26.8 |
| ORL 1 | 2.7 | 3.1 | (0.4) | 0.5 |
| Discovery Projects | 15.9 | 18.0 | (2.1) | 24.5 |
| All other | 55.2 | 48.8 | 6.4 | 72.1 |
| Finance Underspend Estimate | - | (14.8) | 14.8 | (25.7) |
| Total | \$ 225.4 | \$ 236.0 | \$ (10.6) | \$ 339.7 |

**Purdue U.S.
Financial Statements
September 2013**

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Purdue US - Financial Reporting Scorecard

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | |
|---|-----------------|--------------------------|-----------------|-----------------|--------------------------|-----------------|-----------------|----------------------|--------------|--------------|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual |
| Net Revenues | \$ 1,498,905 | \$ 1,570,771 | \$ 1,810,118 | \$ 1,597,815 | -4.8% | -20.8% | -6.6% | \$ 2,107,208 | \$ 2,410,349 | \$ 2,200,922 |
| Operating Profit Margin | \$ 629,525 | \$ 682,594 | \$ 824,353 | \$ 737,393 | -8.4% | -30.9% | -17.1% | \$ 930,262 | \$ 1,137,004 | \$ 1,007,776 |
| EBITDA | \$ 684,976 | \$ 727,497 | \$ 772,013 | \$ 740,911 | -6.2% | -12.7% | -8.2% | \$ 948,266 | \$ 1,066,877 | \$ 1,038,561 |
| Net Profit Before Tax | \$ 660,946 | \$ 703,493 | \$ 748,038 | \$ 719,333 | -6.4% | -13.2% | -8.8% | \$ 916,261 | \$ 1,034,911 | \$ 1,010,856 |
| Owner's Equity | \$ 568,463 | \$ 608,939 | \$ 895,486 | \$ 649,271 | -7.1% | -57.5% | -14.2% | \$ 590,000 | \$ 705,232 | \$ 671,725 |
| Non-tax Distributions | \$ 399,920 | \$ 231,650 | \$ 239,600 | \$ 242,543 | 42.1% | 40.1% | 39.4% | \$ 575,600 | \$ 538,100 | \$ 471,643 |
| Days Sales Outstanding | 34.6 | 35.0 | 35.0 | 34.3 | on target | on target | on target | 35.0 | 35.0 | 33.2 |
| Accounts Receivable Outstanding > 90 Days Past Due | < 1% | < 1% | < 1% | < 1% | on target | on target | on target | < 1% | < 1% | < 1% |
| Capital Spending | \$ 19,095 | \$ 26,250 | \$ 26,250 | \$ 22,948 | -37.5% | -37.5% | -20.2% | \$ 35,000 | \$ 35,000 | \$ 30,467 |
| Unrestricted Cash on Hand | \$ 868,981 | \$ 796,384 | \$ 978,605 | \$ 795,291 | 8.4% | -12.6% | 8.5% | \$ 576,056 | \$ 600,000 | \$ 755,593 |
| Available Liquidity | \$ 868,981 | \$ 796,384 | \$ 978,605 | \$ 795,291 | 8.4% | -12.6% | 8.5% | \$ 576,056 | \$ 600,000 | \$ 755,593 |
| Available Liquidity - Average Months Sales | 5.2 | 4.6 | 4.9 | 4.5 | +0.5 months | +0.3 months | +0.7 months | 3.3 | 3.0 | 4.1 |
| Headcount | 1,702 | 1,777 | 1,784 | 1,664 | - 75 heads | -82 heads | +38 heads | 1,777 | 1,784 | 1,666 |

PURDUE US - Profit and Loss Statement

Period Ended September 30, 2013

Expressed in 000's

| | September YTD | | | | | | 2013 YTD Actual versus | | | Full Year | | | | | | | |
|---|-----------------|---------|--------------------------|---------|-----------------|---------|------------------------|---------|--------------------------|-----------------|-----------------|----------------------|---------|--------------|---------|--------------|---------|
| | 2013 YTD Actual | % Sales | 2013 YTD Mid Year Update | % Sales | 2013 YTD Budget | % Sales | 2012 YTD Actual | % Sales | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | % Sales | 2013 Budget | % Sales | 2012 Actual | % Sales |
| GROSS BRANDED PRODUCT SALES | \$ 2,017,880 | | \$ 2,110,171 | | \$ 2,409,221 | | \$ 2,187,586 | | \$ (92,291) | \$ (391,341) | \$ (169,706) | \$ 2,821,387 | | \$ 3,228,472 | | \$ 3,004,905 | |
| Fee for Service | (40,907) | 2.0% | (43,498) | 2.1% | (48,774) | 2.0% | (55,947) | 2.6% | 2,591 | 7,867 | 15,040 | (57,957) | 2.1% | (65,338) | 2.0% | (69,313) | 2.3% |
| Discounts and Allowances | (35,036) | 1.7% | (43,323) | 2.1%(2) | (51,899) | 2.2% | (76,186) | 3.5% | 8,287 | 16,863 | 41,150 | (54,066) | 1.9% | (88,198) | 2.7% | (134,032) | 4.5% |
| Patient Savings Card Discount | (33,136) | 1.6% | (31,547) | 1.5% | (25,439) | 1.1% | (17,257) | 0.8% | (1,589) | (7,697) | (15,879) | (41,334) | 1.5% | (34,537) | 1.1% | (25,104) | 0.8% |
| Rebates on Branded Sales | (368,199) | 18.2% | (365,026) | 17.3% | (424,861) | 17.6% | (392,664) | 17.9% | (3,173) | 56,662 | 24,465 | (488,581) | 17.3% | (554,896) | 17.2% | (517,606) | 17.2% |
| Proposed Regulation Adjustment for Medicaid Rebates (1) | (45,094) | 2.2% | (57,244) | 2.7% | (49,368) | 2.0% | (49,878) | 2.3% | 12,150 | 4,274 | 4,784 | (73,892) | 2.6% | (76,805) | 2.4% | (60,383) | 2.0% |
| Other | 3,397 | | 1,238 | | 1,238 | | 2,161 | | 2,159 | 2,159 | 1,236 | 1,651 | | 1,651 | | 2,455 | |
| NET REVENUES | 1,498,905 | | 1,570,771 | | 1,810,118 | | 1,597,815 | | (71,866) | (311,213) | (98,910) | 2,107,208 | | 2,410,349 | | 2,200,922 | |
| Cost of Goods Sold | (103,205) | 5.1% | (111,497) | 5.3% | (122,076) | 5.1% | (106,709) | 4.9% | 8,292 | 18,871 | 3,504 | (149,240) | 5.3% | (162,211) | 5.0% | (148,475) | 4.9% |
| Royalty Expense | (92,706) | 4.6% | (95,457) | 4.5% | (109,491) | 4.5% | (94,393) | 4.3% | 2,751 | 16,785 | 1,687 | (122,339) | 4.3% | (131,575) | 4.1% | (120,268) | 4.0% |
| Shipping and Warehousing | (8,066) | 0.4% | (8,488) | 0.4% | (8,340) | 0.3% | (8,961) | 0.4% | 422 | 274 | 895 | (11,356) | 0.4% | (10,807) | 0.3% | (11,814) | 0.4% |
| TOTAL COST OF GOODS SOLD | (203,977) | | (215,442) | | (239,907) | | (210,063) | | 11,465 | 35,930 | 6,086 | (282,935) | | (304,593) | | (280,557) | |
| GROSS PROFIT | 1,294,928 | | 1,355,329 | | 1,570,211 | | 1,387,752 | | (60,401) | (275,283) | (92,824) | 1,824,273 | | 2,105,756 | | 1,920,365 | |
| General and Administrative (incl Legal Dept, excl Legal Fees) | (112,407) | 7.5% | (118,849) | 7.6% | (120,626) | 6.7% | (112,102) | 7.0% | 6,442 | 8,219 | (305) | (155,762) | 7.4% | (157,762) | 6.5% | (151,635) | 6.9% |
| Research and Development | (225,420) | 15.0% | (235,915) | 15.0% | (292,856) | 16.2% | (232,469) | 14.5% | 10,395 | 57,436 | 7,049 | (327,247) | 15.5% | (377,347) | 15.7% | (312,513) | 14.2% |
| Research and Development Other - Milestones and Alliances | (10,472) | | (10,029) | | (5,019) | | (1,567) | | (443) | (5,453) | (8,905) | (10,952) | | (6,692) | | (2,284) | |
| Sales and Promotion | (210,034) | 14.0% | (220,472) | 14.0% | (236,075) | 13.0% | (223,145) | 14.0% | 10,438 | 26,041 | 13,111 | (288,313) | 13.7% | (309,913) | 12.9% | (303,110) | 13.8% |
| Health Care Reform Fee | (22,710) | 1.5% | (23,850) | 1.5% | (23,850) | 1.3% | (22,951) | 1.4% | 1,140 | 1,140 | 241 | (31,800) | 1.5% | (31,800) | 1.3% | (31,251) | 1.4% |
| Other US | (241) | | (366) | | (3,583) | | 618 | | 125 | 3,342 | (859) | (102) | | (4,603) | | (17,641) | |
| OPERATING EXPENSES | (627,937) | | (647,378) | | (717,150) | | (622,016) | | 19,441 | 89,213 | (5,921) | (860,051) | | (929,692) | | (867,577) | |
| OPERATING MARGIN BEFORE INCENTIVES AND SETTLEMEN | 666,991 | | 707,951 | | 853,061 | | 765,736 | | (40,960) | (186,070) | (98,745) | 964,222 | | 1,176,064 | | 1,052,788 | |
| Incentive Bonus | (35,279) | 2.4% | (26,635) | 1.7% | (31,886) | 1.8% | (30,585) | 1.9% | (8,644) | (3,393) | (4,694) | (35,618) | 1.7% | (42,618) | 1.8% | (34,285) | 1.6% |
| Insurance Income | 427 | | 3,178 | | 3,178 | | 2,076 | | (2,751) | (2,751) | (1,649) | 3,558 | | 3,558 | | 3,520 | |
| Redacted | | | | | | | | | | | | | | | | | |
| OPERATING PROFIT MARGIN | 629,525 | 42.0% | 682,594 | 43.5% | 824,353 | 45.5% | 737,393 | 46.2% | (53,069) | (194,828) | (107,868) | 930,262 | 44.1% | 1,137,004 | 47.2% | 1,007,776 | 45.8% |
| Royalty Income - ex US | 35,775 | | 30,519 | | 30,519 | | 64,586 | | 5,256 | 5,256 | (28,811)(3) | 40,692 | | 40,692 | | 83,961 | |
| Ex US Expenses | (116,116) | | (123,665) | | (95,698) | | (71,281) | | 7,549 | (20,418) | (44,835) | (164,889)(4) | | (127,600) | | (65,063) | |
| Other ex US Expenses | (11,081) | | (8,448) | | (9,048) | | (11,051) | | (2,633) | (2,033) | (30) | (11,601) | | (12,401) | | (15,026) | |
| Gain on Infinity Stock | 124,581 | | 124,581 | | - | | - | | - | 124,581 | 124,581 | 124,581 | | - | | - | |
| One Time Charges / Other Items | (1,861) | | (2,217) | | (2,217) | | (1,594) | | 356 | 356 | (267) | (2,956) | | (2,956) | | (2,146) | |
| Interest Income (Expense), net | 123 | | 129 | | 129 | | 1,280 | | (6) | (6) | (1,157) | 172 | | 172 | | 1,354 | |
| TOTAL OTHER ITEMS | 31,421 | | 20,899 | | (76,315) | | (18,060) | | 10,522 | 107,736 | 49,481 | (14,001) | | (102,093) | | 3,080 | |
| PROFIT BEFORE TAX | 660,946 | | 703,493 | | 748,038 | | 719,333 | | (42,547) | (87,092) | (58,387) | 916,261 | | 1,034,911 | | 1,010,856 | |
| Tax Provision for Corporations | (2,645) | | (2,337) | | (2,337) | | (5,128) | | (308) | (308) | 2,483 | (4,674) | | (4,674) | | (2,548) | |
| PROFIT AFTER TAX | \$ 658,301 | 43.9% | \$ 701,156 | 44.6% | \$ 745,701 | 41.2% | \$ 714,205 | 44.7% | \$ (42,855) | \$ (87,400) | \$ (55,904) | \$ 911,587 | 43.3% | \$ 1,030,237 | 42.7% | \$ 1,008,308 | 45.8% |

(1) The Proposed Rule was issued in Q1 2012, which when finalized could result in a higher rebate rate on the new formulation of OxyContin.

(2) Discounts and Allowances as a % of sales is below the mid year update due to trade inventory reduction higher than forecast results in VCB accrual reversals (\$2.6 million) and a favorable Intermezzo pull through adjustment to recognize the difference between demand and Purdue factory sales

(3) Decrease from prior year is due to a lower royalty rate at the end of 2012 upon patent expiration.

(4) The 2013 mid year update includes \$80.3 million of cash funding to Pearl Therapeutics of which \$30.3 million was included as an Ex-US expense and \$50 million was included as an investment relating to the purchase of Pearl stock. Since the Pearl transaction did not close, there will be variances in these line items versus the 2013 mid year update.

PURDUE US - Profit and Loss Statement Ratios

| | ACTUAL | | | | | | 2013 |
|--|-----------|--------|--------|-----------|--------|-----------|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Sept 2013 YTD Actual MID YEAR UPDATE |
| GROSS BRANDED PRODUCT SALES | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Fee for Service | -2.1% | -1.5% | -2.2% | -2.5% | -2.5% | -2.3% | -2.0% |
| Discounts and Allowances | -3.5% | -3.1% | -2.2% | -1.6% | -1.9% | -4.5% (1) | -1.7% |
| Patient Savings Card Discount | 0.0% | -0.5% | -0.6% | -0.5% | -0.5% | -0.8% | -1.6% |
| Rebates on Branded Sales | -12.4% | -13.4% | -15.1% | -19.9% | -18.4% | -17.2% | -18.2% |
| Proposed Regulation Adjustment for Medicaid Rebates | 0.0% | 0.0% | 0.0% | -1.3% | -2.3% | -2.0% | -2.2% |
| Other | 8.2% (2) | 0.9% | 1.5% | 1.2% | 0.4% | 0.1% | 0.2% |
| NET REVENUES | 82.0% | 81.5% | 79.9% | 74.3% | 74.4% | 73.2% | 74.3% |
| Cost of Goods Sold | -8.5% (3) | -5.9% | -5.6% | -5.2% | -5.6% | -4.9% | -5.1% |
| Royalty Expense | -0.4% | -0.1% | -0.4% | -2.3% (4) | -3.9% | -4.0% | -4.6% |
| Shipping and Warehousing | -0.9% | -0.5% | -0.5% | -0.5% | -0.4% | -0.4% | -0.4% |
| TOTAL COST OF GOODS SOLD | -9.8% | -6.5% | -6.4% | -7.9% | -9.9% | -9.3% | -10.1% |
| GROSS PROFIT | 72.2% | 75.0% | 73.5% | 66.3% | 64.5% | 63.9% | 64.2% |
| General and Administrative (incl. Legal Dept., excl. Legal Fees) | -11.7% | -6.0% | -5.4% | -5.9% | -6.6% | -6.8% | -7.5% |
| Research and Development | -11.0% | -5.8% | -5.5% | -7.1% | -12.1% | -14.2% | -15.0% |
| Research and Development Other - Milestones and Alliances | -0.5% | -0.4% | -2.5% | -0.4% | 0.0% | -0.1% | -0.7% |
| Sales and Promotion | -11.9% | -6.5% | -6.5% | -8.4% | -10.3% | -13.8% | -14.0% |
| Health Care Reform Fee | 0.0% | 0.0% | 0.0% | 0.0% | -1.2% | -1.4% | -1.5% |
| Other US | -0.7% | -0.7% | -0.4% | 0.7% | -0.1% | -0.8% | 8.3% |
| OPERATING EXPENSES | -42.4% | -23.1% | -23.1% | -23.3% | -33.0% | -39.4% | -33.6% |
| OPERATING MARGIN BEFORE INCENTIVES AND SETTLEMENTS | 29.8% | 51.9% | 50.4% | 43.1% | 53.8% | 47.8% | 44.5% |
| Incentive Bonus | -4.3% | -1.5% | -1.4% | -1.7% | -1.5% | -1.6% | -2.4% |
| Insurance Income | 3.5% | 0.6% | 0.4% | 0.7% | 1.4% | 0.2% | 0.0% |
| Redacted | | | | | | | |
| OPERATING PROFIT MARGIN | 28.8% | 48.8% | 47.8% | 41.3% | 53.4% | 45.8% | 42.0% |
| Royalty Income - ex US | 6.6% | 3.4% | 3.2% | 3.7% | 4.1% | 3.8% | 2.4% |
| Ex US Expenses | -0.7% | -6.0% | -5.1% | -5.7% | -5.8% | -3.0% | -7.7% |
| Other Ex US Expenses | n/a | n/a | n/a | n/a | n/a | -0.7% | -0.7% |
| One Time Charges / Other Items | -0.2% | -0.1% | 0.0% | -1.1% | -0.1% | -0.1% | -0.1% |
| Interest Income (Expense), net | 3.4% | 0.7% | 0.0% | 0.0% | 0.0% | 0.1% | 0.0% |
| TOTAL OTHER ITEMS | 9.1% | -2.0% | -1.8% | -3.1% | -1.8% | 0.1% | -6.2% |
| PROFIT BEFORE TAX | 37.9% | 46.9% | 45.9% | 38.2% | 51.6% | 45.9% | 44.1% |

Income statement
line items as a
percent of
gross sales

Income statement
line items as a
percent of
net sales

(1) 2012 Discounts and Allowances ratio is higher than history due to an increase in OxyContin return reserves.

(2) 2007 Other ratio is higher than history due to the termination of the OxyContin AG distribution agreement during 2007.

(3) 2007 Cost of Goods Sold was higher due to a higher sales mix of lower margin products. OxyContin gross sales were 89% of gross sales in 2007 versus 92% of gross sales in 2012 and the 2013 mid year update.

(4) Starting mid 2010 royalties on the new OxyContin formula became due.

PURDUE US - Balance Sheet

Expressed in 000's

| | Footnotes | September 30, 2013 Actual | December 31, 2013 Mid Year Update | December 31, 2013 Budget | December 31, 2012 Actual |
|---|-----------|------------------------------|--------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | | \$ 868,981 | \$ 576,056 | \$ 600,000 | \$ 755,593 |
| Accounts receivable | (1) | 131,218 | 136,623 | 150,613 | 187,137 |
| Due from associated companies | (2) | 21,390 | 13,673 | 13,673 | 31,819 |
| Other receivables | (3) | 8,472 | 7,250 | 8,350 | 2,957 |
| Inventories | (4) | 69,024 | 42,881 | 42,881 | 50,631 |
| Prepaid expenses and other assets | (5) | 17,164 | 23,670 | 28,670 | 22,144 |
| Restricted cash - current | (6) | 23,883 | 4,800 | - | 23,927 |
| TOTAL CURRENT ASSETS | | 1,140,132 | 804,953 | 844,187 | 1,074,208 |
| Property and equipment, net | (7) | 149,529 | 159,119 | 163,447 | 149,483 |
| Investments in associated companies | (8) | 28,200 | 69,111 | 14,936 | 7,871 |
| Due from associated companies | | 2,750 | 3,250 | 3,250 | 3,000 |
| Restricted cash - long term | (6) | 21,056 | 21,700 | 21,700 | 17,205 |
| Goodwill | | 23,396 | 23,396 | 23,396 | 23,396 |
| Product rights, trademarks and other intangibles, net | (9) | 168,119 | 166,409 | 165,982 | 173,249 |
| Other assets | (10) | 21,536 | 21,247 | 21,247 | 22,523 |
| Investment in Infinity common stock | (11) | - | - | 138,772 | 189,545 |
| Deferred income taxes | | 19,788 | 17,425 | 17,425 | 19,788 |
| TOTAL ASSETS | | \$ 1,574,506 | \$ 1,286,610 | \$ 1,414,342 | \$ 1,680,268 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | | 72,986 | 81,600 | 94,100 | 71,181 |
| Accrued expenses and taxes payable | (12) | 672,137 | 360,628 | 360,628 | 694,721 |
| Due to associated companies | | 12,775 | 13,000 | 13,000 | 12,392 |
| TOTAL CURRENT LIABILITIES | | 757,898 | 455,228 | 467,728 | 778,294 |
| Other liabilities | | 248,145 | 241,382 | 241,382 | 230,249 |
| TOTAL LIABILITIES | | 1,006,043 | 696,610 | 709,110 | 1,008,543 |
| EQUITY | | | | | |
| Capital stock - common | | 9 | 9 | 9 | 9 |
| Additional paid in capital | | 1,982 | 1,982 | 1,982 | 1,982 |
| Subscription receivable | | (999) | (999) | (999) | (999) |
| Accumulated other comprehensive income | | (139,935) | (128,436) | (128,436) | (139,935) |
| Unrealized gain on Infinity stock | (11) | - | - | 60,232 | 97,469 |
| Retained earnings and partners' capital | | 707,406 | 717,444 | 772,444 | 713,199 |
| TOTAL EQUITY | (13) | 568,463 | 590,000 | 705,232 | 671,725 |
| TOTAL LIABILITIES AND EQUITY | | \$ 1,574,506 | \$ 1,286,610 | \$ 1,414,342 | \$ 1,680,268 |

PURDUE US - Balance Sheet Footnotes

Expressed in 000's

- (1) Accounts receivable is \$55.9 million lower than prior year end primarily due to lower September sales as compared to December.
- (2) Decrease from prior year end is primarily due to a lower Ex-US royalty receivable due to lower sales and royalty rates upon patent expiration in 2012.
- (3) Increase from prior year end of \$5.5 million in other receivables balance is primarily due an increase in net amount receivable from Express Scripts related to IPAP program (\$5.1 million).
- (4) Increase from prior year end of \$18.4 million in inventory balance is due to higher Oxycodone API (\$15.4 million) driven by accelerated receipts from Rhodes Tech which increased capacity for new product validations, higher finished goods for Dilaudid (\$0.9 million) and Slow-Mag (\$0.9 million) due to timing of third party receipts, and higher Morphine Sulfate API (\$1.3 million) primarily driven by depleted 2012 year end levels.
- (5) The balance in the prepaids fluctuates according to payment patterns on major contracts, larger items include: prepaid software (\$5.6 million), prepaid REMS security deposit (\$1.2 million) and prepaid S&P (\$4.1 million).
- (6) All remaining settlements have been paid out from the Qualified Settlement Trust (QST). As of September 30, the entire balance of \$23.9 million of the QST is classified as current reflecting the fact that the balance of the QST is expected to be returned to Purdue in 2014. In October, \$7.0 million was returned to Purdue. Long term restricted cash relates to cash collateralized insurance letters of credit.

(7) Change in Property and equipment is as follows:

| | |
|----------------------|-----------------|
| Balance @ 01/01/13 | 149,483 |
| Capital expenditures | 19,095 |
| Loss on disposals | (26) |
| Depreciation | <u>(19,023)</u> |
| Balance @ 09/30/13 | <u>149,529</u> |

(8) Investments represent cash investments net of losses in Lucien, Germany, Japan, and Other.

| | |
|---|------------------|
| Balance @ 01/01/13 | 7,871 |
| Cash investments in Lucien, Japan, and Other, net | 114,366 |
| Equity losses in Lucien, Japan, and Other | <u>(114,366)</u> |
| 15% of Germany income | 241 |
| Cash investment in Germany | <u>20,088</u> |
| Balance @ 09/30/13 | <u>28,200</u> |

The 2013 mid year update includes \$80.3 million of cash funding to Pearl Therapeutics of which \$30.3 million was included as an Ex-US expense and \$50 million was included as an investment relating to the purchase of Pearl stock. Since the Pearl transaction did not close, there will be variances in these line items versus the 2013 mid year update.

(9) The balance as of September 30, 2013 consists of:

| | |
|--|----------------|
| Dilaudid product rights | 85,085 |
| Shire assets (Colace, PeriColace and Slow-mag) | 64,917 |
| Grunenthal milestones (OxyContin) | 15,500 |
| Abbott/McGinity patent (OxyContin) | 2,175 |
| Butrans milestone | <u>442</u> |
| Total | <u>168,119</u> |

(10) Other assets balance of \$21.5 million includes the payments made by Purdue (covering UBS free rent related to floors 2-8, commission and closing costs) to OSR in prior years (\$13.6 million) which are being amortized over the lease term of floors 9 and 10 and a \$6 million lease deposit paid to OSR to be returned in 2016.

(11) On April 9, 2013 Purdue distributed 5,416,565 shares of Infinity stock to its owners who then sold the shares for \$40 per share (\$216.7 million).

(12) Accrued expenses and taxes payable of \$672.1 million includes \$168.6 million in accrued rebates, \$369.2 million in accrued Medicaid and Medicaid Part D (\$197.9 million relating to the proposed CMS rule), Redacted and \$35.5 million in salaries and bonuses. The decrease from prior year end of \$22.6 million is primarily due to decrease in wholesaler inventory rebates (\$34.1 million) as a result of decreased estimates of trade inventory, offset by increase in rebate and Medicaid accruals of \$11.9 million due to timing.

(13) Equity rollforward:

| | |
|--|----------------|
| Balance @ 01/01/13 | 671,725 |
| Cash contributions | 784 |
| Cash distributions (tax and non-tax) | (448,215) |
| Infinity Distribution | (216,663) |
| Realized gain on Infinity Distribution | (97,469) |
| Net Income | <u>658,301</u> |
| Balance @ 09/30/13 | <u>568,463</u> |

PURDUE US - Statement of Cash Flows

Expressed in 000's

| | September 30, 2013 Actual | December 31, 2013 Mid Year Update | December 31, 2013 Budget | December 31, 2012 Actual |
|---|------------------------------|--------------------------------------|-----------------------------|-----------------------------|
| Operating activities | | | | |
| Net income | \$ 658,301 | \$ 911,586 | \$ 1,030,237 | \$ 1,008,308 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 24,153 | 32,177 | 32,138 | 29,059 |
| Distribution of Infinity stock | 216,663 | 216,663 | - | - |
| Gain on Investment in Infinity | (124,581) | (124,581) | - | (24,742) |
| Impairment of intangible asset | - | - | - | 20,000 |
| Deferred income taxes | - | 2,363 | - | (2,600) |
| Loss on unconsolidated, associated companies | 114,125 | 163,066 | 128,621 | 101,005 |
| Loss on disposal of assets | 26 | 27 | - | 27 |
| Changes to working capital | 16,212 | (271,230) | (212,281)(1) | 88,604 |
| Long-term assets and liabilities | 18,877 | 23,903 | 27,431 | 22,730 |
| Total cash provided by operating activities | 923,776 | 953,974 | 1,006,146 | 1,242,391 |
| Investing activities | | | | |
| Capital expenditures | (19,095) | (35,000) | (35,000) | (30,467) |
| Purchase of product marketing rights and other intangible: | - | - | - | (29,982) |
| Restricted cash, net | (3,807) | 14,632 | 22,472 | 17,337 |
| Investments in associated companies, net | (134,454) | (224,306)(2) | (134,605) | (89,089) |
| Investment in Infinity stock | - | - | - | (27,500) |
| Total cash used in investing activities | (157,356) | (244,674) | (147,133) | (159,701) |
| Financing activities | | | | |
| Payments from associates, net | 11,062 | 18,504 | 6,792 | (2,703) |
| Capital contributions | 784 | - | - | - |
| Distributions to partners for required tax payments | (264,958) | (331,772) | (444,000) | (459,245) |
| Distributions to partners non-tax | (183,257) | (358,906) | (538,077) | (471,643) |
| Distribution of Infinity stock | (216,663) | (216,663) | - | - |
| Total cash used in financing activities | (653,032) | (888,837) | (975,285) | (933,591) |
| Increase (decrease) in cash and cash equivalents | 113,388 | (179,537) | (116,272) | 149,099 |
| Cash and cash equivalents: | | | | |
| Unrestricted cash at the beginning of the period | 755,593 | 755,593 | 716,271 | 606,494 |
| Unrestricted cash at the end of the period | \$ 868,981 | \$ 576,056 | \$ 599,999 | \$ 755,593 |

(1) Budget assumes payout of Medicaid rebates related to the CMS proposed rule of \$183 million. The current expectation is the payment will be made in 2014.

(2) The 2013 mid year update includes \$80.3 million of cash funding to Pearl Therapeutics of which \$30.3 million was included as an Ex-US expense and \$50 million was included as an investment relating to the purchase of Pearl stock. Since the Pearl transaction did not close, there will be variances in these line items versus the 2013 mid year update.

Sales Summary Gross to Net by Product

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | |
|---|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual |
| OxyContin | | | | | | | | | | |
| Gross Sales | \$ 1,840,242 | \$ 1,913,216 | \$ 2,184,831 | \$ 2,026,175 | \$ (72,974) | \$ (344,589) | \$ (185,933) | \$ 2,553,108 | \$ 2,916,463 | \$ 2,777,064 |
| Fee for Service | (38,096) | (40,172) | (44,880) | (52,744) | 2,076 | 6,784 | 14,648 | (53,399) | (59,887) | (65,876) |
| Sales Discounts and Allowances | (36,374) | (39,358) | (46,828) | (72,149) | 2,984 | 10,454 | 35,775 | (44,826) | (72,658) | (116,425) |
| Savings Cards Discounts | (26,293) | (24,411) | (17,117) | (12,654) | (1,882) | (9,176) | (13,639) | (31,522) | (22,813) | (18,330) |
| Rebates | (357,430) | (352,417) | (411,897) | (386,111) | (5,013) | 54,467 | 28,681 | (471,555) | (547,870) | (509,597) |
| Proposed Regulation Adjustment for Medicaid Rebates | (45,094) | (57,244) | (49,368) | (49,878) | 12,150 | 4,274 | 4,784 | (73,892) | (65,584) | (60,383) |
| OxyContin Net Sales | 1,336,955 | 1,399,614 | 1,614,741 | 1,452,639 | (62,659) | (277,786) | (115,684) | 1,877,914 | 2,147,651 | 2,006,453 |
| % net to gross | 73% | 73% | 74% | 72% | | | | 74% | 74% | 72% |
| Butrans | | | | | | | | | | |
| Gross Sales | \$ 100,772 | \$ 114,983 | \$ 114,983 | \$ 77,678 | (14,211) | \$ (14,211) | \$ 23,094 | \$ 160,025 | \$ 160,025 | \$ 112,887 |
| Fee for Service | (2,124) | (2,487) | (2,470) | (2,136) | 363 | 346 | 12 | (3,448) | (3,432) | (2,693) |
| Sales Discounts and Allowances | (1,956) | (2,446) | (2,663) | (1,462) | 490 | 707 | (494) | (6,609) | (6,826) | (13,726) |
| Savings Cards Discounts | (5,880) | (6,040) | (6,219) | (4,326) | 160 | 339 | (1,554) | (8,392) | (8,574) | (6,198) |
| Rebates | (8,894) | (10,504) | (10,457) | (4,464) | 1,610 | 1,563 | (4,430) | (14,326) | (14,341) | (6,139) |
| Butrans Net Sales | 81,918 | 93,506 | 93,174 | 65,290 | (11,588) | (11,256) | 16,628 | 127,250 | 126,852 | 84,131 |
| % net to gross | 81% | 81% | 81% | 84% | | | | 80% | 79% | 75% |
| Intermezzo | | | | | | | | | | |
| Gross Sales | \$ 7,449 | \$ 11,003 | \$ 38,438 | \$ 14,104 | (3,554) | \$ (30,989) | \$ (6,655) | \$ 13,893 | \$ 57,622 | \$ 16,556 |
| Fee for Service | (203) | (219) | (765) | (359) | 16 | 562 | 156 | (276) | (1,147) | (352) |
| Sales Discounts and Allowances | 3,580 | (15) | (769) | (8,244) | 3,595 | 4,349 | 11,824 | (1,096) | (6,914) | (9,908) |
| Savings Cards Discounts | (962) | (1,096) | (2,103) | (277) | 134 | 1,141 | (685) | (1,421) | (3,150) | (576) |
| Rebates | (552) | (635) | (1,337) | (266) | 83 | 785 | (286) | (728) | (2,365) | (138) |
| Intermezzo Net Sales | 9,312 | 9,038 | 33,464 | 4,958 | 274 | (24,152) | 4,354 | 10,372 | 44,046 | 5,582 |
| % net to gross | 125% | 82% | 87% | 35% | | | | 75% | 76% | 34% |
| Total for All Products | | | | | | | | | | |
| Gross Sales | \$ 2,017,880 | \$ 2,110,171 | 2,409,221 | \$ 2,187,586 | (92,291) | \$ (391,341) | \$ (169,706) | \$ 2,821,387 | \$ 3,228,472 | \$ 3,004,905 |
| Fee for Service | (40,907) | (43,498) | (48,774) | (55,947) | 2,591 | 7,867 | 15,040 | (57,957) | (65,338) | (69,313) |
| Sales Discounts and Allowances | (35,036) | (43,323) | (51,899) | (76,186) | 8,287 | 16,863 | 41,150 | (54,066) | (88,198) | (134,032) |
| Savings Cards Discounts | (33,136) | (31,547) | (25,439) | (17,257) | (1,589) | (7,697) | (15,879) | (41,334) | (34,537) | (25,104) |
| Rebates | (368,199) | (365,026) | (424,861) | (392,664) | (3,173) | 56,662 | 24,465 | (488,581) | (566,117) | (517,606) |
| Proposed Regulation Adjustment for Medicaid Rebates | (45,094) | (57,244) | (49,368) | (49,878) | 12,150 | 4,274 | 4,784 | (73,892) | (65,584) | (60,383) |
| Other | 3,397 | 1,238 | 1,238 | 2,161 | 2,159 | 2,159 | 1,236 | 1,651 | 1,651 | 2,455 |
| Total Net Sales | \$ 1,498,905 | \$ 1,570,771 | \$ 1,810,118 | \$ 1,597,815 | \$ (71,866) | \$ (313,372) | \$ (100,146) | \$ 2,107,208 | \$ 2,410,349 | \$ 2,200,922 |
| % net to gross | 74% | 74% | 75% | 73% | | | | 75% | 75% | 73% |

(1) The increase in year-to-date September 2013 actual expense versus prior year-to-date actual is due to (1) higher redemption rates largely due to the fact that the eVoucher program only initiated in March 2012 and the 65 and over age limit on the eVoucher program was lifted in 2013 and (2) the card limit was increased from \$70 to \$90 which increased the average cost per redemption.

(2) The variance to budget, which was adjusted for in the mid year update, primarily relates to the lifting of the age limit of 65 on the eVoucher program.

(3) Due to favorable Intermezzo pull through adjustment to recognize the difference between demand and Purdue factory sales. The mid year update assumed demand would equal Purdue sales. Year to date factory sales were lower than demand by \$3.6 million.

Gross Sales Summary by Product

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | |
|--|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual |
| 10 mg | \$ 104,192 | \$ 105,702 | \$ 117,590 | \$ 110,338 | \$ (1,510) | \$ (13,398) | \$ (6,146) | \$ 142,460 | \$ 156,987 | \$ 152,741 |
| 15 mg | 27,636 | 26,193 | 28,332 | 24,012 | 1,443 | (696) | 3,624 | 35,840 | 37,814 | 33,992 |
| 20 mg | 266,699 | 281,821 | 314,577 | 293,406 | (15,122) | (47,878) | (26,707) | 377,709 | 419,948 | 402,472 |
| 30 mg | 154,824 | 157,532 | 177,889 | 146,878 | (2,708) | (23,065) | 7,946 | 214,549 | 237,429 | 205,335 |
| 40 mg | 392,065 | 417,523 | 466,161 | 451,287 | (25,458) | (74,096) | (59,222) | 555,777 | 622,343 | 618,704 |
| 60 mg | 241,811 | 250,339 | 291,312 | 246,457 | (8,528) | (49,501) | (4,646) | 338,266 | 388,817 | 340,746 |
| 80 mg | 653,015 | 674,106 | 788,970 | 753,797 | (21,091) | (135,955) | (100,782) | 888,506 | 1,053,124 | 1,023,074 |
| Gross OxyContin Sales | 1,840,242 | 1,913,216 | 2,184,831 | 2,026,175 | (72,974) | (344,589) | (185,933) | 2,553,107 | 2,916,462 | 2,777,064 |
| Dilaudid Tablets | \$ 7,624 | \$ 8,915 | \$ 8,915 | \$ 10,546 | \$ (1,291) | \$ (1,291) | \$ (2,922) | \$ 11,856 | \$ 11,856 | \$ 14,191 |
| Dilaudid Ampules | 2,376 | 3,350 | 3,350 | 5,716 | (974) | (974) | (3,340) | 4,328 | 4,328 | 8,272 |
| Dilaudid Vials | 763 | 619 | 619 | 1,023 | 144 | 144 | (260) | 797 | 797 | 1,306 |
| Gross Dilaudid Sales | 10,763 | 12,884 | 12,884 | 17,285 | (2,121) | (2,121) | (6,522) | 16,981 | 16,981 | 23,769 |
| Betadine First Aid | \$ 3,138 | \$ 3,022 | \$ 3,022 | \$ 3,083 | \$ 116 | \$ 116 | \$ 55 | \$ 4,027 | \$ 4,027 | \$ 4,118 |
| Betadine Hospital | 3,556 | 3,302 | 3,302 | 3,398 | 254 | 254 | 158 | 4,401 | 4,401 | 4,653 |
| Betadine Veterinary | 732 | 619 | 619 | 688 | 113 | 113 | 44 | 830 | 830 | 850 |
| Gross Betadine Sales | 7,426 | 6,943 | 6,943 | 7,169 | 483 | 483 | 257 | 9,258 | 9,258 | 9,621 |
| Colace | \$ 18,310 | \$ 19,252 | \$ 19,252 | \$ 18,272 | \$ (942) | \$ (942) | \$ 38 | \$ 25,669 | \$ 25,669 | \$ 25,891 |
| Peri-Colace | 3,136 | 3,531 | 3,531 | 3,264 | (395) | (395) | (128) | 4,708 | 4,708 | 4,403 |
| Gross Colace / Peri-Colace Sales | 21,446 | 22,783 | 22,783 | 21,536 | (1,337) | (1,337) | (90) | 30,377 | 30,377 | 30,294 |
| Senokot-S | \$ 8,685 | \$ 7,234 | \$ 7,234 | \$ 8,222 | \$ 1,451 | \$ 1,451 | \$ 463 | \$ 9,648 | \$ 9,648 | \$ 11,220 |
| Senokot | 7,462 | 6,947 | 6,947 | 7,253 | 515 | 515 | 209 | 9,263 | 9,263 | 10,000 |
| Gross Senokot Sales | 16,147 | 14,181 | 14,181 | 15,475 | 1,966 | 1,966 | 672 | 18,911 | 18,911 | 21,220 |
| Butrans | \$ 100,772 | \$ 114,983 | \$ 114,983 | \$ 77,678 | \$ (14,211) | \$ (14,211) | \$ 23,094 | \$ 160,025 | \$ 160,025 | \$ 112,887 |
| Intermezzo | 7,449 | 11,003 | 38,438 | 14,104 | (3,554) | (30,989) | (6,655) | 13,892 | 57,622 | 16,556 |
| MS Contin | 8,627 | 8,798 | 8,798 | 9,548 | (171) | (171) | (921) | 11,642 | 11,642 | 12,974 |
| Ryzolt | (1,172) | - | - | (6,781) | (1,172) | (1,172) | 5,609 | - | - | (6,924) |
| Slow-Mag | 4,572 | 3,974 | 3,974 | 4,047 | 598 | 598 | 525 | 5,316 | 5,316 | 5,554 |
| Betasept | 1,615 | 1,406 | 1,406 | 1,424 | 209 | 209 | 191 | 1,878 | 1,878 | 1,971 |
| Discontinued Products | (7) | - | - | (74) | (7) | (7) | 67 | - | - | (81) |
| GROSS BRANDED SALES | 2,017,880 | 2,110,171 | 2,409,221 | 2,187,586 | (92,291) | (391,341) | (169,706) | 2,821,387 | 3,228,472 | 3,004,905 |
| Fee for Service | (40,907) | (43,498) | (48,774) | (55,947) | 2,591 | 7,867 | 15,040 | (57,957) | (65,338) | (69,313) |
| Discounts and Allowances | (35,036) | (43,323) | (51,899) | (76,186) | 8,287 | 16,863 | 41,150 | (54,066) | (88,198) | (134,032) |
| Savings Card Discount | (33,136) | (31,547) | (25,439) | (17,257) | (1,589) | (7,697) | (15,879) | (41,334) | (34,537) | (25,104) |
| Rebates | (368,199) | (365,026) | (424,861) | (392,664) | (3,173) | 56,662 | 24,465 | (488,581) | (566,117) | (517,606) |
| Proposed Regulation Adj for Medicaid Rebates | (45,094) | (57,244) | (49,368) | (49,878) | 12,150 | 4,274 | 4,784 | (73,892) | (65,584) | (60,383) |
| Other | 3,397 | 1,238 | 1,238 | 2,161 | 2,159 | 2,159 | 1,236 | 1,651 | 1,651 | 2,455 |
| NET BRANDED SALES | \$ 1,498,905 | \$ 1,570,771 | \$ 1,810,118 | \$ 1,597,815 | \$ (71,866) | \$ (311,213) | \$ (98,910) | \$ 2,107,208 | \$ 2,410,349 | \$ 2,200,922 |

Sales Variance to Mid Year Update

Expressed in 000's

Gross Sales:

| | | |
|--|-----------|----------------|
| • Impact of trade inventories higher than mid year update (1) | \$ 15,036 | |
| • Lower demand versus mid year update (1) (2) | (88,010) | |
| OxyContin | | \$ (72,974) |
| • Butrans sales due to lower trade inventory (\$9 million)and demand (\$3 million) | | (14,211) |
| • Intermezzo due to lower trade inventory | | (3,554) |
| • All other | | <u>(1,552)</u> |
| Subtotal - Gross sales variance | | (92,291) |

Deductions:

| | |
|--|---------------|
| • Lower variable deductions due to lower sales | <u>20,425</u> |
|--|---------------|

Net Branded Sales Variance

\$ (71,866)

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

(2) Lower demand is estimated to be due to reported IMS demand net of VCBs and returns lower than the mid year update by \$12.1 million and IMS data error of \$75.9 million.

Brand Profit and Loss Statements

Expressed in 000's

| | September Year-to-Date | | | 2013 YTD Actual versus | | | Full Year | | | |
|--------------------------|------------------------|--------------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|--------------------|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2013 YTD Mid Year Update | 2013 YTD Budget | 2013 Mid Year Update | 2013 Budget | 2012 Actual | 2011 Actual | 2010 Actual |
| <i>OxyContin</i> | | | | | | | | | | |
| Gross Sales | \$ 1,840,242 | \$ 1,913,216 | \$ 2,184,831 | \$ (72,974) | \$ (344,589) | \$ 2,553,108 | \$ 2,916,463 | \$ 2,777,064 | \$ 2,781,019 | |
| Net Sales | 1,336,954 | 1,398,884 | 1,614,740 | (61,930) | (277,786) | 1,877,183 | 2,147,645 | 2,006,701 | 2,030,891 | |
| Gross Profit | 1,205,115 | 1,262,269 | 1,460,650 | (57,154) | (255,535) | 1,700,116 | 1,957,518 | 1,822,882 | 1,838,411 | |
| S&P Expense | (60,509) | (73,667) | (75,551) | 13,158 | 15,042 | (99,949) | (100,238) | (62,033) | (50,758) | |
| All Other | (136,781) | (135,531) | (133,019) | (1,250) | (3,762) | (189,574) | (185,324) | (182,300) | (173,762) | |
| Product Operating Margin | <u>\$ 1,007,825</u> | <u>\$ 1,053,071</u> | <u>\$ 1,252,080</u> | <u>\$ (45,246)</u> | <u>\$ (244,255)</u> | <u>\$ 1,410,593</u> | <u>\$ 1,671,956</u> | <u>\$ 1,578,549</u> | <u>\$ 1,613,891</u> | |
| <i>Butrans</i> | | | | | | | | | | |
| Gross Sales | \$ 100,772 | \$ 114,983 | \$ 114,983 | \$ (14,211) | \$ (14,211) | \$ 160,025 | \$ 160,025 | \$ 112,887 | \$ 73,531 | \$ - |
| Net Sales | 81,918 | 93,506 | 93,175 | (11,588) | (11,257) | 127,250 | 126,990 | 84,131 | 55,937 | - |
| Gross Profit | 74,076 | 84,207 | 82,528 | (10,131) | (8,452) | 114,026 | 111,855 | 71,059 | 45,728 | (913) |
| S&P Expense | (71,497) | (73,047) | (75,261) | 1,550 | 3,764 | (99,181) | (100,459) | (105,912) | (120,536) | (6,743) |
| All Other | (20,602) | (27,072) | (27,153) | 6,470 | 6,551 | (36,069) | (36,369) | (24,307) | (26,308) | (9,123) |
| Product Operating Margin | <u>\$ (18,023)</u> | <u>\$ (15,912)</u> | <u>\$ (19,886)</u> | <u>\$ (2,111)</u> | <u>\$ 1,863</u> | <u>\$ (21,224)</u> | <u>\$ (24,973)</u> | <u>\$ (59,160)</u> | <u>\$ (101,116)</u> | <u>\$ (16,779)</u> |
| <i>Intermezzo</i> | | | | | | | | | | |
| Gross Sales | \$ 7,449 | \$ 11,003 | \$ 38,438 | \$ (3,554) | \$ (30,989) | \$ 13,892 | \$ 57,622 | \$ 16,556 | \$ - | \$ - |
| Net Sales | 9,312 | 9,038 | 33,464 | 274 | (24,152) | 10,371 | 44,046 | 5,582 | - | - |
| Gross Profit | 5,156 | 4,602 | 26,572 | 554 | (21,416) | 5,352 | 33,825 | 2,391 | - | - |
| S&P Expense | (43,580) | (42,589) | (49,805) | (991) | 6,225 | (45,701) | (61,193) | (78,573) | (3,034) | (1,591) |
| All Other | 4,784 | 4,873 | 6,294 | (89) | (1,510) | 4,148 | 7,849 | (3,236) | - | - |
| Product Operating Margin | <u>\$ (33,640)</u> | <u>\$ (33,114)</u> | <u>\$ (16,939)</u> | <u>\$ (526)</u> | <u>\$ (16,701)</u> | <u>\$ (36,201)</u> | <u>\$ (19,519)</u> | <u>\$ (79,418)</u> | <u>\$ (3,034)</u> | <u>\$ (1,591)</u> |
| <i>Laxatives</i> | | | | | | | | | | |
| Gross Sales | \$ 37,594 | \$ 36,964 | \$ 36,965 | \$ 630 | \$ 629 | \$ 49,287 | \$ 49,287 | \$ 51,514 | | |
| Net Sales | 36,740 | 36,163 | 36,477 | 577 | 263 | 48,611 | 48,636 | 48,838 | | |
| Gross Profit | 26,763 | 26,781 | 27,120 | (18) | (357) | 37,218 | 36,160 | 37,562 | | |
| S&P Expense | (12,469) | (11,182) | (11,735) | (1,287) | (734) | (15,446) | (15,646) | (18,969) | | |
| All Other | (600) | (975) | (975) | 375 | 375 | (1,301) | (1,300) | (1,301) | | |
| Product Operating Margin | <u>\$ 13,694</u> | <u>\$ 14,624</u> | <u>\$ 14,410</u> | <u>\$ (930)</u> | <u>\$ (716)</u> | <u>\$ 20,471</u> | <u>\$ 19,214</u> | <u>\$ 17,292</u> | | |

Note: All Other includes Pharma Fee, Legal Fees, R&D Support for the marketed product and an allocation of G&A.

General and Administrative Summary

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | | HEADCOUNT | | | | Comments |
|--|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|-----------------|----------------------|-------------------|-------------------|-----------------|----------------------|---------------|-------------|---|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual | 2013 YTD Actual | 2013 Mid Year Update | Var to Budget | 2012 Actual | |
| Finance | \$ 10,474 | \$ 10,317 | \$ 10,317 | \$ 10,166 | \$ 157 | \$ 157 | \$ 308 | \$ 13,520 | \$ 13,520 | \$ 13,324 | 62 | 66 | 4 | 62 | \$0.2 million unfavorable for timing of outside services. |
| Information Technology | 24,650 | 26,447 | 26,995 | 24,285 | (1,797) | (2,345) | 365 | 35,217 | 35,466 | 32,262 | 94 | 102 | 8 | 96 | \$1.8 million favorable due to: \$0.8 million favorable open positions, \$0.6 million favorable timing of consulting and \$0.4 million favorable software and hardware maintenance. |
| Corporate Procurement | 2,505 | 2,670 | 2,670 | 2,370 | (165) | (165) | 135 | 3,500 | 3,500 | 3,215 | 13 | 15 | 2 | 13 | \$0.2 million favorable due to two open positions. |
| Insurance | 2,043 | 2,380 | 2,618 | 2,128 | (337) | (575) | (85) | 3,192 | 3,492 | 2,846 | - | - | - | - | \$0.3 million favorable due to lower negotiated property premium rates, lower than anticipated business interruption insurance, and timing of clinical trial insurance. |
| IPAP | 2,718 | 2,778 | 2,925 | 2,630 | (60) | (207) | 88 | 3,704 | 3,900 | 3,747 | - | - | - | - | |
| Subtotal - Mahony | 42,390 | 44,592 | 45,525 | 41,579 | (2,202) | (3,135) | 811 | 59,133 | 59,878 | 55,394 | 169 | 183 | 14 | 171 | |
| Human Resources | 4,738 | 4,989 | 5,029 | 4,537 | (251) | (291) | 201 | 6,546 | 6,587 | 5,900 | 24 | 24 | - | 23 | \$0.3 million favorable due to timing of new hire, training and consulting. |
| EHS Corporate | 2,004 | 1,993 | 1,974 | 1,728 | 11 | 30 | 276 | 2,599 | 2,587 | 2,286 | 5 | 6 | 1 | 6 | |
| Administration Building | 6,234 | 6,112 | 6,266 | 6,030 | 122 | (32) | 204 | 8,132 | 8,322 | 8,156 | 34 | 34 | - | 34 | \$0.1 million unfavorable for higher duplication and higher postage. |
| Stamford Facilities | 16,911 | 17,100 | 17,132 | 16,422 | (189) | (221) | 489 | 22,734 | 22,837 | 22,062 | - | - | - | - | \$0.2 million favorable due to lower operating expenses as compared to the budget. This is trued up at year end. |
| Facilities Allocation Out | (17,132) | (17,133) | (17,133) | (16,990) | 1 | 1 | (142) | (22,837) | (22,837) | (22,649) | - | - | - | - | |
| Subtotal - Long | 12,755 | 13,061 | 13,268 | 11,727 | (306) | (513) | 1,028 | 17,174 | 17,496 | 15,755 | 63 | 64 | 1 | 63 | |
| Public Affairs | 3,937 | 5,172 | 5,172 | 3,333 | (1,235) | (1,235) | 604 | 7,129 | 7,129 | 5,218 | 3 | 4 | 1 | 4 | \$1.2 million favorable due to timing of various consulting projects and special promotion project payments. |
| Federal Government Affairs | 3,214 | 3,253 | 3,253 | 3,239 | (39) | (39) | (25) | 3,495 | 3,495 | 3,473 | 2 | 2 | - | 2 | |
| State Government Affairs | 7,578 | 8,918 | 8,918 | 7,683 | (1,340) | (1,340) | (105) | 11,522 | 11,522 | 10,659 | 12 | 12 | - | 12 | \$1.3 million favorable due to timing of organizational grant payments versus a straight line budget assumption. |
| Subtotal - External Affairs | 14,729 | 17,343 | 17,343 | 14,255 | (2,614) | (2,614) | 474 | 22,146 | 22,146 | 19,350 | 17 | 18 | 1 | 18 | |
| Purdue Pharma Fund | 1,128 | 1,442 | 1,442 | 846 | (314) | (314) | 282 | 1,922 | 1,922 | 969 | - | - | - | - | \$0.2 million unfavorable due to salary and related expense and records management expenses. |
| DEA Compliance | 20 | 25 | 281 | 366 | (5) | (261) | (346) | 25 | 362 | 448 | - | 1 | 1 | 1 | \$0.3 million favorable for timing of grants. |
| Redacted | | | | | | | | | | | | | | | |
| Executive Administration | 5,562 | 5,518 | 5,187 | 4,748 | 44 | 375 | 814 | 7,334 | 6,832 | 6,712 | 6 | 6 | - | 5 | |
| General underspend | - | (541) | (676) | - | 541 | 676 | - | (721) | (901) | - | - | - | - | - | |
| Subtotal - Executive Administration | 5,562 | 4,977 | 4,511 | 4,748 | 585 | 1,051 | 814 | 6,613 | 5,931 | 6,712 | 6 | 6 | - | 5 | |
| Depreciation and Occupancy | 12,356 | 12,356 | 12,356 | 12,916 | - | - | (560) | 16,471 | 16,471 | 17,116 | - | - | - | - | |
| Quality | 5,992 | 6,655 | 6,655 | 5,514 | (663) | (663) | 478 | 8,757 | 8,757 | 7,438 | 34 | 35 | 1 | 31 | \$0.7 million favorable for open positions, consulting and travel. |
| Security | 4,143 | 4,427 | 4,479 | 4,318 | (284) | (336) | (175) | 5,828 | 5,897 | 5,465 | 15 | 15 | - | 15 | \$0.3 million favorable for timing of grants and timing of new hire. |
| Corporate Compliance | 2,437 | 2,789 | 2,859 | 2,768 | (352) | (422) | (331) | 3,536 | 3,606 | 3,384 | 11 | 12 | 1 | 11 | \$0.4 million favorable due to: \$0.1 million open positions, \$0.1 million reduced Axentis license fees, \$0.1 million consulting spend to date. |
| Business Development | 2,121 | 2,607 | 2,607 | 2,169 | (486) | (486) | (48) | 3,442 | 3,442 | 3,181 | 7 | 7 | - | 7 | \$0.5 million favorable due to minimal consulting project |
| Employee Benefits | (442) | (790) | (942) | 2,362 | 348 | 500 | (2,804) | (1,701) | (1,447) | 4,726 | - | - | - | - | \$0.4 million unfavorable due to: \$0.1 million for higher medical expenses and \$0.3 million for higher retirement admin fees |
| Fleet | (579) | (596) | 6 | (626) | 17 | (585) | 47 | (609) | - | (349) | - | - | - | - | |
| Subtotal - Other | 26,028 | 27,448 | 28,020 | 29,421 | (1,420) | (1,992) | (3,393) | 35,724 | 36,726 | 40,961 | 67 | 69 | 2 | 64 | |
| Total General and Administrative | \$ 112,407 | \$ 118,849 | \$ 120,626 | \$ 112,102 | \$ (6,442) | \$ (8,219) | \$ 305 | \$ 155,762 | \$ 157,762 | \$ 151,635 | 366 | 385 | 19 | 365 | |

Redacted

Research and Development

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | | HEADCOUNT | | | | Comments |
|-------------------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|--------------------|-------------------|----------------------|-------------------|-------------------|-----------------|----------------------|---------------|-------------|--|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual | 2013 YTD Actual | 2013 Mid Year Update | Var to Budget | 2012 Actual | |
| Clinical Program | \$ 91,970 | \$ 101,195 | \$ 152,213 | \$ 103,616 | \$ (9,225) | \$ (60,243) | \$ (11,646) | \$ 134,212 | \$ 191,025 | \$ 137,238 | - | - | - | - | \$9.2 million favorability due to: OTR underspend \$3.3 million due to lower than expected CRO service and pass through costs in the pediatric studies. BUP underspend \$3.5 million due primarily to lower than expected CRO service and pass through costs in the pediatric PREA study BUP3031 coupled with lower than expected CRO service cost in the IQTC study BUP1025. ONU underspend of \$2.3 million due primarily to lower than expected CRO pass through costs incurred in the ONU cardiovascular data analysis effort coupled with lower than expected NDA compilation costs. |
| Non-Clinical | 30,175 | 33,105 | 37,673 | 39,135 | (2,930) | (7,498) | (8,960) | 56,220 | 50,134 | 52,748 | 54 | 55 | 1 | 50 | \$2.9 million underspend is primarily due to timing of outsourcing in VND (\$1.2 million), and BUP (\$0.9 million), and HYD (\$0.6 million). The latest estimate recognizes a full year reduction of \$9.8 million in outsourcing. |
| Medical Research | 21,483 | 25,387 | 25,340 | 19,942 | (3,904) | (3,857) | 1,541 | 34,180 | 33,455 | 27,394 | 72 | 78 | 6 | 73 | \$3.9 million favorability primarily due to underspend on staff extenders and timing of consulting and software spends. |
| Discovery Research | 16,594 | 17,247 | 18,468 | 15,705 | (653) | (1,874) | 889 | 24,500 | 24,522 | 20,728 | 51 | 53 | 2 | 50 | \$0.7 million favorability relates to reduced outsourcing for exploratory projects. The latest estimate recognizes a full year underspend for this work of \$2.0 million. |
| Health Policy | 11,920 | 12,881 | 12,552 | 13,021 | (961) | (632) | (1,101) | 16,572 | 16,502 | 16,693 | 41 | 41 | - | 40 | \$1.0 million favorable due to timing of special programs \$0.4 million, \$0.1 million in people costs, \$0.2 million in outside services / consulting, \$0.1 million in staff extenders and \$0.1 million in educational materials and \$0.1 million in other. |
| Risk Management | 9,570 | 12,079 | 12,179 | 8,551 | (2,509) | (2,609) | 1,019 | 16,146 | 16,246 | 12,050 | 14 | 14 | - | 14 | \$2.5 million underspend due to timing of studies & classwide REMS spend vs. budget phasing. |
| Drug Safety | 6,411 | 7,991 | 8,391 | 7,613 | (1,580) | (1,980) | (1,202) | 10,722 | 11,122 | 9,476 | 31 | 39 | 8 | 33 | \$1.6 million underspend driven by \$0.6 million in lower adverse event processing, \$0.1 million staff extender expenses and \$0.9 million favorable in people and people related costs. |
| Regulatory | 11,898 | 11,458 | 12,318 | 7,752 | 440 | (420) | 4,146 | 15,043 | 15,423 | 10,560 | 26 | 27 | 1 | 26 | \$0.4 million unfavorable driven phasing of submission processing expenses versus budget. |
| Tech Transfer | 2,801 | 3,058 | 5,317 | 3,427 | (257) | (2,516) | (626) | 4,066 | 8,075 | 4,575 | - | - | - | - | \$0.3 million underspend is due to timing of HYD, and TRPV1 batches. |
| Medical Affairs | 1,783 | 3,303 | 3,103 | 576 | (1,520) | (1,320) | 1,207 | 4,342 | 4,142 | 1,205 | 3 | 4 | 1 | 3 | \$1.5 million favorability due to underspend relating to Investigator Initiated Studies and staff extenders. |
| Shionogi Collaboration | 1,899 | 1,898 | 3,187 | 1,048 | 1 | (1,288) | 851 | 1,250 | 4,249 | 1,450 | - | - | - | - | |
| R&D Innovation | 3,369 | 3,996 | 3,966 | 386 | (627) | (597) | 2,983 | 6,247 | 5,310 | 1,057 | 3 | 3 | - | 2 | \$0.6 million favorability due to timing of consulting spend related to exploratory projects. |
| Health Outcomes | 3,107 | 4,129 | 4,216 | 631 | (1,022) | (1,109) | 2,476 | 6,265 | 5,654 | 2,179 | 5 | 5 | - | 3 | \$1.0 million favorability due to outsides services relating to advisory boards, various consulting projects and other of \$1.3 million offset by \$0.3 million in unfavorable people costs. |
| Project Management | 3,881 | 3,959 | 3,959 | 3,300 | (78) | (78) | 581 | 5,149 | 5,148 | 4,549 | 18 | 20 | 2 | 208 | |
| Outsource Management | 962 | 1,135 | 1,136 | 1,064 | (173) | (174) | (102) | 1,488 | 1,488 | 1,314 | 6 | 6 | - | 6 | |
| Stamford Occupancy and Depreciation | 8,010 | 8,010 | 8,010 | 7,060 | - | - | 950 | 10,678 | 10,678 | 9,412 | - | - | - | - | |
| Cranbury Occupancy | (413) | (116) | (112) | (358) | (297) | (301) | (55) | (157) | (151) | (115) | 15 | 15 | - | 14 | |
| Underspend Estimate | - | (14,800) | (19,060) | - | 14,800 | 19,060 | - | (19,676) | (25,675) | - | - | - | - | - | |
| Total Research and Development | <u>\$ 225,420</u> | <u>\$ 235,915</u> | <u>\$ 292,856</u> | <u>\$ 232,469</u> | <u>\$ (10,495)</u> | <u>\$ (67,436)</u> | <u>\$ (7,049)</u> | <u>\$ 327,247</u> | <u>\$ 377,347</u> | <u>\$ 312,513</u> | <u>339</u> | <u>360</u> | <u>21</u> | <u>334</u> | |

Other US

Expressed in 000's

| | September YTD | | | | 2013 YTD Actual versus | | | Full Year | | | Comments |
|---|-----------------|--------------------------|-----------------|-----------------|--------------------------|-----------------|-----------------|----------------------|-------------|-------------|---|
| | 2013 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 YTD Mid Year Update | 2013 YTD Budget | 2012 YTD Actual | 2013 Mid Year Update | 2013 Budget | 2012 Actual | |
| Other Income (Expense): | | | | | | | | | | | |
| Purdue Pharma Tech | \$ 1,245 | \$ 1,262 | \$ 1,262 | \$ 2,147 | \$ (17) | \$ (17) | \$ (902) | \$ 1,683 | \$ 1,683 | \$ 2,689 | Purdue Pharma Tech (PP Tech) provides EHS, security and other services to Purdue at cost plus markup. PP Tech is consolidated in these financials - its margin is shown here. |
| Amortization expense - Dilaudid | (1,864) | (1,864) | (1,864) | (1,864) | - | - | - | (2,486) | (2,486) | (2,485) | Balance represents amortization of marketing rights of Dilaudid acquired in 2007 and 2008 for approximately \$100 million which is being amortized over its estimated useful life of 40 years. |
| Reversal of use tax | 271 | - | - | 307 | 271 | 271 | (36) | - | - | 307 | Sales and use taxes are recorded automatically when invoices are processed. When tax should not have been charged, the tax is not paid and the credit is captured here. |
| Trust expenses | (129) | (75) | (75) | (203) | (54) | (54) | 74 | (100) | (100) | (328) | All remaining settlements have been paid out from the Qualified Settlement Trust (QST). The balance of the QST is expected to be returned to Purdue after clearing probate court in 2014. Administrative costs are expected to be incurred in 2014 to close the fund. |
| Norwell rent income (Totowa) | 563 | 563 | 563 | 562 | - | - | 1 | 750 | 750 | 749 | |
| Purchase discounts | 711 | 525 | 525 | 535 | 186 | 186 | 176 | 700 | 700 | 898 | |
| Depreciation - Norwell & Other | (159) | (166) | (166) | (155) | 7 | 7 | (4) | (220) | (220) | (290) | Primarily represents depreciation on Norwell. |
| Depreciation savings | - | 750 | 750 | - | (750) | (750) | - | 1,000 | 1,000 | - | Budget expected favorability (underspend) here. |
| Intermezzo milestone amortization / write off | - | - | - | (735) | - | - | 735 | - | - | (20,000) | 2012 Actual balance represents write off of two \$10 million milestone payments made upon the Orange Book listings of Intermezzo patents. Amounts were written off in 2012 based on declining sales projections. |
| Targeted headcount reduction | - | 1,125 | - | | | | | | | | |
| President's reserve | (908) | (2,175) | (4,425) | - | 1,267 | 3,517 | (908) | (2,900) | (5,900) | - | 2013 year to date actual represents professional fees paid to McKinsey in connection with identifying growth opportunities for OxyContin. |
| Miscellaneous | 29 | (311) | (153) | 24 | 340 | 182 | 5 | 1,471 | (30) | 819 | |
| Net Other Income (Expense) | \$ (241) | \$ (366) | \$ (3,583) | \$ 618 | \$ 1,250 | \$ 3,342 | \$ (859) | \$ (102) | \$ (4,603) | \$ (17,641) | |

Headcount Summary

| | <u>September 2013 Actual</u> | <u>2013 Mid Year Update</u> | <u>Variance to Mid Year Update</u> | <u>2013 Budget</u> | <u>2012 Actual</u> |
|----------------------------|------------------------------|-----------------------------|------------------------------------|--------------------|--------------------|
| G&A | 366 | 385 | 19 | 382 | 365 |
| R&D | 339 | 360 | 21 | 360 | 334 |
| Marketing / Sales Support | 77 | 81 | 4 | 87 | 77 |
| Field Sales | 657 | 671 | 14 | 673 | 625 |
| Total S&P | 734 | 752 | 18 | 760 | 702 |
| Totowa | 16 | 18 | 2 | 18 | 18 |
| Supply Chain Operations | 52 | 55 | 3 | 60 | 57 |
| Wilson | 191 | 202 | 11 | 201 | 187 |
| Total Technical Operations | 259 | 275 | 16 | 279 | 262 |
| President's Reserve | - | 1 | 1 | 3 | - |
| Other | 4 | 4 | - | - | 3 |
| Total Headcount | <u>1,702</u> | <u>1,777</u> | <u>75</u> | <u>1,784</u> | <u>1,666</u> |

To: John Stewart
From: Ed Mahony
CC: [REDACTED]
Jon Lowne, [REDACTED] Executive Committee
Date: October 10, 2013
Subject: September year-to-date 2013 financial results

Attached are the September year-to-date 2013 Purdue financial statements. Actual results are compared to the 2013 mid-year update, 2013 budget and 2012 actual results¹.

NET SALES

Net Sales for the nine months ending September were \$1,498.9 million - \$98.9 million lower than the same period last year and \$71.9 million or 4.6% under the mid-year update, primarily due to lower OxyContin sales.

An updated full year 2013 sales estimate was presented to the Board last week which showed 2013 expected net sales of \$1,987 million which is \$120 million lower than the mid-year update, \$423 million lower than budget and \$213 million lower than 2012.

OxyContin

OxyContin net sales for the nine months ending September total \$1,337.0 million - \$62.7 million below the mid-year update and \$115.7 million lower than the same period last year. The variance versus the mid-year update is due to:

- a. Estimated OxyContin demand running approximately \$73.9 million lower than the mid-year update:
 - a. IMS reported demand in scripts and tablets is running approximately in line with mid-year update;
 - b. IMS reported demand, which was relied on to build the mid-year update and budget, was recently determined to be overstated by approximately 5.5%².
- b. The contraction in OxyContin trade inventory through August is lower than anticipated in the mid-year update by \$12.6 million.

OxyContin operating margin for the nine months ending September 30 was \$1,205 million – 90.1% of net sales. This is \$256 million below budget due to lower sales.

- a. The actual nine month operating margin ratio is 75.3%.

Redacted

² Internal analysis has shown that the IMS script data on which the budget and mid-year update were based is consistently overstated by around 5.5%. Since this analysis was completed, we have learned that another opioid tablet manufacturer has reported the same phenomena. IMS has acknowledged the error percentage and will be correcting their projection method going forward. The 2013 effect of this data error is to reduce forecasted OxyContin gross sales by \$110 million.

- b. Patient co-pay savings card expense is 1.4% versus 0.8% of gross sales in the budget. This change is primarily due to opening the eVoucher program to include patients over 65 covered by commercial insurance (eligibility and limits are being updated and may reduce costs in 2014).

Butrans

Butrans net sales for the nine months ending September were \$81.9 million --- \$16.6 million above the same period last year but \$11.3 million below the original 2013 budget. The sales shortfall is driven by lower trade inventory (\$9 million) and prescriptions running below budget (\$2.3 million).

Butrans operating margin for the nine months ending September was a loss of \$18 million. This loss was in line with budget as margins lost due to lower sales are being offset by delays in the Butrans pediatric spending and other reductions in R&D support. The BBU P&L does not include new product development costs such as higher dose and smaller patch.

The Butrans 15mcg strength commenced shipping on October 2nd and to date Purdue has received \$3 million in stocking orders.

Intermezzo

Intermezzo net sales in 2013 are estimated at \$10.4 million versus budget of \$44 million.

Intermezzo operating margin for the nine months ending September was a loss of \$33.6 million. At this point investment in Intermezzo includes; (1) tertiary sales calls by Analgesic sales force, (2) 5 primary sales calls/month/rep to core Intermezzo prescribers, and (3) limited non-rep promotion. For the balance of the year we estimate that sales will remain relatively flat (\$10-\$11 million annual run rate) and before allocations the operating margin will be breakeven.

Redacted

Transcept has expressed an interest in buying out Purdue's interest in Intermezzo. We expect an offer shortly.

Operating expenses

Total operating expenses were \$628.0 million:

| (million) | Year-to-date September | | | | Variance 2013 actual vs. | | | 2013 Mid-Year Update |
|--------------------------------------|------------------------|-----------------|-----------------|-----------------|--------------------------|------------------|---------------|----------------------|
| | Actual | Mid-Year Update | Budget | Prior year | Mid-Year Update | 2013 Budget | 2012 Actual | |
| G&A | \$ 112.4 | \$ 118.8 | \$ 120.6 | \$ 112.1 | \$ (6.4) | \$ (8.2) | \$ 0.3 | \$ 155.7 |
| Redacted | | | | | | | | |
| R&D | 225.4 | 235.9 | 292.9 | 232.5 | (10.5) | (67.5) | (7.1) | 327.2 |
| R&D Other - Milestones and Alliances | 10.5 | 10.0 | 5.0 | 1.6 | 0.5 | 5.5 | 8.9 | 11.0 |
| S&P | 210.0 | 220.5 | 236.1 | 223.1 | (10.5) | (26.1) | (13.1) | 288.3 |
| New Health Care Reform Pharma Fee | 22.7 | 23.9 | 23.9 | 23.0 | (1.2) | (1.2) | (0.3) | 31.8 |
| Other - US | 0.3 | 0.4 | 3.6 | (0.6) | (0.1) | (3.3) | 0.9 | 0.4 |
| Total | \$ 628.0 | \$ 647.4 | \$ 717.2 | \$ 622.1 | \$ (19.4) | \$ (89.2) | \$ 5.9 | \$ 860.3 |

1. G&A spend through September 30, 2013 was \$112.4 million which is:

- a. Lower than the 2013 mid-year update by \$6.4 million primarily due to: (1) \$2.6 million lower spend in External Affairs; (2) \$1.8 million lower spend in IT and (3) \$2.0 favorable spend across other departments.
- b. In line with 2012.

2.

Redacted

3. R&D spend through September 30, 2013 was \$10.6 million lower than the mid-year update:

| (million) | Year-to-Date September | | | 2013 Mid-Year Update |
|---------------------------------|------------------------|-----------------|-----------|----------------------|
| | Actual | Mid-year Update | Variance | |
| Oxycodone Nalaxone | \$ 59.0 | \$ 61.4 | \$ (2.4) | \$ 82.0 |
| Hydrocodone QD TR | 46.1 | 49.5 | (3.4) | 63.8 |
| Butrans | 10.8 | 21.5 | (10.7) | 50.2 |
| OxyContin (primarily pediatric) | 16.4 | 24.9 | (8.5) | 31.6 |
| Oxycodone IR TR | 9.9 | 10.2 | (0.3) | 13.9 |
| TRPV 1 (Purdue) | 9.4 | 13.4 | (4.0) | 26.8 |
| ORL 1 | 2.7 | 3.1 | (0.4) | 0.5 |
| Discovery Projects | 15.9 | 18.0 | (2.1) | 24.5 |
| All other | 55.2 | 48.8 | 6.4 | 72.1 |
| Finance Underspend Estimate | - | (14.8) | 14.8 | (25.7) |
| Total | \$ 225.4 | \$ 236.0 | \$ (10.6) | \$ 339.7 |

Butrans

Spend through September 30, 2013 is \$10.7 million below the mid-year update primarily due to lower clinical/nonclinical spend (pediatric/higher strengths) and lower people cost.

OxyContin (primarily pediatric)

Spend through September 30, 2013 is \$8.5 million below the mid-year update due to continued slow enrollment in pediatrics studies and a corresponding lower people cost.

All Other

All Other consists of Risk Management, Marketing Support, Drug Safety and all other project/non-project spend not identified above. 2013 September year-to-date spend is \$6.4 million above the mid-year-update due to people costs not being allocated to Butrans and OxyContin due to lower spending on those projects not being allocated to the above projects.

R&D spend through September 30, 2013 was \$7.1 million lower than 2012 due to lower Butrans and OxyContin spend, primarily due to lower Butrans higher strength and OxyContin pediatric programs.

4. S&P spend through September 30, 2013 was \$210.0 million, which is:

- a. \$10.5 million lower than the mid-year update due to:
 - i. Lower Butrans and OxyContin promotional spend (\$4.7 million).
 - ii. Lower people driven expenses (\$3.8 million) primarily due to lower Q2 sales bonus (\$1.9 million) and vacancies.
 - iii. All other (\$1.9 million).
- b. \$26.1 million lower than budget due to lower:
 - i. OxyContin and Butrans promotional spend (\$8.5 million).
 - ii. People driven expenses (\$6.6 million) primarily due to lower Q1 and Q2 sales bonus (\$3.0 million) and vacancies (3.2%) in the Field Force.
 - iii. Contract Sales Organization (\$6.0 million) primarily driven by termination effective May 14, 2013.
 - iv. All other (\$4.9 million).

c. \$13.1 million lower than prior year due to:

- i. Lower Intermezzo direct to consumer advertising and promotional spend (\$1.9 million).
- ii. Lower spending in Contract Sales organization (\$23.7 million) due to a reduction from 275 representatives in first half of 2012 to 90 through May 2013.
- iii. Higher people driven expenses (\$7.2 million) primarily due to higher Q1 and Q2 sales bonus (\$3.7 million) and lower vacancies.
- iv. All Other (\$5.3 million).

Pre-tax earnings

Full year pre-tax earnings of \$660.9 million are:

- a. \$42.5 million lower than the mid-year update due to lower gross profit (\$60.4 million) on lower sales, higher incentives (\$8.6 million) due to the Better Medicine Awards offset by lower operating expenses (\$19.0 million) and lower ex-US expense of \$10.5 million due to Germany now projecting to break even versus a budgeted full year loss of \$15 million. The improved results are due to not having to fund Pearl and not making milestone payments.
- b. \$87.1 million lower than budget due to lower gross profit (\$275.3 million) on lower sales and higher ex-US expenses (\$20.4 million), offset by lower operating expenses (\$89.2 million) and the gain on Infinity stock (\$124.6 million).
- c. \$58.4 million higher than 2012 primarily due to lower gross profit (\$92.8 million) on lower sales, lower ex-US royalty income (\$28.8 million) and higher ex-US expenses (\$44.8 million) offset by the gain on Infinity stock (\$124.6 million).

Non-Tax Distributions

Year-to-date partner non-tax distributions were \$399.9 million, made up of \$216.7 million of Infinity shares and \$183.2 million in cash, of which \$10 million was re-invested in Rhodes.

Working Capital Highlights

Cash and Short Term Investments

At the end of September, unrestricted cash and short term investments totaled \$868 million --- which is \$23 million higher than the mid-year update. This temporary higher-than-forecast cash balance is due to timing of payments. Actual cash payments during the month included tax payments of \$97 million, the branded prescription drug fee ("Healthcare Reform Fee") of \$28 million and \$12 million of ex-USA funding (Brazil, Japan, Malaysia, Singapore, and Mexico).

Accounts Receivable

- 1. The rolling 3 month average days sales outstanding ("DSO") was 34.6 days at September 30, 2013 which is 0.4 days lower than our target of 35 days, and unchanged from August 31, 2013. Invoice collections remain strong at 99.9 % within 10 days of the due date. Bad debt write-offs year to date 2013 total \$3,900.
- 2. Open deductions totaled \$495,813 at September 30, 2013 or .002% of the total receivables versus \$555,706 at December 31st, 2012.

3. In all respects, we believe accounts receivable collections are excellent. We continue to watch Super Valu (balance at September 30 of \$136,700) – as they are restructuring their business, selling assets and are experiencing declining sales.

Accounts Payable

1. Payables at September 30, 2013 totaled \$28.7 million versus \$21.8 million at August 31, 2013. The monthly increase was caused by the timing of the last check run in each month.
2. The June 30, 2013 rebates Day's Payable Outstanding ("DPO") was 53.06 versus 52.73 days at December 31, 2012 a 0.33 day increase. The DPO for all other payments was 38.88 days at June 30, 2013 versus 38.84 days at December 31, 2012 an increase of 0.04 days. Fluctuations in the DPO can occur due to the mix of payment types. The DPO is measured semi-annually.
3. Early payment discounts of \$816,807 or 98.0% of those available were earned through September 30, 2013.

Inventory levels

1. At the end of September, Purdue is carrying \$69.0 million in inventory net of reserves. This balance has increased over prior year-end and September 2012 by \$18.4 million and \$13.6 million, respectively.
 - a. \$18.4 million higher than prior year-end due to:
 - i. Higher Oxycodone API (\$15.4 million) primarily driven by accelerated receipts from Rhodes Technology which positioned them to free up labor and equipment capacity for new product validations.
 - ii. Higher Morphine Sulfate API (\$1.3 million) primarily driven by depleted 2012 year end levels.
 - iii. Higher finished goods for Dilaudid (\$0.9 million) and Slow-Mag (\$0.9 million) due to timing of 3rd party receipts.
 - b. \$13.6 million higher than September 2012 due to higher Oxycodone API (\$14.5 million) primarily driven by accelerated receipts from Rhodes Technology which positioned them to free up labor and equipment capacity for new product validations.
2. Oxycodone comprises \$38.9 million of the \$69.0 million total inventory. Details are provided in the table below:

| | Sep-13 | | Sep-12 | Y/E 2012 |
|------------------------|---------------|---------------|---------------|---------------|
| Oxycodone | kg | million \$'s | million \$'s | million \$'s |
| Raw | 7,113 | \$23.0 | \$8.5 | \$7.6 |
| WIP | 1,339 | \$4.3 | \$1.9 | \$2.1 |
| Bulk | 1,124 | \$3.6 | \$3.9 | \$4.4 |
| FG | 2,473 | \$8.0 | \$9.5 | \$9.0 |
| Total Oxycodone | 12,050 | \$38.9 | \$23.8 | \$23.1 |

Higher YTD WIP balance (\$4.3 million) driven by timing of packaging 40mg and 80mg batches as evidenced in the lower YTD finished goods (\$8.0 million).

3. At the end of September, the average MOH inventory level for OxyContin finished goods is ~ 2.0 months (based on projected sales). Details are as follows:

OxyContin - Months on Hand Inventory
(100 count bottles only)

| <u>10mg</u> | <u>15mg</u> | <u>20mg</u> | <u>30mg</u> | <u>40mg</u> | <u>60mg</u> | <u>80mg</u> | <u>-</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------|
| 2.2 | 1.9 | 2.5 | 2.0 | 1.3 | 3.4 | 1.4 | |

4. The current months on hand of 2.0 is lower than prior year-end of 2.1 and the target of 2.5 months. The variance versus target is driven by the timing of production.

Headcount

At the end of September, Purdue's headcount was 1,702 versus the mid-year update of 1,752. The variance of 50 includes 36 actively recruited positions - 8 with offers outstanding and 28 being actively recruited.

Message

From: Mahony, Edward [REDACTED]
Sent: 10/23/2013 7:05:17 PM
To: Boer, Peter [REDACTED] Pickett, Cecil [REDACTED]
Lewent, Judy [REDACTED] Costa, Paulo [REDACTED] Snyderman, Ralph [REDACTED]
Sackler, Dr Kathe [REDACTED] Sackler, Jonathan [REDACTED]
Sackler Lefcourt, Ilene [REDACTED] Sackler, Beverly [REDACTED]
Sackler, Dame Theresa [REDACTED] Sackler, David [REDACTED] Sackler, Dr Raymond R [REDACTED]
Sackler, Dr Richard [REDACTED] Sackler, Mortimer D.A. [REDACTED]
CC: Stewart, John H. (US) [REDACTED] Baker, Stuart D. [REDACTED] Roncalli, Anthony [REDACTED]
[REDACTED] Baumgartner, Todd [REDACTED]
[REDACTED] Damas, Raul [REDACTED]
[REDACTED] Gasdia, Russel [REDACTED]
Lundie, David [REDACTED]
[REDACTED] Weinstein, Bert [REDACTED]
BCC: Stewart, John H. (US) [REDACTED]
Subject: Purdue 2014 Budget Proposal
Attachments: Finance - Budget Proposal v3.pptx; JHS Budget Presentation 2013.pptx; Agenda 2013 v9.docx

Purdue 2014 Budget Proposal
Narrative
October 23, 2013

The following is an overview of the proposed Purdue 2014 Budget.

1.0 Net Sales

| | <u>2011 Actual</u> | <u>2012 Actual</u> | <u>2013 Budget</u> | <u>2013 Latest Estimate</u> | <u>2014 Proposed Budget</u> |
|-------|------------------------|------------------------|------------------------|-------------------------------------|-------------------------------------|
| Total | \$2.2B | \$2.2B | \$2.4B | \$2.0B | \$1.5B |

| | | | | | |
|-----------|---------|---------|----------|----------|----------|
| OxyContin | \$2.0B | \$2.0B | \$2.1B | \$1.8B | \$1.3B |
| Butrans | \$55.9M | \$84.0M | \$126.9M | \$110.3M | \$135.5M |

The budget process started with a deep analysis of the factors influencing OxyContin's 2013 sales performance and then building the 2014 based on that analysis. The following are highlights:

- 1.1 OxyContin demand is running below 2012 levels, and also below 2013 Budget. The reasons for the decrease generally relate to:
- Anti-opioid pressures by groups such as PROP,
 - DEA enforcement and control activities directed at wholesalers and drug chains,
 - Continued payer pressure to move demand to low-cost generics
 - Increasingly restrictive opioid prescribing guidelines and regulations,
 - S&P execution and
 - IMS data has been overstated by about 6% for the last 3 years. IMS has since confirmed the overstatement and will be correcting their reporting. This resulted in the 2013 OxyContin net sales budget being over-calculated by \$81M.

The 2014 Budget and business plan addresses each of these:

- Items A to D above will be addressed by the External Affairs group and the R&D Health Outcome group – who will present next week.
- Item E – the S&P investment in OxyContin is proposed to increase from \$50.8M and 2.5% of sales to \$108.6M and 8.3% of sales in the 2014 proposal, and S&P execution is being addressed by the E2E initiative inspired by the recent McKinsey report. The E2E project status will be presented by the project leadership team next week.
- Finally, on Item F – in building the 2014 budget the IMS data has been corrected.

Redacted

1.2 Butrans demand is growing steadily as a result of continued S&P investment and improved managed care coverage. The 2014 Budget Proposal projects that growth to continue, and for the brand to achieve a positive annual P&L in 2014 -- its fourth year on the market. The prospects for continued profitability are bright considering that there have been no paragraph 4 filings and that prospects are good for patent term extension.

1.3 Intermezzo net sales are stable and at an annual run rate of \$10 to \$11M. Current S&P investment is minimal. In 2014, the budget proposal is to run the brand at a breakeven P&L or better.

Redacted

Redacted

2.0 Operating Expenses

| | <u>2011 Actual</u> | <u>2012 Actual</u> | <u>2013 Budget</u> | <u>2013 Latest Estimate</u> | <u>2014 Proposed Budget</u> |
|--------------------------|------------------------|------------------------|------------------------|-------------------------------------|---------------------------------|
| Total Operating Expenses | \$714M | \$868M | \$930M | \$825M | \$719M |

2.1 In view of the projected lower sales, the Proposed Budget includes an operating expense reduction of \$149M or 17% vs. 2012 and \$106M or 13% vs. 2013 Latest Estimate. These decreases impacted all areas of Purdue. The detail of the reductions will be covered next week, and the following are a few highlights.

2.2 G&A spending in the Proposed 2014 Budget is \$135M - \$18.9M or 3% lower than the 2013 Latest Estimate. This Budget Proposal assumes a G&A staff reduction of 49 or 13%, a \$4.1M reduction in grants related spending and other reductions.

Redacted

2.4 R&D spending in the Proposed Budget is \$263M - \$36M or 12% lower than the 2013 Latest Estimate due to lower spending as the HYD and ONU programs.. Additional reductions, now budgeted in the Other US P&L line, were previewed at the October 3 Board meeting and will be discussed next week.

2.5 S&P spending in the Proposed Budget is \$258M - \$17M or 6% lower than the 2013 Latest Estimate. The S&P decrease is lower than the decreases in other areas primarily because management sees significant opportunity to improve sales of OxyContin and Butrans -- especially in view of the E2E initiatives to improve the efficiency of the S&P investment.

2.6 Other -- U.S. income of \$5.6M includes \$13.6M of confidential expense reductions -- including 23 headcount reductions -- offset by a \$10M President's fund.

3.0 Operating Margin after Incentives and Settlements is the pretax profit of all Purdue U.S. operations -- 2014 Proposed Budget is \$554.5M - \$312.6M less than 2013 Latest Estimate due to lower sales offset partially by expenditure reductions.

4.0 Non-tax Distributions in the Proposed 2014 Budget are \$314.1M.

5.0 Other items of note:

5.1 The 2014 Budget assumes that the Medicaid Rebate Line Extension regulation is unfavorably resolved, resulting in a higher OxyContin rebate back to August 2010 and a \$265M additional rebate payment in 2014. A favorable outcome would result in a potential distribution of the \$265M with 50% being tax and 50% non-tax.

5.2 The 2014 Proposed Budget includes \$11.7M funding of Targiniq prelaunch activities. As timing of approval, labeling and other details become clearer, a sales and launch budget will be proposed. For reference, the most recent 10 Year Plan had first 12 months Targiniq nets sales and operating margin/(loss) of \$31.1M and (\$66.3M), respectively.

5.3 The 2014 Proposed Budget includes \$6.9M to fund prelaunch activities for HydroContin.

6.0 Conclusion: We believe that this budget proposal strikes a good balance between aggressive cost management, investing in the promotion of OxyContin and Butrans and investing in the R&D pipeline and related activities.

7.0 Attached are the following:

7.1 Agenda for Budget Meeting

7.2 2013 Review and 2014 Budget Overview

7.3 Finance 2014 Overall Budget Review

Ed Mahony

John Stewart

2014 Budget Proposal

Ed Mahony

1

2014 Budget Proposal - Index

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| 4. Strengths/Opportunities and Challenges | 20 |

2014 Budget Proposal - Net Sales

| Product | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | \$ Variance: 2014 Budget vs 2013 LE |
|--|-------------|-------------|-------------|----------------------|----------------------|-------------------------------------|
| OviContin-10MG | \$ 146.8 | \$ 152.7 | \$ 157.0 | \$ 141.6 | \$ 140.6 | |
| OviContin-10MG | 27.1 | 34.0 | 37.8 | 38.3 | 48.8 | |
| OviContin-20MG | 404.1 | 402.5 | 419.9 | 366.8 | 343.0 | |
| OviContin-30MG | 171.7 | 205.3 | 237.4 | 216.9 | 149.6 | |
| OviContin-40MG | 638.7 | 618.7 | 625.8 | 517.0 | 346.9 | |
| OviContin-80MG | 300.7 | 340.7 | 388.8 | 316.8 | 220.9 | |
| OviContin-80MG | 1,096.8 | 1,023.1 | 1,051.1 | 843.9 | 529.5 | |
| OviContin | \$ 3,781.0 | \$ 3,777.1 | \$ 3,928.5 | \$ 2,461.4 | \$ 1,977.3 | \$ (484.1) (1) |
| Butrans | 73.5 | 112.9 | 160.0 | 144.7 | 188.8 | 44.1 |
| Intermeso | - | 16.6 | 37.6 | 13.9 | - | (13.9) (2) |
| Dilaudid | 24.8 | 23.8 | 17.0 | 14.3 | 13.2 | (1.1) (3) |
| M/S Contin | 13.3 | 13.0 | 11.6 | 11.6 | 12.4 | 0.7 |
| Laxatives | 51.1 | 51.5 | 49.3 | 49.3 | 50.3 | 1.1 |
| Betadine/Betasept | 11.1 | 11.6 | 11.1 | 11.1 | 11.2 | 0.1 |
| Slow Mag | 5.4 | 5.6 | 5.3 | 5.3 | 5.6 | 0.2 |
| Rysoit | 11.2 | (6.9) | - | - | - | - |
| Uniphyl | (0.3) | (0.0) | - | - | - | - |
| All Other | (0.1) | (0.1) | - | - | - | - |
| Total Gross Sales | \$ 2,971.2 | \$ 3,004.9 | \$ 3,228.5 | \$ 2,711.6 | \$ 2,258.8 | \$ (452.8) |
| Fee for Service | \$ (74.5) | \$ (69.3) | \$ (65.3) | \$ (54.3) | \$ (44.4) | \$ 9.9 |
| Sales Discounts & Allowances | (56.2) | (34.0) | (39.2) | (39.4) | (45.3) | (5.9) |
| Patient Savings Card Discounts | (15.6) | (25.1) | (34.5) | (44.8) | (44.1) | 0.7 |
| Rebates on Branded Sales | (545.9) | (517.6) | (566.1) | (535.4) | (570.1) | (34.7) |
| Proposed regulation adj for Medicaid rebates | (68.9) | (60.4) | (65.6) | (55.0) | (38.5) | 26.5 |
| Other | 12.4 | 2.5 | 1.7 | 4.8 | 8.0 | 3.1 |
| Total Rebates & Deductions \$ | \$ (748.7) | \$ (804.0) | \$ (818.1) | \$ (724.1) | \$ (724.1) | \$ (0.0) |
| Rebates and Deductions % | 25.2% | 26.8% | 25.3% | 26.7% | 32.1% | |
| Total Net Sales | \$ 2,222.5 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.5 | \$ 1,534.4 | \$ (453.1) (4) |
| Net Sales Variance: | | | | \$ Variance | % Variance | |
| | | | | \$ (213.5) | -8.7% | |
| | | | | \$ (422.9) | -17.5% | |
| | | | | \$ (453.1) | -22.8% | |

See next slide for footnote explanations

3

P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\Sales\[Net Sales Slide for Board.xlsx]Net Sales

2014 Budget Proposal – Gross to Net Sales Highlights

1. OxyContin gross sales reduction of \$484 mm or 19.7% assumes:

| | |
|---|----------------|
| | |
| ▪ February 2014 price increase of 7% | \$180 |
| ▪ E2E forecasted upside | 71 |
| ▪ Lower scripts and continued shift to lower strengths and lower tablets per script | (455) |
| ▪ Settlement agreements with Actavis, Ranbaxy, Par and a contingency for other possible settlements | (261) |
| ▪ Trade inventory reduction due to lower demand and AG's in Q4 2014 | (19) |
| Total | \$(484) |

2. Butrans gross sales increase of \$44.1 mm or 30.5% is largely driven by the 9.5% January and 6% August price increases (\$22 mm) and volume (\$25 mm).
3. Intermezzo is assumed to be returned to Transcept during 2014 and to be break even until then.
4. Rebates and deductions increase from 26.7% of sales in 2013 to 32.1% of sales in 2014 largely due to higher rebates:
- Higher rebate rates on OxyContin commercial and Medicare Part D due to a combination of higher rates paid to maintain business and due to price protection agreements.
 - Higher Medicare Part D coverage gap rebates.
 - Higher Medicaid rebates as a result of the Best Price impact of the OxyContin authorized generic settlements (\$22.6 mm).
 - Butrans commercial and Medicare Part D formulary wins.

2014 Budget Proposal - P&L

| (\$000's) | 2013 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | 2014 Budget vs. 2013 Latest Estimate |
|---|--------------|--------------|--------------|----------------------|----------------------|--------------------------------------|
| Gross Branded Product Sales | \$2,973,163 | \$3,004,908 | \$3,229,473 | \$2,713,569 | \$2,256,777 | (\$482,812) |
| Fee for Service | (74,507) | (89,515) | (85,355) | (54,509) | (44,444) | 9,955 |
| Discounts and Allowances | (59,222) | (124,052) | (85,195) | (59,400) | (45,000) | (14,400) |
| Patient Savings Card Discounts | (15,572) | (25,104) | (24,297) | (44,345) | (44,104) | (241) |
| Rebates on Branded Sales | (548,291) | (517,808) | (554,895) | (555,357) | (570,038) | (14,681) |
| Proposed regulation adj. for Medicaid rebates | (55,554) | (60,555) | (76,801) | (55,015) | (25,477) | (29,538) |
| Other | 12,350 | 2,455 | 3,895 | 4,897 | 5,027 | 230 |
| Rebates as % of Gross Branded Product Sales | 20.7% | 19.2% | 19.6% | 23.3% | 26.2% | 4.7% |
| NET REVENUE | 2,222,493 | 2,200,922 | 2,410,369 | 1,987,472 | 1,536,354 | (\$451,118) |
| Cost of Goods Sold | (359,370) | (145,475) | (152,232) | (141,275) | (122,541) | 18,937 |
| COGS as % of Gross Branded Product Sales | 5.9% | 4.9% | 5.0% | 5.2% | 5.2% | 0.2% |
| Royalty Expense | (115,272) | (130,285) | (131,872) | (105,725) | (89,712) | (16,013) |
| Shipping and Warehousing | (11,551) | (11,554) | (10,807) | (10,155) | (9,527) | 628 |
| GROSS PROFIT | 1,928,322 | 1,920,968 | 2,148,796 | 1,729,754 | 1,312,494 | (\$417,260) |
| G&A (incl. Legal Department but excl. Legal Fees) | (144,235) | (151,655) | (157,782) | (125,910) | (124,954) | (9) |
| G&A as % of Net Revenues | 8.3% | 8.3% | 8.3% | 7.7% | 8.2% | 0.5% |
| Legal Fees | (59,913) | (49,149) | (45,375) | (57,075) | (54,535) | (2,540) |
| R&D | (259,357) | (512,515) | (277,347) | (299,247) | (285,411) | (13,836) |
| R&D Other - Milestones and Alliances | (604) | (2,254) | (5,692) | (10,952) | (5,151) | 5,771 |
| R&D as % of Net Revenues | 12.3% | 23.3% | 11.5% | 15.0% | 17.9% | 2.9% |
| Sales and Promotion | (228,517) | (205,110) | (209,313) | (275,159) | (258,100) | (17,059) |
| S&P as % of Net Revenues | 10.3% | 9.3% | 8.7% | 13.9% | 16.8% | 3.0% |
| Health Care Reform Fee | (25,342) | (51,251) | (33,300) | (27,240) | (25,793) | (1,551) |
| Other - US | (19,255) | (17,643) | (18,455) | (15,802) | (5,823) | (9,979) |
| OPERATING EXPENSES | (713,622) | (867,977) | (929,697) | (829,525) | (719,344) | 109,681 |
| Operating Expenses as % of Net Revenues | 32.1% | 39.4% | 38.6% | 41.7% | 46.5% | 4.9% |
| G&A as % of Net Revenues | 6.2% | 7.3% | 6.5% | 6.3% | 8.3% | 2.0% |
| OPERATING MARGIN BEFORE INCENTIVES & SETTLEMENTS | 1,214,700 | 1,052,991 | 1,419,104 | 904,309 | 593,150 | (\$315,859) |
| Operating margin as % of Net Revenues | 54.7% | 47.8% | 58.4% | 45.5% | 38.7% | 6.8% |
| Incentive Bonus | (35,054) | (34,255) | (42,813) | (55,500) | (39,500) | (16,000) |
| Insurance Income | \$0,559 | \$,520 | \$,555 | \$91 | \$50 | (\$441) |
| Settlement Expense | (6,773) | (14,247) | (15,515) | (15,815) | (15,815) | (\$1,292) |
| TOTAL INCENTIVES AND SETTLEMENTS | (39,268) | (47,982) | (57,773) | (70,224) | (59,265) | (10,959) |
| OPERATING MARGIN AFTER INCENTIVES AND SETTLEMENTS | 1,175,432 | 1,005,009 | 1,361,331 | 834,085 | 533,885 | (\$300,246) |
| Operating margin as % of Net Revenues | 52.9% | 45.7% | 56.5% | 41.9% | 34.8% | 6.1% |
| Other Items | | | | | | |
| Royalty Income - ex US | 91,587 | 55,951 | 40,897 | 40,692 | 59,051 | (18,359) |
| Ex US Expense | (129,505) | (55,055) | (2,200,000) | (15,743) | (399,275) | (1,000,000) |
| Other ex-US expenses | (19,824) | (15,025) | (12,401) | (12,115) | (10,025) | 2,090 |
| One Time Charges/Other Items | (2,452) | (2,145) | (12,000) | (12,510) | (4,154) | 7,356 |
| Gain on Infinity stock | | | | 234,553 | | (234,553) |
| Interest Income / (Expense), net | 555 | 1,554 | 1,712 | 1,712 | 200 | 1,512 |
| TOTAL OTHER ITEMS | (59,889) | 3,069 | (100,000) | (10,463) | (174,233) | (154,230) |
| PROFIT/LOSS BEFORE TAX | \$ 1,115,543 | \$ 1,007,991 | \$ 1,261,331 | \$ 823,622 | \$ 359,652 | (\$464,270) |

See next slide for footnote explanations

2014 Budget Proposal – P&L Highlights

1. Net sales are lower than budget by \$423 mm due to lower volume of OxyContin (\$376 mm), Intermezzo (\$32 mm), and Butrans (\$17 mm) sales.
 - a. Discounts and Allowances are \$49 mm favorable to 2013 budget due to lower than expected returns which resulted in reducing prior year accruals by \$17 mm.
 - b. Savings Card Discounts are \$10 mm over budget due to expanding use to commercially insured over 65's and increased usage.
 - c. Rebates are over budget by 2.2% of gross sales due to new contracts.
2.

Redacted
3. R&D spending is \$78 mm lower than budget largely due to lower clinical/non-clinical spend for BUP higher strengths, ONU and VND programs.
4. S&P spending is \$34.7 million lower than budget due to reduced Intermezzo promotional and contract sales force spend of \$16.3 mm, sale bonus lower than target of \$3.2 mm, reduced people costs due to higher vacancies in sales force of \$2.6 million and all other of \$ 12.6 mm.
5. Incentive bonus is projected to payout at the same rate as 2012.
6. Ex US expenses are higher than budget due to higher funding requirements for Latin America and Asia Pacific.

2014 Budget Proposal – P&L Highlights

7. Net Sales are budgeted to decrease \$453 mm or 23% vs. 2013. Changes by product include:
- OxyContin -26.5%
 - Butrans +22.8%
- a. Discounts and Allowances in 2014 are expected to cost \$5.9 mm more than 2013, on lower sales, due to prior year \$17 mm accrual reversal not repeating.
 - b. Patient Savings Card Discounts in 2014 are expected to cost \$44 mm – same as 2013 – on lower sales. This is due to continuing trend toward more and costlier redemptions. The 2014 Budget anticipates a \$3.0 mm savings by selectively reducing eligibility and/or reducing the patient savings amount.
 - c. The Proposed Medicaid Rebate Regulation expense is lower in 2014 as a result (1) lower sales and (2) the fact that in Q3 2014 Purdue will pay a 100% Medicaid rebate (due to the shipment of the authorized generic product setting best price), so there is no incremental proposed rule rebate in this quarter.
 - d. Other includes \$3.5 mm of authorized generic transfer price margin in 2014 related to settlement agreements.
8. Royalty expense is budgeted to be lower by \$16 mm or 15% due to lower sales.
9. G&A, Legal, R&D and S&P are budgeted to be lower due to cost reductions covered later in the presentation.
10. Other – US includes \$15.6 mm of specific cost reductions offset by \$10 mm President's Reserve.
11. Incentive bonus assumes company performance is 100% in 2014.
12. Ex US expenses are budgeted to increase due to higher fundings of Europe and Japan.

2014 Budget & Targiniq:

- In Q3 2013 Purdue filed an NDA for Targiniq with a pain indication. Timing of approval, final labeling, and more are uncertain so the **sales and launch costs for Targiniq are not included in the budget**. A Targiniq budget will be proposed at a future Board meeting.

2014 Budget Proposal - P&L ratios

| | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | |
|---|---------------|---------------|---------------|----------------------|----------------------|---|
| GROSS BRANDED PRODUCT SALES | 100% | 100% | 100% | 100% | 100% | |
| Fee for Service | -2.5% | -2.3% | -2.0% | -2.0% | -2.0% | |
| Discounts and Allowances | -1.9% | -4.5% | -3.1% | -1.5% | -2.0% | (1) |
| Patient Savings Card Discount | -0.6% | -0.8% | -1.1% | -1.7% | -2.0% | |
| Rebates on Branded Sales | -18.4% | -17.2% | -17.2% | -19.7% | -25.2% | (2) |
| Proposed Regulation Adjustment for Medicaid Rebates | -2.3% | -2.0% | -2.4% | -2.0% | -1.3% | (2) |
| Other | 0.4% | 0.1% | 0.1% | 0.2% | 0.4% | |
| NET BRANDED REVENUES | 74.8% | 73.2% | 74.1% | 73.3% | 67.9% | Income statement line items as a percent of gross sales |
| Cost of Goods Sold | -5.6% | -4.9% | -5.0% | -5.2% | -5.9% | |
| Royalty Expense | -3.9% | -4.0% | -4.1% | -3.9% | -4.0% | |
| Shipping and Warehousing | -0.4% | -0.4% | -0.3% | -0.4% | -0.4% | |
| TOTAL COST OF GOODS SOLD | -9.9% | -9.3% | -9.4% | -9.5% | -9.8% | |
| GROSS PROFIT | 64.9% | 63.9% | 65.2% | 63.8% | 58.1% | |
| General and Administrative (incl Legal Dept, excl Legal Fees) | -6.6% | -6.9% | -6.5% | -7.7% | -8.8% | |
| Legal Fees | -2.0% | -2.2% | -1.1% | -2.5% | -2.3% | |
| Research and Development | -12.1% | -14.2% | -15.7% | -15.1% | -17.2% | |
| Research and Development Other - Milestones and Alliances | 0.0% | -0.1% | -0.3% | -0.8% | -0.3% | |
| Sales and Promotion | -10.3% | -13.8% | -12.9% | -13.8% | -16.8% | |
| Health Care Reform Fee | -1.2% | -1.4% | -1.3% | -1.4% | -1.9% | |
| Other US | -0.1% | -0.8% | -0.3% | -2.1% | 0.4% | |
| OPERATING EXPENSES | -33.0% | -39.4% | -28.6% | -41.5% | -48.9% | (3) |
| OPERATING MARGIN BEFORE INCENTIVES AND SETTLEMENTS | 33.8% | 24.5% | 36.8% | 22.3% | 9.2% | |
| Incentive Bonus | -1.5% | -1.6% | -1.8% | -1.8% | -2.0% | |
| Insurance Income | 1.4% | 0.2% | 0.1% | 0.0% | 0.1% | |
| Settlement Expense | -0.3% | -0.6% | 0.0% | -0.1% | 0.0% | |
| TOTAL INCENTIVES AND SETTLEMENTS | -0.4% | -2.0% | -1.6% | -1.9% | -2.0% | Income statement line items as a percent of net sales |
| OPERATING MARGIN AFTER INCENTIVES AND SETTLEMENTS | 33.4% | 22.5% | 38.4% | 24.2% | 11.2% | |
| Royalty Income - ex-US | 4.1% | 3.8% | 1.7% | 2.0% | 2.5% | |
| Ex-US Expenses | -6.6% | -3.0% | -5.3% | -8.1% | -13.0% | (4) |
| Other ex-US expenses | -0.1% | -0.7% | -0.3% | -0.6% | -0.7% | |
| One Time Charges / Other Items | -0.1% | -0.1% | -0.1% | -0.6% | -0.3% | |
| Gain on Infinity stock | 0.0% | 0.0% | 0.0% | 0.3% | 0.0% | |
| Interest Income (Expense), net | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | |
| TOTAL OTHER ITEMS | -1.9% | 0.1% | -4.2% | -1.0% | -11.4% | |
| PROFIT BEFORE TAX | 31.5% | 22.6% | 34.2% | 23.2% | -0.2% | |

See next page for footnote explanations

2014 Budget Proposal - P&L Ratios Highlights

1. Higher due to a 2013 return accrual reversal not repeating in 2014 - (0.6%).
2. Combined rebates higher in 2014 due to increase in Medicare Part D Rates (Primarily Optum Medicare Part D from 23.5% to 50.0%), higher Medicaid rebates (due to the Best Price impact of the OxyContin authorized generic settlements) and higher Medicare Part D Coverage Gap Discount expense.
3. Despite reducing operating expenses by a total of \$105.9 mm in 2014 versus 2013, due to lower sales, operating expenses have increased from 41.5% of net sales in 2013 to 46.9% of net sales in 2014.
4. Ex-US expenses higher in 2014 due to funding of Europe and Japan.

2014 Budget Proposal - Cash Flow

| (\$ MMs) | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal |
|---|------------------|-----------------|-----------------|----------------------------|----------------------------|
| Operating activities | | | | | |
| Net income | \$ 1,144.5 | \$ 1,008.3 | \$ 1,030.2 | \$ 842.6 | \$ 375.6 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 28.3 | 29.1 | 32.1 | 31.8 | 33.2 |
| Impairment of intangible asset | 4.0 | 20.0 | 0.0 | 0.0 | 0.0 |
| Deferred income taxes | (4.3) | (2.6) | 0.0 | 0.3 | 0.0 |
| Loss on unconsolidated, associated companies | 112.4 | 101.0 | 128.6 | 158.8 | 187.9 (1) |
| Changes to working capital | 162.0 | 88.6 | (212.3) | 13.5 | (301.2) (2) |
| Long-term assets and liabilities | 29.8 | (2.0) | 27.4 | 116.5 | 9.0 |
| Total cash provided by operating activities | 1,475.8 | 1,242.4 | 1,066.1 | 1,163.5 | 304.5 |
| Investing activities | | | | | |
| Capital expenditures | (26.8) | (30.5) | (35.0) | (32.6) | (61.0) (3) |
| Purchase of product marketing rights and other intangibles | (10.0) | (30.0) | 0.0 | 0.0 | (8.1) |
| Restricted cash, net | 12.9 | 17.3 | 22.5 | 3.1 | 16.9 |
| Investments in associated companies, net | (100.3) | (89.1) | (134.6) | (178.9) | (188.1) (4) |
| Acquisition of Infinity common stock | 0.0 | (27.5) | 0.0 | 0.0 | 0.0 |
| Funding of Infinity LOC | (50.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Total cash used in investing activities | (174.2) | (159.7) | (147.1) | (208.3) | (240.2) |
| Financing activities | | | | | |
| Payments (to) from associates, net | (3.8) | (2.7) | 6.8 | 17.5 | 0.0 |
| Distributions to partners for required tax payments | (553.4) | (459.2) | (444.0) | (400.6) | (104.5) (5) |
| Distributions to partners non-tax | (575.2) | (471.6) | (538.1) | (540.9) | (314.1) (6) |
| Total cash used in financing activities | (1,132.2) | (933.6) | (975.3) | (924.0) | (418.6) |
| Increase in cash and cash equivalents | 169.4 | 149.1 | (116.3) | 31.1 | (354.3) |
| Cash and cash equivalents: | | | | | |
| Unrestricted cash at the beginning of the period | 437.1 | 606.5 | 716.3 | 755.6 | 786.7 |
| Unrestricted cash at the end of the period | \$ 606.5 | \$ 755.6 | \$ 600.0 | \$ 786.7 | \$ 432.4 (7) |

See next slide for explanations of footnotes.

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2014 Budget Proposal - Cash Flow Highlights

1. Represents P&L impact of investments in Europe, Japan, Latin America and Asia Pacific.
2. Change in working capital primarily due to reduction in rebate accruals (due to generic settlements reducing Q4 2014 brand demand and rebates thereon) and rebates for CMS proposed rules of \$224 mm which are assumed in this budget to be paid in Q2-2014.
3. Total 2014 capital expenditures of \$61 mm assumes \$38 mm related to the new manufacturing facility.
4. Funding of Europe (\$83 mm), Japan (\$29 mm), Latin America (\$38 mm) and Asia Pacific (\$38 mm).
5. Tax distributions assume a statutory tax rate (federal plus state) of 49.3% in 2014. Tax distributions are only 27.8% of 2014 pre-tax book income due to the tax benefit from payment of the CMS line extension rebates (\$224 mm), tax write-off of Transcept milestones expensed for book income in prior years (\$40 mm) offset by the non-deductible Health Care Reform Fee (\$28 mm), foreign book losses in excess of tax deductible losses (\$52 mm) and other book/tax differences (\$14 mm).
6. Assumes that Abbott equity covenant will be reduced to \$350 mm.
7. Purdue maintains cash of ~ \$400 mm (three months of net sales in 2014.)

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2014 Budget Proposal - Balance Sheet

| (\$ MM's) | 2011 | 2012 | 2013 | 2013 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Actual | Actual | Budget | Latest Estimate | Budget Proposal |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 606.5 | \$ 755.6 | \$ 600.0 | \$ 736.7 (1) | \$ 432.4 (1) |
| Accounts receivable | 218.8 | 187.1 | 150.6 | 104.8 (3) | 92.3 (3) |
| Due from associated companies | 27.8 | 31.8 | 13.7 | 16.2 | 16.2 |
| Other receivables | 10.1 | 3.0 | 8.4 | 10.2 | 12.0 |
| Inventories | 44.2 | 50.6 | 42.9 | 49.2 | 45.3 |
| Prepaid expenses and other assets | 32.7 | 22.1 | 28.7 | 19.5 (4) | 19.5 (4) |
| Restricted cash - current | 16.0 | 23.9 | 0.0 | 16.9 (2) | 0.0 (2) |
| TOTAL CURRENT ASSETS | 956.1 | 1,074.2 | 844.9 | 1,003.5 | 618.0 |
| Property and equipment, net | 143.2 | 149.5 | 163.4 | 157.2 | 191.5 (5) |
| Investments in associated companies | 19.5 | 7.9 | 14.9 | 27.9 (6) | 28.1 (6) |
| Due from associated companies | 3.3 | 3.0 | 3.3 | 5.0 | 5.0 |
| Restricted cash - long term | 42.6 | 17.2 | 21.7 | 21.1 | 21.1 |
| Goodwill | 23.4 | 23.4 | 23.4 | 23.4 | 23.4 |
| Product rights, trademarks and other intangibles, net .. | 168.2 | 173.2 | 166.0 | 166.4 | 167.6 |
| Other assets | 73.3 | 22.5 | 21.2 | 21.2 | 19.7 |
| Investment in infinity stock | 0.0 | 189.5 | 158.8 | 0.0 | 0.0 (7) |
| Deferred income taxes | 17.2 | 19.5 | 17.4 | 19.5 | 19.5 |
| TOTAL ASSETS | \$ 1,446.8 | \$ 1,680.3 | \$ 1,414.3 | \$ 1,443.1 | \$ 1,092.1 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 87.4 | \$ 71.2 | \$ 94.1 | \$ 78.0 | \$ 69.5 |
| Accrued expenses and taxes payable | 632.8 | 694.7 | 360.6 | 622.2 (2) | 315.2 (1) |
| Due to associated companies | 11.3 | 12.4 | 13.0 | 14.3 | 14.3 |
| TOTAL CURRENT LIABILITIES | 731.5 | 778.3 | 467.7 | 714.5 | 399.1 |
| Other long-term liabilities | 223.6 | 230.2 | 241.4 | 159.6 (8) | 193.1 |
| TOTAL LIABILITIES | 955.1 | 1,008.5 | 709.1 | 874.1 | 592.1 |
| EQUITY | | | | | |
| Capital stock - common | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional paid in capital | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Subscription receivable | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| Accumulated other comprehensive income | (145.1) | (139.9) | (128.4) | (76.2) (8) | (72.2) |
| Unrealized gain / loss on infinity stock | 0.0 | 97.5 | 60.2 | 0.0 (7) | 0.0 (7) |
| Retained earnings and partners' capital | 835.8 | 713.2 | 772.4 | 614.2 | 571.2 |
| TOTAL EQUITY | 491.6 | 671.7 | 705.2 | 539.0 | 500.0 (9) |
| TOTAL LIABILITIES AND EQUITY | \$ 1,446.8 | \$ 1,680.3 | \$ 1,414.3 | \$ 1,443.1 | \$ 1,092.1 |

2014 Budget Proposal – Balance Sheet Highlights

(1) CMS Medicaid rebate rules for line extensions are now expected to be finalized and paid in 2014 (vs. 2013 as assumed in 2013 Budget) with additional rebates paid of \$224 mm million in Q2-2014. This results in higher accruals and cash in the 2013 Latest Estimate and lower accruals and cash in 2014. Other decreases in accruals in 2014 are due to lower Medicaid and Tricare rebates due to timing of payments (\$56 mm) and lower HMO rebates as a result of Authorized Generics settlements (\$15 mm).

(2) Restricted cash represents the following:

| | | 2011 | 2012 | 2013 | 2013 | 2014 | |
|--------------------------------|--|----------------|----------------|----------------|-----------------|-----------------|-------|
| | (\$ MM's) | Actual | Actual | Budget | Latest Estimate | Budget Proposal | Notes |
| Current | Qualified Settlement Trust (QST) (Annuity) | \$ 43.0 | \$ 23.9 | \$ 9.9 | \$ 16.9 | \$ 0.0 | (1) |
| Long-term | Letters of credit - fronted product liability insurance (US) | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | |
| | Letters of credit - fronted product liability and clinical trial insurance (ex-US) | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | |
| | Letters of credit - security for incurred but not yet paid insurance claims | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | |
| | Letters of credit - PP Tech / NUDEP | 0.0 | 0.0 | 4.5 | 3.5 | 3.5 | (2) |
| | Letters of credit - others | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| | Collateral | 0.0 | 1.7 | 1.7 | 2.1 | 2.1 | |
| | Long-term : Sub-total | 15.5 | 17.2 | 21.7 | 21.1 | 21.1 | |
| TOTAL - RESTRICTED CASH | | \$ 58.5 | \$ 41.1 | \$ 31.6 | \$ 38.0 | \$ 21.1 | |

Notes

- (1) 2013 Budget assumed all remaining settlements paid out by June 2013 with balance of QST returned to Purdue in 2013.
 2013 Latest Estimate: As of August 2013, all known settlements have been paid from the QST leaving the remaining balance of \$23.9 mm to be returned to Purdue. The Trustee has agreed to distribute the remaining funds to Purdue. The first \$7 mm interim payment was received in September 2013. A second interim payment in the amount of \$9 mm will be due after a ruling from the Probate Court (expected sometime in Q2 2014). Receipt of the balance is expected in 2014.
- (2) Based on current estimate for environmental clean-up liability at Lodi.

2014 Budget Proposal - Balance Sheet Highlights

- (3) Decrease is due to lower sales.
- (4) Decrease from 2013 budget is due to lower clinical upfront payments.
- (5) The 2014 budget assumes \$61 mm of capital expenditures, of which \$38 mm relates to the new facility.
- (6) Increase is primarily due to \$9 mm of higher 2013 funding than in original budget.
- (7) All shares of Infinity stock were distributed in 2013.
- (8) Accruals for pension and other post retirement obligations are recorded at net present value. An increase in the discount rates from 3.95% at 12/31/2012 to 4.8% in the 2013 Latest Estimate (3.95% in 2013 Budget) results in a reduction in these long term liabilities, with offsetting income recorded in the unrealized gain line of stockholders equity. The pension accruals are assumed at \$119 mm for 2013 Budget, \$75 mm for 2013 Latest Estimate, and \$74 mm for 2014 Budget Proposal.
- (9) Bank Group and Internal Reporting Group equity are projected to be \$400 mm and \$500 mm at 12/31/2014, respectively. The difference represents ex- US investments that are held outside of the bank group but within internal reporting.

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2014 Budget Proposal Brand Business Unit P&L

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2014 Budget Proposal - OxyContin P&L

| (\$MM's) | 2011 | % | 2012 | % | 2013 | % | 2013 Latest | % | 2014 Budget | % | |
|--|------------|-------|------------|-------|------------|-------|-------------|-------|-------------|-------|--------|
| | Actual | Sales | Actual | Sales | Budget | Sales | Estimate | Sales | Proposal | Sales | Growth |
| Gross Sales ⁽¹⁾ | \$ 2,781.0 | | \$ 2,777.1 | | \$ 2,916.5 | | \$ 2,461.4 | | \$ 1,977.3 | | |
| Fee for Service | (71.0) | 2.6% | (65.6) | 2.4% | (59.9) | 2.1% | (50.4) | 2.0% | (40.0) | 2.0% | |
| Sales Discounts & Allowances ⁽²⁾ | (58.9) | 2.1% | (116.4) | 4.2% | (72.7) | 2.5% | (33.0) | 1.3% | (39.7) | 2.0% | |
| Savings Cards Discounts ⁽³⁾ | (10.9) | 0.4% | (18.3) | 0.7% | (22.8) | 0.8% | (34.6) | 1.4% | (34.3) | 1.7% | |
| Rebates ⁽⁴⁾ | (540.4) | 19.4% | (509.6) | 18.4% | (547.9) | 18.8% | (516.5) | 21.0% | (532.7) | 26.9% | |
| Proposed regulation adj for Medicaid Rebates | (68.9) | 2.5% | (60.4) | 2.2% | (65.6) | 2.2% | (55.0) | 2.2% | (28.5) | 1.4% | |
| Net Sales | 2,030.8 | 73.0% | 2,006.7 | 72.3% | 2,147.6 | 73.6% | 1,771.9 | 72.0% | 1,302.1 | 65.9% | -27% |
| COGS/Shipping & Warehousing ⁽⁵⁾ | (81.7) | 4.0% | (74.9) | 3.7% | (77.4) | 3.6% | (65.0) | 3.7% | (49.5) | 3.8% | |
| Royalty Expense/Amort of Milestone Pymts. | (110.8) | 5.5% | (109.3) | 5.4% | (112.6) | 5.2% | (93.6) | 5.3% | (78.5) | 6.0% | |
| Gross Profit | 1,838.4 | | 1,822.9 | | 1,957.6 | | 1,613.3 | | 1,174.1 | | -32% |
| Product Spending | (50.8) | 2.5% | (62.0) | 3.1% | (100.4) | 4.7% | (88.9) | 5.1% | (108.6) | 8.3% | |
| Marketing Expense | (15.1) | | (14.4) | | (23.6) | | (23.3) | | (25.5) | | |
| Sales Force Expense ⁽⁷⁾ | (35.7) | | (47.7) | | (76.8) | | (66.6) | | (83.1) | | |
| Other Expenses | | | | | | | | | | | |
| G & A Allocation at 50% | (73.1) | | (77.1) | | (80.2) | | (77.0) | | (67.5) | | |
| Legal Fees ⁽⁸⁾ | (21.0) | | (30.7) | | (22.8) | | (34.8) | | (19.8) | | |
| R&D Market Support ⁽⁹⁾ | (86.3) | | (49.4) | | (96.9) | | (50.2) | | (43.9) | | |
| Insurance Income/Settlement Expense | 30.0 | | 4.3 | | 0.8 | | (1.8) | | 0.9 | | |
| Health Care Reform Fee | (23.3) | | (30.0) | | (20.1) | | (25.8) | | (26.7) | | |
| Product Contribution | \$ 1,613.9 | 79.5% | \$ 1,577.9 | 78.6% | \$ 1,667.9 | 77.7% | \$ 1,333.9 | 75.3% | \$ 908.5 | 69.8% | -32% |

Notes:

(1) 2014 Budget Proposal includes price increase of 7.0% on February 1, 2014 and impact of generic settlement agreements (\$261 mm).

(2) Change in % of sales by year is due to updated estimates of returns.

(3) 2013 Latest Estimate includes a one-time \$3.6 mm accrual relating to a change in methodology for estimating future redemptions. The increase in 2013 expense over 2012 is also due to increasing the patient limit from \$75 to \$90, opening up the program to age over 65 and higher redemption rates.

(4) The increase in the blended rebate rate from 21.0% in 2013 to 26.9% in 2014 is primarily due to (a) increase in Medicare Part D rates of 2.7% largely due to the rebaterate on Optum increasing from 23.5% in 2013 to 50% in 2014, (b) the increase in Medicaid rates as a result of the authorized generic transfer price setting a low best price for one quarter (1.6%), (c) higher commercial rebate rates largely driven by Medco/ESI (1.1%) and (d) higher coverage gap expense (1.1%).

(5) The increase in blended rebate from 18.5% in the 2013 Budget to 21% in the Latest Estimate is largely due to a change in sales mix between channels (1.7%) and increase in Medicare Part D coverage gap expense (0.8%).

(6) COGS reflects unit standard cost, inventory adjustments and other (eg. annual stability).

(7) 2014 sales force allocation assumes 67% OxyContin/33% Butrans.

(8) Legal fees include patent trials and Grunenthal Low ABUK in 2013, with costs expected to decrease in 2014.

(9) R&D 2014 Budget comprises pediatric program (\$9.0 mm), PD UFA fees (\$1.9 mm), allocated people costs across all of R&D (\$5.8 mm), adverse events and product complaints processing (\$1.9 mm), Classwide REMS allocation (\$4.3 mm), Health Policy allocation (\$11.3 mm) and all other (\$5.7 mm).

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014
Budget\BBU\OxyContin\[BBU Oxy 10_17_13.xlsm]BOARD SLIDE (Abbr. Footnotes)

2014 Budget Proposal – OxyContin P&L

(\$MMs)

| | 2009 ACT | 2010 ACT | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal |
|--|---------------|----------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|
| Grunenthal: | | | | | | | |
| Net Sales | \$ - | \$ 604.5 | \$ 2,153.4 | \$ 2,047.1 | \$ 2,212.1 | \$ 1,578.6 | \$ 1,275.5 |
| Royalty Calculated Before Cap ⁽¹⁾ : | - | 24.2 | 73.1 | 70.9 | 70.2 | 57.4 | 48.3 |
| Royalty Due⁽¹⁾: | \$ 6.8 | \$ 27.4 | \$ 69.8 | \$ 64.2 | \$ 64.1 | \$ 57.4 | \$ 48.3 |
| McGinity: | | | | | | | |
| Net Sales | \$ - | \$ 1,011.2 | \$ 2,021.8 | \$ 2,048.8 | \$ 2,216.4 | \$ 1,604.6 | \$ 1,302.5 |
| Royalty Due⁽²⁾ | \$ - | \$ 22.3 | \$ 40.4 | \$ 42.8 | \$ 44.3 | \$ 32.1 | \$ 26.1 |
| Total Royalty Expense⁽³⁾ | \$ 6.8 | \$ 49.6 | \$ 110.2 | \$ 107.1 | \$ 108.4 | \$ 89.5 | \$ 74.3 |
| Milestone Amortization Expense ⁽⁴⁾ | \$ - | \$ 0.2 | \$ 0.6 | \$ 2.3 | \$ 4.2 | \$ 4.2 | \$ 4.2 |
| Total Royalty & Milestone Expense | \$ 6.8 | \$ 49.8 | \$ 110.8 | \$ 109.4 | \$ 112.6 | \$ 93.6 | \$ 78.5 |

(1) 2009 royalty represents pre-launch contractual minimum. Tiered royalty at 4.0% for the first \$1 billion annual net sales, 3.0% for the next billion annual net sales, and 2.0% for all remaining net sales over \$2 billion. Post-launch royalty due considers contractual minimum and maximum (EUR 20 mm and EUR 50 mm, respectively). In 2010 actual royalty paid at the minimum of EUR 20 mm was higher than the calculated royalty. In 2011, 2012 and 2013 budget royalties are reflected as being paid at the cap of EUR 50 mm which is lower than the calculated royalty.

(2) McGinity royalty equals 2.5% of Net Sales prior to commencement of Grunenthal royalty payments (Sept. 2010) and 2% of Net Sales thereafter.

(3) The 2013 Latest Estimate and 2014 Budget Proposal assume that the proposed Medicaid rebate line extension rule is finalized Q1 2014. This allows us to take the cumulative impact of the proposed rule rebates through 12/31/13 into our 2013 royalty expense calculation and the 2014 impact into our 2014 calculation. This results in our royalty expense decreasing by \$11.2 mm in 2013 and \$1.4 mm in 2014.

(4) Milestones incurred at or subsequent to FDA approval are amortized through 2017 (expected useful life).

2014 Budget Proposal - Butrans P&L

(\$MM's)

| | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|---|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|--------------------------|------------|--------|
| Gross Sales (10) | \$ - | | \$ 73.5 | | \$ 112.9 | | \$ 160.0 | | \$ 144.7 | | \$ 188.8 ⁽¹⁰⁾ | | |
| Fee for Service ⁽¹⁾ | - | | (1.8) | 2.5% | (2.7) | 2.4% | (3.4) | 2.1% | (3.0) | 2.1% | (3.8) | 2.0% | |
| Sales Discounts & Allowances ⁽²⁾ | - | | (8.3) | 11.2% | (13.7) | 12.2% | (16.8) | 10.5% | (5.3) | 3.7% | (3.9) | 2.1% | |
| Savings Cards Discounts | - | | (4.4) | 6.0% | (6.2) | 5.5% | (8.6) | 5.4% | (8.9) | 6.1% | (9.8) | 5.2% | |
| Rebates ^{(3), (4)} | - | | (3.1) | 4.2% | (6.1) | 5.4% | (14.3) | 9.0% | (17.2) | 11.9% | (35.7) | 18.9% | |
| Net Sales | - | | 55.9 | 76.1% | 84.1 | 74.5% | 126.9 | 79.3% | 110.3 | 76.2% | 135.5 | 71.8% | 23% |
| COGS ⁽⁵⁾ | (0.9) | N/A | (6.0) | 8.2% | (7.9) | 7.0% | (7.3) | 5.8% | (4.8) | 4.3% | (7.7) | 5.7% | |
| Shipping & Warehousing | - | | (0.8) | 1.5% | (0.6) | 0.7% | (0.4) | 0.3% | (0.4) | 0.3% | (0.2) | 0.2% | |
| Royalty Expense/Amort. of Milestone Pymts. ⁽⁶⁾ | - | | (0.4) | 0.6% | (4.5) | 5.4% | (7.3) | 5.8% | (6.1) | 5.6% | (7.5) | 5.5% | |
| Gross Profit | (0.9) | | 45.7 | | 71.1 | | 111.9 | | 99.0 | | 120.0 | | |
| Product Spending | (6.7) | N/A | (120.5) | 215.5% | (105.3) | 125.9% | (100.5) | 79.2% | (86.7) | 89.5% | (88.1) | 65.0% | 11% |
| Marketing Expense | (6.7) | | (28.1) | | (20.4) | | (23.8) | | (21.9) | | (23.7) | | |
| Sales Force Expense ⁽⁷⁾ | - | | (92.4) | | (85.5) | | (76.7) | | (76.8) | | (64.4) | | |
| Other Expenses | - | | (3.4) | | (5.1) | | (7.6) | | (6.6) | | (8.1) | | |
| G & A Allocation at 6% of net sales | - | | (3.4) | | (5.1) | | (7.6) | | (6.6) | | (8.1) | | |
| Legal Fees | (0.2) | | (0.7) | | (0.9) | | (2.4) | | (1.0) | | (1.0) | | |
| R&D Market Support ⁽⁸⁾ | (8.9) | | (22.2) | | (17.1) | | (24.7) | | (17.9) | | (15.6) | | |
| Health Care Reform Fee ⁽⁹⁾ | - | | - | | (1.2) | | (1.7) | | (1.1) | | (1.6) | | |
| Product Contribution | \$ (16.8) | N/A | \$ (101.1) | -180.8% | \$ (59.2) | -70.3% | \$ (25.0) | -19.7% | \$ (26.4) | -23.9% | \$ 5.6 | 4.2% | 121% |

Notes:

- (1) 2014 Fee For Service expense assumes 98.43% of sales are subject to Fee for Service agreements with a blended Fee for Service rate of 1.98%.
- (2) Prompt pay discounts at 2% of sales and change in reserve for estimated future returns of Butrans. The change in % of sales by year is due to updated estimates of returns.
- (3) Increase in blended rebate rate from 11.9% in 2013 to 18.9% in 2014 is primarily due to (a) formulary wins in Medicare Part D and commercial (4.4%), (b) higher Medicaid rebates due to inflation adjustment and best price being lowered as a result of additional price protection rebates as a result of 2014 price increases being higher than the price reset (0.8%), (c) additional price protection rebates on commercial and Medicare Part D (1.5%) and (d) higher Medicare Part D coverage gap discount expense (0.4%).
- (4) The increase in blended rebate rate from 9% in the 2013 Budget to 11.9% in the 2013 Latest Estimate is due to higher Commercial sales 1.1% (Medco, ESI, Aetna and Emvion), TRICARE sales (0.6%), higher blended rebate rates for commercial (0.9%) and higher Medicare Part D Coverage Gap expense (0.3%).
- (5) The low Cost of Goods Sold expense as a % of sales of 3.3% in the 2013 Latest Estimate is due to the \$2.2 mm LTS reimbursement for unusable patches made at the West Caldwell plant received in 2013, but the patches were expensed in 2012.
- (6) Royalties paid to LTS at 6.6% of net sales.
- (7) 2014 sales force allocation assumes 67% OxyContin / 33% Butrans.
- (8) R&D 2014 Budget comprises Butrans pediatric program (\$3.3 mm), PDUSA fees (\$0.8 mm), allocated people costs across all of R&D (\$3.9 mm), adverse events and product complaints processing (\$4.1 mm) and all other (\$3.5 mm).
- (9) Represents Purdue's portion of the \$2.8 billion industry fee, which is allocated between Butrans and OxyContin based on estimated prescription drug sales to the government.
- (10) 2014 price increases in January (3.5%) and August (6%) are budgeted to increase sales by approximately \$22 mm.

2014 Budget Proposal - Laxatives P&L

(\$MM's)

| | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|------------------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|--------|
| Gross Sales ⁽¹⁾ | \$ 48.1 | | \$ 51.1 | | \$ 51.5 | | \$ 49.3 | | \$ 49.3 | | \$ 50.3 | | |
| Sales Discounts & Allowances | (1.2) | 2.5% | (1.1) | 2.1% | (2.6) | 5.1% | (0.6) | 1.3% | (1.3) | 2.7% | (1.0) | 2.0% | |
| Net Sales | 46.9 | 97.5% | 50.0 | 97.9% | 48.8 | 94.8% | 48.6 | 98.7% | 47.9 | 97.3% | 49.3 | 97.9% | +3% |
| COGS ⁽²⁾ | (9.1) | 19.5% | (9.1) | 18.3% | (9.2) | 18.8% | (10.1) | 20.7% | (9.2) | 19.2% | (10.5) | 21.4% | |
| Shipping & Warehousing | (1.9) | 4.1% | (2.0) | 4.1% | (2.1) | 4.3% | (2.4) | 4.9% | (2.4) | 5.0% | (2.6) | 5.2% | |
| Gross Profit | 35.9 | | 38.9 | | 37.6 | | 36.2 | | 36.4 | | 36.2 | | |
| Product Spending | (21.7) | 46.3% | (17.7) | 35.4% | (19.0) | 38.8% | (15.6) | 32.2% | (16.0) | 33.4% | (15.2) | 30.8% | -5% |
| Marketing Expense ⁽³⁾ | (15.5) | | (13.9) | | (14.3) | | (15.0) | | (15.4) | | (14.5) | | |
| Sales Force Expense ⁽⁴⁾ | (6.3) | | (3.9) | | (4.6) | | (0.7) | | (0.7) | | (0.7) | | |
| Other Expenses | | | | | | | | | | | | | |
| R&D Market Support ⁽⁵⁾ | (1.2) | | (1.3) | | (1.3) | | (1.3) | | (0.9) | | (0.9) | | |
| Product Contribution | \$ 13.0 | 27.6% | \$ 19.9 | 39.8% | \$ 17.3 | 35.4% | \$ 19.2 | 39.6% | \$ 19.5 | 40.7% | \$ 20.2 | 41.0% | +4% |

Notes:

(1) Laxatives includes Senokot, Senokot S, Colace and Peri-Colace Brands. The Gross Sales impact of product diversion is estimated at \$2.8 mm in 2013 and \$1.0 mm in 2012.

(2) COGS reflects units at standard costs, inventory adjustments and other costs (eg. annual commercial liability, validation work). 2013 Latest Estimate to 2014 Budget increase of 2.2% of net sales due to:

(i) increase in COGS at standard primarily due to increase in product volume and mix (for example, the increase in sales of Senokot versus Colace in 2014, with Senokot having a higher COGS %), Colace 3.5% price increase (\$0.13 mm), and 3% increase in overhead cost (\$0.05 mm).

(ii) increase in other COGS due to tech transfer for Colace Soft Gel Caps from Calantec to Accucaps (\$0.1 mm), validation work related to line extensions (\$0.2 mm) and Senokot S/Peri-Colace assay adjustment (\$0.1 mm).

(3) Marketing expenses include consumer advertising, co-op advertising, advertising and agency fees, samples, coupons and others. 2013 Latest Estimate includes samples reserve transferred to S&P from COGS (\$0.6 mm).

(4) Sales force expense includes cost of outside sales agents (Acosta). In 2012 and prior Laxatives were detailed in a tertiary position by sales force.

(5) Includes estimated R&D support across Medical Services, Drug Safety, Regulatory and other support functions.

2014 Budget Proposal - Strengths/Opportunities and Challenges

Strengths/Opportunities

OxyContin

- Gold standard, very high brand recognition
- Managed Care coverage
- Incremental promotional activity
- Tamper resistant formula
- Medicaid line extension rebate rule resolved in our favor
- Demographics and under treatment of pain support market growth
- Sales Force effectiveness (E2E) project

Butrans

- Safe, effective and convenient
- Base of prescribers and formulary wins established and growing
- Class III convenience
- Steady increase in Managed Care coverage
- Titration education underway

Pipeline

- Targiniq potential approval in 2014
- Hydrocodone IR TR may be to market before other products in development

Overall

- Cost reduction/efficiency initiatives continue
- US economic recovery could result in further growth in overall market

Challenges

- Managed Care pressure
- Abuse of opioid medicines as a class lead regulators to limit patient access --- for example, monthly tablet or mg. limits
- Growth of government as payer and related price pressure
- Patent challenges

Redacted

- Perception that Butrans is not covered/high cost
- Reduction in primary sales presentations
- Dose limited to 20 mcg/hour
- Titration challenge

- Typical industry risks such as timelines, safety and efficacy --- Purdue's pipeline should generally be less risky than standard

- Future opportunities, licenses and acquisitions would be funded outside the budget

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2014 Budget Proposal - Back-Up

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2014 Budget Proposal Purdue P&L By Cost Center

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2014 Budget Proposal - Cost of Goods Sold

| (BMMs) | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Change |
|---|-------------------|-------------------|-------------------|----------------------|----------------------|------------------|
| Net Sales | \$ 2,222.6 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.6 | \$ 1,634.4 | |
| Material | \$ 90.9 | \$ 76.8 | \$ 89.6 | \$ 76.1 | \$ 65.6 | |
| as a % of net sales | 4.1% | 3.5% | 3.7% | 3.8% | 4.1% (1) | |
| Labor & Overhead | \$ 67.6 | \$ 66.8 | \$ 76.4 | \$ 72.6 | \$ 71.9 | |
| as a % of net sales | 3.0% | 3.0% | 3.2% | 3.6% | 4.4% | |
| Inventory Variances | 9.1 | 6.4 | 3.0 | 2.8 | \$ 3.0 | |
| OxyContin settlements COGS Reduction | - | - | - | - | (0.8) | |
| Rhodes Pharmaceuticals/Mundipharma Recovery | (0.7) | (1.6) | (0.7) | (5.6) | (14.1) | (2) |
| Total Cost of Goods Sold | \$ 168.9 | \$ 148.6 | \$ 162.2 | \$ 141.9 | \$ 123.3 | \$ (18.0) |
| as a % of net sales | 7.6% | 6.7% | 6.7% | 7.1% | 7.5% | (3) |
| Headcount | 265 | 262 | 279 | 276 | 264 | (11) |

- (1) Increase of 0.3% from 3.5% to 4.1% being driven by higher net sales adjustments reduces.
 (2) Higher overhead recovery as manufacturing and distribution volumes increase for Rhodes Pharmaceuticals (\$12.2 mm), Mundipharma (\$1.2 mm) and Australia (\$0.7 mm).
 (3) For comparison to other Pharma companies we would add royalty expense of 5.5% and shipping warehousing costs of 0.5% of net sales for a total 2014 COGS % of net sales of 14.4%, Benchmark companies (Merck, Pfizer, Glaxo, Schering-Plough, Allergan) range from 14% to 34% of net sales.

2013 Budget vs. 2013 Latest Estimate:

| | |
|---|-----------------|
| 2013 Budget | \$ 182.2 |
| Material | (16.4) |
| Volume/Mix related to OxyContin (\$11.9 mm), Intermexco (\$2.0 mm), Dilaudio (\$1.3 mm) and Butrans (\$1.0 mm). | |
| Supply Chain 3rd Party Activities/Product Development | (1.8) |
| Projects cancelled or delayed until 2014 related to Dilaudio, Butrans and Colace. | |
| Headcount related costs | (1.1) |
| Open positions, training & travel. | |
| Utilities | (0.7) |
| Lower utilities driven by milder winter and summer months. | |
| Other | (0.2) |
| 2013 Latest Estimate | \$ 141.9 |

2013 Latest Estimate vs. 2014 Budget Proposal:

| | |
|--|-----------------|
| 2013 Latest Estimate | \$ 141.9 |
| Material | (11.6) |
| Volume/Mix related to OxyContin (\$11.2 mm) and Slow Mag cost reduction due to turn key transition to Contract Pharmaceutical (\$0.5 mm). Offsets provided by Rhodes Technologies Oxyzone price increase \$0.4 mm and Purdue Canada CTO \$0.3 mm. | |
| Rhodes Pharmaceuticals/Mundipharma/Australia Recovery | (6.6) |
| Rhodes Pharmaceuticals: increase in overhead recovery of (\$4.5 mm) for manufacturing and distribution of Rhodes Pharmaceuticals products driven by MBEER and forecasted Oxy APAR launch. Recovery is 100% variable and a portion of fixed overhead. Mundipharma & Australia: increase in overhead recovery of (\$1.0 mm) for manufacturing of Mundipharma and Australia products driven by higher volume as the # of countries being supported will exceed 20 in 2014. | |
| Wages and Fringe | (1.8) |
| Positions transferred to support Project Beas (\$1.7 mm), Employee Benefits (\$1.3 mm), and Procurement & IT reorganizations (\$0.7 mm). Offsets provided by Merit \$1.3 mm and Open positions in 2013 \$0.7 mm. | |
| Supply Chain 3rd Party Activities/Product Development | 0.3 |
| Addition of new FDA Stage 3 Validation requirement of key 3rd party suppliers \$0.5 mm, Butrans Active Pharmaceutical Ingredient Validation for alternate supplier (Norsmco) \$0.2 mm, and Colace site transfer to Accucaps \$0.2 mm. | |
| Other | (0.1) |
| 2014 Budget Proposal | \$ 123.3 |

2014 Budget Proposal - Selling and Promotion

| | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Variance |
|------------------------------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|------------------|
| Operating Expenses (\$MMs): | | | | | | |
| Marketing | \$ 75.6 | \$ 96.6 | \$ 116.0 | \$ 105.9 | \$ 91.9 | \$ (14.0) |
| Field Sales | 137.9 | 187.6 | 184.6 | 168.3 | 164.0 | (4.3) |
| Sales Support | 10.7 | 13.0 | 14.8 | 14.2 | 12.8 | (1.3) |
| Occupancy & Depreciation | 5.2 | 5.9 | 5.3 | 5.3 | 5.4 | 0.1 |
| Task Savings | - | - | (0.8) | (10.0) | (16.2) | (6.2) |
| Transcept Contribution | - | - | (10.0) | (8.6) | - | 8.6 |
| Total S&P | \$ 229.3 | \$ 303.1 | \$ 309.9 | \$ 275.2 | \$ 258.1 | \$ (17.1) |

| | | | | | |
|-------------------------|------------|------------|------------|------------|------------|
| Net Sales - \$MM | \$ 2,222.5 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.5 | \$ 1,534.4 |
| S&P as a % of Net Sales | 10.3% | 13.8% | 12.9% | 13.8% | 16.8% |

| | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Variance |
|----------------------------|------------|------------|----------------|-------------------------|-------------------------|------------|
| Approved Headcount: | | | | | | |
| Marketing | 49 | 53 | 55 | 53 | 53 | - |
| Field Sales | 664 | 669 | 673 | 671 | 661 | (10) |
| Sales Support | 27 | 32 | 32 | 28 | 30 | 2 |
| Total S&P | 740 | 754 | 760 | 752 | 744 | (8) |

Note:

Sales Representatives ⁽¹⁾

(1) Intermezzo CSO Reps not included in Purdue Headcount (2012 Budget = 275 Reps, reduced to 90 Reps in Dec 2012, reduced to 0 in May 2013.)

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\S&P Expenses\[Consolidated S&P Summary.xlsx]S&P by Expense Type

2014 Budget Proposal - Selling and Promotion

| | | |
|---|-----------|--------------|
| 2013 Latest Estimate S&P Expense | \$ | 275.2 |
| Salaries and Related | | 0.8 |
| Sales bonus budgeted at target | | 3.3 |
| Elimination of Intermezzo Contract Sales Force | | (6.3) |
| Promotional/Product Spending: | | |
| Butrans | 1.3 | |
| OxyContin | 1.4 | |
| Intermezzo | (21.9) | |
| Targiniq (pre-approval spend only) | 7.9 | |
| HYD (pre-approval spend only) | 4.9 | |
| Laxatives/All Other | (0.9) | |
| | | (7.2) |
| All other (Incl. underspend estimate, increasing from \$10MM to \$16.2MM) | | (7.7) |
| 2014 Budget S&P Expense | \$ | 258.1 |

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2014 Budget Proposal – G&A

(\$MM's)

| | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Change |
|---------------------|-------------|-------------|----------------------|----------------------|---------|
| G&A Expenses | \$151.6 | \$157.8 | \$153.9 | \$135.0 | -\$18.9 |
| As a % of Net Sales | 6.9% | 6.5% | 7.7% | 8.8% | |
| Headcount | 385 | 382 | 383 | 334 | (49) |

2013 LE vs. 2013 Budget:

| | | |
|----------------------------------|---|----------------|
| 2013 Budget: | | \$157.8 |
| External Affairs | Lower grant spending and corporate identity programs. | (1.2) |
| Quality | Timing of new hires, lower product complaint processing, lower consulting | (0.8) |
| License and Business Development | Lower consulting spend | (0.6) |
| Insurance | Lower business interruption insurance and reduced rates on other policies | (0.6) |
| Other | Savings generated across all other departments | (0.7) |
| 2013 Latest Estimate: | | \$153.9 |

2014 vs. 2013 LE:

| | | |
|-----------------------------|---|----------------|
| 2013 Latest Estimate | | \$153.9 |
| External Affairs | Reduction in grants and corporate dues. | (4.1) |
| IT | Reduction of 27 positions (\$2 mm) offset by an increase in outside services \$1 mm, reduced software maintenance, licenses and hardware support, travel and training, total of (\$2 mm). | (3.0) |
| Legal | Reduction of 7 positions | (1.7) |
| Finance | Reduction of 8 full time positions and one part time position, reduced consulting and outside services | (1.3) |
| Security | Reduction of 3 positions, eliminate RX Patrol, reduced grants | (1.0) |
| IPAP | Reduced enrollment expected in 2014 | (1.2) |
| Human Resources | Reduction of 2 positions | (0.6) |
| Admin Services | Reduction of 2 positions | (0.3) |
| Other | Reductions taken across all other departments, including Benefits | (5.8) |
| 2014 Budget: | | \$135.0 |

2014 Budget Proposal - Information Technology

| (\$MM) | 2012 Actual | 2013 Original Budget | 2013 Latest Estimate | 2014 Proposed Budget | \$ Var 2014 Bud vs. 2013 LE | % Var 2014 Bud vs. 2013 LE |
|------------------------------|----------------|----------------------------|----------------------------|----------------------------|-----------------------------------|----------------------------------|
| People Costs | \$24.1 | \$26.9 | \$26.1 | \$24.0 | -\$2.1 | -8.1% |
| Non People Costs | 17.6 | 18.7 | 19.1 | 18.2 | (0.8) | -4.3% |
| Total (includes MFG and R&D) | \$41.7 | \$45.6 | \$45.2 | \$42.3 | -\$2.9 | -6.5% |
| Headcount | 124 | 131 | 131 | 104 | -27 | -20.6% |
| % of Net Sales * | 1.8% | 1.9% | 2.2% | 2.7% | | |

2013 LE vs. 2013 Budget:

| | |
|---------------------------------|---------------|
| 2013 Budget: | \$45.6 |
| Positions open for part of 2013 | (0.7) |
| All other | 0.3 |
| 2013 Latest Estimate: | \$45.2 |

* Industry average for IT spend as a % of sales is 2.9%.
(Source: PISA)

2014 increase vs. 2013 Latest Estimate

| | |
|---|---------------|
| 2013 Latest Estimate: | \$45.2 |
| 4.5% compensation increase, eliminate 27 positions (staggered dates, all by June 30th) | (2.1) |
| Reduced software maintenance, licenses and hardware support | (1.3) |
| Increase in consulting and outside services to offset reduction in headcount | 1.7 |
| Decrease in other consulting and outside services | (0.4) |
| Reduced travel/training and hiring costs | (0.3) |
| All other | (0.5) |
| 2014 Budget: | \$42.3 |

Note: Includes total Purdue IT spend, some of which is reflected in the COGS line

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2014 Budget Proposal - Legal Department

Redacted

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2014 Budget Proposal - Legal Fees

Redacted

29

2014 Budget Proposal - Legal Fees

Redacted

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2014 Budget Proposal - R&D Expense

| (\$MM) | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | 2014 vs. 2013 LE |
|--------------------------------|----------------|----------------|----------------------------|----------------------------|------------------------|
| R&D Spend | \$ 312.5 | \$ 377.3 | \$ 299.2 | \$ 263.4 | \$ (35.8) |
| R&D as % of Net Sales | 14.2% | 15.7% | 15.1% | 17.2% | 2.1% |
| Headcount (end of year Budget) | 359 | 360 | 360 | 361 | 1 |

| | | | | |
|---|-------------------------|--|--|-------------------------|
| 2013 Budget | \$ 377.3 | | 2013 Latest Estimate | \$ 299.2 |
| | Increase/ (Decrease) | | | Increase/ (Decrease) |
| BNA - Development spend not included in Original Budget. | \$ 3.2 | | BNA - A additional clinical spend to further program. | \$ 1.3 |
| BUP - Reduced clinical spend due to a change in filing strategy for higher strength program (\$15.5 mm), cancellation of the phase 3b/4 Fibromyalgia effort (\$2.5 mm) and lower PRA/CRO costs (\$1.4 mm). Net reductions in other areas (\$6.9 mm) driven by deferring spend in BUP2G tech transfer and bioanalytic and drug supply costs across all BUP programs. | (26.6) | | BUP - Reduced clinical/nonclinical spend in higher strengths and pediatric program (\$6.4 mm) offset by an increase in 2nd Gen (\$3.6 mm). | (2.8) |
| HYD - Reduced clinical spend due to deferring the HYD Pediatric study (\$2.5 mm) to later years, elimination of neuropathic pain study (\$2.5 mm) and favorable reconciling adjustments based on study closeouts (\$1.5 mm). Offsetting these amounts is an increase in phase 3 safety studies due to timing/other (\$2.6 mm). | (3.9) | | HYD - Reduced clinical/nonclinical spend due to wind-down of the pivotal studies (\$28.1 mm) offset by increases in spend for the NDA compilation and filing/other (\$7.0 mm). | (21.1) |
| VND - Reduced clinical spend due to slower enrollment in the phase 2 POC studies for OA and PHN, cancellation of Burn Injury POC study and deferral of Cl in Pharm studies (\$7.0 mm). Other spend reductions driven by Tox and BA studies and clinical supplies/other (\$3.2 mm). | (10.2) | | MSR - Increased clinical spend due to completion of phase 1 Pilot PK study as well as initiation of pivotal BE and abuse potential studies (\$9.2 mm). Increased spend for tech transfer and non clinical areas supporting the development efforts (\$3.1 mm). | 12.3 |
| ORF - Reduced clinical spend due to lower than expected CRO costs in pediatric studies (\$2.9 mm). Other spend reductions driven by deferring support for the marketed product (e.g., HOPE, publications, etc.) (\$0.7 mm). | (4.6) | | ONU - Reduced clinical/nonclinical spend due to wind-down of pain-only studies (\$13.3 mm) and lower Regulatory spend attributed to 2013 NDA filing (\$2.4 mm). | (15.7) |
| ONU - Reduced clinical spend due to slower enrollment and protocol changes in the On Upain - CRO studies and deferring spend on the pain + CRO sNDA (\$48.3 mm). Offsetting these amounts is an increase in clinical supplies due to study timing and all other (\$8.3 mm). | (40.0) | | ORF - Reduced clinical/nonclinical spend due to change in scope of pediatric studies (\$1.5 mm) and lower tech transfer and HOPE support/other (\$1.8 mm). | (3.3) |
| All Other | 4.0 | | ORL - Increased clinical spend due to additional studies to support a new formulation after completing the Phase 2 Dental Pain study (\$2.9 mm). Increased nonclinical spend reflects additional toxicology and clinical supplies (\$1.8 mm). | 4.7 |
| Subtotal | \$ 175.1 | | All Other | (11.2) |
| 2013 Latest Estimate | \$ 299.2 | | Subtotal | \$ (35.8) |
| | | | 2014 Budget Proposal | \$ 263.4 |

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2014 Budget Proposal - Headcount

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2014 Budget Proposal - Headcount

| | 2004 Approved | 2006 Approved | 2011 Approved | 2012 Approved | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Net Increase in Headcount | | | |
|------------------------------|------------------|------------------|------------------|------------------|----------------|----------------------------|----------------------------|------------------------------------|------------------------------------|------------------|--|
| | | | | | | | | Positions Eliminated in 2013 | Positions Eliminated in 2014 | 2014 Proposed | 2014 Total Net Increase / (Decrease) |
| G&A | 519 | 307 | 359 | 361 | 377 | 363 (1) | 334 ⁽¹⁾ | (2) | (50) | 1 | (49) |
| S&P | 1,126 | 366 | 740 | 756 | 760 | 752 (2) | 744 | (12) | (12) | 4 | (8) |
| R&D | 944 | 177 | 315 | 359 | 360 | 360 | 360 | (5) | (5) | 5 | - |
| Tolowa | 406 | 73 | 17 | 18 | 18 | 18 | 15 | | | (3) | (3) |
| Manufacturing & Supply Chain | 95 | 61 | 63 | 57 | 60 | 55 (3) | 53 | | | (2) | (2) |
| Wilson | 173 | 128 | 197 | 199 | 201 | 202 (3) | 196 | (2) | (2) | (4) | (6) |
| Treyburn | | | | | | | 11 (4) | | | 9 | 11 |
| President's Reserve | - | - | 4 | 8 | 3 | 1 | 1 | | | | |
| Other | 82 | 2 | 4 | 4 | 5 | 6 | 6 | | | | |
| President's Reduction | | | | | | (24) ⁽⁵⁾ | | | (24) | | (24) |
| TOTAL | 3,405 | 1,114 | 1,699 | 1,782 | 1,784 | 1,777 | 1,696 | (2) | (93) | 12 | (81) |

Positions Eliminated = 95

Reconciliation of 2013 Budget to 2013 LE

Note (1) - Includes 2 new positions in Corporate Affairs & Communications, 2 positions allocated from President's Reserve to Finance, 3 transferred from Supply Chain to Corporate Procurement, 1 transfer from R&D, and (2) positions returned to the President's Reserve.

Note (2) - 6 Intermezzo related positions were removed between the 2013 Budget and the 2013 latest estimate.

Note (3) - Includes 1 IT re-org, 3 transfers to Corporate Procurement and 3 transferred to Wilson.

Note (5) - The 2013 mid-year update included a targeted reduction of 25 positions which are achieved through delayed filling of open positions pending the 2014 budget process.

Reconciliation of 2013 LE to 2014 Budget Proposal

Note (4) - Treyburn has been added to the schedule for 2014. 9 transfers within Tech Ops and 2 are additional headcount. See following pages.

2014 Budget Proposal - P&L – 2005 to 2014

| (000's) | 2006 Actual | 2006 Actual | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Budget | 2014 Budget | 2014 Budget |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Gross Branded Product Sales | \$1,235,214 | \$765,882 | \$1,184,838 | \$2,649,476 | \$3,012,142 | \$3,127,873 | \$2,871,981 | \$5,004,806 | \$5,221,397 | \$2,711,639 | \$2,255,747 |
| Fee for Service | (1,755) | (10,742) | (24,970) | (35,987) | (59,945) | (79,237) | (74,607) | (69,313) | (67,967) | (84,309) | (44,444) |
| Discounts and Allowances | (21,455) | (13,335) | (41,841) | (78,774) | (86,133) | (48,792) | (66,222) | (134,032) | (64,055) | (39,400) | (45,300) |
| Patent Savings Card Discounts | - | - | - | (13,446) | (17,131) | (19,893) | (15,572) | (25,104) | (41,334) | (44,843) | (44,134) |
| Rebates on Branded Sales | (220,551) | (46,464) | (145,693) | (242,153) | (455,092) | (621,633) | (545,891) | (517,806) | (400,621) | (535,357) | (570,099) |
| Proposed regulation adjustment for Medicaid rebates (2) | - | - | - | - | - | (40,041) | (68,884) | (60,383) | (72,592) | (86,015) | (28,477) |
| Other | 99,750 | 149,935 | 50,141 | 161,258 | 37,244 | 27,611 | 12,390 | 3,455 | 1,951 | 4,807 | 3,007 |
| Rebates as % of Gross Branded Product Sales | 17.2% | 6.1% | 12.4% | 13.4% | 15.3% | 17.2% | 20.7% | 12.2% | 12.2% | 21% | 25% |
| NET REVENUES | 1,143,152 | 655,168 | 1,038,828 | 2,104,246 | 2,446,239 | 2,259,090 | 2,222,498 | 4,290,822 | 4,197,039 | 1,987,472 | 1,625,244 |
| Cost of Goods Sold | (124,267) | (92,865) | (101,603) | (150,545) | (187,152) | (181,090) | (166,370) | (148,475) | (140,240) | (141,873) | (123,541) |
| COGS as % of Gross Branded Product Sales | 9.7% | 12.3% | 8.6% | 5.7% | 6.2% | 5.9% | 5.9% | 3.0% | 2.7% | 5.2% | 5.9% |
| Royalty Expense | (1,505) | 69 | (4,303) | (2,414) | (10,486) | (53,342) | (15,272) | (120,265) | (122,339) | (105,725) | (89,712) |
| Shipping and Warehousing | (8,720) | (3,097) | (8,411) | (10,255) | (10,927) | (11,182) | (11,831) | (11,814) | (11,265) | (10,135) | (8,307) |
| GROSS PROFIT | 1,009,660 | 754,745 | 846,508 | 1,841,051 | 2,248,791 | 2,124,476 | 1,926,822 | 1,820,286 | 1,834,579 | 1,740,724 | 1,212,484 |
| G&A (Incl. Legal Department but excl. Legal Fees) | (137,507) | (108,106) | (114,135) | (126,141) | (129,335) | (137,831) | (144,255) | (151,635) | (166,702) | (183,910) | (134,964) |
| G&A as % of Net Revenues | 12.0% | 16.3% | 11.0% | 6.0% | 5.4% | 6.1% | 6.5% | 3.5% | 3.9% | 10.3% | 8.3% |
| Legal Fees | (126,950) | (90,352) | (84,348) | (72,009) | (85,510) | (90,667) | (99,811) | (149,432) | (145,575) | (157,075) | (134,555) |
| Research and Development | (175,046) | (65,031) | (107,450) | (120,449) | (132,623) | (164,754) | (269,937) | (312,813) | (327,247) | (299,247) | (262,411) |
| R&D Other - Milestone and Alliances (1) | - | - | (4,534) | (7,716) | (60,523) | (8,598) | (604) | (2,254) | (10,262) | (10,562) | (5,151) |
| R&D as % of Net Revenues | 15.3% | 9.9% | 10.4% | 5.7% | 5.4% | 7.3% | 12.1% | 7.5% | 7.9% | 16.5% | 16.4% |
| Abbott Commission | (57,423) | (35,112) | - | - | - | - | - | - | - | - | - |
| Sales and Promotion | (117,803) | (72,105) | (116,071) | (135,555) | (158,895) | (194,735) | (229,177) | (303,110) | (255,213) | (275,199) | (258,100) |
| S&P as % of Net Revenues | 10.3% | 11.0% | 11.4% | 6.4% | 6.5% | 8.7% | 10.3% | 14.5% | 6.1% | 15.7% | 15.8% |
| Health Care Reform Fee | (2,395) | (9,222) | (7,320) | (15,457) | (10,661) | 18,444 | (3,565) | (17,841) | (200) | (1,602) | 5,628 |
| Other U.S. | - | - | - | - | - | - | - | - | - | - | - |
| OPERATING EXPENSES | (827,134) | (289,442) | (415,859) | (482,577) | (655,393) | (640,272) | (715,822) | (897,877) | (859,817) | (956,538) | (719,543) |
| Operating Expenses as % of Net Revenues | 72.4% | 44.2% | 40.1% | 22.7% | 26.8% | 28.8% | 32.1% | 21.2% | 20.5% | 48.1% | 44.0% |
| Rhodes | (287) | (2,159) | - | - | - | - | - | - | - | - | - |
| OPERATING MARGIN BEFORE INCENTIVE & SETTLEMENTS | 579,237 | 351,612 | 621,449 | 1,458,704 | 1,791,398 | 1,684,204 | 1,210,670 | 1,062,286 | 864,272 | 804,609 | 690,140 |
| Operating Margin as % of Net Revenues | 50.6% | 53.7% | 59.8% | 69.3% | 73.3% | 74.6% | 54.4% | 24.7% | 20.6% | 40.6% | 42.5% |
| Incentive Bonus | (21,759) | (29,559) | (42,554) | (30,771) | (33,203) | (35,744) | (33,054) | (34,255) | (38,611) | (36,300) | (39,500) |
| Insurance Income | 90,000 | 184,645 | 233,220 | 1,171,414 | 8,768 | 15,853 | 30,839 | 3,600 | 3,600 | 891 | 860 |
| Settlement Expense | (100,000) | (91,443) | (1,930) | (44,555) | (40,419) | (17,435) | (6,773) | (14,247) | (5,000) | (2,614) | - |
| TOTAL INCENTIVES AND SETTLEMENTS | (31,759) | (46,844) | (10,864) | (63,916) | (64,854) | (40,516) | (6,188) | (46,012) | (39,990) | (37,923) | (38,640) |
| OPERATING PROFIT MARGIN | 547,478 | (84,972) | 620,766 | 1,394,788 | 1,826,644 | 1,643,688 | 1,204,482 | 1,007,778 | 824,282 | 766,686 | 651,500 |
| Operating Profit Margin as % of Net Revenues | 47.9% | -12.8% | 59.4% | 66.3% | 74.7% | 72.8% | 53.7% | 23.5% | 19.7% | 38.6% | 40.1% |
| Other Items | 44,226 | 59,490 | 65,023 | 71,469 | 76,137 | 84,755 | 91,367 | 83,861 | 40,002 | 40,692 | 39,031 |
| Royalty Income - ex U.S. | (42,255) | (15,551) | (8,845) | (125,593) | (122,406) | (132,645) | (129,005) | (85,063) | (154,559) | (161,742) | (155,275) |
| Other ex-U.S. expenses | - | - | - | - | - | - | (19,524) | (19,026) | (11,501) | (12,135) | (10,025) |
| One Time Charges/Other Items | (216,757) | (495) | (2,024) | (2,213) | 775 | (24,477) | (2,452) | (2,145) | (2,565) | (11,510) | (4,164) |
| Gain on Intellity stock | - | - | - | - | - | - | - | - | 124,551 | 124,551 | - |
| Interest Income, net | 2,714 | 24,525 | 33,414 | 15,640 | 959 | 535 | 355 | 1,354 | 772 | 172 | 200 |
| TOTAL OTHER ITEMS | (212,013) | 87,839 | 89,697 | (41,087) | (44,624) | (71,801) | (69,088) | 9,980 | (14,001) | (10,843) | (174,253) |
| PROFIT/LOSS BEFORE TAX | \$125,465 | (\$17,133) | \$810,252 | \$1,255,881 | \$1,682,020 | \$1,472,007 | \$1,145,892 | \$1,010,266 | \$810,281 | \$827,245 | \$355,257 |

FOOTNOTES:

(1) R&D Milestones and Alliances were reported in the "Other" line in 2006 and 2008.

(2) The proposed rule was issued in Q1 2012, which resulted in a higher rebate rate on the new formulation of OxyContin. The impact on 2011 and 2010 was fully accrued in December 2011. To better reflect the economics of our earnings, the adjustment was allocated in 2010 and 2011 to show the impact of the higher rebates as if we had started accruing at the higher rate when the new formulation of OxyContin was launched. Because of these restatements, net sales reports and P&L statements will not be to previously issued reports.

2014 Budget Proposal - Net Sales – 2010 to 2014

OxyContin Price/Volume Roll forward

| | 2010 vs. 2011 | 2011 vs. 2012 | 2012 vs. 2013 LE | 2013 LE vs. 2014 B |
|--------------------------|-------------------|-------------------|---------------------|-----------------------|
| Opening Net Sales | \$ 2,350.1 | \$ 2,222.5 | \$ 2,200.9 | \$ 1,987.5 |
| OxyContin Volume and Mix | (310.5) | (178.4) | (254.3) | (451.5) |
| OxyContin List Price | 147.2 | 103.2 | 101.6 | 90.6 |
| OxyContin Other Price | (10.4) | 50.7 | (81.8) | (109.0) |
| All Other Products | 46.1 | 2.9 | 21.1 | 16.7 |
| Ending Net Sales | \$ 2,222.5 | \$ 2,200.9 | \$ 1,987.5 | \$ 1,534.4 |

Note 1 - Variance from 2013LE to 2014B primarily driven by Rebates Rate (\$102.1MM) and Savings Cards Rate (\$12.4MM).

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\Sales\[Rate Vol Mix Analysis 2010-2014 Simplified v3.xlsx]Rollforward 3

2014 Budget Proposal – G&A Headcount

G&A proposed headcount decrease of (49) from 2013 Latest Estimate to 2014 Budget Proposal

| By Major Group | 2004 | 2008 | 2012 | | 2013 | 2013 | 2014 | Positions | |
|-------------------------------|------------|------------|------------|------------|----------------|-----------------|-----------------|------------------------------------|---------------|
| | Approved | Approved | Approved | Budget | Revised Budget | Latest Estimate | Budget Proposal | Eliminated in 2014 Budget Proposal | 2014 Proposed |
| Finance | 106 | 63 | 83 | 62 | 62 | 66 | 58 | (8) | - |
| Information Technology | 184 | 84 | 101 | 102 | 102 | 102 | 75 | (27) | - |
| Corporate Procurement | 19 | 9 | 13 | 14 | 14 | 15 | 16 | - | 1 |
| External Affairs | 29 | 13 | 18 | 18 | 18 | 18 | 18 | - | - |
| DEA Compliance | 5 | 2 | 2 | 1 | 1 | 0 | 0 | - | - |
| Human Resources | 45 | 21 | 24 | 24 | 24 | 24 | 22 | (2) | - |
| Environmental Health & Safety | 3 | 4 | 8 | 6 | 6 | 6 | 5 | (1) | - |
| Administration / Building | 53 | 32 | 34 | 34 | 34 | 34 | 32 | (2) | - |
| Business Development | 8 | 6 | 8 | 7 | 7 | 7 | 7 | - | - |
| Corporate Compliance | 4 | 6 | 13 | 12 | 12 | 11 | 11 | - | - |
| Security | 13 | 15 | 15 | 15 | 15 | 15 | 12 | (3) | - |
| Executive Administration | 24 | 9 | 7 | 7 | 6 | 8 | 8 | - | - |
| Quality | 64 | 20 | 34 | 34 | 34 | 35 | 35 | - | - |
| IAE | 0 | 0 | 2 | 2 | 0 | 0 | 0 | - | - |
| Law Department | 42 | 45 | 45 | 44 | 42 | 42 | 35 | (7) | - |
| Total G&A | 999 | 329 | 385 | 382 | 377 | 383 | 334 | (50) | 1 |

Headcount Reconciliation

2013 Budget **382**

2013 Positions transferred

| | | |
|--------------------------|-----|---|
| Executive Administration | (1) | 1 transferred from Executive Admin to Other Expense |
| IAE | (2) | 2 transferred from Internal Audit to Other Expense |
| Law Department | (2) | 2 transferred from Law Department to Other Expense |

2013 Restated Budget **377**

2013 Positions added

| | | |
|--------------------------|---|--|
| Finance | 2 | 2 positions added in Finance, 1 Financial Operations and 1 Rebates Coordinator |
| Executive Administration | 2 | 2 new positions added in 2013 for Corporate Affairs |

2013 Positions transferred

| | | |
|-----------------------|---|---|
| Finance | 2 | 2 transferred from Corporate Procurement. Fleet was moved from Corporate Procurement to Finance |
| Corporate Procurement | 1 | 3 transferred in from Supply Chain (Manufacturing) and 2 transferred out to Finance (Fleet) |

2013 Positions eliminated

| | | |
|----------------------|-----|---|
| Corporate Compliance | (1) | One position eliminated in Corporate Compliance |
| DEA Compliance | (1) | One position eliminated in DEA Compliance |
| Quality | 1 | 1 transferred from Regulatory |

2013 Latest Estimate **383**

2014 Proposed Positions

| | | |
|-----------------------|---|---|
| Corporate Procurement | 1 | One proposed position to convert a part time position to a full time position |
|-----------------------|---|---|

2014 Positions eliminated

| | | |
|-----------------|------|--|
| Finance | (8) | 8 positions eliminated in Finance, plus one part time position was eliminated in Finance |
| IT | (27) | 27 positions eliminated in IT |
| Security | (3) | 3 positions eliminated in Security |
| EHS | (1) | One position was eliminated in EHS |
| Law Department | (7) | 7 positions eliminated in Legal |
| Admin Services | (2) | 2 positions eliminated in Admin Services |
| Human Resources | (2) | 2 positions eliminated in HR |

Net Decrease in G&A headcount **(49)**

2014 Budget **334**

Net Decrease from 2013 LE
= (48)

**% Variance 2014
vs. 2013 LE**

| <u>2013 Latest Estimate vs. 2013 Budget:</u> | | <u>2014 Budget vs. 2013 Latest Estimate:</u> | |
|--|---------------|--|---------------|
| 2013 Budget: | \$24.1 | 2013 Latest Estimate: | \$22.9 |
| Reduction of various Healthcare Alliance/State Government programs | (0.5) | People costs/reduced Pediatric consultant | (0.1) |
| Reduced Safeguard My Meds campaign and Intermezzo consulting fees | (0.4) | Reduced organizational grants/programs/dues | (1.6) |
| Pharma Fund grants giveback | (0.2) | Reduced Product Marketing Support/Consulting fees | (1.1) |
| | | Reduced Corporate Identity/Anti-Diversion campaign spend | (1.4) |
| | | Reduced Pharma Fund Grants | (0.6) |
| | | All other | (0.3) |
| 2013 Latest Estimate: | \$22.9 | 2014 Budget: | \$18.8 |

2014 Budget Proposal - R&D Expense

(\$MM)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|-------------------|
| | Latest | Budget | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Total |
| | Estimate | Proposal | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | |
| Butrans | | | | | | | | | | | |
| BUP - Existing Strengths | \$ 10.8 | \$ 8.6 | \$ 9.1 | \$ 0.4 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 29.0 |
| BUP - Add'l Strengths | 7.3 | 1.4 | 0.9 | 0.6 | - | - | - | - | - | - | 10.1 |
| BUP - 2nd Generation | 1.0 | 6.2 | 14.9 | 3.3 | - | - | - | - | - | - | 25.4 |
| Total | 19.2 | 16.1 | 24.9 | 4.3 | - | - | - | - | - | - | 64.5 |
| Hydrocodone (HYD) | 65.4 | 40.5 | 29.9 | 16.6 | 11.6 | 0.9 | - | - | - | - | 164.9 |
| Targiniq (ONJ) (1) | 80.3 | 60.4 | 36.4 | 9.7 | 8.4 | 6.9 | 2.6 | - | - | - | 204.7 |
| Oxy ADIR (OCI) | 17.9 | 13.5 | 0.8 | - | - | - | - | - | - | - | 32.2 |
| Oxycontin | 25.5 | 21.9 | 4.7 | 0.2 | - | - | - | - | - | - | 52.3 |
| ORL-1 - Shionogi (2) | 2.8 | 7.4 | 1.8 | - | - | - | - | - | - | - | 12.0 |
| TRPV1 - Purdue (3) | 13.7 | 12.5 | 46.9 | 133.7 | 101.5 | 58.1 | 13.9 | 6.6 | - | - | 387.0 |
| TRPV1 - Shionogi (4) | 8.6 | 5.9 | 15.7 | - | - | - | - | - | - | - | 30.2 |
| MSC - Reformulated | 3.2 | 21.2 | 24.2 | - | - | - | - | - | - | - | 48.7 |
| BNA - Eli/Inna | 3.2 | 5.4 | 5.1 | 0.6 | - | - | - | - | - | - | 14.2 |
| Total Development Projects | 239.8 | 204.9 | 190.4 | 165.1 | 121.4 | 65.9 | 16.6 | 6.6 | - | - | 1,010.7 |
| Discovery (5) | 22.5 | 23.6 | 25.9 | 26.7 | 27.5 | 28.3 | 29.2 | 30.0 | 30.9 | 31.9 | 276.4 |
| All Other (5), (6) | 49.1 | 59.6 | 61.4 | 63.2 | 54.8 | 41.0 | 32.0 | 17.5 | 7.7 | 7.9 | 394.3 |
| Total R&D (before Underspend Estimate) | 311.5 | 288.1 | 277.7 | 255.0 | 203.7 | 135.2 | 77.7 | 54.1 | 38.6 | 39.8 | 1,681.4 |
| Underspend Estimate | (12.3) | (24.7) | (15.0) | 10.0 | 15.0 | 20.0 | 7.0 | - | - | - | - |
| Total R&D | \$ 299.2 | \$ 263.4 | \$ 262.7 | \$ 265.0 | \$ 218.7 | \$ 155.2 | \$ 84.7 | \$ 54.1 | \$ 38.6 | \$ 39.8 | \$ 1,681.4 |

Note 1: Includes clinical/nonclinical expense related to OIC studies.

Note 2: As assumes that we progress the ORL1 program through Dental Pain study stage gate. Note that costs for Shionogi collaboration projects are at 50% in accordance with the contract.

Note 3: As assumes post herpetic neuralgia phase 2 POC study favorable leading to phase 2 POC for diabetic peripheral neuropathy and subsequent phase 3 studies.

Note 4: As assumes that we progress the TRPV1 back-up program through IND filing to Lead program (TRPV1 - Purdue) decision point.

Note 5: Discovery and All Other impact future years. We assume annual growth based on inflation of 3%.

Note 6: Includes cost not allocated to specific development projects or Market Support (other than pediatric and phase 4 clinical studies that are budgeted specifically in the project budgets). Reduced in out years due to the decline in project spend.

2014 Budget Proposal – S&P Headcount

| | 2013 Last Estimate | 2014 Budget Proposal | Increase / (Decrease) | Comments |
|--|--------------------------|----------------------------|--------------------------|--|
| Sales | 615 | 608 | (7) | |
| Sales Training | 16 | 15 | (1) | |
| Sales Operations | 12 | 15 | 3 | <p>1- Coordinator - This is a request to convert an unbudgeted intermezzo position to a regular budgeted headcount currently filled by Sue Vosler. This position will be responsible for multiple Sales Operations deliverables and data management/validation of the following areas: • Generate, validate and publish weekly, biweekly and monthly Alternative Savings Programs data and reports; • Voucher, Sample, Savings/Thru card and letter program reports for all brands; • Generate, validate, and distribute executive level Alternative Savings Program reports • Responsible for purchase order tracking and invoice management for multiple programs totaling over \$40 million. • Act as a main contact with Savings Card, e Voucher, and Letter Program vendors - , data management and decision support. • Understands inquiries received from various internal stakeholders related to the Alternative Savings Programs. • Responsible for the monthly creation and distribution of savings inventory reports. • Create router files for savings card and SRF distribution. • Assist with eLearning scheduling, surveys, assessments, and certifications. Including tracking test results. • Serve as backup to SAP no charge order processing.</p> <p>2- Field Sales Analyst - Last year we added the Area Director position (2) within the Purdue Sales Force, but did not approve any additional administrative support for these two individuals. The Area Director involves managing roughly one-half of the Purdue Sales Force or roughly 300 individuals. We have an enormous amount of data to use to assess market potential and evaluate performance at the regional, district and representative level. The Area Director does not have the time to deep dive into each of the individual areas they supervise. The objective of a single position shared among the two Area Directors would be that rather than regular administrative support we provide an analyst dedicated to conducting analysis and preparing standard reports as well as ad hoc analysis of market trends and penetration and sales force effectiveness at all levels to better prepare the Area Director to appropriately manage his/her business unit.</p> |
| Marketing | 26 | 27 | 1 | <p>1- Sr. Product Manager - The addition of a Senior Product Manager would provide needed support and expertise in order to develop the launch strategy and execute all the necessary pre-launch activities needed for Targiniq.</p> <p>• There will be significant development of new work streams to prepare for the launch of Targiniq in order to help ensure successful commercialization including: Market Research, Development/ Execution of various promotional initiatives required for launch, KOL Development, Advisory Boards, Speaker Training, Cross-functional Leadership - Work with various departments (i.e., Sales, Sales Training, Medical Affairs, Market Strategies, Medical Services, Finance, Public Affairs, Project Management) to ensure the organization is strategically aligned in efforts to successfully commercialize Targiniq and to continue the success of the OxyContin franchise.</p> <p>• Based on research conducted by IQVIA, with less than 18 months to launch a product in the US, pharmaceutical companies typically have 3 brand managers to support a product launch. In some instances, companies have much higher headcount to support a launching product with blockbuster potential.</p> |
| Managed Health Care & Managed Marketing Strategies | 29 | 26 | (3) | |
| Managed Markets Contracting & Ops | 19 | 18 | (1) | |
| All Other Functions | 35 | 35 | - | |
| TOTAL S&P | 752 | 744 | (8) | |

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2014 Budget Proposal – R&D Headcount

| | 2013 Latest Estimate | 2014 Budget Proposal | Increase / (Decrease) | Comments |
|-------------------------|----------------------------|----------------------------|--------------------------|---|
| Outsource Management | 7 | 8 | 1 | 1 - Contracting Compliance Specialist: This role will support a newly required work stream. This role is responsible to provide analysis and reporting support to Corporate Compliance regarding Health Care Expenditures as per the laws enacted in the US and other countries and in particular the United States Sunshine Act: National Physician Payment Transparency Program: Open Payments." The rule will require drug and device manufacturers that receive government reimbursements to collect data on gifts and payments to teaching hospitals and physicians, starting on August 1st, 2013 and continuing yearly thereafter. Within this new work stream, the manufacturers will report the August to December 2013 data to CMS by March 31, 2014, which will then become public on Sept. 30, 2014. |
| Health Outcomes | 5 | 9 | 4 | 1 - Head of Payer Scientific Liaisons : New capability added to Purdue. Description of groups function is below. 3 - Payer Scientific Liaisons (PSL) - • Overview: The decisions that payers make with respect to listing drug products on their formularies exert a great influence on the ultimate commercial success of those products – and payers are increasingly demanding information beyond that which is required by the FDA. The head of the Payer Scientific Liaison team is responsible for leading the members of the PSL team, establishing team and individual objectives in collaboration with the commercial organization, developing performance indicators and measuring progress toward the achievement of the team's objectives. The position will also have responsibilities for leading scientific communication with assigned payers' organizations to demonstrate the value of pharmaceuticals and health care solutions. Communications include approved scientific, medical, financial, and economics data that will be shared with formulary decision makers, pharmacy directors, medical directors, their advisors and other entities who make or influence market access decisions. The head of the Payer Scientific Liaison team will communicate back to the R&D organization opportunities to demonstrate value and guide the design of economic analysis and clinical programs that demonstrate to payers the value of marketed and pipeline products. • Staffing levels at comparable companies: Boehringer Ingelheim is currently recruiting for an Executive Director to head the HEOR field team. Boehringer Ingelheim is currently recruiting for director level HEOR field team. The accounts assigned to individual PSLs will be 1:1 matched to the accounts of the National Account Executives. |
| Discovery | 53 | 52 | (1) | |
| NonClinical | 55 | 54 | (1) | |
| Project Mgmt | 20 | 18 | (2) | |
| Health Policy | 41 | 40 | (1) | |
| All Other Functions | 179 | 179 | - | |
| TOTAL R&D | 360 | 360 | - | |

2014 Budget Proposal – Tech Ops Headcount

| | 2007 Approved | 2013 Latest Estimate | 2014 Budget Proposal | Position Eliminated | Treyburn Transfers | Treyburn New Requests | Comments |
|-----------------|------------------|----------------------------|-------------------------|------------------------|-----------------------|-----------------------------|---|
| Totowa | 90 | 18 | 15 | - | (3) | - | |
| Supply Chain | 50 | 55 | 53 | - | (2) | - | |
| Wilson | 135 | 202 | 196 | (2) | (4) | - | |
| Treyburn | - | - | 11 | - | 9 | 2 | 2 new professionals and 9 transfers within Tech Ops |
| TOTAL | 275 | 275 | 275 | (2) | - | 2 | |

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2014 Budget Proposal - P&L Ratios Compared to Other Pharma Companies

| Annual Data | | As % of Net Sales | | |
|--------------------------|--------|-------------------|-------|----------------------|
| | | Pretax Profit | R&D | SG&A |
| Purdue US | 2012A | 45.9% | 14.3% | ⁽¹⁾ 24.3% |
| | 2013LE | 42.6% | 15.6% | 25.8% |
| | 2014B | 24.8% | 17.5% | 29.7% |
| Endo | 2012 | -24.5% | 7.5% | 28.1% |
| Allergan | 2012 | 26.4% | 17.0% | 38.9% |
| Forest | 2012/3 | -1.4% | 31.1% | 50.3% |
| Abbott | 2012 | 15.7% | 10.5% | 29.7% |
| Pfizer | 2012 | 20.5% | 12.4% | 27.6% |
| Eli Lilly | 2012 | 23.9% | 23.4% | 33.2% |
| AstraZeneca | 2012 | 27.6% | 15.3% | 33.8% |
| J&J | 2012 | 20.5% | 11.4% | 31.0% |
| Peers (17) Median | 2012 | 20.0% | 16.9% | 29.7% |

(1) Includes Legal fees and Health Care Reform Fee.

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2014 Budget Proposal - Gross to Net Sales Reconciliation – All Products

| (\$MM's) | 2011 Actual | % of Sales | 2012 Actual | % of Sales | 2013 Budget | % of Sales | 2013 Latest Estimate | % of Sales | 2014 Budget Proposal | % of Sales |
|---|-------------|------------|-------------|------------|-------------|------------|----------------------|------------|----------------------|------------|
| Gross Sales | \$ 2,971.2 | 100.0% | \$ 3,004.9 | 100.0% | \$ 3,228.5 | 100.0% | \$ 2,711.6 | 100.0% | \$ 2,258.8 | 100.0% |
| Variable Deductions ⁽¹⁾ | 146.3 | 4.9% | 228.5 | 7.6% | 188.2 | 5.8% | 138.5 | 5.1% | 133.8 | 5.9% |
| Rebates: | | | | | | | | | | |
| Commercial ⁽²⁾ | 221.4 | | 221.0 | | 258.0 | | 217.3 | | 205.0 | |
| Medicare Part D ⁽³⁾ | 143.2 | | 178.8 | | 192.0 | | 190.5 | | 197.9 | |
| Medicare Part D - Coverage Gap ⁽³⁾ | 42.4 | | 32.8 | | 45.6 | | 48.4 | | 70.1 | |
| Medicaid ⁽⁴⁾ | 105.0 | | 61.0 | | 95.6 | | 77.2 | | 95.3 | |
| Impact of Proposed Regulation | 68.9 | | 60.4 | | 76.8 | | 55.0 | | 28.5 | |
| TRICARE | 32.2 | | 14.5 | | 15.4 | | 18.1 | | 16.3 | |
| Hospice | 0.5 | | 0.5 | | 0.5 | | 0.3 | | 0.3 | |
| Trade Inventory ⁽⁵⁾ | 1.2 | | 9.0 | | (12.2) | | (16.4) | | (24.8) | |
| Total Rebates | 614.8 | 20.7% | 578.0 | 19.2% | 612.7 | 19.0% | 590.4 | 21.8% | 588.6 | 26.5% |
| Other | 12.4 | 0.4% | 2.5 | 0.1% | 1.7 | 0.1% | 4.8 | 0.2% | 8.0 | 0.4% |
| Net Sales | \$ 2,222.5 | 74.8% | \$ 2,200.9 | 73.2% | \$ 2,410.1 | 74.7% | \$ 1,987.5 | 73.3% | \$ 1,544.4 | 67.9% |

(1) Variable Deductions represent fee for service, prompt pay discounts, patient savings card expense and change in the reserves for future returns of product. Variable deductions remain around 5% - 6% with the exception of 2013 Actual driven by higher returns reserve for OxyContin new formula.

(2) Refer to slides X and Y.

(3) Medicare Part D Coverage Gap (i.e., donut hole) increasing significantly due to a number of factors including an increasing Medicare Part D population, price increases and fewer branded drugs in the coverage gap causing OxyContin to represent a larger percentage of the donut hole.

(4) Medicaid business reflects decreasing utilization offset by higher OxyContin rebate rates.

(5) Trade inventory reflects adjustment for changes in trade inventory levels.

(6) Other represents authorized generic transfer price margin under OxyContin settlement agreements (in 2014 Budget Proposal) and Watson MS Contin agreement (in 2011), as well as third party royalty income earned under various agreements.

| Rollforward of Effective Rebate Rate to the 2014 Budget Proposal: | |
|---|-------|
| 2013 Budget | 19.6% |
| Change in Payer: | |
| OxyContin higher than anticipated Commercial sales (Primarily Caremark, Optum and Prime) | 0.7% |
| OxyContin Optum MAPD formulary loss | -0.7% |
| OxyContin higher than anticipated Medicare Part D sales (Primarily Medco, Envision and Caremark) | 1.9% |
| Medicare Part D Coverage Gap Discount Expense | 0.7% |
| Lower OxyContin Medicaid sales, offset by Butrans formulary wins and other | -0.4% |
| 2013 Latest Estimate | 21.8% |
| OxyContin increase in Medicare Part D Rates (Primarily Optum Medicare Part D from 23.5% to 50.6%) | 2.4% |
| OxyContin Medicaid Impact (Primarily Best Price impact of the OxyContin authorized generic settlements) | 1.5% |
| Medicare Part D Coverage Gap Discount Expense | 1.1% |
| Other | -0.2% |
| 2014 Budget Proposal | 26.5% |

2014 Budget Proposal - Third Party Milestones Expense – US: OxyContin

| (\$MMs) | 2009 & Prior ACT | 2010 ACT | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Cumulative Payment |
|---|---------------------|---------------|---------------|----------------|----------------|-------------------------|-------------------------|-----------------------|
| Grunenthal: | | | | | | | | |
| Contract Execution | \$ 23.8 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Broad Claim Patent (assumes patent issued) | - | - | - | 13.2 | - | - | - | |
| Further Claim Patent (assumes patent issued) | - | - | - | 6.6 | - | - | - | |
| McGinity: | | | | | | | | |
| License Fee | 5.0 | - | - | - | - | - | - | |
| NDA Filing in U.S. (OxyContin) | 1.0 | - | - | - | - | - | - | |
| NDA Approval in U.S. (OxyContin) | - | 4.0 | - | - | - | - | - | |
| Total Milestones Paid⁽¹⁾ | \$ 29.8 | \$ 4.0 | \$ - | \$ 19.8 | \$ - | \$ - | \$ - | \$ 53.6 |
| Milestone Amortization Expense⁽²⁾ | \$ 23.8 | \$ 0.2 | \$ 0.6 | \$ 4.2 | \$ 4.2 | \$ 4.2 | \$ 4.2 | |

(1) Ex US milestones paid or to be paid by the end of 2014 total \$27.3 mm (Grunenthal) are not included above.

(2) Milestones incurred prior to FDA approval are expensed immediately (100%). Milestones incurred at or subsequent to FDA approval are amortized through 2017 (over their expected useful life).

2014 Budget Proposal - Historical Laxatives P&L

(\$MMs)

| | 2009 Actual | % Sales | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales |
|------------------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|
| GROSS SALES ⁽¹⁾ | \$ 52.2 | 100.0% | \$ 48.1 | 100.0% | \$ 51.1 | 100.0% | \$ 51.5 | 100.0% | \$ 49.3 | 100.0% | \$ 50.3 | 100.0% |
| NET SALES | 51.1 | 97.9% | 46.9 | 97.5% | 50.0 | 97.9% | 48.8 | 94.8% | 47.9 | 97.3% | 49.3 | 97.9% |
| GROSS PROFIT | 42.0 | 82.1% | 35.9 | 76.5% | 38.9 | 77.7% | 37.6 | 76.9% | 36.4 | 75.9% | 36.2 | 73.4% |
| S&P EXPENSES | | | | | | | | | | | | |
| Marketing Expense ⁽²⁾ | (11.8) | 23.2% | (15.5) | 32.3% | (13.8) | 27.6% | (14.3) | 29.3% | (15.4) | 32.0% | (14.5) | 29.4% |
| Sales Force Expense ⁽³⁾ | (6.2) | 12.1% | (6.3) | 13.4% | (3.9) | 7.7% | (4.6) | 9.5% | (0.7) | 1.4% | (0.7) | 1.4% |
| TOTAL | (18.0) | 35.3% | (21.7) | 46.3% | (17.7) | 35.4% | (19.0) | 38.8% | (16.0) | 33.4% | (15.2) | 30.8% |
| OTHER EXPENSES ⁽⁴⁾ | (11.2) | 21.9% | (1.2) | 2.6% | (1.3) | 2.5% | (1.3) | 2.7% | (0.8) | 1.7% | (0.8) | 1.6% |
| PRODUCT CONTRIBUTION | \$ 12.7 | 24.9% | \$ 13.0 | 27.6% | \$ 19.9 | 39.8% | \$ 17.3 | 35.4% | \$ 19.5 | 40.7% | \$ 20.2 | 41.0% |

Notes:

(1) Laxatives includes Senokot, Senokot S, Colace and Peri-Colace Brands. The Gross Sales impact of product diversion is estimated at \$2.8 mm in 2013 and \$1.0 mm in 2012.

(2) Marketing expenses include consumer advertising, co-op advertising, advertising and agency fees, samples, coupons and others. 2013 Latest Estimate includes samples reserve transferred to S&P from COGS (\$0.6 mm).

(3) Sales force expense includes cost of outside sales agents (Acosta). In 2012 and prior Laxatives were detailed in a tertiary position by sales force.

(4) Other includes estimated R&D market support across Medical Services, Drug Safety, Regulatory and other support functions. 2009 Actual includes \$10.0 mm of costs related to product recall and qualification of Purdue Canada.

2014 Budget Proposal – Butrans Inception to date P&L

(\$MM's)

| | 2009 & Prior Actual | 2010 Actual | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|---|------------------------|----------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|--------|
| Gross Sales | \$ - | \$ - | \$ 73.5 | | \$ 112.9 | | \$ 160.0 | | \$ 144.7 | | \$ 188.8 | | |
| Fee for Service | - | - | (1.8) | | (2.7) | | (3.4) | | (3.0) | | (3.8) | | |
| Sales Disc. & Allowances/Savings Cards/Discounts ⁽¹⁾ | - | - | (12.6) | 24% | (19.9) | 25% | (15.4) | 21% | (14.2) | 24% | (13.8) | 28% | |
| Rebates ⁽²⁾⁽³⁾ | - | - | (3.1) | | (6.1) | | (14.3) | | (17.2) | | (25.7) | | |
| Net Sales | - | - | 55.9 | | 84.1 | | 126.9 | | 110.3 | | 135.5 | | 22% |
| COGS | - | (0.9) | (10.2) | 18.3% | (13.1) | 15.5% | (15.0) | 11.8% | (11.3) | 10.2% | (15.4) | 11.4% | |
| COGS/Shipping & Warehousing | - | (0.9) | (6.9) | | (8.5) | | (7.1) | | (5.1) | | (7.9) | | |
| Royalty Expense/Amount of Milestone Pymt. ⁽⁴⁾ | - | - | (3.4) | | (4.5) | | (7.3) | | (6.1) | | (7.3) | | |
| Gross Profit | - | (0.9) | 45.7 | | 71.1 | | 111.9 | | 99.0 | | 120.0 | | |
| Product Spending | - | (6.7) | (120.5) | 215.5% | (105.9) | 125.9% | (100.5) | 79.2% | (96.7) | 85.5% | (88.1) | 66.0% | 11% |
| Marketing Expense ⁽⁵⁾ | 0.0 | (6.7) | (28.1) | | (20.4) | | (22.5) | | (21.9) | | (23.7) | | |
| Sales Force Expense ⁽⁶⁾ | 0.0 | 0.0 | (92.4) | | (85.5) | | (76.7) | | (76.8) | | (64.4) | | |
| Other Expenses | - | - | - | | - | | - | | - | | - | | |
| G & A Allocation at 6% of net sales | 0.0 | 0.0 | (3.4) | | (5.1) | | (7.6) | | (6.6) | | (8.1) | | |
| Legal Fees ⁽⁷⁾ | 0.0 | (0.2) | (0.7) | | (0.9) | | (2.4) | | (1.0) | | (1.0) | | |
| R&D/Market Support ⁽⁸⁾ | 0.0 | (8.9) | (22.2) | | (17.9) | | (24.7) | | (17.9) | | (15.6) | | |
| Health Care Reform Fee ⁽⁹⁾ | - | - | - | | (1.2) | | (1.7) | | (1.1) | | (1.6) | | |
| Product Contribution | \$ - | \$ (16.8) | \$ (101.1) | -186.8% | \$ (59.2) | -70.3% | \$ (25.0) | -19.7% | \$ (26.4) | -23.9% | \$ 5.6 | 4.2% | 121% |
| Pre-Launch R&D | (491.2) | - | - | | - | | - | | - | | - | | |
| R&D on Higher Strengths and 2nd Generation Patch | - | (29.1) | (13.5) | | (24.0) | | (14.2) | | (1.3) | | - | | |
| Net Contribution | \$ (491.2) | \$ (42.9) | \$ (114.6) | -204.9% | \$ (83.2) | -88.9% | \$ (19.2) | -38.9% | \$ (27.7) | -25.1% | \$ 5.6 | 4.2% | |

Notes:

- (1) Lower expenses after 2012 reflects decreasing estimates of returns offset by increasing savings card discount expense.
- (2) Increase in blended rebate rate from 11.9% in 2013 to 18.9% in 2014 is primarily due to (a) formula wins in Medicare Part D and commercial (4.4%), (b) higher Medicaid rebates due to inflation adjustment and best price being lowered as a result of additional price protection rebates as a result of 2014 price increases being higher than the price reset (0.8%), (c) additional price protection rebates on commercial and Medicare Part D (1.5%) and (d) higher Medicare Part D coverage gap discount expense (0.4%).
- (3) The increase in blended rebate rate from 9% in the 2013 Budget to 11.9% in the 2013 Latest Estimate is due to higher Commercial sales (1.1% (Medco, ESI, Aetna and Envision), TRICARE sales (0.6%), higher blended rebate rates for commercial (0.9%) and higher Medicare Part D Coverage Gap expense (0.3%).
- (4) Royalty is paid to LTS at 5.5% of net sales.
- (5) Marketing expenses include marketing education programs, market research, journal advertising, agency fees, e-marketing, patient savings card admin fees, conventions and other special promotions.
- (6) Sales force allocation is based upon call position and cost per call. Butrans primary calls are weighted at 82% in 2012 Actual, 58% in 2013 Latest Estimate and 33% in 2014 Budget Proposal.
- (7) Legal fees cover pre-litigation activities, responses to Paragraph 4 challenges and document review costs.
- (8) R&D 2014 Budget comprises Butrans pediatric program (\$3.3 mm), PDUPA fees (\$0.8 mm), allocated people costs across all of R&D (\$3.9 mm), adverse events and product complaints processing (\$4.1 mm) and all other (\$3.5 mm).
- (9) Represents Purdue's portion of the \$2.8 billion industry fee, which is allocated to Butrans based on estimated prescription drug sales to the government.

2014 Budget Proposal –Intermezzo Inception to date P&L

| (\$MMs) | Milestones | 2010 Actual | 2011 Actual | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal |
|---|------------|----------------|----------------|----------------|---------|----------------|------------|-------------------------|------------|-------------------------|
| Gross Sales | \$ - | \$ - | \$ - | \$ 16.6 | | \$ 57.6 | | \$ 13.9 | | See Note 1 |
| Fee for Service | - | - | - | (0.4) | 66% | (1.1) | 24% | (0.3) | 14% | |
| Sales Discounts & Allowances | - | - | - | (9.9) | | (6.9) | | (0.0) | | |
| Savings Cards Discounts | - | - | - | (0.6) | | (2.2) | | (1.4) | | |
| Rebates | - | - | - | (0.1) | | (2.4) | | (0.3) | | |
| Net Sales | - | - | - | 5.6 | | 44.0 | | 11.9 | | |
| COGS/Shipping & Warehousing | - | - | - | (2.4) | 43.3% | (3.6) | 6.2% | (3.6) | 30.5% | |
| Royalty Expense | - | - | - | (0.8) | 13.9% | (6.6) | 15.0% | (1.7) | 14.4% | |
| Gross Profit | - | - | - | 2.4 | | 33.8 | | 6.6 | | |
| Product Spending | - | (1.6) | (3.0) | (7.6) | N/A | (61.2) | N/A | (50.7) | N/A | |
| Marketing Expense | 0.0 | (1.6) | (3.0) | (33.4) | | (36.6) | | (31.0) | | |
| Sales Force Expense - ISF | 0.0 | 0.0 | 0.0 | (45.1) | | (20.9) | | (10.5) | | |
| Sales Force Expense - SF Allocation (Note 2) | - | - | - | - | | (3.7) | | (9.2) | | |
| Other Expenses | | | | | | | | | | |
| G & A | 0.0 | 0.0 | 0.0 | (0.2) | | (1.3) | | (1.2) | | |
| Legal Fees | 0.0 | 0.0 | 0.0 | (0.4) | | (0.5) | | (1.5) | | |
| R&D Market Support | 0.0 | 0.0 | 0.0 | (2.7) | | (0.4) | | (1.5) | | |
| Transcript Contribution | - | - | - | - | | 10.0 | | 8.6 | | |
| Other Expense/Milestones (Note 3) | (45.0) | - | - | - | | 0.0 | | 0.0 | | |
| Product Contribution | \$ (45.0) | \$ (1.6) | \$ (3.0) | \$ (79.4) | N/A | \$ (79.5) | N/A | \$ (39.7) | N/A | |

Note 1 - 2014 Budgeted Gross Sales are estimated to be between \$10MM-\$11MM. Product Contribution is expected to be break even.

Note 2 - Increase from 2013 Forecast due to higher PDEs as a result of a) Tertiary calls as % of primary calls at 70% versus 35% in original budget and b) Limited Intermezzo Primary calls in Q3 and Q4 2013 (approximately 10% versus 35% in original budget).

Note 3 - Reflects upfront milestone payments (\$25MM paid in 2009) and IP payment for orange book listings (\$20MM paid in 2012).

2014 Budget Proposal – Assumptions

A. Sales

OxyContin:

1. ERO market and OxyContin Rx's ⁽⁴⁾ are projected as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Proposed |
|------------------------|----------------|----------------|-------------------------|------------------|
| Total ERO Market Rx's | 26.0MM | 26.4MM | 26.1MM | 25.0MM |
| OxyContin Rx's (a) | 6.1MM | 5.8MM | 5.5MM | 4.6MM |
| OxyContin Share of ERO | 23.5% | 22.0% | 21.1% | 18.4% |

(a) Restated to correct for a 6% overstatement recently acknowledged by IMS.

2. OxyContin price increased by 5.5% in February 2013 and is budgeted to increase 7.0% in February 2014 resulting in a Net Sales increase of approximately \$80.7 million net of all expected rebate impacts. The following is an excerpt from the supporting documentation for the Board approved price increase recommendation:

| | | |
|---|--------------|-------------|
| Gross Sales impact of 7% price increase effective February 1st | 149.4 | |
| Impact on rebates: | | |
| Blended rebate rate in unofficial outlook of 24.3% on increase in sales | (36.3) | 24.3% |
| Impact of inflation penalty on Medicaid rebates | (13.9) | 9.3% |
| Impact of price protection on Medicaid rebates (price protection rebates lower "Best Price" which increases Medicaid rebates) | (2.0) | 1.3% |
| Impact of price protection on commercial rebates | (6.3) | 4.2% |
| Impact of price protection on Medicare Part D rebates | (4.2) | 2.8% |
| Fee For Service | (3.0) | 2.0% |
| Sales Discounts | (3.1) | 2.1% |
| Net Sales impact of 7% price increase effective February 1st | 5 | 80.7 |

2014 Budget Proposal – Assumptions

3. Branded competition in 2013 includes Opana ER, Exalgo and Nucynta ER. Embeda is assumed to be on the market in 2014 and per Pfizer's press release minimal non-field force promotion is expected so minimal impact is anticipated.
4. Major events/assumptions impacting the forecast include:
 - a. Opana ER from Endo has two non-therapeutically equivalent generics on the market -- so promotion on the brand is expected to be light.
 - b. Exalgo from Mallinckrodt is expected to have generic completion on three strengths in November 2013 and the fourth strength in May 2014 under a patent settlement agreement with Actavis -- so promotion of the brand is expected to be light.
 - c. These generics could become new managed care offerings preferred by payers -- putting further pressure on Purdue brands.
 - d. Purdue's 525 sales representatives will deliver 758,164 sales calls in 2014 with a 67:33 primary call split between OxyContin and Butrans (in 2013 the estimated call split is 278,849 / 406,556). This is up from 698,225 / 18% OxyContin primary and 680,970 / 40% OxyContin primary sales calls in 2012 and 2013 (September ytd annualized), respectively. As a result OxyContin primary sales calls are expected to increase by 308% and 81% versus 2012 and 2013, respectively.
 - e. Losses in OxyContin managed care coverage include United Healthcare MAPD plans effective 1.1.2013 (peak loss of sales of \$60 million), Medco PDP plans effective 1.1.2014 (peak loss of sales of \$46 million) and Humana commercial plans effective 1.1.2014 (peak loss of sales of \$11 million).

2014 Budget Proposal – Assumptions

- f. Settlement agreements with Actavis, Ranbaxy, Par and a contingency for other possible settlements will result in a gross sales reduction of about \$261 million in 2014 and a net profit reduction of about \$200 million.
(\$000's)

| | Ranbaxy | Actavis | Par | Contingency | Total |
|---------------------------------------|---------------|----------------|---------------|---------------|----------------|
| Gross Sales | \$ (74,045.4) | \$ (139,438.1) | \$ (27,077.8) | \$ (20,725.2) | \$ (261,286.4) |
| Deductions: | | | | | |
| Fee for Service | 1,498.7 | 2,822.2 | 548.1 | 419.5 | 5,288.4 |
| SD&A | 1,488.3 | 2,802.7 | 544.3 | 416.6 | 5,251.9 |
| Savings Card Discounts | 1,396.5 | 2,629.8 | 510.7 | 390.9 | 4,927.9 |
| Rebates (excluding Best Price impact) | 19,101.5 | 35,970.9 | 6,985.2 | 5,346.5 | 67,404.1 |
| Proposed Regulation | 1,066.3 | 2,007.9 | 389.9 | 298.4 | 3,762.5 |
| Medicaid Best Price Impact | (6,962.9) | (13,112.1) | (2,546.3) | - | (22,621.2) |
| Net Sales | (56,457.0) | (106,316.7) | (20,645.8) | (13,853.3) | (197,272.9) |
| COGS and S&W | (1,630.9) | (3,071.9) | (624.0) | (477.6) | (5,804.4) |
| Transfer Price | 3,978.2 | 3,076.9 | 1,374.6 | 1,052.1 | 9,481.8 |
| Gross Profit | \$ (54,109.7) | \$ (106,311.7) | \$ (19,895.2) | \$ (13,278.8) | \$ (193,595.5) |

These and other settlements will impact OxyContin sales in 2015 and beyond. The 2015 impact is now projected at \$230.5 million and \$158.2 million, gross sales and gross profit, respectively.

- g. Further actions anticipated by pharmacies, pharmacy boards, wholesalers and state governments and impact of the new label are estimated to reduce demand by \$169 million in 2014.
- h. The E2E sales force effectiveness initiatives are assumed to have a favorable impact on 2014 sales – adding \$71 million of gross sales to the 2014 budget.

2014 Budget Proposal – Assumptions

5. Trade inventory assumptions: (at Gross sales value – in thousands)

| | 2012 Actual | | 2013 Latest Estimate | | 2014 Budget Proposal | |
|--|-------------------|----------------|----------------------|----------------|-----------------------------|----------------|
| | Dollars | Months on Hand | Dollars | Months on Hand | Dollars | Months on Hand |
| Wholesaler - Beginning | 222,435 | 0.97 | 273,167 | 1.22 | 176,003 | 0.91 |
| Pharmacy - Beginning | 197,639 | 0.86 | 215,911 | 0.96 | 223,639 | 1.16 |
| Opening Trade Inventory at WAC ⁽¹⁾ | \$ 420,074 | 1.82 | \$ 489,077 | 2.18 | \$ 399,641 | 2.07 |
| Wholesaler - Ending | 273,167 | 1.22 | 176,003 | 0.91 | 123,676 | 0.91 |
| Pharmacy - Ending | 215,911 | 0.96 | 223,639 | 1.16 | 164,089 | 1.21 |
| Closing Trade Inventory WAC ⁽¹⁾ | \$ 489,078 | 2.18 | \$ 399,641 | 2.07 | \$ 287,765 | 2.12 |
| Increase/(Decrease) in Inventory @ WAC | \$ 69,004 | | \$ (89,435) | | \$ (111,876) ⁽²⁾ | |

(1) Excludes Hospital/Other Inventory

(2) Decrease in inventory value from 12/31/13 to 12/31/14 due to forecasted decline in demand resulting from generic competition

6. Managed care formulary coverage is assumed to be as follows:

| | 2013 | | 2014 |
|-------------------------------------|------|--------------------|--------------------|
| | Goal | Actual (Sept 2013) | Projected |
| Commercial (208mm lives) | | | |
| Tier II (Preferred) | 65% | 85% | 84% ⁽²⁾ |
| Tier III | 5% | 4% | 3% |
| Restricted Access | 0% | 5% | 5% |
| Not on Formulary | 10% | 6% | 8% |
| Medicare Part D (33mm lives) | | | |
| Preferred | 56% | 81% ⁽¹⁾ | 32% ⁽³⁾ |
| Non-Preferred | 10% | 12% | 21% |
| Not on Formulary | 33% | 37% | 47% |

Explanation of Changes in Formulary Coverage:

1. United Healthcare MAPD plans were removed from formulary, effective 1/1/13.
2. Humana shift from Tier II to restricted access, effective 1/1/14.
3. Medco/ESI PDP plans will be removed from formulary, effective 1/1/14.

2014 Budget Proposal – Assumptions

7. Managed care payer and blended rebate assumptions are as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate ¹ | 2014 Budget ^{1,2} |
|--------------------|-------------|-------------|-----------------------------------|----------------------------|
| Commercial | 48.51% | 50.10% | 50.27% | 50.32% |
| Medicare Part D | 22.90% | 26.90% | 28.19% | 26.65% |
| Tricare | 2.60% | 2.60% | 2.66% | 2.67% |
| Medicaid | 10.22% | 9.70% | 9.42% | 9.41% |
| Cash / Non-Rebated | 15.77% | 10.70% | 9.46% | 10.95% |
| | 100.00% | 100.00% | 100.00% | 100.00% |

1. The payer percentages experienced in Q1 2013 are expected to continue through Q4 2014.
2. The impact of settlements is assumed to be evenly spread pro rata across all channels (payer rates will be the same before and after settlements).

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget |
|------------------------------|-------------|-------------|----------------------|-------------|
| Commercial ³ | 15.23% | 15.20% | 18.32% | 20.23% |
| Medicare Part D ² | 25.91% | 28.00% | 29.70% | 39.66% |
| Tricare ⁴ | 40.17% | 22.20% | 26.11% | 27.11% |
| Medicaid ^{4,5} | 28.52% | 29.30% | 33.99% | 51.12% |

1. Increase driven by (a) increase in Medco / Express Scripts blended rebate increase to 21.7% from 19.6% and 15.6% respectively and (b) impact of price protection rebates.
2. Increase driven by higher rates offered to maintain business, primarily Optum (from 23.5% to 50.0%).
3. Increase in rate due to price increases outpacing inflation. 2011 reflects Purdue offer to pay new formulation utilization at the original formulation rate through the end of 2011.
4. Increasing rates driven by price increase impact on inflationary penalty, as well as on Best Price due to higher commercial rates offered via price protection.
5. Assumes all settlement licenses of authorized generic product are limited to the 10mg, 20mg, 40mg and 60mg and all 2014 shipments occur in Q3 2014. The 2014 Medicaid rate reflects an effective rate of 85% in Q3 2014 as a result of the impact of authorized generic shipments on the Best Price of the 10mg, 20mg, 40mg and 60mg, which will result in additional Medicaid rebate expense of approximately \$22.6 million.

2014 Budget Proposal – Assumptions

8. Shelf life of OxyContin is increased from 24 to 36 months in late 2013 — reducing future return expectations.
9. Savings card assumes continuation of the \$25 / \$90 cost parameter for eVoucher and paper Savings card program with a savings target goal of \$3 million. Program assumes continued increase in redemption rate due to trending and addition of Walgreens to eVoucher program. Total budget redemption cost for OxyContin is \$34.3 million, inclusive of savings target.

Butrans:

1. ERO market and OxyContin Rxs are projected as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Proposed |
|-----------------------|----------------|----------------|-------------------------|------------------|
| Total ERO Market Rx's | 26.0MM | 26.4MM | 26.1MM | 25.0MM |
| Butrans Rx's | 278k | 469k | 541k | 610k |
| Butrans Share of ERO | 1.07% | 1.8% | 2.1% | 2.4% |

2. Butrans price budgeted to increase by 9.5% in January 2014 and 6% in August 2014 resulting in a Net sales increase of approximately \$10.0 million, as per the memo to the Board supporting the price increase recommendation:

| | | |
|---|-------|-------|
| Gross Sales impact of price increase proposal (Note 2) | 23.6 | |
| Impact on rebates: | | |
| Blended rebate rate in unofficial outlook of 18% on increase in sales | (4.3) | 18.0% |
| Impact of inflation penalty on Medicaid Rebates | (2.1) | 8.8% |
| Impact of price protection on Medicaid rebates | (1.0) | 4.2% |
| Impact of price protection on commercial rebates | (3.2) | 13.4% |
| Impact of price protection on Medicare Part D rebates | (2.1) | 8.9% |
| Fee For Service | (0.5) | 2.0% |
| Sales Discounts | (0.5) | 2.1% |
| Net Sales impact of 7% price increase effective February 1st | \$ | 10.0 |

2014 Budget Proposal – Assumptions

3. Major events impacting the forecast include:
 - a. Improved Tier 2 commercial managed care coverage, see table below, resulting in a 1.16 % increase in forecasted Rx's.
 - b. Improved Medicare Part D coverage resulting in a 1.15 % increase in forecasted Rx's.
 - c. Decrease in primary sales calls from 406,556 in 2013 to 252,469 in 2014, net of improved call targeting is expected to reduce demand by \$2 million.
 - d. The new 15 mcg patch launched in October 2013.
4. 2013 assumes formulary coverage changes as follows:

| | 2013 | | 2014 |
|-------------------------------------|------|--------------------|-----------|
| | Goal | Actual (Sept 2013) | Projected |
| Commercial (208mm lives) | | | |
| Tier II (Preferred) | 35% | 33% | 43% (1) |
| Tier III | 38% | 44% | 34% |
| Restricted Access | 16% | 14% | 13% |
| Not on Formulary | 11% | 9% | 10% |
| Medicare Part D (33mm lives) | | | |
| Preferred | 10% | 12% | 23% (2) |
| Non-Preferred | 7% | 13% | 15% |
| Not on Formulary | 75% | 75% | 62% |

Changes in formulary coverage and estimated peak sales impact:

1. Increase driven by formulary wins of Caremark [\$9.2 million], Cigna [\$1.7 million], Optum [\$5.4 million], Prime [\$4.6 million] and Med Impact [\$4.8 million].
2. Increase driven by formulary wins of ESI/Medco [\$3.8 million], Optum [\$3.6 million], CIGNA [\$1.2 million], Med Impact [\$1.1 million], Envision [\$0.8 million] and Healthnet [\$0.5 million].

2014 Budget Proposal – Assumptions

5. Butrans payer percentages (i.e., Split of sales between commercial, Medicare Part D, Medicaid, Tricare and Cash or Non-Rebated) experienced in Q1 2013 to continue through Q4 2014, other than formulary gains for commercial (Caremark, Cigna, Optum, Prime and Med Impact) and Medicare Part D (Optum, Med Impact and Envirovision).

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget Proposal |
|----------------------|-------------|-------------|----------------------|----------------------|
| Commercial | 0.53% | 7.10% | 30.05% | 45.67% |
| Medicare Part D | 0.00% | 0.29% | 1.73% | 6.57% |
| Tricare | 3.58% | 5.12% | 5.08% | 5.08% |
| Medicaid | 3.34% | 5.80% | 6.45% | 6.45% |
| Cash/Reb. Ineligible | 92.55% | 81.70% | 56.68% | 36.22% |
| | 100.00% | 100.00% | 100.00% | 100.00% |

6. Butrans rebate rate assumptions are as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget |
|------------------------------|-------------|-------------|----------------------|-------------|
| Commercial ¹ | 18.25% | 15.92% | 18.99% | 21.61% |
| Medicare Part D ¹ | 0.00% | 25.07% | 29.62% | 31.65% |
| Tricare ² | 22.89% | 26.69% | 32.66% | 33.66% |
| Medicaid ³ | 23.98% | 28.32% | 35.47% | 47.18% |

1. Higher rates driven by price protection rebates triggered by price increases.

2. Higher rate reflects voluntary rebate offered to drive growth.

3. Increasing rates driven by price increase impact on inflationary penalty, as well as on Best Price due to higher commercial rates offered via price protection.

2014 Budget Proposal – Assumptions

7. Trade inventory was \$22.3 million at 12/31/2012 and is assumed to be \$31.0 million at 12/31/2013 and \$31.0 million at 12/31/2014.
8. LTS West Caldwell plant is qualified to supply Butrans becoming a backup to the German facility and effectively increasing the remaining shelf life when shipped from 16 to 17 months.
9. Savings card assumes continuation of the \$15/\$50 cost parameter for eVoucher and paper Savings Card program and \$0/\$100 offering for the trial card. Total budget redemption cost for Butrans is \$9.7 million.

TARGINIQ

In Q3 2013 Purdue files a NDA for Targiniq with a pain indication. Timing of approval, final labeling and more are uncertain so the sales and launch costs for Targiniq are not included in the budget. Prelaunch expenses of \$11.7 million are included in the budget (S&P \$9.2 million, R&D \$1.8 million and Tech Ops \$0.7 million). To give a sense of what a first year Targiniq P&L might look like the numbers below from the most recent 10 year plan are a guide:

| (\$ millions) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------------------|------------------|------------------|------------------|-----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| Gross Sales | - | - | \$ 41.3 | \$ 130.3 | \$ 192.2 | \$ 301.3 | \$ 310.0 | \$ 31.0 | \$ 20.3 | \$ 14.5 |
| Net Sales | - | - | 31.1 | 95.7 | 137.6 | 210.2 | 216.3 | 25.4 | 17.4 | 12.4 |
| Cost of Sales | - | - | 3.3 | 10.3 | 15.2 | 23.8 | 24.5 | 2.4 | 1.6 | 1.1 |
| Gross Margin | - | - | 27.8 | 85.5 | 122.5 | 186.4 | 191.8 | 22.9 | 15.8 | 11.3 |
| Total Operating Expenses | 58.5 | 12.5 | 94.1 | 88.5 | 82.4 | 87.2 | 41.5 | 3.6 | 3.5 | 0.4 |
| Operating Income / (loss) | \$ (58.5) | \$ (12.5) | \$ (66.3) | \$ (3.0) | \$ 40.1 | \$ 99.3 | \$ 150.4 | \$ 19.3 | \$ 12.3 | \$ 10.9 |

Note – The 10 year plan assumed that sales force would be reallocated from OxyContin and Butrans to Targiniq. This position will be revisited in the coming months.

Note – The 10 year plan P&L above is for the first full 12 months of commercialization. If approved in 2014 the 2014 commercialization period would be shorter.

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2014 Budget Proposal – Assumptions

INTERMEZZO

In the 4th quarter 2013, Purdue is in negotiations to sell its interest in Intermezzo to Transcept. The terms, and conditions of such a sale would likely require Purdue to continue to commercialize Intermezzo for several months into 2014. During those months Purdue would seek to have a financial breakeven on any Intermezzo activity. Due to the uncertainty of a transaction and timing of a transition of the product back to Transcept the 2014 budget shows Intermezzo 2014 activity as a breakeven on the Other Expense line.

B. Pipeline projects, if successful, would launch as follows:

- Targiniq
 - Pain Q4 2014
 - Pain + OIC Q2 2017
- BuTrans (additional strengths) Q4 2014
- BuTrans (Second Generation) Q1 2017
- HYD Q1 2015
- TRPV1 Q4 2020
- M5 Contin Reformulation Q2 2017
- Oxycodone IR TR Q2 2015

C. Fee for Service

Fee for Service agreements have been entered into with wholesalers accounting for 98.43% of Rx sales. These agreements call for a fee to be paid for wholesaler inventory management and data services. In 2013 and 2014 the average fee is approximately 2.01% and 1.98% of gross Rx sales respectively. The reduced rate is largely due to mix in sales between wholesalers which have different rates. The fee is reduced by the profit wholesalers earn marking inventory to market when Purdue increases its price, to the extent that they hold inventory levels above their “allowed levels”. This reduction in expense (i.e., credit) is reflected in Sales Discounts & Allowances in the P&L – in 2014 we assume wholesalers’ inventory levels are at their “allowed levels” and there is no reduction in fees.

2014 Budget Proposal – Assumptions

D. 3rd Party Royalty Income (and AG transfer price margin)

- a. Patent litigation settlements operate under authorized generic supply agreements. Authorized generic settlement income is calculated as the net value of transfer price income received above the cost of manufacturing and shipping the AG product. The following parties and bottles are assumed to be shipped in the third quarter of 2014:
 - Actavis (125,000 bottles)
 - Ranbaxy (67,200 bottles)
 - Par (43,500 bottles)
 - Contingency (33,295 bottles)
 - \$3.7 million of AG transfer price margin is included in the 2014 budget on this P&L line related to these licenses.
- b. Noramco royalties of 2.5% on sales of their low ABUK active pharmaceutical ingredient continue at current rate through 2014.
- c. Royalties from King at 3% of net sales related to Embeda not budgeted. No royalty income has been budgeted due to Pfizer's announcement that the product would return to market in late 2013 but with minimal non-rep promotion.
- d. HIKMA \$3.5 million upfront license fee (hydromorphone pure API patent license) received in 2012 is amortized over the first five years of the agreement.

E. 3rd Party Royalty Expense

- a. McGiverty - royalty @ 2.0% of net sales. Note: royalty was reduced from 2.5% in September 2010 upon initiation of Grunenthal royalty obligation.
- b. Grunenthal - royalties commenced when the Grunenthal patent was listed in the Orange Book (9/2010). Royalty @ 4.0% for the first \$1 billion annual net sales, 3.0% for the next \$1 billion annual net sales, and 2.0% for all remaining net sales over \$2 billion. (Annual minimum 20 million Euros and maximum 50 million Euros). 2013 is the first year that this royalty fell below the 50 million Euro maximum.
- c. LTS - royalty paid at 5.5% of net sales of Butrans.
- d. Perrigo - \$200k royalty per year related to Butrans license agreement.
- e. Transcept - royalty paid at 15.0% of net sales of Intermezzo through 2013. In 2014 the budget does not include Intermezzo sales or expense - see above.
- f. NOTE - the McGiverty and Grunenthal royalties in the 2014 budget assume that Purdue does not pay a royalty on sales of the AG product authorized under patent settlements when that product is sold by Actavis and the other licensees to third parties. This is based on advice from counsel.

F. Inflation Factor

3% inflation on all costs except compensation and energy. Oil and energy cost based on mid 2012 pricing unless a long term contract is in place. For compensation, see below.

2014 Budget Proposal – Assumptions

G. Human Resources

a. Total 2013 compensation is estimated at ---

| | Mid Year Update | Latest Estimate | |
|----------------------|-----------------------|-----------------------|---|
| | <u>FY Plan</u> | <u>FY Est.</u> | <u>Comments</u> |
| Salaries - Exempt | \$ 142,777,203 | \$ 125,696,913 | Driven by open positions |
| Salaries- Non Exempt | \$ 17,921,488 | 15,532,392 | Driven by open positions |
| Secr. & Clerical OT | \$ 1,350,460 | 1,002,294 | |
| Part-Time Payroll | \$ 1,242,409 | 1,402,428 | |
| Annual Bonus | \$ 26,634,583 | 27,342,291 | Estimate provided by HR |
| Home Office | \$ 189,926,143 | \$ 170,976,318 | |
| Salaries- RMs | \$ 2,487,847 | 2,187,769 | |
| Salaries- DMs | \$ 8,624,456 | 7,592,180 | |
| Salaries- Reps. | \$ 42,732,320 | 39,257,817 | |
| sub-total | \$ 53,844,623 | \$ 49,037,765 | |
| Incentive Bonus Reps | \$ 22,712,415 | 20,150,183 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| Incentive Bonus DM | \$ 4,698,900 | 3,958,663 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| Incentive Bonus RM | \$ 1,021,500 | 968,749 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| sub-total | \$ 28,432,815 | \$ 25,077,595 | |
| Field | \$ 82,277,438 | \$ 74,115,360 | |
| Payroll Taxes | \$ 17,097,340 | 17,190,218 | Taxes will be favorable - straight line formula over inflates FY Est. |
| Fringe Benefits | 75,219,071 | 73,302,137 | Driven by open positions |
| Fleet | 17,282,796 | 14,118,262 | Driven by Intermezzo Sales Field |
| Total | 381,802,787 | 349,702,296 | |

- b. Vacant and new headcount are budgeted at the mid-point of the target grade level compensation.
- c. Salaries and target bonuses will be budgeted to increase by 4.5% (includes 3.0% merit and an allowance of 1.5% for promotions and market place adjustments). The new salaries are budgeted to be effective April 1, 2014. Subject to Compensation Committee approval.

2014 Budget Proposal – Assumptions

- d. The healthcare component of benefit program expenses are budgeted to increase by 3.1%. Information regarding total healthcare costs, cost per employee and the split of costs paid between employee and employer follows:

| | 2012 | 2013 | 2014 |
|--|----------|----------|----------|
| Total cost of healthcare (in millions) | \$24.5 | \$26.6 | \$27.2 |
| Cost per employee | \$13,395 | \$13,974 | \$14,318 |
| Employer vs. employee split: | | | |
| Employer | 76% | 75% | 74% |
| Employee | 24% | 25% | 26% |

- e. Non-field bonuses have been budgeted in the Incentive line in the P&L. The 2013 Latest Estimate assumes the same award as 2012 and the 2014 Budget assumes a 100% award.
- f. Field sales bonuses related to 2013 and 2014 are assume to be paid at 89% and 100% of target, respectively.
- g. Field sales bonuses are budgeted in the S&P line.
- h. For employees that are eligible for LTRIP bonus grants, we have assumed funding at 85% of each employee's target.
- i. We assume no change to matching contributions and Employer Retirement Contributions to the 401(k) Plan or the defined benefit plan benefit formula. We have made the following actuarial assumptions in estimating the defined benefit plan funding and expense:
- Return on assets of 7% for 2013 and 2014
 - Discount rates for the net periodic benefit cost for the years ended December 31, 2013 and 2014 are 3.95% and 4.80%, respectively
 - The discount rate used for determining the pension benefit obligation for each of the years ended December 31, 2013 and 2014 is 4.80%.
 - Our goal is to fund the plans to about 95% of the plan liability as defined by ERISA.
 - PPLP pension funding for the years ended December 31, 2013 and 2014 are estimated at \$10.5 million and \$13.0 million, respectively.
 - PF Labs pension funding for the years ended December 31, 2013 and 2014 are estimated at \$0.2 million and zero, respectively. (There are no current employees earning benefits in this plan.)

2014 Budget Proposal – Assumptions

H. Facilities

- a. Purdue currently occupies or sublets all space in One Stamford Forum except level 2. Level 4 was taken back on July 1, 2013.
- b. Purdue's sub-lease from UBS of One Stamford Forum for floors 3-8 are budgeted according to the terms of the sub-lease as follows:
 - i. Rent and expenses related to floors 5, 6, 7 and 8 to Purdue operations "above the line" in 2014
 - ii. Rent and expenses related to the unused third floor, net of sub-lease income and the unused 4th floor that is taken back from UBS on July 1st, 2013 is charged to "one-time costs / discontinued operations", which is "below the line" in 2013.

I. Technical Operations

- a. Wilson remains the primary commercial manufacturing site for OxyContin, M5 Contin, and Rhodes Pharma's MSER (Morphine Sulfate Extended Release) with 2014 forecasted tablet production of 852 million tablets, up 32% versus the 2013 Latest Estimate. Wilson will also supply authorized generic product to meet the OxyContin settlements requirements and will prepare for the launch of Targiniq and Rhodes Pharma's oxycodone APAP. Wilson will supply OxyContin to Australia and Mundi Pharma as the number of countries supported is expected to increase to over 20 which is up from ~16 in 2013. The site will continue to support technology transfers and development activities for existing and pipeline products such as Targiniq, Hydrocontin, OCI (Immediate Release-Tamper Resistant Oxycodone), and MSR (M5 Contin Reformulation - Tamper Resistant) through the Pharmaceutical Technology group.
- b. Totowa will continue to maintain readiness as a fully qualified OxyContin back-up site in 2014. The Totowa lab will continue to provide release and stability testing in support of Totowa Readiness and Rhodes Pharmaceuticals development activity.
- c. The Wilson warehouse and distribution center will continue to provide commercial distribution for Purdue products such as OxyContin, M5 Contin and Dilaudid. Wilson will also continue to distribute existing Rhodes Pharmaceuticals products such as MSER (Morphine Sulfate Extended Release) and Dilaudid Authorized Generic and is prepared to support the anticipated 2014 launches of Oxy APAP (Oxycodone/ Acetaminophen) and HYD APAP (Hydrocodone/ Acetaminophen).
- d. Project Breeze (new manufacturing facility) is progressing as planned and will break ground Q1 2014 in the Treyburn Corporate Park in Durham, North Carolina.
- e. The 2014 budget assumes the following purchases of Oxycodone from Rhodes Technologies:

| Purdue Oxycodone Purchases from Rhodes Technologies 2014 Budget | | |
|--|---------------|----------------|
| | kilos | \$'s (MM's) |
| Commercial Requirements | 13,502 | \$ 44.1 |
| Development Requirements | 657 | \$ 2.1 |
| Total 2014 Requirements | 14,159 | \$ 46.3 |

2014 Budget Proposal – Assumptions

J. S&P

- a. Purdue Sales Calls: Primary position split OxyContin/Butrans (67/33).
- b. Sales Force achieves the following call goals:
 - i. 7.3 calls per day (up from 6.9 in 2013)
 - ii. Days on territory of 204.9 or 79% (up from 200.9 or 77% in 2013)
 - iii. Vacancy rate of 3.3% down from 3.7% in 2013
 - iv. 1,497 calls per rep per year (up from 1,385 in 2013)
- c. 2014 product related assumes:
 - i. Zero for Intermezzo
 - ii. \$9.2 million for Targiniq pre-approval spend (includes Market Research)
 - iii. \$6.9 million for HYD pre-approval spend (includes Market Research)

K. R&D

- a. Key drivers / objectives of the clinical programs include:
 1. Targiniq: complete GI motility study and continue phase 3 studies for pain + OIC indication.
 2. Hydriocodone: complete phase 3 efficacy and safety studies, develop ISS/ISE and file NDA.
 3. Pediatric Programs
 - Reformulated OxyContin - complete pivotal pediatric exclusivity study and prepare BPCA filing.
 - Butrans - continue study that meets PREA requirements.
 - HYD - commence study to meet PREA requirements.
 4. MS Contin TR: complete pilot PK to determine optimal formulation and initiate phase 1 BE studies.
 5. Butrans 2nd Generation: initiate site transfer to West Caldwell NJ and initiate phase 1 studies.
 6. ADIR Oxycodone: complete BE and pivotal abuse liability studies and file NDA.
 7. Butrans Additional Strengths: continue to pursue label modification strategy.
 8. ORL-1: complete dental pain POC study and initiate multiple ascending dose and other phase 1 studies.
 9. TRPV-1: complete proof of concept study in PHN and initiate phase 2 POC study in DPN.
- b. Initiate the bridging studies for Nav1.7 and Mu Opioid compounds.
- c. 7% of Discovery research headcount is budgeted to Shionogi collaboration work (primarily ORL-1 backup). The balance dedicated to Purdue research.
- d. Continue to meet FDA requirements for Reformulated OxyContin and Butrans as it pertains to post market support, REMS and classwide REMS.
- e. The 2014 Budget Proposal includes minimal carryover spend for Intermezzo.
- f. The underspend estimate included in consolidated R&D Expense is \$28.2 million.

2014 Budget Proposal – Assumptions

L. Licensing & Business Development

- a. Possible new product licenses or acquisitions have not been included in the 2014 budget. These will be presented to the Board for approval on a project-by-project basis, when the economics, timing and justification are known.
- b. A €2.5 million milestone is assumed to be paid under the Grunenthal patent license agreement for OxyContin-RF marketing authorization in Asia.
- c. A €3 million milestone is assumed to be paid under the Grunenthal patent license agreement at the grant of final U.S. FDA approval to market the first Hydrocodone-TRF Product. Budget assumes April 2014 NDA filing and expedited approval in October 2014.
- d. A \$1 million milestone is assumed to be paid under the McGinity patent license agreement for Hydrocodone NDA filing in U.S. Budget assumes April 2014 NDA filing and expedited approval in October 2014.
- e. A \$4 million milestone is assumed to be paid under the McGinity patent license agreement for Hydrocodone NDA approval in U.S. Budget assumes April 2014 NDA filing and expedited approval in October 2014.

M. Treasury/Finance

- a. An average of 0.04% interest rate per annum earned on average cash balance. Interest rate forecast is based on Bank of America and Merrill Lynch forecasts along with Purdue's internal feedback.
- b. 2014 year-end unrestricted cash balance targets at ≈\$550 million and a bank group equity of \$550 million (or all U.S. Pharma companies stockholders' equity at \$590 million.)
- c. Restricted Cash
 - 12/31/2013 outstanding balance = \$38 million (QST and letters of credit)
 - 12/31/2014 outstanding balance = \$21 million (for letters of credit only)The decrease of \$17 million represents the balance of the Antitrust QST that is expected to be returned in 2014.
- d. Purdue's line of credit of \$45 million with Bank of America was renewed in November 2012 with a 3-year tenor.

2014 Budget Proposal – Assumptions

N. Ex USA

- a. Fundings of Lucien, Japan, Germany and other countries continue outside of the Bank Group via Purdue Holdings LP ownership interests. 2014 Fundings are assumed at \$83 million for Lucien, \$29 million for Japan and \$76 million for other countries (Asia Pacific and Latin America).
- b. MRL development work on the OxyContin new formula is funded by USA.
- c. Butrans additional strengths will be funded by USA. There will be no recharge of studies conducted by Mundipharma Research Limited (“MRL”) to the USA, or equally of studies performed by the USA to MRL in support of the Butrans 2nd Generation project
- d. 2014 includes Purdue’s funding of 55% of the clinical development costs related to Light Science Oncology clinical program of \$5.2 million.

O. Other Ex USA

Redacted

- b. Purdue Pharma Technologies has an accrual of \$3.4 million as of September 30th, 2013 representing the estimated clean-up costs related to the Lodi site.
- c. While we expect to collect insurance on 65% on past and future costs which could approximate \$9 million, insurance income is only recognized when collected and contingent income is not budgeted.

P. OxyContin Royalties

- a. No change in royalty rates.
- b. On existing OxyContin formula the royalty rate is 7%.
- c. The royalty rate on the new formula will be 10% for duration, even after patent expiration.
- d. Royalty income projections provided from Management Revisions.

2014 Budget Proposal – Assumptions

Q. Insurance

- We assume that Purdue maintains the \$500 million net worth covenant required to satisfy its obligation under the McGinity License Agreement.
- We assume that our existing credit revolver line (with \$45 million in total capacity) would cover all letters of credit requirements from insurance policies.
- Assume all insurance policies to be renewed with changes in premium comparable to industry benchmarks as forecasted by our insurance broker (Marsh).
- We assume no material change in our fronted U.S. product liability insurance policy.

R. Tax and Distributions

- For 2013 and 2014 the federal statutory withholding tax rate applied to taxable income is 43.4% (comprising a federal income tax rate of 39.6%, a Medicare tax rate on net investment income of 3.8%), and state withholding tax rates of 5.1% and 5.9%, respectively. The effective tax rate (tax distributions divided by GAAP Profit After Tax) for 2013 and 2014 is 47.6% and 27.8% due to the following book/tax differences:

| | 2013 | 2014 |
|---|-----------|-----------|
| Book Net Income | 842,569 | 375,583 |
| Federal Tax Provision on Corporations | 4,674 | 4,674 |
| Health Care Reform Fee | 27,240 | 28,026 |
| Meals & Entertainment | 7,158 | 7,158 |
| Political Contributions | 2,944 | 2,944 |
| Book depreciation in excess of tax depreciation | 3,343 | 1,565 |
| Book pension expense in excess of tax deductible plan contributions | 7,755 | 2,111 |
| Post-retirement medical benefits expense in excess of tax deductible payments | 10,059 | 8,035 |
| Foreign book losses in excess of tax deductible losses | 24,741 | 52,022 |
| Qualified Settlement Trust reversionary taxable income | 7,000 | 16,932 |
| Tax write-off of Transcept Milestone Payments | | (39,972) |
| Infinity Opening Day Gain | (124,381) | - |
| Payment of 12/31/2013 CMS Medicaid Ruling Accrual | | (224,293) |
| All other (tax deductible milestones, legal settlements, etc.) | (9,279) | (25,109) |
| Partnership taxable income | 805,623 | 209,677 |

- Non-tax distributions are budgeted to ensure that unrestricted cash is equal to or greater than \$500 million and bank group equity is equal to or greater than \$600 million.

2014 Budget Proposal – Assumptions

S. One time charges/Other Items

- a. Includes the cost of operating the 62nd Street Office, rent on idle space at One Stamford Forum and \$8 million of other reserves.

T. Impact of Healthcare Legislation

- a. The Health Care Reform Fee is estimated to be \$27.2 million in 2013 and \$28.0 million in 2014. Amounts are charged to the P&L on a straight line basis and paid in September of each year.
- b. Brand drug manufacturers pay 50% of a patient's prescription drug spend while in the Medicare Part D coverage gap ("donut hole"). Purdue's expense is estimated to be \$48.4 million in 2013 (which is net of a \$10.0 million reduction in prior years' accruals) and \$70.1 million in 2014. The increase in liability is being reviewed; likely drivers include an increased Medicare Part D population, price increases, and fewer branded drugs being utilized in the coverage gap.
- c. Health Care exchanges will be implemented in 2014. There have been different reports on the number of lives that will be covered by exchanges which range anywhere from 4 million to 9 million. These lives will represent a poor and sick population and we expect plans to be highly generic, with limited plans offering OxyContin or Butrans, and even if they do, patient preference will be toward lower cost generics. Our budget assumption for both sales and rebates is that there will be no impact on 2014.

3. Branded competition in 2013 includes Opana ER, Exalgo and Nucynta ER. Embeda is assumed to be on the market in 2014 and per Pfizer's press release minimal non-field force promotion is expected so minimal impact is anticipated.
4. Major events/assumptions impacting the forecast include:
 - a. Opana ER from Endo has two non-therapeutically equivalent generics on the market -- so promotion on the brand is expected to be light.
 - b. Exalgo from Mallinckrodt is expected to have generic completion on three strengths in November 2013 and the fourth strength in May 2014 under a patent settlement agreement with Actavis -- so promotion of the brand is expected to be light.
 - c. These generics could become new managed care offerings preferred by payers -- putting further pressure on Purdue brands.
 - d. Purdue's 525 sales representatives will deliver 758,164 sales calls in 2014 with a 67:33 primary call split between OxyContin and Butrans (in 2013 the estimated call split is 278,849 / 406,556). This is up from 698,225 / 18% OxyContin primary and 680,970 / 40% OxyContin primary sales calls in 2012 and 2013 (September ytd annualized), respectively. As a result OxyContin primary sales calls are expected to increase by 308% and 81% versus 2012 and 2013, respectively.
 - e. Losses in OxyContin managed care coverage include United Healthcare MAPD plans effective 1.1.2013 (peak loss of sales of \$60 million), Medco PDP plans effective 1.1.2014 (peak loss of sales of \$46 million) and Humana commercial plans effective 1.1.2014 (peak loss of sales of \$11 million).

- f. Settlement agreements with Actavis, Ranbaxy, Par and a contingency for other possible settlements will result in a gross sales reduction of about \$261 million in 2014 and a net profit reduction of about \$200 million.

(\$000's)

| | <u>Ranbaxy</u> | <u>Actavis</u> | <u>Par</u> | <u>Contingency</u> | <u>Total</u> |
|---------------------------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| Gross Sales | \$ (74,045.4) | \$ (139,438.1) | \$ (27,077.8) | \$ (20,725.2) | \$ (261,286.4) |
| Deductions: | | | | | |
| Fee for Service | 1,498.7 | 2,822.2 | 548.1 | 419.5 | 5,288.4 |
| SD&A | 1,488.3 | 2,802.7 | 544.3 | 416.6 | 5,251.9 |
| Savings Card Discounts | 1,396.5 | 2,629.8 | 510.7 | 390.9 | 4,927.9 |
| Rebates (excluding Best Price impact) | 19,101.5 | 35,970.9 | 6,985.2 | 5,346.5 | 67,404.1 |
| Proposed Regulation | 1,066.3 | 2,007.9 | 389.9 | 298.4 | 3,762.5 |
| Medicaid Best Price Impact | (6,962.9) | (13,112.1) | (2,546.3) | - | (22,621.2) |
| Net Sales | <u>(56,457.0)</u> | <u>(106,316.7)</u> | <u>(20,645.8)</u> | <u>(13,853.3)</u> | <u>(197,272.9)</u> |
| COGS and S&W | (1,630.9) | (3,071.9) | (624.0) | (477.6) | (5,804.4) |
| Transfer Price | 3,978.2 | 3,076.9 | 1,374.6 | 1,052.1 | 9,481.8 |
| Gross Profit | <u>\$ (54,109.7)</u> | <u>\$ (106,311.7)</u> | <u>\$ (19,895.2)</u> | <u>\$ (13,278.8)</u> | <u>\$ (193,595.5)</u> |

These and other settlements will impact OxyContin sales in 2015 and beyond. The 2015 impact is now projected at \$230.5 million and \$158.2 million, gross sales and gross profit, respectively.

- g. Further actions anticipated by pharmacies, pharmacy boards, wholesalers and state governments and impact of the new label are estimated to reduce demand by \$169 million in 2014.
- h. The E2E sales force effectiveness initiatives are assumed to have a favorable impact on 2014 sales -- adding \$71 million of gross sales to the 2014 budget.

5. Trade inventory assumptions:
(at Gross sales value – in thousands)

| | 2012 Actual | | 2013 Latest Estimate | | 2014 Budget Proposal | |
|--|-------------------|----------------|----------------------|----------------|-----------------------------|----------------|
| | Dollars | Months on Hand | Dollars | Months on Hand | Dollars | Months on Hand |
| Wholesaler - Beginning | 222,435 | 0.97 | 273,167 | 1.22 | 176,003 | 0.91 |
| Pharmacy - Beginning | 197,639 | 0.86 | 215,911 | 0.96 | 223,639 | 1.16 |
| Opening Trade Inventory at WAC ⁽¹⁾ | \$ 420,074 | 1.82 | \$ 489,077 | 2.18 | \$ 399,641 | 2.07 |
| Wholesaler - Ending | 273,167 | 1.22 | 176,003 | 0.91 | 123,676 | 0.91 |
| Pharmacy - Ending | 215,911 | 0.96 | 223,639 | 1.16 | 164,089 | 1.21 |
| Closing Trade Inventory WAC ⁽¹⁾ | \$ 489,078 | 2.18 | \$ 399,641 | 2.07 | \$ 287,765 | 2.12 |
| | | | | | | |
| Increase/(Decrease) in Inventory @ WAC | \$ 69,004 | | \$ (89,435) | | \$ (111,876) ⁽²⁾ | |

(1) Excludes Hospital/Other Inventory

(2) Decrease in inventory value from 12/31/13 to 12/31/14 due to forecasted decline in demand resulting from generic competition

6. Managed care formulary coverage is assumed to be as follows:

| | 2013 | | 2014 |
|-------------------------------------|------|--------------------|-----------|
| Commercial (208mm lives) | Goal | Actual (Sept 2013) | Projected |
| Tier II (Preferred) | 85% | 85% | 84% (2) |
| Tier III | 5% | 4% | 3% |
| Restricted Access | 0% | 5% | 5% |
| Not on Formulary | 10% | 6% | 8% |
| Medicare Part D (33mm lives) | | | |
| Preferred | 55% | 51% (1) | 32% (3) |
| Non-Preferred | 10% | 12% | 21% |
| Not on Formulary | 33% | 37% | 47% |

Explanation of Changes in Formulary Coverage:

1. United Healthcare MAPD plans were removed from formulary, effective 1/1/13.
2. Humana shift from Tier II to restricted access, effective 1/1/14.
3. Medco/ESI PDP plans will be removed from formulary, effective 1/1/14.

7. Managed care payer and blended rebate assumptions are as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate¹ | 2014 Budget^{1,2} |
|--------------------|--------------------|--------------------|---|----------------------------------|
| Commercial | 48.51% | 50.10% | 50.27% | 50.32% |
| Medicare Part D | 22.90% | 26.90% | 28.19% | 26.65% |
| Tricare | 2.60% | 2.60% | 2.66% | 2.67% |
| Medicaid | 10.22% | 9.70% | 9.42% | 9.41% |
| Cash / Non-Rebated | 15.77% | 10.70% | 9.46% | 10.95% |
| | 100.00% | 100.00% | 100.00% | 100.00% |

1. The payer percentages experienced in Q1 2013 are expected to continue through Q4 2014.
2. The impact of settlements is assumed to be evenly spread pro rata across all channels (payer rates will be the same before and after settlements).

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget |
|------------------------------|--------------------|--------------------|-----------------------------|--------------------|
| Commercial ¹ | 18.23% | 18.20% | 18.32% | 20.25% |
| Medicare Part D ² | 25.91% | 28.00% | 29.70% | 39.66% |
| Tricare ³ | 40.17% | 22.20% | 26.11% | 27.11% |
| Medicaid ^{4,5} | 28.52% | 29.30% | 33.99% | 51.12% |

1. Increase driven by (a) increase in Medco / Express Scripts blended rebate increase to 21.7% from 19.6% and 15.6% respectively and (b) impact of price protection rebates.
2. Increase driven by higher rates offered to maintain business, primarily Optum (from 23.5% to 50.0%).
3. Increase in rate due to price increases outpacing inflation. 2011 reflects Purdue offer to pay new formulation utilization at the original formulation rate through the end of 2011.
4. Increasing rates driven by price increase impact on inflationary penalty, as well as on Best Price due to higher commercial rates offered via price protection.
5. Assumes all settlement licenses of authorized generic product are limited to the 10mg, 20mg, 40mg and 80mg and all 2014 shipments occur in Q3 2014. The 2014 Medicaid rate reflects an effective rate of 85% in Q3 2014 as a result of the impact of authorized generic shipments on the Best Price of the 10mg, 20mg, 40mg and 80mg, which will result in additional Medicaid rebate expense of approximately \$22.6 million.

8. Shelf life of OxyContin is increased from 24 to 36 months in late 2013 --- reducing future return expectations.
9. Savings card assumes continuation of the \$25/\$90 cost parameter for eVoucher and paper Savings card program with a savings target goal of \$3 million. Program assumes continued increase in redemption rate due to trending and addition of Walgreens to eVoucher program. Total budget redemption cost for OxyContin is \$34.3 million, inclusive of savings target.

Butrans:

1. ERO market and OxyContin Rx's are projected as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Proposed |
|-----------------------|----------------|----------------|-------------------------|------------------|
| Total ERO Market Rx's | 26.0MM | 26.4MM | 26.1MM | 25.0MM |
| Butrans Rx's | 278k | 469k | 541k | 610k |
| Butrans Share of ERO | 1.07% | 1.8% | 2.1% | 2.4% |

2. Butrans price budgeted to increase by 9.5% in January 2014 and 6% in August 2014 resulting in a Net sales increase of approximately \$10.0 million, as per the memo to the Board supporting the price increase recommendation:

| | | |
|---|-------------|-------------|
| Gross Sales impact of price increase proposal (Note 2) | 23.6 | |
| Impact on rebates: | | |
| Blended rebate rate in unofficial outlook of 18% on increase in sales | (4.3) | 18.0% |
| Impact of inflation penalty on Medicaid Rebates | (2.1) | 8.8% |
| Impact of price protection on Medicaid rebates | (1.0) | 4.2% |
| Impact of price protection on commercial rebates | (3.2) | 13.4% |
| Impact of price protection on Medicare Part D rebates | (2.1) | 8.9% |
| Fee For Service | (0.5) | 2.0% |
| Sales Discounts | (0.5) | 2.1% |
| Net Sales impact of 7% price increase effective February 1st | \$ | 10.0 |

3. Major events impacting the forecast include:
 - a. Improved Tier 2 commercial managed care coverage, see table below, resulting in a 1.16% increase in forecasted Rx's.
 - b. Improved Medicare Part D coverage resulting in a 1.15% increase in forecasted Rx's.
 - c. Decrease in primary sales calls from 406,556 in 2013 to 252,469 in 2014, net of improved call targeting is expected to reduce demand by \$2 million.
 - d. The new 15 mcg patch launched in October 2013.
4. 2013 assumes formulary coverage changes as follows:

| | 2013 | | 2014 |
|------------------------------|------|--------------------|-----------|
| Commercial (208mm lives) | Goal | Actual (Sept 2013) | Projected |
| Tier II (Preferred) | 35% | 33% | 43% (1) |
| Tier III | 38% | 44% | 34% |
| Restricted Access | 16% | 14% | 13% |
| Not on Formulary | 11% | 9% | 10% |
| Medicare Part D (33mm lives) | | | |
| Preferred | 10% | 12% | 23% (2) |
| Non-Preferred | 7% | 13% | 15% |
| Not on Formulary | 75% | 75% | 62% |

Changes in formulary coverage and estimated peak sales impact:

1. Increase driven by formulary wins of Caremark [\$9.2 million, Cigna [\$1.7 million], Optum [\$5.4 million], Prime [\$4.6 million] and Med Impact [\$4.8 million].
2. Increase driven by formulary wins of ESI/Medco [\$3.8 million], Optum [\$3.6 million], CIGNA [\$1.2 million], Med Impact [\$1.1 million], Envision [\$0.8 million] and Healthnet [\$0.5 million].

5. Butrans payer percentages (i.e., Split of sales between commercial, Medicare Part D, Medicaid, Tricare and Cash or Non-Rebated) experienced in Q1 2013 to continue through Q4 2014, other than formulary gains for commercial (Caremark, Cigna, Optum, Prime and Med Impact) and Medicare Part D (Optum, Med Impact and Envision).

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget Proposal |
|----------------------|--------------------|--------------------|-----------------------------|-----------------------------|
| Commercial | 0.53% | 7.10% | 30.05% | 45.67% |
| Medicare Part D | 0.00% | 0.29% | 1.73% | 6.57% |
| Tricare | 3.58% | 5.12% | 5.08% | 5.08% |
| Medicaid | 3.34% | 5.80% | 6.45% | 6.45% |
| Cash/Reb. Ineligible | 92.55% | 81.70% | 56.68% | 36.22% |
| | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

6. Butrans rebate rate assumptions are as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Budget |
|------------------------------|--------------------|--------------------|-----------------------------|--------------------|
| Commercial ¹ | 18.25% | 15.92% | 18.99% | 21.61% |
| Medicare Part D ¹ | 0.00% | 25.07% | 29.62% | 31.65% |
| Tricare ² | 22.89% | 26.69% | 32.66% | 33.66% |
| Medicaid ³ | 23.98% | 28.32% | 35.47% | 47.18% |

1. Higher rates driven by price protection rebates triggered by price increases.

2. Higher rate reflects voluntary rebate offered to drive growth.

3. Increasing rates driven by price increase impact on inflationary penalty, as well as on Best Price due to higher commercial rates offered via price protection.

7. Trade inventory was \$22.3 million at 12/31/2012 and is assumed to be \$31.0 million at 12/31/2013 and \$31.0 million at 12/31/2014.
8. LTS West Caldwell plant is qualified to supply Butrans becoming a backup to the German facility and effectively increasing the remaining shelf life when shipped from 16 to 17 months.
9. Savings card assumes continuation of the \$15/\$50 cost parameter for eVoucher and paper Savings Card program and \$0/\$100 offering for the trial card. Total budget redemption cost for Butrans is \$9.7 million.

TARGINIQ

In Q3 2013 Purdue files a NDA for Targiniq with a pain indication. Timing of approval, final labeling and more are uncertain so the sales and launch costs for Targiniq are not included in the budget. Prelaunch expenses of \$11.7 million are included in the budget (S&P \$9.2 million, R&D \$1.8 million and Tech Ops \$0.7 million). To give a sense of what a first year Targiniq P&L might look like the numbers below from the most recent 10 year plan are a guide:

| (\$ millions) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------------------|------------------|------------------|------------------|-----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| Gross Sales | - | - | \$ 41.3 | \$ 130.3 | \$ 192.2 | \$ 301.3 | \$ 310.0 | \$ 31.0 | \$ 20.3 | \$ 14.5 |
| Net Sales | - | - | 31.1 | 95.7 | 137.6 | 210.2 | 216.3 | 25.4 | 17.4 | 12.4 |
| Cost of Sales | - | - | 3.3 | 10.3 | 15.2 | 23.8 | 24.5 | 2.4 | 1.6 | 1.1 |
| Gross Margin | - | - | 27.8 | 85.5 | 122.5 | 186.4 | 191.8 | 22.9 | 15.8 | 11.3 |
| Total Operating Expenses | 58.5 | 12.5 | 94.1 | 88.5 | 82.4 | 87.2 | 41.5 | 3.6 | 3.5 | 0.4 |
| Operating Income / (loss) | \$ (58.5) | \$ (12.5) | \$ (66.3) | \$ (3.0) | \$ 40.1 | \$ 99.3 | \$ 150.4 | \$ 19.3 | \$ 12.3 | \$ 10.9 |

Note – The 10 year plan assumed that sales force would be reallocated from OxyContin and Butrans to Targiniq. This position will be revisited in the coming months.

Note – The 10 year plan P&L above is for the first full 12 months of commercialization. If approved in 2014 the 2014 commercialization period would be shorter.

INTERMEZZO

In the 4th quarter 2013, Purdue is in negotiations to sell its interest in Intermezzo to Transcept. The terms, and conditions of such a sale would likely require Purdue to continue to commercialize Intermezzo for several months into 2014. During those months Purdue would seek to have a financial breakeven on any Intermezzo activity. Due to the uncertainty of a transaction and timing of a transition of the product back to Transcept the 2014 budget shows Intermezzo 2014 activity as a breakeven on the Other Expense line.

B. Pipeline projects, if successful, would launch as follows:

- Targiniq
 - Pain Q4 2014
 - Pain + OIC Q2 2017
- BuTrans (additional strengths) Q4 2014
- BuTrans (Second Generation) Q1 2017
- HYD Q1 2015
- TRPV1 Q4 2020
- MS Contin Reformulation Q2 2017
- Oxycodone IR TR Q2 2015

C. Fee for Service

Fee for Service agreements have been entered into with wholesalers accounting for 98.43% of Rx sales. These agreements call for a fee to be paid for wholesaler inventory management and data services. In 2013 and 2014 the average fee is approximately 2.01% and 1.98% of gross Rx sales respectively. The reduced rate is largely due to mix in sales between wholesalers which have different rates. The fee is reduced by the profit wholesalers earn marking inventory to market when Purdue increases its price, to the extent that they hold inventory levels above their “allowed levels”. This reduction in expense (i.e., credit) is reflected in Sales Discounts & Allowances in the P&L – in 2014 we assume wholesalers’ inventory levels are at their “allowed levels” and there is no reduction in fees.

D. 3rd Party Royalty Income (and AG transfer price margin)

a.

Redacted

Redacted The following parties and bottles are assumed to be shipped in the third quarter of 2014:

- Actavis (125,000 bottles)
 - Ranbaxy (67,200 bottles)
 - Par (43,500 bottles)
 - Contingency (33,295 bottles)
 - \$3.7 million of AG transfer price margin is included in the 2014 budget on this P&L line related to these licenses.
- b. Noramco royalties of 2.5% on sales of their low ABUK active pharmaceutical ingredient continue at current rate through 2014.
- c. Royalties from King at 3% of net sales related to Embeda not budgeted. No royalty income has been budgeted due to Pfizer's announcement that the product would return to market in late 2013 but with minimal non-rep promotion.
- d. HIKMA \$3.5 million upfront license fee (hydromorphone pure API patent license) received in 2012 is amortized over the first five years of the agreement.

E. 3rd Party Royalty Expense

- a. McGinity - royalty @ 2.0% of net sales. Note: royalty was reduced from 2.5% in September 2010 upon initiation of Grunenthal royalty obligation.
- b. Grunenthal - royalties commenced when the Grunenthal patent was listed in the Orange Book (9/2010). Royalty @ 4.0% for the first \$1 billion annual net sales, 3.0% for the next \$1 billion annual net sales, and 2.0% for all remaining net sales over \$2 billion. (Annual minimum 20 million Euros and maximum 50 million Euros). 2013 is the first year that this royalty fell below the 50 million Euro maximum.
- c. LTS – royalty paid at 5.5% of net sales of Butrans.
- d. Perrigo - \$200k royalty per year related to Butrans license agreement.
- e. Transcept – royalty paid at 15.0% of net sales of Intermezzo through 2013. In 2014 the budget does not include Intermezzo sales or expense – see above.
- f. NOTE – the McGinity and Grunenthal royalties in the 2014 budget assume that Purdue does not pay a royalty on sales of the AG product authorized under patent settlements when that product is sold by Actavis and the other licensees to third parties. This is based on advice from counsel.

F. Inflation Factor

3% inflation on all costs except compensation and energy. Oil and energy cost based on mid 2012 pricing unless a long term contract is in place. For compensation, see below.

G. Human Resources

a. Total 2013 compensation is estimated at ---

| | Mid Year Update | Latest Estimate | |
|----------------------|----------------------------|----------------------------|---|
| | <u>FY Plan</u> | <u>FY Est.</u> | <u>Comments</u> |
| Salaries - Exempt | \$ 142,777,203 | \$ 125,696,913 | Driven by open positions |
| Salaries- Non Exempt | \$ 17,921,488 | 15,532,392 | Driven by open positions |
| Secr. & Clerical OT | \$ 1,350,460 | 1,002,294 | |
| Part-Time Payroll | \$ 1,242,409 | 1,402,428 | |
| Annual Bonus | \$ 26,634,583 | 27,342,291 | Estimate provided by HR |
| Home Office | \$ 189,926,143 | \$ 170,976,318 | |
| Salaries- RMs | \$ 2,487,847 | 2,187,769 | |
| Salaries- DMs | \$ 8,624,456 | 7,592,180 | |
| Salaries- Reps. | \$ 42,732,320 | 39,257,817 | |
| sub-total | \$ 53,844,623 | \$ 49,037,765 | |
| Incentive Bonus Reps | \$ 22,712,415 | 20,150,183 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| Incentive Bonus DM | \$ 4,698,900 | 3,958,663 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| Incentive Bonus RM | \$ 1,021,500 | 968,749 | Paid 4Q12, 1Q13 and 2Q13 (3Q13 due in Dec) |
| sub-total | \$ 28,432,815 | \$ 25,077,595 | |
| Field | \$ 82,277,438 | \$ 74,115,360 | |
| Payroll Taxes | \$ 17,097,340 | 17,190,218 | Taxes will be favorable - straight line formula over inflates FY Est. |
| Fringe Benefits | 75,219,071 | 73,302,137 | Driven by open positions |
| Fleet | 17,282,796 | 14,118,262 | Driven by Intermezzo Sales Field |
| Total | 381,802,787 | 349,702,296 | |

- b. Vacant and new headcount are budgeted at the mid-point of the target grade level compensation.
- c. Salaries and target bonuses will be budgeted to increase by 4.5% (includes 3.0% merit and an allowance of 1.5% for promotions and market place adjustments). The new salaries are budgeted to be effective April 1, 2014. Subject to Compensation Committee approval.

- d. The healthcare component of benefit program expenses are budgeted to increase by 3.1%. Information regarding total healthcare costs, cost per employee and the split of costs paid between employee and employer follows:

| | 2012 | 2013 | 2014 |
|--|----------|----------|----------|
| Total cost of healthcare (in millions) | \$24.5 | \$26.6 | \$27.2 |
| Cost per employee | \$13,395 | \$13,974 | \$14,318 |
| Employer vs. employee split: | | | |
| Employer | 76% | 75% | 74% |
| Employee | 24% | 25% | 26% |

- e. Non-field bonuses have been budgeted in the Incentive line in the P&L. The 2013 Latest Estimate assumes the same award as 2012 and the 2014 Budget assumes a 100% award.
- f. Field sales bonuses related to 2013 and 2014 are assume to be paid at 89% and 100% of target, respectively.
- g. Field sales bonuses are budgeted in the S&P line.
- h. For employees that are eligible for LTRIP bonus grants, we have assumed funding at 85% of each employee's target.
- i. We assume no change to matching contributions and Employer Retirement Contributions to the 401(k) Plan or the defined benefit plan benefit formula. We have made the following actuarial assumptions in estimating the defined benefit plan funding and expense:
- Return on assets of 7% for 2013 and 2014
 - Discount rates for the net periodic benefit cost for the years ended December 31, 2013 and 2014 are 3.95% and 4.80%, respectively
 - The discount rate used for determining the pension benefit obligation for each of the years ended December 31, 2013 and 2014 is 4.80%.
 - Our goal is to fund the plans to about 95% of the plan liability as defined by ERISA.
 - PPLP pension funding for the years ended December 31, 2013 and 2014 are estimated at \$10.5 million and \$13.0 million, respectively.
 - PF Labs pension funding for the years ended December 31, 2013 and 2014 are estimated at \$0.2 million and zero, respectively. (There are no current employees earning benefits in this plan.)

H. Facilities

- a. Purdue currently occupies or sublets all space in One Stamford Forum except level 2. Level 4 was taken back on July 1, 2013.
- b. Purdue's sub-lease from UBS of One Stamford Forum for floors 3-8 are budgeted according to the terms of the sub-lease as follows:
 - i. Rent and expenses related to floors 5, 6, 7 and 8 to Purdue operations "above the line" in 2014
 - ii. Rent and expenses related to the unused third floor, net of sub-lease income and the unused 4th floor that is taken back from UBS on July 1st, 2013 is charged to "one-time costs / discontinued operations", which is "below the line" in 2013.

I. Technical Operations

- a. Wilson remains the primary commercial manufacturing site for OxyContin, MS Contin, and Rhodes Pharma's MSER (Morphine Sulfate Extended Release) with 2014 forecasted tablet production of 852 million tablets, up 32% versus the 2013 Latest Estimate. Wilson will also supply authorized generic product to meet the OxyContin settlements requirements and will prepare for the launch of Targiniq and Rhodes Pharma's oxycodone APAP. Wilson will supply OxyContin to Australia and Mundi Pharma as the number of countries supported is expected to increase to over 20 which is up from ~16 in 2013. The site will continue to support technology transfers and development activities for existing and pipeline products such as Targiniq, Hydrocontin, OCI (Immediate Release-Tamper Resistant Oxycodone), and MSR (MS Contin Reformulation - Tamper Resistant) through the Pharmaceutical Technology group.
- b. Totowa will continue to maintain readiness as a fully qualified OxyContin back-up site in 2014. The Totowa lab will continue to provide release and stability testing in support of Totowa Readiness and Rhodes Pharmaceuticals development activity.
- c. The Wilson warehouse and distribution center will continue to provide commercial distribution for Purdue products such as OxyContin, MS Contin and Dilaudid. Wilson will also continue to distribute existing Rhodes Pharmaceuticals products such as MSER (Morphine Sulfate Extended Release) and Dilaudid Authorized Generic and is prepared to support the anticipated 2014 launches of Oxy APAP (Oxycodone/ Acetaminophen) and HYD APAP (Hydrocodone/ Acetaminophen).
- d. Project Breeze (new manufacturing facility) is progressing as planned and will break ground Q1 2014 in the Treyburn Corporate Park in Durham, North Carolina.
- e. The 2014 budget assumes the following purchases of Oxycodone from Rhodes Technologies:

| Purdue Oxycodone Purchases from Rhodes Technologies | | |
|--|---------------|--------------------|
| 2014 Budget | | |
| | kilos | \$'s (MM's) |
| Commercial Requirements | 13,502 | \$ 44.1 |
| Development Requirements | 657 | \$ 2.1 |
| Total 2014 Requirements | 14,159 | \$ 46.3 |

J. S&P

- a. Purdue Sales Calls: Primary position split OxyContin/Butrans (67/33).
- b. Sales Force achieves the following call goals:
 - i. 7.3 calls per day (up from 6.9 in 2013)
 - ii. Days on territory of 204.9 or 79% (up from 200.9 or 77% in 2013)
 - iii. Vacancy rate of 3.5% down from 3.7% in 2013
 - iv. 1,497 calls per rep per year (up from 1,385 in 2013)
- c. 2014 product related assumes:
 - i. Zero for Intermezzo
 - ii. \$9.2 million for Targiniq pre-approval spend (includes Market Research)
 - iii. \$6.9 million for HYD pre-approval spend (includes Market Research)

K. R&D

- a. Key drivers / objectives of the clinical programs include:
 1. Targiniq: complete GI motility study and continue phase 3 studies for pain + OIC indication.
 2. Hydrocodone: complete phase 3 efficacy and safety studies, develop ISS/ISE and file NDA.
 3. Pediatric Programs
 - Reformulated OxyContin – complete pivotal pediatric exclusivity study and prepare BPCA filing.
 - Butrans - continue study that meets PREA requirements.
 - HYD - commence study to meet PREA requirements.
 4. MS Contin TR: complete pilot PK to determine optimal formulation and initiate phase 1 BE studies.
 5. Butrans 2nd Generation: initiate site transfer to West Caldwell, NJ and initiate phase 1 studies.
 6. ADIR Oxycodone: complete BE and pivotal abuse liability studies and file NDA.
 7. Butrans Additional Strengths: continue to pursue label modification strategy.
 8. ORL-1: complete dental pain POC study and initiate multiple ascending dose and other phase 1 studies.
 9. TRPV-1: complete proof of concept study in PHN and initiate phase 2 POC study in DPN.
- b. Initiate the bridging studies for Nav1.7 and Mu Opioid compounds.
- c. 7% of Discovery research headcount is budgeted to Shionogi collaboration work (primarily ORL-1 backup). The balance dedicated to Purdue research.

- d. Continue to meet FDA requirements for Reformulated OxyContin and Butrans as it pertains to post market support, REMS and classwide REMS.
- e. The 2014 Budget Proposal includes minimal carryover spend for Intermezzo.
- f. The underspend estimate included in consolidated R&D Expense is \$28.2 million.

- d. Continue to meet FDA requirements for Reformulated OxyContin and Butrans as it pertains to post market support, REMS and classwide REMS.
- e. The 2014 Budget Proposal includes minimal carryover spend for Intermezzo.
- f. The underspend estimate included in consolidated R&D Expense is \$28.2 million.

L. Licensing & Business Development

- a. Possible new product licenses or acquisitions have not been included in the 2014 budget. These will be presented to the Board for approval on a project-by-project basis, when the economics, timing and justification are known.
- b. A €2.5 million milestone is assumed to be paid under the Grunenthal patent license agreement for OxyContin-RF marketing authorization in Asia.
- c. A €3 million milestone is assumed to be paid under the Grunenthal patent license agreement at the grant of final U.S. FDA approval to market the first Hydrocodone-TRF Product. Budget assumes April 2014 NDA filing and expedited approval in October 2014.
- d. A \$1 million milestone is assumed to be paid under the McGinity patent license agreement for Hydrocodone NDA filing in U.S. Budget assumes April 2014 NDA filing and expedited approval in October 2014.
- e. A \$4 million milestone is assumed to be paid under the McGinity patent license agreement for Hydrocodone NDA approval in U.S. Budget assumes April 2014 NDA filing and expedited approval in October 2014.

M. Treasury/Finance

- a. An average of 0.04% interest rate per annum earned on average cash balance. Interest rate forecast is based on Bank of America and Merrill Lynch forecasts along with Purdue's internal feedback.
- b. 2014 year-end unrestricted cash balance targets at ≈\$550 million and a bank group equity of \$550 million (or all U.S. Pharma companies stockholders' equity at \$590 million.)
- c. Restricted Cash
 - 12/31/2013 outstanding balance = \$38 million (QST and letters of credit)
 - 12/31/2014 outstanding balance = \$21 million (for letters of credit only)

The decrease of \$17 million represents the balance of the Antitrust QST that is expected to be returned in 2014.

- d. Purdue's line of credit of \$45 million with Bank of America was renewed in November 2012 with a 3-year tenor.

N. Ex USA

- a. Fundings of Lucien, Japan, Germany and other countries continue outside of the Bank Group via Purdue Holdings LP ownership interests. 2014 Fundings are assumed at \$83 million for Lucien, \$29 million for Japan and \$76 million for other countries (Asia Pacific and Latin America).
- b. MRL development work on the OxyContin new formula is funded by USA.
- c. Butrans additional strengths will be funded by USA. There will be no recharge of studies conducted by Mundipharma Research Limited ("MRL") to the USA, or equally of studies performed by the USA to MRL in support of the Butrans 2nd Generation project.
- d. 2014 includes Purdue's funding of 55% of the clinical development costs related to Light Science Oncology clinical program of \$5.2 million.

O. Other Ex USA

- a.

Redacted
- b. Purdue Pharma Technologies has an accrual of \$3.4 million as of September 30th, 2013 representing the estimated clean-up costs related to the Lodi site.
- c. While we expect to collect insurance on 65% on past and future costs which could approximate \$9 million, insurance income is only recognized when collected and contingent income is not budgeted.

P. OxyContin Royalties

- a. No change in royalty rates.
- b. On existing OxyContin formula the royalty rate is 7%.
- c. The royalty rate on the new formula will be 10% for duration, even after patent expiration.
- d. Royalty income projections provided from Management Revisions.

Q. Insurance

- a. We assume that Purdue maintains the \$500 million net worth covenant required to satisfy its obligation under the McGinity License Agreement.
- b. We assume that our existing credit revolver line (with \$45 million in total capacity) would cover all letters of credit requirements from insurance policies.
- c. Assume all insurance policies to be renewed with changes in premium comparable to industry benchmarks as forecasted by our insurance broker (Marsh).
- d. We assume no material change in our fronted U.S. product liability insurance policy.

R. Tax and Distributions

- a. For 2013 and 2014 the federal statutory withholding tax rate applied to taxable income is 43.4% (comprising a federal income tax rate of 39.6%, a Medicare tax rate on net investment income of 3.8%), and state withholding tax rates of 5.1% and 5.9%, respectively. The effective tax rate (tax distributions divided by GAAP Profit After Tax) for 2013 and 2014 is 47.6% and 27.8% due to the following book/tax differences:

| | <u>2013</u> | <u>2014</u> |
|---|-------------|-------------|
| Book Net Income | 842,569 | 375,583 |
| Federal Tax Provision on Corporations | 4,674 | 4,674 |
| Health Care Reform Fee | 27,240 | 28,026 |
| Meals & Entertainment | 7,158 | 7,158 |
| Political Contributions | 2,944 | 2,944 |
| Book depreciation in excess of tax depreciation | 3,343 | 1,565 |
| Book pension expense in excess of tax deductible plan contributions | 7,755 | 2,111 |
| Post-retirement medical benefits expense in excess of tax deductible payments | 10,059 | 8,035 |
| Foreign book losses in excess of tax deductible losses | 24,741 | 52,022 |
| Qualified Settlement Trust reversionary taxable income | 7,000 | 16,932 |
| Tax write-off of Transcept Milestone Payments | | (39,972) |
| Infinity Opening Day Gain | (124,581) | - |
| Payment of 12/31/2013 CMS Medicaid Ruling Accrual | | (224,293) |
| All other (tax deductible milestones, legal settlements, etc.) | (9,279) | (25,109) |
| Partnership taxable income | 803,623 | 209,677 |

- b. Non-tax distributions are budgeted to ensure that unrestricted cash is equal to or greater than \$500 million and bank group equity is equal to or greater than \$600 million.

S. One time charges/Other Items

- a. Includes the cost of operating the 62nd Street Office, rent on idle space at One Stamford Forum and \$8 million of other reserves.

T. Impact of Healthcare Legislation

- a. The Health Care Reform Fee is estimated to be \$27.2 million in 2013 and \$28.0 million in 2014. Amounts are charged to the P&L on a straight line basis and paid in September of each year.
- b. Brand drug manufacturers pay 50% of a patient's prescription drug spend while in the Medicare Part D coverage gap ("donut hole"). Purdue's expense is estimated to be \$48.4 million in 2013 (which is net of a \$10.0 million reduction in prior years' accruals) and \$70.1 million in 2014. The increase in liability is being reviewed; likely drivers include an increased Medicare Part D population, price increases, and fewer branded drugs being utilized in the coverage gap.
- c. Health Care exchanges will be implemented in 2014. There have been different reports on the number of lives that will be covered by exchanges which range anywhere from 4 million to 9 million. These lives will represent a poor and sick population and we expect plans to be highly generic, with limited plans offering OxyContin or Butrans, and even if they do, patient preference will be toward lower cost generics. Our budget assumption for both sales and rebates is that there will be no impact on 2014.

Purdue Pharma - 2014 Budget Presentation

President's Overview

John H. Stewart
October 29th, 2013

Year in Review 2013

OxyContin – FDA’s Decision of April 16th

- ❑ Marked the achievement of a goal more than 8 years in the making.
- ❑ Demonstrated the quality and comprehensiveness of the company’s R&D processes – in a new area of science.
- ❑ Resulted from a company-wide, sustained effort with major support arising out of the activities of the Federal and State Government Affairs Groups, the Law Enforcement Liaison and Education personnel, and the Legal Department - among others.
- ❑ Avoided what would in all likelihood have been a “patent cliff” event
- ❑ Established a regulatory precedent for AD formulations

Year in Review 2013

OxyContin – FDA’s Decision of April 16th

- Points to recognition of the positive impact of abuse-deterrent formulations, and Purdue’s contributions to their development by:
 - FDA
 - DEA
 - Members of Congress and State Legislators
 - Law Enforcement Officials
- Received substantial, but relatively short lived, coverage in the media
- Not seen as particularly compelling to payers, many opioid prescribers and the community that focuses on the abuse of prescription opioids.

3

Year in Review 2013

OxyContin – Commercial

- 2013 sales projection of \$2,461.4 million is \$455 million - 15.6% - below budget, driven by:
 - Ongoing decreases in the number of prescriptions
 - Shift toward prescriptions for lower daily dosages/tablet strengths
 - Reduction in the average number of tablets per prescription
- Analysis (McKinsey) of factors driving OxyContin's sales performance identified opportunities for significant gains.

Year in Review 2013

OxyContin

- ❑ Substantial focus on the problems associated with opioids remains – at both the public and scientific levels.
- ❑ OxyContin/Long-Acting opioid class labeling proposed by FDA, and post-marketing studies mandated.
- ❑ Patent challenges continue

Year in Review 2013

Butrans

- ❑ 2013 sales projection of \$145 million is \$32 million - or 28% - over last year, but is also \$16.6 million below budget.
- ❑ Prescription growth continues to represent the #1 opioid analgesic launch since OxyContin.
- ❑ Position on Managed Care Formularies continues to improve.
- ❑ Lifecycle Management Activities underway

Year in Review 2013

R&D Activities

- Interactions and Relations with FDA Very Positive
 - OxyContin AD Development Program setting the standard, and the epidemiology program continues to generate impressive data.
 - FDA's Analgesics Division engaged and supportive of the company's additional AD development programs.
 - Targiniq ER NDA filed.
 - HydroContin NDA on target for filing in Q2 2014.
 - FDA inspection and interactions with field officers successful.

Year in Review 2013

R&D Activities

- Discovery Compound Progressing
 - TRPV-1 Phase II Studies on schedule
 - ORL-1 POC Study underway
 - Nav (Sodium Channel Blockers) and Functionally Biased Opioid development programs continue
- Functional Groups Active and Contributing
 - Health Outcomes & Pharmacoeconomics
 - R&D Innovations

Year in Review 2013

Legal

Redacted

Year in Review 2013

Corporate Affairs and Communications

- ❑ Broadening Awareness and Appreciation of the Impact of Abuse-Deterrent Opioid Formulations
- ❑ Supporting our Federal and State Government Affairs Objectives
- ❑ Contributing to Market Access Activities
- ❑ Supporting New Product Launches

10

Objectives - 2014

- ❑ Maintain OxyContin's Exclusivity
- ❑ Effectively respond to the FDA's required changes to the labeling of ER opioid analgesics, and their requirement for additional post-marketing studies.
- ❑ Gain FDA approval of the Traginiq ER NDA – Pain Indication
- ❑ File the NDA for HydroContin
- ❑ Deliver a Second-Generation Butrans Patch that meets the target product file.

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Objectives - 2014

- ❑ Successfully implement the sales and marketing effectiveness improvements arising out of the McKinsey/E2E projects.
- ❑ Build more proactive market access support teams – complete with strategically aligned efforts from the AE, MSL and PSL groups.
- ❑ Generate substantial opinion leader dialogue on the value of abuse-deterrent opioids.
- ❑ Reduce the organization's culture of near-complete risk avoidance.

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Objectives - 2014

- ❑ OxyContin – Achieve \$1,977 million in gross sales, inclusive of \$261 million negative impact of generic settlements.
- ❑ Butrans – Achieve \$189 million in gross sales, an increase of \$44.1 million – or 30.5% - over 2013 LE.
- ❑ Laxatives – Achieve \$50.3 million in gross sales, an increase of \$1.0 million or 2.0% - from 2013 LE.
- ❑ Profit – Deliver an operating margin of \$554.5 million – 36.1% of net sales.
- ❑ Favorably resolve the CMS “line extension” rebate issue – resulting in a savings of \$265 million.

13

BUDGET PRESENTATION - 2014
Stamford, Connecticut
October 29th, 2013 & October 30th, 2013

Day One – Tuesday, October 29, 2013

| | | |
|---|---------------------|--------------------------------|
| 1.0 Introduction | John Stewart | 12:30h-13:15h |
| 2013 Review and 2014 Budget Overview | | |
| 2.0 Marketing & Sales | | 13:15h-15:30h |
| 2.1 Departmental Actions/Budget Overview | Russ Gasdia | 13:15h-13:30h |
| 2.2 Analgesic Market Review | David Rosen | 13:30h-14:00h |
| 2.3 E2E Project | Jon Lowne | 14:00h-14:30h |
| 2.4 Managed Care Strategies and Market Access Objectives | | 14:30h-15:15h |
| 2.5 Brand Business Unit Reports (written only – no formal presentations) | | |
| <ul style="list-style-type: none">• OxyContin BBU Report – Ron Cadet• Butrans BBU Report - Gary Lewandowski• Laxatives BBU Report - Charlene Bailey | | |
| 2.6 Budget Proposal | Russ Gasdia | 15:15h-15:30h |
| 3.0 Research & Development | | 15:30h-17:45h |
| 3.1 Departmental Actions/Budget Overview | | 15:30h-16:00h |
| 3.2 Clinical Program Review | | |
| <ul style="list-style-type: none">• Targiniq ER• HydroContin | | 16:00h-16:30h 16:30h-17:00h |
| 3.3 Health Outcomes and Pharmacoeconomics | | 17:00h- 17:30h |
| 3.4 Budget Proposal | | 17:30h - 17:45h |
| Additional Q&A Session (if needed) | | 17:45h – 18:00h |

End of Purdue Budget Presentation for Day One

Day Two – Wednesday, October 30th, 2013

| | | |
|---|---------------------|------------------------|
| 4.0 Licensing & Business Development | | 10:00h – 11:00h |
| 4.1 Acquisition timelines for Clarus (oral formulation of testosterone) and Rhythm (ghrelin agonist for diabetic gastroparesis) products. | | |
| 5.0 Communications & External Affairs | | 11:00h - 12:00h |
| 5.1 Communication Plans in Support of Key Issues and Product Launches | Raul Damas | 11:00h – 11:15h |
| 5.2 Federal and State Activity | Raul Damas | 11:15h - 11:50h |
| <ul style="list-style-type: none">• Regulatory and legislative support for abuse-deterrent formulations• Opioid prescribing guidelines• CMS line extension policy | | |
| 5.3 Budget Proposal | Raul Damas | 11:50h-12:00h |
| 6.0 Law Department | | 12:00-12:30h |
| 7.0 Technical Operations - David Lundie (written report only – no formal presentation) | | |
| Lunch | | 12:30h-13:30h |
| 8.0 Finance – 2014 Overall Budget Review | Ed Mahony | 13:30h-14:30h |
| 9.0 Executive Session | John Stewart | 14:30h-16:00h |

End of Purdue Budget Presentation

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Sent: Wed 10/23/2013 6:05:17 PM
Subject: Purdue 2014 Budget Proposal
[Finance - Budget Proposal v3.pptx](#)
[JHS Budget Presentation 2013.pptx](#)
[Agenda 2013 v9.docx](#)

Purdue 2014 Budget Proposal

Narrative

October 23, 2013

The following is an overview of the proposed Purdue 2014 Budget.

1.0 Net Sales

| | <u>2011 Actual</u> | <u>2012 Actual</u> | <u>2013 Budget</u> | <u>2013 Latest Estimate</u> | <u>2014 Proposed Budget</u> |
|-----------|-------------------------------|-------------------------------|-------------------------------|--|--|
| Total | \$2.2B | \$2.2B | \$2.4B | \$2.0B | \$1.5B |
| OxyContin | \$2.0B | \$2.0B | \$2.1B | \$1.8B | \$1.3B |
| Butrans | \$55.9M | \$84.0M | \$126.9M | \$110.3M | \$135.5M |

The budget process started with a deep analysis of the factors influencing OxyContin's 2013 sales performance and then building the 2014 based on that analysis. The following are highlights:

- 1.1 OxyContin demand is running below 2012 levels, and also below 2013 Budget.

The reasons for the decrease generally relate to:

- a) Anti-opioid pressures by groups such as PROP,
- b) DEA enforcement and control activities directed at wholesalers and drug chains,
- c) Continued payer pressure to move demand to low-cost generics
- d) Increasingly restrictive opioid prescribing guidelines and regulations,
- e) S&P execution and
- f) IMS data has been overstated by about 6% for the last 3 years. IMS has since confirmed the overstatement and will be correcting their reporting. This resulted in the 2013 OxyContin net sales budget being over-calculated by \$81M.

The 2014 Budget and business plan addresses each of these:

- Items A to D above will be addressed by the External Affairs group and the R&D Health Outcome group – who will present next week.
- Item E – the S&P investment in OxyContin is proposed to increase from \$50.8M and 2.5% of sales to \$108.6M and 8.3% of sales in the 2014 proposal, and S&P execution is being addressed by the E2E initiative inspired by the recent McKinsey report. The E2E project status will be presented by the project leadership team next week.
- Finally, on Item F – in building the 2014 budget the IMS data has been corrected.

Redacted

1.2 Butrans demand is growing steadily as a result of continued S&P investment and improved managed care coverage. The 2014 Budget Proposal projects that growth to continue, and for the brand to achieve a positive annual P&L in 2014 -- its fourth year on the market. The prospects for continued profitability are bright considering that there have been no paragraph 4 filings and that prospects are good for patent term extension.

1.3 Intermezzo net sales are stable and at an annual run rate of \$10 to \$11M. Current S&P investment is minimal. In 2014, the budget proposal is to run the brand at a breakeven P&L or better.

Redacted

Redacted

2.0 Operating Expenses

2013

2014

| | <u>2011 Actual</u> | <u>2012 Actual</u> | <u>2013 Budget</u> | <u>Latest Estimate</u> | <u>Proposed Budget</u> |
|--------------------------|------------------------|------------------------|------------------------|----------------------------|----------------------------|
| Total Operating Expenses | \$714M | \$868M | \$930M | \$825M | \$719M |

2.1 In view of the projected lower sales, the Proposed Budget includes an operating expense reduction of \$149M or 17% vs. 2012 and \$106M or 13% vs. 2013 Latest Estimate. These decreases impacted all areas of Purdue. The detail of the reductions will be covered next week, and the following are a few highlights.

2.2 G&A spending in the Proposed 2014 Budget is \$135M - \$18.9M or 3% lower than the 2013 Latest Estimate. This Budget Proposal assumes a G&A staff reduction of 49 or 13%, a \$4.1M reduction in grants related spending and other reductions.

2.3

Redacted

2.4 R&D spending in the Proposed Budget is \$263M - \$36M or 12% lower than the 2013 Latest Estimate due to lower spending as the HYD and ONU programs.. Additional reductions, now budgeted in the Other US P&L line, were previewed at the October 3 Board meeting and will be discussed next week.

2.5 S&P spending in the Proposed Budget is \$258M - \$17M or 6% lower than the 2013 Latest Estimate. The S&P decrease is lower than the decreases in other areas primarily because management sees significant opportunity to improve sales of OxyContin and Butrans -- especially in view of the E2E initiatives to improve the efficiency of the S&P investment.

2.6 Other -- U.S. income of \$5.6M includes \$13.6M of confidential expense reductions -- including 23 headcount reductions -- offset by a \$10M President's fund.

3.0 Operating Margin after Incentives and Settlements is the pretax profit of all Purdue U.S. operations -- 2014 Proposed Budget is \$554.5M - \$312.6M less than 2013 Latest Estimate due to lower sales offset partially by expenditure reductions.

4.0 Non-tax Distributions in the Proposed 2014 Budget are \$314.1M.

5.0 Other items of note:

5.1 The 2014 Budget assumes that the Medicaid Rebate Line Extension regulation

is unfavorably resolved, resulting in a higher OxyContin rebate back to August 2010 and a \$265M additional rebate payment in 2014. A favorable outcome would result in a potential distribution of the \$265M with 50% being tax and 50% non-tax.

5.2 The 2014 Proposed Budget includes \$11.7M funding of Targiniq prelaunch activities. As timing of approval, labeling and other details become clearer, a sales and launch budget will be proposed. For reference, the most recent 10 Year Plan had first 12 months Targiniq nets sales and operating margin/(loss) of \$31.1M and (\$66.3M), respectively.

5.3 The 2014 Proposed Budget includes \$6.9M to fund prelaunch activities for HydroContin.

6.0 Conclusion: We believe that this budget proposal strikes a good balance between aggressive cost management, investing in the promotion of OxyContin and Butrans and investing in the R&D pipeline and related activities.

7.0 Attached are the following:

7.1 Agenda for Budget Meeting

7.2 2013 Review and 2014 Budget Overview

7.3 Finance 2014 Overall Budget Review

Ed Mahony

John Stewart

2014 Budget Proposal

Ed Mahony

1

2014 Budget Proposal - Index

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| 2. Financial Statements and Highlights | 5-14 |
| 3. Purdue P&L by Brand Business Unit | 15-19 |
| 4. Strengths/Opportunities and Challenges | 20 |

2014 Budget Proposal - Net Sales

| Product | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | \$ Variance: 2014 Budget vs 2013 LE |
|--|-------------|-------------|-------------|----------------------|----------------------|-------------------------------------|
| OviContin-10MG | \$ 146.8 | \$ 152.7 | \$ 157.0 | \$ 141.6 | \$ 140.6 | |
| OviContin-10MG | 27.1 | 34.0 | 37.8 | 38.3 | 48.8 | |
| OviContin-20MG | 404.1 | 402.5 | 419.9 | 366.8 | 343.0 | |
| OviContin-30MG | 171.7 | 205.3 | 237.4 | 216.9 | 149.6 | |
| OviContin-40MG | 638.7 | 618.7 | 625.8 | 517.0 | 346.9 | |
| OviContin-80MG | 300.7 | 340.7 | 388.8 | 336.8 | 320.9 | |
| OviContin-80MG | 1,096.8 | 1,023.1 | 1,051.1 | 843.9 | 533.5 | |
| OviContin | \$ 3,781.0 | \$ 3,777.1 | \$ 3,928.5 | \$ 2,461.4 | \$ 1,977.3 | \$ (484.1) (1) |
| Butrans | 73.5 | 112.9 | 160.0 | 144.7 | 188.8 | 44.1 |
| Intermeso | - | 16.6 | 37.6 | 13.9 | - | (13.9) (2) |
| Dilaudid | 24.8 | 23.8 | 17.0 | 14.3 | 13.2 | (1.1) (3) |
| M/S Contin | 13.3 | 13.0 | 11.6 | 11.6 | 12.4 | 0.7 |
| Laxatives | 51.1 | 51.5 | 49.3 | 49.3 | 50.3 | 1.1 |
| Betadine/Betasept | 11.1 | 11.6 | 11.1 | 11.1 | 11.2 | 0.1 |
| Slow-Mag | 5.4 | 5.6 | 5.3 | 5.3 | 5.6 | 0.2 |
| Rysoft | 11.2 | (6.9) | - | - | - | - |
| Uniphyl | (0.3) | (0.0) | - | - | - | - |
| All Other | (0.1) | (0.1) | - | - | - | - |
| Total Gross Sales | \$ 2,971.2 | \$ 3,004.9 | \$ 3,228.5 | \$ 2,711.6 | \$ 2,258.8 | \$ (452.8) |
| Fee for Service | \$ (74.5) | \$ (69.3) | \$ (65.3) | \$ (54.3) | \$ (44.4) | \$ 9.9 |
| Sales Discounts & Allowances | (56.2) | (34.0) | (39.2) | (39.4) | (45.3) | (5.9) |
| Patient Savings Card Discounts | (15.6) | (25.1) | (34.5) | (44.8) | (44.1) | 0.7 |
| Rebates on Branded Sales | (545.9) | (517.6) | (566.1) | (535.4) | (570.1) | (34.7) |
| Proposed regulation adj for Medicaid rebates | (68.9) | (60.4) | (65.6) | (55.0) | (38.5) | 26.5 |
| Other | 12.4 | 2.5 | 1.7 | 4.8 | 8.0 | 3.1 |
| Total Rebates & Deductions \$ | \$ (748.7) | \$ (804.0) | \$ (818.1) | \$ (724.1) | \$ (724.1) | \$ (0.0) |
| Rebates and Deductions % | 25.2% | 26.8% | 25.3% | 26.7% | 32.1% | |
| Total Net Sales | \$ 2,222.5 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.5 | \$ 1,534.4 | \$ (453.1) (4) |
| Net Sales Variance: | | | | | | |
| | | | | \$ Variance | % Variance | |
| 2013 LE vs 2012 | | | | \$ (213.5) | -8.7% | |
| 2013 LE vs 2013B | | | | \$ (422.9) | -17.5% | |
| 2014B vs 2013 LE | | | | \$ (453.1) | -22.9% | |

See next slide for footnote explanations

3

P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\Sales\[Net Sales Slide for Board.xlsx]Net Sales

2014 Budget Proposal – Gross to Net Sales Highlights

1. OxyContin gross sales reduction of \$484 mm or 19.7% assumes:

| | |
|---|----------------|
| | |
| ▪ February 2014 price increase of 7% | \$180 |
| ▪ E2E forecasted upside | 71 |
| ▪ Lower scripts and continued shift to lower strengths and lower tablets per script | (455) |
| ▪ Settlement agreements with Actavis, Ranbaxy, Par and a contingency for other possible settlements | (261) |
| ▪ Trade inventory reduction due to lower demand and AG's in Q4 2014 | (19) |
| Total | \$(484) |

2. Butrans gross sales increase of \$44.1 mm or 30.5% is largely driven by the 9.5% January and 6% August price increases (\$22 mm) and volume (\$25 mm).
3. Intermezzo is assumed to be returned to Transcept during 2014 and to be break even until then.
4. Rebates and deductions increase from 26.7% of sales in 2013 to 32.1% of sales in 2014 largely due to higher rebates:
- Higher rebate rates on OxyContin commercial and Medicare Part D due to a combination of higher rates paid to maintain business and due to price protection agreements.
 - Higher Medicare Part D coverage gap rebates.
 - Higher Medicaid rebates as a result of the Best Price impact of the OxyContin authorized generic settlements (\$22.6 mm).
 - Butrans commercial and Medicare Part D formulary wins.

2014 Budget Proposal - P&L

| (000's) | 2013 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | 2014 Budget vs. 2013 Latest Estimate |
|---|--------------|--------------|--------------|----------------------|----------------------|--------------------------------------|
| Gross Branded Product Sales | \$2,973,163 | \$3,004,908 | \$3,239,473 | \$2,713,569 | \$2,256,777 | (\$482,812) |
| Peer for Service | (74,507) | (89,515) | (85,353) | (54,509) | (44,444) | 9,985 |
| Discounts and Allowances | (59,222) | (124,052) | (85,195) | (59,400) | (45,000) | (14,400) |
| Patient Savings Card Discounts | (13,572) | (25,104) | (24,297) | (44,343) | (44,104) | (76) |
| Rebates on Branded Sales | (546,293) | (217,808) | (254,489) | (555,357) | (570,036) | (14,679) |
| Proposed regulation w/d for Medicaid rebates | (55,554) | (60,555) | (76,801) | (55,015) | (25,477) | (76) |
| Other | 12,350 | 2,455 | 3,893 | 4,897 | 5,027 | (76) |
| Rebates as % of Gross Branded Product Sales | 20.7% | 7.2% | 7.8% | 20.5% | 24.4% | 4.7% |
| NET REVENUE | 2,222,493 | 2,200,922 | 2,410,349 | 1,987,472 | 1,536,354 | (451,118) |
| Cost of Goods Sold | (359,370) | (145,475) | (152,232) | (141,275) | (125,341) | 16,037 |
| COGS as % of Gross Branded Product Sales | 12.4% | 4.8% | 4.7% | 5.2% | 5.6% | 0.2% |
| Royalty Expense | (115,272) | (130,285) | (131,872) | (105,725) | (89,712) | (16,013) |
| Shipping and Warehousing | (13,551) | (13,554) | (10,807) | (10,155) | (5,527) | 3,628 |
| GROSS PROFIT | 1,928,322 | 1,920,968 | 2,146,239 | 1,725,754 | 1,315,494 | (409,240) |
| G&A (incl. Legal Department but excl. Legal Fees) | (144,235) | (151,555) | (157,782) | (125,910) | (124,954) | (9) |
| G&A as % of Net Revenues | 7.3% | 6.9% | 6.5% | 7.3% | 7.5% | 0.2% |
| R&D | (59,351) | (51,515) | (57,251) | (39,247) | (25,411) | (13) |
| R&D Other - Milestones and Alliances | (804) | (2,254) | (5,692) | (10,932) | (5,151) | 5,773 |
| R&D as % of Net Revenues | 2.7% | 2.3% | 2.4% | 2.0% | 1.7% | 0.3% |
| Sales and Promotion | (229,517) | (205,110) | (209,313) | (275,159) | (255,100) | (20,059) |
| S&P as % of Net Revenues | 10.3% | 9.3% | 8.7% | 13.9% | 16.4% | 2.5% |
| Health Care Reform Fee | (28,342) | (51,251) | (33,300) | (27,240) | (25,793) | (1,447) |
| Other - US | (19,255) | (17,643) | (18,452) | (15,852) | (5,823) | (10) |
| OPERATING EXPENSES | (711,622) | (667,977) | (692,697) | (667,253) | (719,344) | 51,611 |
| Operating Expenses as % of Net Revenues | 32.1% | 30.4% | 28.7% | 33.6% | 46.5% | 13.9% |
| OPERATING MARGIN BEFORE INCENTIVE & SETTLEMENTS | 1,216,700 | 1,252,991 | 1,453,542 | 1,058,501 | 596,150 | (462,351) |
| Operating margin as % of Net Revenues | 54.7% | 56.9% | 60.3% | 53.3% | 39.0% | (14.3%) |
| Incentive Bonus | (35,054) | (34,255) | (42,813) | (55,000) | (39,500) | (15,495) |
| Insurance Income | 30,859 | 5,520 | 5,520 | 591 | 550 | 239 |
| INCENTIVE AND SETTLEMENTS | (4,195) | (28,735) | (37,293) | (54,409) | (38,950) | (15,449) |
| TOTAL INCENTIVES AND SETTLEMENTS | (4,195) | (28,735) | (37,293) | (54,409) | (38,950) | (15,449) |
| OPERATING MARGIN AFTER INCENTIVES AND SETTLEMENTS | 1,212,505 | 1,250,256 | 1,416,249 | 1,004,092 | 557,200 | (451,852) |
| Operating margin as % of Net Revenues | 54.5% | 56.8% | 58.8% | 50.5% | 36.3% | (14.2%) |
| Other Items | | | | | | |
| Royalty Income - ex US | 91,587 | 55,951 | 40,897 | 40,692 | 39,051 | (1,641) |
| Ex US Expense | (129,505) | (55,055) | (127,800) | (125,743) | (139,215) | (17,452) |
| Other ex-US expenses | (19,824) | (15,025) | (12,401) | (12,115) | (10,025) | (2,090) |
| One Time Charges/Other Items | (2,452) | (2,145) | (2,355) | (12,510) | (4,154) | (7,945) |
| Gain on Infinity stock | 555 | 1,554 | 1,712 | 234,553 | 200 | (134,353) |
| Interest Income / (Expense), net | | | | | | |
| TOTAL OTHER ITEMS | (59,889) | 3,080 | (102,093) | (12,943) | (174,233) | (154,290) |
| PROFIT/LOSS BEFORE TAX | \$ 1,152,616 | \$ 1,253,531 | \$ 1,314,156 | \$ 991,149 | \$ 382,967 | (\$ 608,582) |

See next slide for footnote explanations

2014 Budget Proposal – P&L Highlights

1. Net sales are lower than budget by \$423 mm due to lower volume of OxyContin (\$376 mm), Intermezzo (\$32 mm), and Butrans (\$17 mm) sales.
 - a. Discounts and Allowances are \$49 mm favorable to 2013 budget due to lower than expected returns which resulted in reducing prior year accruals by \$17 mm.
 - b. Savings Card Discounts are \$10 mm over budget due to expanding use to commercially insured over 65's and increased usage.
 - c. ~~Rebates are over budget by 2.2% of gross sales due to new contracts.~~
2.

Redacted
3. R&D spending is \$78 mm lower than budget largely due to lower clinical/non-clinical spend for BUP higher strengths, ONU and VND programs.
4. S&P spending is \$34.7 million lower than budget due to reduced Intermezzo promotional and contract sales force spend of \$16.3 mm, sale bonus lower than target of \$3.2 mm, reduced people costs due to higher vacancies in sales force of \$2.6 million and all other of \$ 12.6 mm.
5. Incentive bonus is projected to payout at the same rate as 2012.
6. Ex US expenses are higher than budget due to higher funding requirements for Latin America and Asia Pacific.

2014 Budget Proposal – P&L Highlights

7. Net Sales are budgeted to decrease \$453 mm or 23% vs. 2013. Changes by product include:
- OxyContin -26.5%
 - Butrans +22.8%
- a. Discounts and Allowances in 2014 are expected to cost \$5.9 mm more than 2013, on lower sales, due to prior year \$17 mm accrual reversal not repeating.
 - b. Patient Savings Card Discounts in 2014 are expected to cost \$44 mm – same as 2013 – on lower sales. This is due to continuing trend toward more and costlier redemptions. The 2014 Budget anticipates a \$3.0 mm savings by selectively reducing eligibility and/or reducing the patient savings amount.
 - c. The Proposed Medicaid Rebate Regulation expense is lower in 2014 as a result (1) lower sales and (2) the fact that in Q3 2014 Purdue will pay a 100% Medicaid rebate (due to the shipment of the authorized generic product setting best price), so there is no incremental proposed rule rebate in this quarter.
 - d. Other includes \$3.5 mm of authorized generic transfer price margin in 2014 related to settlement agreements.
8. Royalty expense is budgeted to be lower by \$16 mm or 15% due to lower sales.
9. G&A, Legal, R&D and S&P are budgeted to be lower due to cost reductions covered later in the presentation.
10. Other – US includes \$15.6 mm of specific cost reductions offset by \$10 mm President's Reserve.
11. Incentive bonus assumes company performance is 100% in 2014.
12. Ex US expenses are budgeted to increase due to higher fundings of Europe and Japan.

2014 Budget & Targiniq:

- In Q3 2013 Purdue filed an NDA for Targiniq with a pain indication. Timing of approval, final labeling and more are uncertain so the **sales and launch costs for Targiniq are not included in the budget**. A Targiniq budget will be proposed at a future Board meeting.

2014 Budget Proposal - P&L ratios

| | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | |
|--|---------------|---------------|---------------|----------------------|----------------------|---|
| GROSS BRANDED PRODUCT SALES | 100% | 100% | 100% | 100% | 100% | |
| Fee for Service | -2.5% | -2.5% | -2.0% | -2.0% | -2.0% | |
| Discounts and Allowances | -1.5% | -4.5% | -2.1% | -1.5% | -2.0% (1) | |
| Patient Savings Card Discount | -0.5% | -0.8% | -1.1% | -1.7% | -2.3% | |
| Rebates on Branded Sales | -15.4% | -17.2% | -17.2% | -19.7% | -25.2% (2) | |
| Proposed Regulation Adjustment for Medicaid Rebates | -2.3% | -2.0% | -2.4% | -2.0% | -1.3% (2) | |
| Other | 0.4% | 0.1% | 0.1% | 0.2% | 0.4% | |
| NET BRANDED REVENUES | 74.5% | 73.2% | 74.1% | 73.3% | 67.9% | Income statement line items as a percent of gross sales |
| Cost of Goods Sold | -5.5% | -4.9% | -5.0% | -5.2% | -5.5% | |
| Royalty Expense | -3.9% | -4.0% | -4.1% | -3.5% | -4.0% | |
| Shipping and Warehousing | -0.4% | -0.4% | -0.3% | -0.4% | -0.5% | |
| TOTAL COST OF GOODS SOLD | -9.9% | -9.3% | -9.4% | -9.2% | -9.8% | |
| GROSS PROFIT | 64.6% | 63.9% | 65.2% | 63.6% | 58.1% | |
| General and Administrative (collateral Dept. excl. Legal Fees) | -6.5% | -6.5% | -6.5% | -7.7% | -6.5% | |
| Research and Development | -12.1% | -14.2% | -15.1% | -15.1% | -17.3% | |
| Research and Development Other - Milestones and Alliances | 0.0% | -0.1% | -0.3% | -0.5% | -0.3% | |
| Sales and Promotion | -10.3% | -13.5% | -12.9% | -13.5% | -16.5% | |
| Health Care Reform Fee | -1.2% | -1.4% | -1.3% | -1.4% | -1.9% | |
| Other US | -0.1% | -0.8% | -0.3% | -0.1% | 0.4% | |
| OPERATING EXPENSES | -33.0% | -39.4% | -35.6% | -41.5% | -45.9% | (3) |
| OPERATING MARGIN BEFORE INCENTIVES AND SETTLEMENTS | 33.8% | 24.5% | 29.6% | 22.1% | 12.2% | |
| Incentive Bonus | -1.5% | -1.5% | -1.5% | -1.5% | -2.5% | |
| INCENTIVES AND SETTLEMENTS | -1.4% | -2.0% | -1.5% | -1.5% | -2.5% | Income statement line items as a percent of net sales |
| OPERATING MARGIN AFTER INCENTIVES AND SETTLEMENTS | 35.2% | 26.5% | 31.1% | 23.6% | 14.7% | |
| Royalty Income - ex-US | 4.1% | 3.8% | 1.7% | 2.0% | 2.5% | |
| Ex-US Expenses | -5.5% | -3.0% | -5.3% | -8.1% | -13.0% (4) | |
| Other ex-US expenses | -0.1% | -0.7% | -0.3% | -0.5% | -0.7% | |
| One Time Charges / Other Items | -0.1% | -0.1% | -0.1% | -0.5% | -0.3% | |
| Gain on Infinity stock | 0.0% | 0.0% | 0.0% | 0.3% | 0.0% | |
| Interest Income (Expense), net | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | |
| TOTAL OTHER ITEMS | -1.5% | 0.1% | -4.2% | -1.0% | -11.4% | |
| PROFIT BEFORE TAX | 33.7% | 26.6% | 26.9% | 22.6% | 3.3% | |

See next page for footnote explanations

2014 Budget Proposal - P&L Ratios Highlights

1. Higher due to a 2013 return accrual reversal not repeating in 2014 - (0.6%).
2. Combined rebates higher in 2014 due to increase in Medicare Part D Rates (Primarily Optum Medicare Part D from 23.5% to 50.0%), higher Medicaid rebates (due to the Best Price impact of the OxyContin authorized generic settlements) and higher Medicare Part D Coverage Gap Discount expense.
3. Despite reducing operating expenses by a total of \$105.9 mm in 2014 versus 2013, due to lower sales, operating expenses have increased from 41.5% of net sales in 2013 to 46.9% of net sales in 2014.
4. Ex-US expenses higher in 2014 due to funding of Europe and Japan.

2014 Budget Proposal - Cash Flow

| (\$ MMs) | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal |
|---|------------------|-----------------|-----------------|----------------------------|----------------------------|
| Operating activities | | | | | |
| Net income | \$ 1,144.5 | \$ 1,008.3 | \$ 1,030.2 | \$ 842.6 | \$ 375.6 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 28.3 | 29.1 | 32.1 | 31.8 | 33.2 |
| Impairment of intangible asset | 4.0 | 20.0 | 0.0 | 0.0 | 0.0 |
| Deferred income taxes | (4.3) | (2.6) | 0.0 | 0.3 | 0.0 |
| Loss on unconsolidated, associated companies | 112.4 | 101.0 | 128.6 | 158.8 | 187.9 (1) |
| Changes to working capital | 162.0 | 88.6 | (212.3) | 13.5 | (301.2) (2) |
| Long-term assets and liabilities | 29.8 | (2.0) | 27.4 | 116.5 | 9.0 |
| Total cash provided by operating activities | 1,475.8 | 1,242.4 | 1,066.1 | 1,163.5 | 304.5 |
| Investing activities | | | | | |
| Capital expenditures | (26.8) | (30.5) | (35.0) | (32.6) | (61.0) (3) |
| Purchase of product marketing rights and other intangibles | (10.0) | (30.0) | 0.0 | 0.0 | (8.1) |
| Restricted cash, net | 12.9 | 17.3 | 22.5 | 3.1 | 16.9 |
| Investments in associated companies, net | (100.3) | (89.1) | (134.6) | (178.9) | (188.1) (4) |
| Acquisition of Infinity common stock | 0.0 | (27.5) | 0.0 | 0.0 | 0.0 |
| Funding of Infinity LOC | (50.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Total cash used in investing activities | (174.2) | (159.7) | (147.1) | (208.3) | (240.2) |
| Financing activities | | | | | |
| Payments (to) from associates, net | (3.8) | (2.7) | 6.8 | 17.5 | 0.0 |
| Distributions to partners for required tax payments | (553.4) | (459.2) | (444.0) | (400.6) | (104.5) (5) |
| Distributions to partners non-tax | (575.2) | (471.6) | (538.1) | (540.9) | (314.1) (6) |
| Total cash used in financing activities | (1,132.2) | (933.6) | (975.3) | (924.0) | (418.6) |
| Increase in cash and cash equivalents | 169.4 | 149.1 | (116.3) | 31.1 | (354.3) |
| Cash and cash equivalents: | | | | | |
| Unrestricted cash at the beginning of the period | 437.1 | 606.5 | 716.3 | 755.6 | 786.7 |
| Unrestricted cash at the end of the period | \$ 606.5 | \$ 755.6 | \$ 600.0 | \$ 786.7 | \$ 432.4 (7) |

See next slide for explanations of footnotes.

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2014 Budget Proposal - Cash Flow Highlights

1. Represents P&L impact of investments in Europe, Japan, Latin America and Asia Pacific.
2. Change in working capital primarily due to reduction in rebate accruals (due to generic settlements reducing Q4 2014 brand demand and rebates thereon) and rebates for CMS proposed rules of \$224 mm which are assumed in this budget to be paid in Q2-2014.
3. Total 2014 capital expenditures of \$61 mm assumes \$38 mm related to the new manufacturing facility.
4. Funding of Europe (\$83 mm), Japan (\$29 mm), Latin America (\$38 mm) and Asia Pacific (\$38 mm).
5. Tax distributions assume a statutory tax rate (federal plus state) of 49.3% in 2014. Tax distributions are only 27.8% of 2014 pre-tax book income due to the tax benefit from payment of the CMS line extension rebates (\$224 mm), tax write-off of Transcept milestones expensed for book income in prior years (\$40 mm) offset by the non-deductible Health Care Reform Fee (\$28 mm), foreign book losses in excess of tax deductible losses (\$52 mm) and other book/tax differences (\$14 mm).
6. Assumes that Abbott equity covenant will be reduced to \$350 mm.
7. Purdue maintains cash of ~ \$400 mm (three months of net sales in 2014.)

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2014 Budget Proposal - Balance Sheet

| (\$ MM's) | 2011 | 2012 | 2013 | 2013 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Actual | Actual | Budget | Latest Estimate | Budget Proposal |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 606.5 | \$ 755.6 | \$ 600.0 | \$ 736.7 (1) | \$ 432.4 (1) |
| Accounts receivable | 218.8 | 187.1 | 150.6 | 104.8 (3) | 92.3 (3) |
| Due from associated companies | 27.8 | 31.8 | 13.7 | 16.2 | 16.2 |
| Other receivables | 10.1 | 3.0 | 8.4 | 10.2 | 12.0 |
| Inventories | 44.2 | 50.6 | 42.9 | 49.2 | 45.3 |
| Prepaid expenses and other assets | 32.7 | 22.1 | 28.7 | 19.5 (4) | 19.5 (4) |
| Restricted cash - current | 16.0 | 23.9 | 0.0 | 16.9 (2) | 0.0 (2) |
| TOTAL CURRENT ASSETS | 956.1 | 1,074.2 | 844.9 | 1,003.5 | 618.0 |
| Property and equipment, net | 143.2 | 149.5 | 163.4 | 157.2 | 191.5 (5) |
| Investments in associated companies | 19.5 | 7.9 | 14.9 | 27.9 (6) | 28.1 (6) |
| Due from associated companies | 3.3 | 3.0 | 3.3 | 5.0 | 5.0 |
| Restricted cash - long term | 42.6 | 17.2 | 21.7 | 21.1 | 21.1 |
| Goodwill | 23.4 | 23.4 | 23.4 | 23.4 | 23.4 |
| Product rights, trademarks and other intangibles, net .. | 168.2 | 173.2 | 166.0 | 166.4 | 167.6 |
| Other assets | 73.3 | 22.5 | 21.2 | 21.2 | 19.7 |
| Investment in infinity stock | 0.0 | 189.5 | 158.0 | 0.0 | 0.0 (7) |
| Deferred income taxes | 17.2 | 19.5 | 17.4 | 19.5 | 19.5 |
| TOTAL ASSETS | \$ 1,446.8 | \$ 1,680.3 | \$ 1,414.3 | \$ 1,443.1 | \$ 1,092.1 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 87.4 | \$ 71.2 | \$ 94.1 | \$ 78.0 | \$ 69.5 |
| Accrued expenses and taxes payable | 632.8 | 694.7 | 360.6 | 622.2 (2) | 315.2 (1) |
| Due to associated companies | 11.3 | 12.4 | 13.0 | 14.3 | 14.3 |
| TOTAL CURRENT LIABILITIES | 731.5 | 778.3 | 467.7 | 714.5 | 399.1 |
| Other long-term liabilities | 223.6 | 230.2 | 241.4 | 159.6 (8) | 193.1 |
| TOTAL LIABILITIES | 955.1 | 1,008.5 | 709.1 | 874.1 | 592.1 |
| EQUITY | | | | | |
| Capital stock - common | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional paid in capital | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Subscription receivable | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| Accumulated other comprehensive income | (145.1) | (139.9) | (128.4) | (76.2) (8) | (72.2) |
| Unrealized gain / loss on infinity stock | 0.0 | 97.5 | 60.2 | 0.0 (7) | 0.0 (7) |
| Retained earnings and partners' capital | 835.8 | 713.2 | 772.4 | 614.2 | 571.2 |
| TOTAL EQUITY | 491.6 | 671.7 | 705.2 | 539.0 | 500.0 (9) |
| TOTAL LIABILITIES AND EQUITY | \$ 1,446.8 | \$ 1,680.3 | \$ 1,414.3 | \$ 1,443.1 | \$ 1,092.1 |

2014 Budget Proposal – Balance Sheet Highlights

(1) CMS Medicaid rebate rules for line extensions are now expected to be finalized and paid in 2014 (vs. 2013 as assumed in 2013 Budget) with additional rebates paid of \$224 mm million in Q2-2014. This results in higher accruals and cash in the 2013 Latest Estimate and lower accruals and cash in 2014. Other decreases in accruals in 2014 are due to lower Medicaid and Tricare rebates due to timing of payments (\$56 mm) and lower HMO rebates as a result of Authorized Generics settlements (\$15 mm).

(2) Restricted cash represents the following:

| | | 2011 | 2012 | 2013 | 2013 | 2014 | |
|--------------------------------|--|----------------|----------------|----------------|-----------------|-----------------|-------|
| | (\$ MM's) | Actual | Actual | Budget | Latest Estimate | Budget Proposal | Notes |
| Current | Qualified Settlement Trust (QST) (Annuity) | \$ 43.0 | \$ 23.9 | \$ 9.9 | \$ 16.9 | \$ 0.0 | (1) |
| Long-term | Letters of credit - fronted product liability insurance (US) | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | |
| | Letters of credit - fronted product liability and clinical trial insurance (ex-US) | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | |
| | Letters of credit - security for incurred but not yet paid insurance claims | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | |
| | Letters of credit - PP Tech / NUDEP | 0.0 | 0.0 | 4.5 | 3.5 | 3.5 | (2) |
| | Letters of credit - others | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| | Collateral | 0.0 | 1.7 | 1.7 | 2.1 | 2.1 | |
| | Long-term : Sub-total | 15.5 | 17.2 | 21.7 | 21.1 | 21.1 | |
| TOTAL - RESTRICTED CASH | | \$ 58.5 | \$ 41.1 | \$ 31.6 | \$ 38.0 | \$ 21.1 | |

Notes

- (1) 2013 Budget assumed all remaining settlements paid out by June 2013 with balance of QST returned to Purdue in 2013.
 2013 Latest Estimate: As of August 2013, all known settlements have been paid from the QST leaving the remaining balance of \$23.9 mm to be returned to Purdue. The Trustee has agreed to distribute the remaining funds to Purdue. The first \$7 mm interim payment was received in September 2013. A second interim payment in the amount of \$9 mm will be due after a ruling from the Probate Court (expected sometime in Q2 2014). Receipt of the balance is expected in 2014.
- (2) Based on current estimate for environmental clean-up liability at Lodi.

2014 Budget Proposal - Balance Sheet Highlights

- (3) Decrease is due to lower sales.
- (4) Decrease from 2013 budget is due to lower clinical upfront payments.
- (5) The 2014 budget assumes \$61 mm of capital expenditures, of which \$38 mm relates to the new facility.
- (6) Increase is primarily due to \$9 mm of higher 2013 funding than in original budget.
- (7) All shares of Infinity stock were distributed in 2013.
- (8) Accruals for pension and other post retirement obligations are recorded at net present value. An increase in the discount rates from 3.95% at 12/31/2012 to 4.8% in the 2013 Latest Estimate (3.95% in 2013 Budget) results in a reduction in these long term liabilities, with offsetting income recorded in the unrealized gain line of stockholders equity. The pension accruals are assumed at \$119 mm for 2013 Budget, \$75 mm for 2013 Latest Estimate, and \$74 mm for 2014 Budget Proposal.
- (9) Bank Group and Internal Reporting Group equity are projected to be \$400 mm and \$500 mm at 12/31/2014, respectively. The difference represents ex- US investments that are held outside of the bank group but within internal reporting.

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2014 Budget Proposal Brand Business Unit P&L

15

2014 Budget Proposal - OxyContin P&L

| (\$MM's) | 2011 | % | 2012 | % | 2013 | % | 2013 Latest | % | 2014 Budget | % | |
|--|------------|-------|------------|-------|------------|-------|-------------|-------|-------------|-------|--------|
| | Actual | Sales | Actual | Sales | Budget | Sales | Estimate | Sales | Proposal | Sales | Growth |
| Gross Sales ⁽¹⁾ | \$ 2,781.0 | | \$ 2,777.1 | | \$ 2,916.5 | | \$ 2,461.4 | | \$ 1,977.3 | | |
| Fee for Service | (71.0) | 2.6% | (65.6) | 2.4% | (59.9) | 2.1% | (50.4) | 2.0% | (40.0) | 2.0% | |
| Sales Discounts & Allowances ⁽²⁾ | (58.9) | 2.1% | (116.4) | 4.2% | (72.7) | 2.5% | (33.0) | 1.3% | (39.7) | 2.0% | |
| Savings Cards Discounts ⁽³⁾ | (10.9) | 0.4% | (18.3) | 0.7% | (22.8) | 0.8% | (34.6) | 1.4% | (34.3) | 1.7% | |
| Rebates ^(4,5) | (540.4) | 19.4% | (509.6) | 18.4% | (547.9) | 18.8% | (516.5) | 21.0% | (532.7) | 26.9% | |
| Proposed regulation adj for Medicaid Rebates | (68.9) | 2.5% | (60.4) | 2.2% | (65.6) | 2.2% | (55.0) | 2.2% | (28.5) | 1.4% | |
| Net Sales | 2,030.8 | 73.0% | 2,006.7 | 72.3% | 2,147.6 | 73.6% | 1,771.9 | 72.0% | 1,302.1 | 65.9% | -27% |
| COGS/Shipping & Warehousing ⁽⁶⁾ | (81.7) | 4.0% | (74.9) | 3.7% | (77.4) | 3.6% | (65.0) | 3.7% | (49.5) | 3.8% | |
| Royalty Expense/Amort of Milestone Pymts. | (110.8) | 5.5% | (109.3) | 5.4% | (112.6) | 5.2% | (93.6) | 5.3% | (78.5) | 6.0% | |
| Gross Profit | 1,838.4 | | 1,822.9 | | 1,957.6 | | 1,613.3 | | 1,174.1 | | -32% |
| Product Spending | (50.8) | 2.5% | (62.0) | 3.1% | (100.4) | 4.7% | (88.9) | 5.1% | (108.6) | 8.3% | |
| Marketing Expense | (15.1) | | (14.4) | | (23.6) | | (23.3) | | (25.5) | | |
| Sales Force Expense ⁽⁷⁾ | (35.7) | | (47.7) | | (76.8) | | (66.6) | | (83.1) | | |
| Other Expenses | | | | | | | | | | | |
| G & A Allocation at 50% | (73.1) | | (77.1) | | (80.2) | | (77.0) | | (67.5) | | |
| R&D/Market Support | (86.5) | | (45.4) | | (59.5) | | (50.5) | | (43.5) | | |
| Insurance Income/Settlement Expense | 30.0 | | 4.3 | | 0.8 | | (1.8) | | 0.9 | | |
| Health Care Reform Fee | (23.3) | | (30.0) | | (20.1) | | (25.8) | | (26.7) | | |
| Product Contribution | \$ 1,613.9 | 79.5% | \$ 1,577.9 | 78.6% | \$ 1,667.9 | 77.7% | \$ 1,333.9 | 75.3% | \$ 908.5 | 69.8% | -32% |

Notes:

(1) 2014 Budget Proposal includes price increase of 7.0% on February 1, 2014 and impact of generic settlement agreements (\$261 mm).

(2) Change in % of sales by year is due to updated estimates of returns.

(3) 2013 Latest Estimate includes a one-time \$3.6 mm accrual relating to a change in methodology for estimating future redemptions. The increase in 2013 expense over 2012 is also due to increasing the patient limit from \$75 to \$90, opening up the program to age over 65 and higher redemption rates.

(4) The increase in the blended rebate rate from 21.0% in 2013 to 26.9% in 2014 is primarily due to (a) increase in Medicare Part D rates of 2.7% largely due to the rebaterate on Optum increasing from 23.5% in 2013 to 50% in 2014, (b) the increase in Medicaid rates as a result of the authorized generic transfer price setting a low best price for one quarter (1.6%), (c) higher commercial rebate rates largely driven by Medco/ESI (1.1%) and (d) higher coverage gap expense (1.1%).

(5) The increase in blended rebate from 18.5% in the 2013 Budget to 21% in the Latest Estimate is largely due to a change in sales mix between channels (1.7%) and increase in Medicare Part D coverage gap expense (0.8%).

(6) COGS reflects unit standard cost, inventory adjustments and other (eg. annual stability).

(7) 2014 sales force allocation assumes 67% OxyContin / 33% Butrans.

Redacted

(9) R&D 2014 Budget comprises pediatric program (\$9.0 mm), PD UFA fees (\$1.9 mm), allocated people costs across all of R&D (\$59.8 mm), adverse events and product complaints processing (\$1.9 mm), Classwide REMS allocation (\$4.3 mm), Health Policy allocation (\$11.3 mm) and all other (\$5.7 mm).

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014
Budget\BBU\OxyContin\[BBU Oxy 10_17_13.xlsm]BOARD SLIDE (Abbr. Footnotes)

2014 Budget Proposal – OxyContin P&L

(\$MMs)

| | 2009 ACT | 2010 ACT | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal |
|--|---------------|----------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|
| Grunenthal: | | | | | | | |
| Net Sales | \$ - | \$ 604.5 | \$ 2,153.4 | \$ 2,047.1 | \$ 2,212.1 | \$ 1,578.6 | \$ 1,275.5 |
| Royalty Calculated Before Cap ⁽¹⁾ : | - | 24.2 | 73.1 | 70.9 | 70.2 | 57.4 | 48.3 |
| Royalty Due⁽¹⁾: | \$ 6.8 | \$ 27.4 | \$ 69.8 | \$ 64.2 | \$ 64.1 | \$ 57.4 | \$ 48.3 |
| McGinity: | | | | | | | |
| Net Sales | \$ - | \$ 1,011.2 | \$ 2,021.8 | \$ 2,048.8 | \$ 2,216.4 | \$ 1,604.6 | \$ 1,302.5 |
| Royalty Due⁽²⁾ | \$ - | \$ 22.3 | \$ 40.4 | \$ 42.8 | \$ 44.3 | \$ 32.1 | \$ 26.1 |
| Total Royalty Expense⁽³⁾ | \$ 6.8 | \$ 49.6 | \$ 110.2 | \$ 107.1 | \$ 108.4 | \$ 89.5 | \$ 74.3 |
| Milestone Amortization Expense ⁽⁴⁾ | \$ - | \$ 0.2 | \$ 0.6 | \$ 2.3 | \$ 4.2 | \$ 4.2 | \$ 4.2 |
| Total Royalty & Milestone Expense | \$ 6.8 | \$ 49.8 | \$ 110.8 | \$ 109.4 | \$ 112.6 | \$ 93.6 | \$ 78.5 |

(1) 2009 royalty represents pre-launch contractual minimum. Tiered royalty at 4.0% for the first \$1 billion annual net sales, 3.0% for the next billion annual net sales, and 2.0% for all remaining net sales over \$2 billion. Post-launch royalty due considers contractual minimum and maximum (EUR 20 mm and EUR 50 mm, respectively). In 2010 actual royalty paid at the minimum of EUR 20 mm was higher than the calculated royalty. In 2011, 2012 and 2013 budget royalties are reflected as being paid at the cap of EUR 50 mm which is lower than the calculated royalty.

(2) McGinity royalty equals 2.5% of Net Sales prior to commencement of Grunenthal royalty payments (Sept. 2010) and 2% of Net Sales thereafter.

(3) The 2013 Latest Estimate and 2014 Budget Proposal assume that the proposed Medicaid rebate line extension rule is finalized Q1 2014. This allows us to take the cumulative impact of the proposed rule rebates through 12/31/13 into our 2013 royalty expense calculation and the 2014 impact into our 2014 calculation. This results in our royalty expense decreasing by \$11.2 mm in 2013 and \$1.4 mm in 2014.

(4) Milestones incurred at or subsequent to FDA approval are amortized through 2017 (expected useful life).

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2014 Budget Proposal - Butrans P&L

(\$MM's)

| | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|---|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|--------------------------|------------|--------|
| Gross Sales (10) | \$ - | | \$ 73.5 | | \$ 112.9 | | \$ 160.0 | | \$ 144.7 | | \$ 188.8 ⁽¹⁰⁾ | | |
| Fee for Service ⁽¹⁾ | - | | (1.8) | 2.5% | (2.7) | 2.4% | (3.4) | 2.1% | (3.0) | 2.1% | (3.8) | 2.0% | |
| Sales Discounts & Allowances ⁽²⁾ | - | | (8.3) | 11.2% | (13.7) | 12.2% | (16.8) | 10.5% | (5.3) | 3.7% | (3.9) | 2.1% | |
| Savings Cards Discounts | - | | (4.4) | 6.0% | (6.2) | 5.5% | (8.6) | 5.4% | (8.9) | 6.1% | (9.8) | 5.2% | |
| Rebates ^{(3), (4)} | - | | (3.1) | 4.2% | (6.1) | 5.4% | (14.3) | 9.0% | (17.2) | 11.9% | (35.7) | 18.9% | |
| Net Sales | - | | 55.9 | 76.1% | 84.1 | 74.5% | 126.9 | 79.3% | 110.3 | 76.2% | 135.5 | 71.8% | 23% |
| COGS ⁽⁵⁾ | (0.9) | N/A | (6.0) | 8.0% | (7.9) | 7.0% | (7.3) | 5.8% | (4.8) | 4.3% | (7.7) | 5.7% | |
| Shipping & Warehousing | - | | (6.8) | 9.3% | (0.6) | 0.7% | (0.4) | 0.3% | (0.4) | 0.3% | (0.2) | 0.2% | |
| Royalty Expense/Amort. of Milestone Pymts. ⁽⁶⁾ | - | | (0.4) | 0.5% | (4.5) | 4.0% | (7.3) | 4.5% | (6.1) | 4.3% | (7.5) | 5.3% | |
| Gross Profit | (0.9) | | 45.7 | | 71.1 | | 111.9 | | 99.0 | | 120.0 | | |
| Product Spending | (6.7) | N/A | (120.5) | 163.5% | (105.3) | 93.2% | (100.5) | 79.2% | (86.7) | 60.5% | (88.1) | 65.0% | 11% |
| Marketing Expense | (6.7) | | (28.1) | | (20.4) | | (23.8) | | (21.9) | | (23.7) | | |
| Sales Force Expense ⁽⁷⁾ | - | | (92.4) | | (85.5) | | (76.7) | | (75.8) | | (64.4) | | |
| Other Expenses | - | | (3.4) | | (5.1) | | (7.6) | | (6.6) | | (8.1) | | |
| Redacted | | | | | | | | | | | | | |
| R&D Market Support ⁽⁸⁾ | (8.9) | | (12.2) | | (17.7) | | (14.4) | | (11.9) | | (15.6) | | |
| Health Care Reform Fee ⁽⁹⁾ | - | | - | | (1.2) | | (1.1) | | (1.1) | | (1.6) | | |
| Product Contribution | \$ (16.8) | N/A | \$ (101.1) | -137.8% | \$ (59.2) | -52.6% | \$ (25.0) | -19.7% | \$ (26.4) | -23.9% | \$ 5.6 | 4.2% | 121% |

Notes:

- (1) 2014 Fee For Service expense assumes 98.43% of sales are subject to Fee for Service agreements with a blended Fee for Service rate of 1.98%.
- (2) Prompt pay discounts at 2% of sales and change in reserve for estimated future returns of Butrans. The change in % of sales by year is due to updated estimates of returns.
- (3) Increase in blended rebate rate from 11.9% in 2013 to 18.9% in 2014 is primarily due to (a) formulary wins in Medicare Part D and commercial (4.4%), (b) higher Medicaid rebates due to inflation adjustment and best price being lowered as a result of additional price protection rebates as a result of 2014 price increases being higher than the price reset (0.8%), (c) additional price protection rebates on commercial and Medicare Part D (1.5%) and (d) higher Medicare Part D coverage gap discount expense (0.4%).
- (4) The increase in blended rebate rate from 9% in the 2013 Budget to 11.9% in the 2013 Latest Estimate is due to higher Commercial sales 1.1% (Medco, ESI, Aetna and Emvion), TRICARE sales (0.6%), higher blended rebate rates for commercial (0.9%) and higher Medicare Part D Coverage Gap expense (0.3%).
- (5) The low Cost of Goods Sold expense as a % of sales of 3.3% in the 2013 Latest Estimate is due to the \$2.2 mm LTS reimbursement for unusable patches made at the West Caldwell plant received in 2013, but the patches were expensed in 2012.
- (6) Royalties paid to LTS at 6.6% of net sales.
- (7) 2014 sales force allocation assumes 67% OxyContin / 33% Butrans.
- (8) R&D 2014 Budget comprises Butrans pediatric program (\$3.3 mm), PDUFA fees (\$0.8 mm), allocated people costs across all of R&D (\$3.9 mm), adverse events and product complaints processing (\$4.1 mm) and all other (\$3.5 mm).
- (9) Represents Purdue's portion of the \$2.8 billion industry fee, which is allocated between Butrans and OxyContin based on estimated prescription drug sales to the government.
- (10) 2014 price increases in January (3.5%) and August (6%) are budgeted to increase sales by approximately \$22 mm.

2014 Budget Proposal - Laxatives P&L

(\$MM's)

| | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|------------------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|--------|
| Gross Sales ⁽¹⁾ | \$ 48.1 | | \$ 51.1 | | \$ 51.5 | | \$ 49.3 | | \$ 49.3 | | \$ 50.3 | | |
| Sales Discounts & Allowances | (1.2) | 2.5% | (1.1) | 2.1% | (2.6) | 5.1% | (0.6) | 1.3% | (1.3) | 2.7% | (1.0) | 2.0% | |
| Net Sales | 46.9 | 97.5% | 50.0 | 97.9% | 48.8 | 94.8% | 48.6 | 98.7% | 47.9 | 97.3% | 49.3 | 97.9% | +3% |
| COGS ⁽²⁾ | (9.1) | 19.5% | (9.1) | 18.3% | (9.2) | 18.8% | (10.1) | 20.7% | (9.2) | 19.2% | (10.5) | 21.4% | |
| Shipping & Warehousing | (1.9) | 4.1% | (2.0) | 4.1% | (2.1) | 4.3% | (2.4) | 4.9% | (2.4) | 5.0% | (2.6) | 5.2% | |
| Gross Profit | 35.9 | | 38.9 | | 37.6 | | 36.2 | | 36.4 | | 36.2 | | |
| Product Spending | (21.7) | 46.3% | (17.7) | 35.4% | (19.0) | 38.8% | (15.6) | 32.2% | (16.0) | 33.4% | (15.2) | 30.8% | -5% |
| Marketing Expense ⁽³⁾ | (15.5) | | (13.9) | | (14.3) | | (15.0) | | (15.4) | | (14.5) | | |
| Sales Force Expense ⁽⁴⁾ | (6.3) | | (3.9) | | (4.6) | | (0.7) | | (0.7) | | (0.7) | | |
| Other Expenses | | | | | | | | | | | | | |
| R&D Market Support ⁽⁵⁾ | (1.2) | | (1.3) | | (1.3) | | (1.3) | | (0.9) | | (0.9) | | |
| Product Contribution | \$ 13.0 | 27.6% | \$ 19.9 | 39.8% | \$ 17.3 | 35.4% | \$ 19.2 | 39.6% | \$ 19.5 | 40.7% | \$ 20.2 | 41.0% | +4% |

Notes:

(1) Laxatives includes Senokot, Senokot S, Colace and Peri-Colace Brands. The Gross Sales impact of product diversion is estimated at \$2.8 mm in 2013 and \$1.0 mm in 2012.

(2) COGS reflects units at standard costs, inventory adjustments and other costs (eg. annual commercial liability, validation work). 2013 Latest Estimate to 2014 Budget increase of 2.2% of net sales due to:

(i) increase in COGS at standard primarily due to increase in product volume and mix (for example, the increase in sales of Senokot versus Colace in 2014, with Senokot having a higher COGS %), Colace 3.5% price increase (\$0.13 mm), and 3% increase in overhead cost (\$0.05 mm).

(ii) increase in other COGS due to tech transfer for Colace Soft Gel Caps from Calant to Accucaps (\$0.1 mm), validation work related to line extensions (\$0.2 mm) and Senokot S/Peri-Colace assay adjustment (\$0.1 mm).

(3) Marketing expenses include consumer advertising, co-op advertising, advertising and agency fees, samples, coupons and others. 2013 Latest Estimate includes samples reserve transferred to S&P from COGS (\$0.6 mm).

(4) Sales force expense includes cost of outside sales agents (Acosta). In 2012 and prior Laxatives were detailed in a tertiary position by sales force.

(5) Includes estimated R&D support across Medical Services, Drug Safety, Regulatory and other support functions.

2014 Budget Proposal - Strengths/Opportunities and Challenges

Strengths/Opportunities

OxyContin

- Gold standard, very high brand recognition
- Managed Care coverage
- Incremental promotional activity
- Tamper resistant formula
- Medicaid line extension rebate rule resolved in our favor
- Demographics and under treatment of pain support market growth
- Sales Force effectiveness (E2E) project

Butrans

- Safe, effective and convenient
- Base of prescribers and formulary wins established and growing
- Class III convenience
- Steady increase in Managed Care coverage
- Titration education underway

Pipeline

- Targiniq potential approval in 2014
- Hydrocodone IR TR may be to market before other products in development

Overall

- Cost reduction/efficiency initiatives continue
- US economic recovery could result in further growth in overall market

Challenges

- Managed Care pressure
- Abuse of opioid medicines as a class lead regulators to limit patient access --- for example, monthly tablet or mg. limits
- Growth of government as payer and related price pressure
- Patent challenges
- Patent litigation settlements

- Perception that Butrans is not covered/high cost
- Reduction in primary sales presentations
- Dose limited to 20 mcg/hour
- Titration challenge

- Typical industry risks such as timelines, safety and efficacy --- Purdue's pipeline should generally be less risky than standard

- Future opportunities, licenses and acquisitions would be funded outside the budget

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2014 Budget Proposal - Back-Up

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2014 Budget Proposal Purdue P&L By Cost Center

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2014 Budget Proposal - Cost of Goods Sold

| (\$MMs) | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Change |
|---|-------------------|-------------------|-------------------|----------------------|----------------------|------------------|
| Net Sales | \$ 2,222.6 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.6 | \$ 1,634.4 | |
| Material | \$ 90.9 | \$ 78.8 | \$ 89.6 | \$ 76.1 | \$ 65.6 | |
| as a % of net sales | 4.1% | 3.5% | 3.7% | 3.8% | 4.1% (1) | |
| Labor & Overhead | \$ 67.6 | \$ 66.8 | \$ 76.4 | \$ 72.6 | \$ 71.9 | |
| as a % of net sales | 3.0% | 3.0% | 3.2% | 3.6% | 4.4% | |
| Inventory Variances | 9.1 | 6.4 | 3.0 | 2.8 | \$ 3.0 | |
| OxyContin settlements COGS Reduction | - | - | - | - | (0.8) | |
| Rhodes Pharmaceuticals/Mundipharma Recovery | (0.7) | (1.6) | (0.7) | (5.6) | (14.1) (2) | |
| Total Cost of Goods Sold | \$ 168.9 | \$ 148.6 | \$ 162.2 | \$ 141.9 | \$ 123.3 | \$ (18.0) |
| as a % of net sales | 7.5% | 6.7% | 6.7% | 7.1% | 7.5% (3) | |
| Headcount | 265 | 262 | 279 | 276 | 264 | (11) |

- (1) Increase of 0.3% from 3.5% to 4.1% being driven by higher net sales adjustments reduces.
 (2) Higher overhead recovery as manufacturing and distribution volumes increase for Rhodes Pharmaceuticals (\$12.2 mm), Mundipharma (\$1.2 mm) and Australia (\$0.7 mm).
 (3) For comparison to other Pharma companies we would add royalty expense of 5.5% and shipping warehousing costs of 0.5% of net sales for a total 2014 COGS % of net sales of 14.4%, Benchmark companies (Merck, Pfizer, Glaxo, Sanofi-Sintelabo, Allergan)

2013 Budget vs. 2013 Latest Estimate:

| | |
|---|-----------------|
| 2013 Budget | \$ 182.2 |
| Material | (16.4) |
| Volume/Mix related to OxyContin (\$11.9 mm), Intermexco (\$2.0 mm), Dilaudio (\$1.3 mm) and Butrans (\$1.0 mm). | |
| Supply Chain 3rd Party Activities/Product Development | (1.8) |
| Projects cancelled or delayed until 2014 related to Dilaudio, Butrans and Colace. | |
| Headcount related costs | (1.1) |
| Open positions, training & travel. | |
| Utilities | (0.7) |
| Lower utilities driven by milder winter and summer months. | |
| Other | (0.2) |
| 2013 Latest Estimate | \$ 141.9 |

2013 Latest Estimate vs. 2014 Budget Proposal:

| | |
|--|-----------------|
| 2013 Latest Estimate | \$ 141.9 |
| Material | (11.6) |
| Volume/Mix related to OxyContin (\$11.2 mm) and Slow Mag cost reduction due to turnkey transition to Contract Pharmaceutical (\$0.5 mm). Offsets provided by Rhodes Technologies Oxycodone price increase \$0.4 mm and Purdue Canada OTC \$0.3 mm. | |
| Rhodes Pharmaceuticals/Mundipharma/Australia Recovery | (6.6) |
| Rhodes Pharmaceuticals: increase in overhead recovery of (\$4.5 mm) for manufacturing and distribution of Rhodes Pharmaceuticals products driven by M&B and forecasted Oxy APAP launch. Recovery is 100% variable and a portion of fixed overhead. Mundipharma & Australia: increase in overhead recovery of (\$1.0 mm) for manufacturing of Mundipharma and Australia products driven by higher volume as the # of countries being supported will exceed 20 in 2014. | |
| Wages and Fringe | (1.8) |
| Positions transferred to support Project Beas (\$1.7 mm), Employee Benefits (\$1.3 mm), and Procurement & IT reorganizations (\$0.7 mm). Offsets provided by Merit \$1.3 mm and Open positions in 2013 \$0.7 mm. | |
| Supply Chain 3rd Party Activities/Product Development | 0.3 |
| Addition of new FDA Stage 3 Validation requirement of key 3rd party suppliers \$0.5 mm, Butrans Active Pharmaceutical Ingredient Validation for alternate supplier (Norsmco) \$0.2 mm, and Colace site transfer to Accucaps \$0.2 mm. | |
| Other | (0.1) |
| 2014 Budget Proposal | \$ 123.3 |

2014 Budget Proposal - Selling and Promotion

| | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Variance |
|------------------------------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|------------------|
| Operating Expenses (\$MMs): | | | | | | |
| Marketing | \$ 75.6 | \$ 96.6 | \$ 116.0 | \$ 105.9 | \$ 91.9 | \$ (14.0) |
| Field Sales | 137.9 | 187.6 | 184.6 | 168.3 | 164.0 | (4.3) |
| Sales Support | 10.7 | 13.0 | 14.8 | 14.2 | 12.8 | (1.3) |
| Occupancy & Depreciation | 5.2 | 5.9 | 5.3 | 5.3 | 5.4 | 0.1 |
| Task Savings | - | - | (0.8) | (10.0) | (16.2) | (6.2) |
| Transcept Contribution | - | - | (10.0) | (8.6) | - | 8.6 |
| Total S&P | \$ 229.3 | \$ 303.1 | \$ 309.9 | \$ 275.2 | \$ 258.1 | \$ (17.1) |

| | | | | | |
|-------------------------|------------|------------|------------|------------|------------|
| Net Sales - \$MM | \$ 2,222.5 | \$ 2,200.9 | \$ 2,410.3 | \$ 1,987.5 | \$ 1,534.4 |
| S&P as a % of Net Sales | 10.3% | 13.8% | 12.9% | 13.8% | 16.8% |

| | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Variance |
|----------------------------|------------|------------|----------------|-------------------------|-------------------------|------------|
| Approved Headcount: | | | | | | |
| Marketing | 49 | 53 | 55 | 53 | 53 | - |
| Field Sales | 664 | 669 | 673 | 671 | 661 | (10) |
| Sales Support | 27 | 32 | 32 | 28 | 30 | 2 |
| Total S&P | 740 | 754 | 760 | 752 | 744 | (8) |

Note:

Sales Representatives ⁽¹⁾

(1) Intermezzo CSO Reps not included in Purdue Headcount (2012 Budget = 275 Reps, reduced to 90 Reps in Dec 2012, reduced to 0 in May 2013.)

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\S&P Expenses\[Consolidated S&P Summary.xlsx]S&P by Expense Type

2014 Budget Proposal - Selling and Promotion

| | | |
|---|-----------|--------------|
| 2013 Latest Estimate S&P Expense | \$ | 275.2 |
| Salaries and Related | | 0.8 |
| Sales bonus budgeted at target | | 3.3 |
| Elimination of Intermezzo Contract Sales Force | | (6.3) |
| Promotional/Product Spending: | | |
| Butrans | 1.3 | |
| OxyContin | 1.4 | |
| Intermezzo | (21.9) | |
| Targiniq (pre-approval spend only) | 7.9 | |
| HYD (pre-approval spend only) | 4.9 | |
| Laxatives/All Other | (0.9) | |
| | | (7.2) |
| All other (Incl. underspend estimate, increasing from \$10MM to \$16.2MM) | | (7.7) |
| 2014 Budget S&P Expense | \$ | 258.1 |

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2014 Budget Proposal – G&A

(\$MM's)

| | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Change |
|---------------------|-------------|-------------|----------------------|----------------------|---------|
| G&A Expenses | \$151.6 | \$157.8 | \$153.9 | \$135.0 | -\$18.9 |
| As a % of Net Sales | 6.9% | 6.5% | 7.7% | 8.8% | |
| Headcount | 385 | 382 | 383 | 334 | (49) |

2013 LE vs. 2013 Budget:

| | | |
|----------------------------------|---|----------------|
| 2013 Budget: | | \$157.8 |
| External Affairs | Lower grant spending and corporate identity programs. | (1.2) |
| Quality | Timing of new hires, lower product complaint processing, lower consulting | (0.8) |
| License and Business Development | Lower consulting spend | (0.6) |
| Insurance | Lower business interruption insurance and reduced rates on other policies | (0.6) |
| Other | Savings generated across all other departments | (0.7) |
| 2013 Latest Estimate: | | \$153.9 |

2014 vs. 2013 LE:

| | | |
|-----------------------------|---|----------------|
| 2013 Latest Estimate | | \$153.9 |
| External Affairs | Reduction in grants and corporate dues. | (4.1) |
| IT | Reduction of 27 positions (\$2 mm) offset by an increase in outside services \$1 mm, reduced software maintenance, licenses and hardware support, travel and training, total of (\$2 mm). | (3.0) |
| Legal | Reduction of 7 positions | (1.7) |
| Finance | Reduction of 8 full time positions and one part time position, reduced consulting and outside services | (1.3) |
| Security | Reduction of 3 positions, eliminate RX Patrol, reduced grants | (1.0) |
| IPAP | Reduced enrollment expected in 2014 | (1.2) |
| Human Resources | Reduction of 2 positions | (0.6) |
| Admin Services | Reduction of 2 positions | (0.3) |
| Other | Reductions taken across all other departments, including Benefits | (5.8) |
| 2014 Budget: | | \$135.0 |

2014 Budget Proposal - Information Technology

| (\$MM) | 2012 Actual | 2013 Original Budget | 2013 Latest Estimate | 2014 Proposed Budget | \$ Var 2014 Bud vs. 2013 LE | % Var 2014 Bud vs. 2013 LE |
|------------------------------|----------------|----------------------------|----------------------------|----------------------------|-----------------------------------|----------------------------------|
| People Costs | \$24.1 | \$25.9 | \$26.1 | \$24.0 | -\$2.1 | -8.1% |
| Non People Costs | 17.6 | 18.7 | 19.1 | 18.2 | (0.8) | -4.3% |
| Total (includes MFG and R&D) | \$41.7 | \$45.6 | \$45.2 | \$42.3 | -\$2.9 | -6.5% |
| Headcount | 124 | 131 | 131 | 104 | -27 | -20.6% |
| % of Net Sales * | 1.8% | 1.9% | 2.2% | 2.7% | | |

2013 LE vs. 2013 Budget:

| | |
|---------------------------------|---------------|
| 2013 Budget: | \$45.6 |
| Positions open for part of 2013 | (0.7) |
| All other | 0.3 |
| 2013 Latest Estimate: | \$45.2 |

* Industry average for IT spend as a % of sales is 2.9%.
(Source: PISA)

2014 increase vs. 2013 Latest Estimate

| | |
|---|---------------|
| 2013 Latest Estimate: | \$45.2 |
| 4.5% compensation increase, eliminate 27 positions (staggered dates, all by June 30th) | (2.1) |
| Reduced software maintenance, licenses and hardware support | (1.3) |
| Increase in consulting and outside services to offset reduction in headcount | 1.7 |
| Decrease in other consulting and outside services | (0.4) |
| Reduced travel/training and hiring costs | (0.3) |
| All other | (0.5) |
| 2014 Budget: | \$42.3 |

Note: Includes total Purdue IT spend, some of which is reflected in the COGS line

27

2014 Budget Proposal - Legal Department

Redacted

28

2014 Budget Proposal - Legal Fees

Redacted

29

2014 Budget Proposal - Legal Fees

Redacted

30

2014 Budget Proposal - R&D Expense

| (\$MM) | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | 2014 vs. 2013 LE |
|--------------------------------|----------------|----------------|----------------------------|----------------------------|------------------------|
| R&D Spend | \$ 312.5 | \$ 377.3 | \$ 299.2 | \$ 263.4 | \$ (35.8) |
| R&D as % of Net Sales | 14.2% | 15.7% | 15.1% | 17.2% | 2.1% |
| Headcount (end of year Budget) | 359 | 360 | 360 | 361 | 1 |

| | | | | |
|---|-------------------------|--|--|-------------------------|
| 2013 Budget | \$ 377.3 | | 2013 Latest Estimate | \$ 299.2 |
| | Increase/ (Decrease) | | | Increase/ (Decrease) |
| BNA - Development spend not included in Original Budget. | \$ 3.2 | | BNA - A additional clinical spend to further program. | \$ 1.3 |
| BUP - Reduced clinical spend due to a change in filing strategy for higher strength program (\$15.5 mm), cancellation of the phase 3B/4 Fibromyalgia effort (\$2.5 mm) and lower PRA/CRO costs (\$1.4 mm). Net reductions in other areas (\$6.9 mm) driven by deferring spend in BUP2G tech transfer and bioanalytic and drug supply costs across all BUP programs. | (26.6) | | BUP - Reduced clinical/nonclinical spend in higher strengths and pediatric program (\$6.4 mm) offset by an increase in 2nd Gen (\$3.6 mm). | (2.8) |
| HYD - Reduced clinical spend due to deferring the HYD Pediatric study (\$2.5 mm) to later years, elimination of neuropathic pain study (\$2.5 mm) and favorable reconciling adjustments based on study closeouts (\$1.5 mm). Offsetting these amounts is an increase in phase 3 safety studies due to timing/other (\$2.6 mm). | (3.9) | | HYD - Reduced clinical/nonclinical spend due to wind-down of the pivotal studies (\$28.1 mm) offset by increases in spend for the NDA compilation and filing/other (\$7.0 mm). | (21.1) |
| VND - Reduced clinical spend due to slower enrollment in the phase 2 POC studies for OA and PHN, cancellation of Burn Injury POC study and deferral of Cl in Pharm studies (\$7.0 mm). Other spend reductions driven by Tox and BA studies and clinical supplies/other (\$3.2 mm). | (10.2) | | MSR - Increased clinical spend due to completion of phase 1 Pilot PK study as well as initiation of pivotal BE and abuse potential studies (\$9.2 mm). Increased spend for tech transfer and non clinical areas supporting the development efforts (\$3.1 mm). | 12.3 |
| ORF - Reduced clinical spend due to lower than expected CRO costs in pediatric studies (\$2.9 mm). Other spend reductions driven by deferring support for the marketed product (e.g., HOPE, publications, etc.) (\$0.7 mm). | (4.6) | | ONU - Reduced clinical/nonclinical spend due to wind-down of pain-only studies (\$13.3 mm) and lower Regulatory spend attributed to 2013 NDA filing (\$2.4 mm). | (15.7) |
| ONU - Reduced clinical spend due to slower enrollment and protocol changes in the On Upain - CIC studies and deferring spend on the pain + CIC sNDA (\$48.3 mm). Offsetting these amounts is an increase in clinical supplies due to study timing and all other (\$8.3 mm). | (40.0) | | ORF - Reduced clinical/nonclinical spend due to change in scope of pediatric studies (\$1.5 mm) and lower tech transfer and HOPE support/other (\$1.8 mm). | (3.3) |
| All Other | 4.0 | | ORL - Increased clinical spend due to additional studies to support a new formulation after completing the Phase 2 Dental Pain study (\$2.9 mm). Increased nonclinical spend reflects additional toxicology and clinical supplies (\$1.8 mm). | 4.7 |
| Subtotal | \$ 175.1 | | All Other | (11.2) |
| 2013 Latest Estimate | \$ 299.2 | | Subtotal | \$ (35.8) |
| | | | 2014 Budget Proposal | \$ 263.4 |

31

2014 Budget Proposal - Headcount

32

2014 Budget Proposal - Headcount

| | 2004 Approved | 2006 Approved | 2011 Approved | 2012 Approved | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Net Increase in Headcount | | | |
|------------------------------|------------------|------------------|------------------|------------------|----------------|----------------------------|----------------------------|------------------------------------|------------------------------------|------------------|--|
| | | | | | | | | Positions Eliminated in 2013 | Positions Eliminated in 2014 | 2014 Proposed | 2014 Total Net Increase / (Decrease) |
| G&A | 519 | 307 | 359 | 361 | 377 | 363 (1) | 334 ⁽¹⁾ | (2) | (50) | 1 | (49) |
| S&P | 1,126 | 366 | 740 | 756 | 760 | 752 (2) | 744 | (12) | 4 | 4 | (8) |
| R&D | 944 | 177 | 315 | 359 | 360 | 360 | 360 | (5) | 5 | 5 | - |
| Tolowa | 406 | 73 | 17 | 18 | 18 | 18 | 15 | | | (3) | (3) |
| Manufacturing & Supply Chain | 95 | 61 | 63 | 57 | 60 | 55 (3) | 53 | | | (2) | (2) |
| Wilson | 173 | 128 | 197 | 199 | 201 | 202 (3) | 196 | (2) | | (4) | (6) |
| Treyburn | | | | | | | 11 (4) | | 2 | 9 | 11 |
| President's Reserve | - | - | 4 | 8 | 3 | 1 | 1 | | | | |
| Other | 82 | 2 | 4 | 4 | 5 | 6 | 6 | | | | |
| President's Reduction | | | | | | (24) ⁽⁵⁾ | | | (24) | | (24) |
| TOTAL | 3,405 | 1,114 | 1,699 | 1,782 | 1,784 | 1,777 | 1,696 | (2) | (93) | 12 | (81) |

Positions Eliminated = 95

Reconciliation of 2013 Budget to 2013 LE

Note (1) - Includes 2 new positions in Corporate Affairs & Communications, 2 positions allocated from President's Reserve to Finance, 3 transferred from Supply Chain to Corporate Procurement, 1 transfer from R&D, and (2) positions returned to the President's Reserve.

Note (2) - 6 Intermezzo related positions were removed between the 2013 Budget and the 2013 latest estimate.

Note (3) - Includes 1 IT re-org, 3 transfers to Corporate Procurement and 3 transferred to Wilson.

Note (5) - The 2013 mid-year update included a targeted reduction of 25 positions which are achieved through delayed filling of open positions pending the 2014 budget process.

Reconciliation of 2013 LE to 2014 Budget Proposal

Note (4) - Treyburn has been added to the schedule for 2014. 9 transfers within Tech Ops and 2 are additional headcount. See following pages.

2014 Budget Proposal - P&L – 2005 to 2014

| (000's) | 2006 Actual | 2006 Actual | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Budget | 2014 Budget | 2014 Budget |
|---|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|------------------|
| Gross Blended Product Sales | \$1,235,214 | \$765,882 | \$1,184,838 | \$2,649,476 | \$3,012,142 | \$3,127,873 | \$2,871,981 | \$5,004,806 | \$2,821,597 | \$2,711,639 | \$2,255,747 |
| Fee for Service | (1,755) | (10,742) | (24,970) | (35,987) | (59,945) | (79,237) | (74,607) | (69,313) | (67,967) | (64,309) | (44,444) |
| Discounts and Allowances | (21,455) | (13,255) | (41,841) | (78,774) | (86,133) | (48,792) | (66,222) | (134,032) | (64,055) | (39,400) | (45,300) |
| Patient Savings Card Discounts | - | - | - | (13,446) | (17,131) | (19,891) | (15,872) | (28,104) | (41,334) | (44,843) | (44,134) |
| Rebates on Branded Sales | (220,551) | (46,464) | (145,693) | (242,153) | (455,092) | (621,633) | (545,891) | (517,806) | (400,621) | (336,357) | (370,099) |
| Proposed regulation adjustment for Medicaid rebates (2) | - | - | - | - | - | (40,041) | (68,884) | (60,383) | (72,592) | (86,015) | (28,477) |
| Other | 99,750 | 149,935 | 50,141 | 16,125 | 37,244 | 27,611 | 12,390 | 3,455 | 1,951 | 4,807 | 3,007 |
| Rebates as % of Gross Blended Product Sales | 17.2% | 6.1% | 12.4% | 13.4% | 15.1% | 21.2% | 20.7% | 12.2% | 13.2% | 21% | 25% |
| NET REVENUES | 1,145,152 | 655,168 | 1,038,868 | 2,104,246 | 2,446,239 | 2,259,099 | 2,222,488 | 3,250,822 | 2,197,859 | 1,867,472 | 1,625,244 |
| Cost of Goods Sold | (124,267) | (92,865) | (101,603) | (150,545) | (187,152) | (181,090) | (166,370) | (148,475) | (140,240) | (141,873) | (123,541) |
| COGS as % of Gross Blended Product Sales | 9.7% | 12.3% | 8.5% | 5.7% | 5.7% | 5.7% | 5.7% | 4.9% | 5.3% | 5.2% | 5.5% |
| Royalty Expense | (1,505) | 69 | (4,303) | (2,414) | (10,486) | (53,342) | (15,272) | (120,265) | (122,339) | (105,725) | (89,712) |
| Shipping and Warehousing | (8,720) | (3,097) | (8,411) | (10,255) | (10,927) | (11,182) | (11,831) | (11,814) | (11,265) | (10,135) | (8,307) |
| GROSS PROFIT | 1,009,660 | 754,145 | 846,508 | 1,841,051 | 2,248,791 | 2,124,476 | 1,928,822 | 1,980,286 | 1,834,979 | 1,726,724 | 1,212,486 |
| G&A (Incl. Legal Department but excl. Legal Fees) | (137,507) | (108,306) | (114,135) | (128,141) | (129,385) | (137,831) | (144,255) | (151,635) | (158,700) | (163,910) | (134,964) |
| G&A as % of Net Revenues | 12.0% | 16.5% | 11.0% | 7.0% | 5.8% | 6.1% | 6.5% | 7.7% | 7.2% | 9.3% | 8.3% |
| RESEARCH AND DEVELOPMENT | (193,706) | (159,517) | (107,310) | (120,329) | (132,825) | (151,351) | (159,937) | (151,872) | (148,185) | (155,127) | (155,216) |
| R&D Other - Milestone and Alliances (1) | - | - | (4,534) | (7,115) | (50,523) | (5,598) | (504) | (2,254) | (10,252) | (10,852) | (5,151) |
| R&D as % of Net Revenues | 17.0% | 24.3% | 10.3% | 5.7% | 5.4% | 6.7% | 7.1% | 4.7% | 6.7% | 8.3% | 9.5% |
| Abbott Commission | (67,423) | (35,112) | - | - | - | - | - | - | - | - | - |
| Sales and Promotion | (117,803) | (72,105) | (116,071) | (135,555) | (158,895) | (194,735) | (229,177) | (303,110) | (255,213) | (275,199) | (255,100) |
| S&P as % of Net Revenues | 10.3% | 11.0% | 11.6% | 6.3% | 6.5% | 8.7% | 10.3% | 13.6% | 13.9% | 15.9% | 15.7% |
| Health Care Reform Fee | (2,395) | (9,222) | (7,320) | (15,457) | (10,561) | (18,444) | (3,565) | (17,841) | (200) | (1,602) | 5,628 |
| Other U.S. | - | - | - | - | - | - | - | - | - | - | - |
| OPERATING EXPENSES | (627,134) | (289,442) | (419,839) | (422,877) | (465,393) | (640,272) | (715,822) | (697,877) | (659,017) | (695,538) | (719,543) |
| Operating Expenses as % of Net Revenues | 54.8% | 44.2% | 40.5% | 20.1% | 19.0% | 28.8% | 32.2% | 34.2% | 30.4% | 39.3% | 44.0% |
| S&P as % of Net Revenues | 22.4% | 21.5% | 21.7% | 12.4% | 11.7% | 14.2% | 16.5% | 20.7% | 21.4% | 21.6% | 22.5% |
| Rhodes | (287) | (2,129) | - | - | - | - | - | - | - | - | - |
| OPERATING MARGIN BEFORE INCENTIVE & SETTLEMENTS | 379,257 | 365,112 | 618,449 | 1,418,704 | 1,781,398 | 1,584,204 | 1,212,606 | 1,282,409 | 1,175,962 | 1,031,186 | 895,140 |
| Incentive Bonus | (21,759) | (29,559) | (42,554) | (30,771) | (33,203) | (35,744) | (33,054) | (34,255) | (36,511) | (38,300) | (39,500) |
| Insurance Income | 90,000 | 184,648 | 233,220 | 1,171,144 | 3,768 | 15,823 | 30,839 | 3,650 | 3,650 | 691 | 350 |
| FUNCTIONAL INVENTORIES AND SETTLEMENTS | (21,759) | (29,559) | (42,554) | (30,771) | (33,203) | (35,744) | (33,054) | (34,255) | (36,511) | (38,300) | (39,500) |
| OPERATING PROFIT MARGIN | 347,478 | 335,591 | 533,115 | 1,357,161 | 1,714,963 | 1,511,829 | 1,146,307 | 1,241,804 | 1,102,101 | 954,577 | 825,090 |
| Operating Profit Margin as % of Net Revenues | 30.4% | 51.2% | 51.2% | 64.5% | 70.2% | 67.3% | 51.6% | 53.5% | 50.2% | 51.2% | 50.8% |
| Other Items | 44,226 | 59,490 | 65,023 | 71,469 | 76,137 | 84,755 | 91,367 | 93,861 | 40,002 | 40,692 | 39,031 |
| Royalty Income - ex U.S. | (44,226) | (59,490) | (65,023) | (71,469) | (76,137) | (84,755) | (91,367) | (93,861) | (40,002) | (40,692) | (39,031) |
| Ex U.S. Expenses | (44,226) | (59,490) | (65,023) | (71,469) | (76,137) | (84,755) | (91,367) | (93,861) | (40,002) | (40,692) | (39,031) |
| Other ex-U.S. expenses | (216,757) | (498) | (2,024) | (2,213) | 775 | (24,477) | (2,452) | (2,145) | (2,145) | (11,810) | (4,164) |
| Gain on Int'lty. stock | - | - | - | - | - | - | - | - | - | - | - |
| Interest Income, net | 2,714 | 24,526 | 33,414 | 15,640 | 959 | 535 | 355 | 1,354 | 1,354 | 1,354 | 200 |
| TOTAL OTHER ITEMS | (212,013) | 87,838 | 89,697 | (41,097) | (44,624) | (71,801) | (69,888) | (9,880) | (14,051) | (8,848) | (174,253) |
| PROFIT LOSS BEFORE TAX | \$125,465 | \$17,133 | \$610,652 | \$1,265,881 | \$1,682,020 | \$1,472,027 | \$1,146,822 | \$1,010,266 | \$1,012,081 | \$887,249 | \$850,267 |

FOOTNOTES:

(1) R&D Milestones and Alliances were reported in the "Other" line in 2006 and 2008.

(2) The proposed rule was issued in Q1 2012, which resulted in a higher rebate rate on the new formulation of OxyContin. The impact on 2011 and 2010 was fully accrued in December 2011. To better reflect the economics of our earnings, the adjustment was reallocated in 2010 and 2011 to show the impact of the higher rebates as if we had started accruing at the higher rate when the new formulation of OxyContin was launched. Because of these restatements, net sales reports and P&L statements will not tie to previously issued reports.

2014 Budget Proposal - Net Sales – 2010 to 2014

OxyContin Price/Volume Roll forward

| | 2010 vs. 2011 | 2011 vs. 2012 | 2012 vs. 2013 LE | 2013 LE vs. 2014 B |
|--------------------------|-------------------|-------------------|---------------------|-----------------------|
| Opening Net Sales | \$ 2,350.1 | \$ 2,222.5 | \$ 2,200.9 | \$ 1,987.5 |
| OxyContin Volume and Mix | (310.5) | (178.4) | (254.3) | (451.5) |
| OxyContin List Price | 147.2 | 103.2 | 101.6 | 90.6 |
| OxyContin Other Price | (10.4) | 50.7 | (81.8) | (109.0) |
| All Other Products | 46.1 | 2.9 | 21.1 | 16.7 |
| Ending Net Sales | \$ 2,222.5 | \$ 2,200.9 | \$ 1,987.5 | \$ 1,534.4 |

Note 1 - Variance from 2013LE to 2014B primarily driven by Rebates Rate (\$102.1MM) and Savings Cards Rate (\$12.4MM).

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P:\Finance\Share\SalesData\Budget_Fcst_Strat\2014\2014 Budget\Sales\[Rate Vol Mix Analysis 2010-2014 Simplified v3.xlsx]Rollforward 3

2014 Budget Proposal – G&A Headcount

G&A proposed headcount decrease of (49) from 2013 Latest Estimate to 2014 Budget Proposal

| By Major Group | 2004 Approved | 2008 Approved | 2012 Approved | 2013 Budget | 2013 Revised Budget | 2013 Latest Estimate | 2014 Budget Proposal | Positions Eliminated in 2014 Budget Proposal | 2014 Proposed |
|-------------------------------|------------------|------------------|------------------|----------------|---------------------------|----------------------------|----------------------------|--|------------------|
| Finance | 106 | 63 | 83 | 62 | 62 | 66 | 58 | (8) | - |
| Information Technology | 184 | 84 | 101 | 102 | 102 | 102 | 75 | (27) | - |
| Corporate Procurement | 19 | 9 | 13 | 14 | 14 | 15 | 16 | - | 1 |
| External Affairs | 29 | 13 | 18 | 18 | 18 | 18 | 18 | - | - |
| DEA Compliance | 5 | 2 | 2 | 1 | 1 | 0 | 0 | - | - |
| Human Resources | 45 | 21 | 24 | 24 | 24 | 24 | 22 | (2) | - |
| Environmental Health & Safety | 3 | 4 | 8 | 6 | 6 | 6 | 5 | (1) | - |
| Administration / Building | 53 | 32 | 34 | 34 | 34 | 34 | 32 | (2) | - |
| Business Development | 8 | 6 | 8 | 7 | 7 | 7 | 7 | - | - |
| Corporate Compliance | 4 | 6 | 13 | 12 | 12 | 11 | 11 | - | - |
| Security | 13 | 15 | 15 | 15 | 15 | 15 | 12 | (3) | - |
| Executive Administration | 24 | 9 | 7 | 7 | 6 | 8 | 8 | - | - |
| Quality | 64 | 20 | 34 | 34 | 34 | 35 | 35 | - | - |
| IAE | 0 | 0 | 2 | 2 | 0 | 0 | 0 | - | - |
| Law Department | 42 | 45 | 45 | 44 | 42 | 42 | 35 | (7) | - |
| Total G&A | 999 | 329 | 385 | 382 | 377 | 383 | 334 | (50) | 1 |

Headcount Reconciliation

2013 Budget **382**

2013 Positions transferred

| | | |
|--------------------------|-----|---|
| Executive Administration | (1) | 1 transferred from Executive Admin to Other Expense |
| IAE | (2) | 2 transferred from Internal Audit to Other Expense |
| Law Department | (2) | 2 transferred from Law Department to Other Expense |

2013 Restated Budget **377**

2013 Positions added

| | | |
|--------------------------|---|--|
| Finance | 2 | 2 positions added in Finance, 1 Financial Operations and 1 Rebates Coordinator |
| Executive Administration | 2 | 2 new positions added in 2013 for Corporate Affairs |

2013 Positions transferred

| | | |
|-----------------------|---|---|
| Finance | 2 | 2 transferred from Corporate Procurement. Fleet was moved from Corporate Procurement to Finance |
| Corporate Procurement | 1 | 3 transferred in from Supply Chain (Manufacturing) and 2 transferred out to Finance (Fleet) |

2013 Positions eliminated

| | | |
|----------------------|-----|---|
| Corporate Compliance | (1) | One position eliminated in Corporate Compliance |
| DEA Compliance | (1) | One position eliminated in DEA Compliance |
| Quality | 1 | 1 transferred from Regulatory |

2013 Latest Estimate **383**

2014 Proposed Positions

| | | |
|-----------------------|---|---|
| Corporate Procurement | 1 | One proposed position to convert a part time position to a full time position |
|-----------------------|---|---|

2014 Positions eliminated

| | | |
|-----------------|------|--|
| Finance | (8) | 8 positions eliminated in Finance, plus one part time position was eliminated in Finance |
| IT | (27) | 27 positions eliminated in IT |
| Security | (3) | 3 positions eliminated in Security |
| EHS | (1) | One position was eliminated in EHS |
| Law Department | (7) | 7 positions eliminated in Legal |
| Admin Services | (2) | 2 positions eliminated in Admin Services |
| Human Resources | (2) | 2 positions eliminated in HR |

Net Decrease in G&A headcount **(49)**

2014 Budget **334**

Net Decrease from 2013 LE
= (48)

2014 Budget Proposal - External Affairs

(\$MM's)

| | 2012 Actual | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | \$ Variance 2014 vs. 2013 LE | % Variance 2014 vs. 2013 LE |
|----------------------------------|----------------|----------------|----------------------------|----------------------------|---------------------------------|--------------------------------|
| State Government Affairs (SGA) | \$10.7 | \$11.5 | \$11.0 | \$9.1 | (\$1.9) | (17.3%) |
| Federal Government Affairs (FGA) | 3.5 | 3.5 | 3.5 | 3.4 | (0.1) | (2.4%) |
| Public Affairs (PA) | 5.2 | 7.1 | 6.7 | 5.3 | (1.5) | (21.8%) |
| Pharma Fund (Fund) | 1.0 | 1.9 | 1.7 | 1.1 | (0.6) | (36.6%) |
| Total: External Affairs | \$20.3 | \$24.1 | \$22.9 | \$18.8 | (\$4.1) | (17.8%) |

Headcount **18** **18** **18** **18**

2013 Latest Estimate vs. 2013 Budget:

| | |
|--|---------------|
| 2013 Budget: | \$24.1 |
| Reduction of various Healthcare Alliance/State Government programs | (0.5) |
| Reduced Safeguard My Meds campaign and Intermezzo consulting fees | (0.4) |
| Pharma Fund grants giveback | (0.2) |
| 2013 Latest Estimate: | \$22.9 |

2014 Budget vs. 2013 Latest Estimate:

| | |
|--|---------------|
| 2013 Latest Estimate: | \$22.9 |
| People costs/reduced Pediatric consultant | (0.1) |
| Reduced organizational grants/programs/dues | (1.6) |
| Reduced Product Marketing Support/Consulting fees | (1.1) |
| Reduced Corporate Identity/Anti-Diversion campaign spend | (0.4) |
| Reduced Pharma Fund Grants | (0.6) |
| All other | (0.3) |
| 2014 Budget: | \$18.8 |

2014 Budget Proposal - R&D Expense

(\$MM)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|-------------------|
| | Latest | Budget | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Total |
| | Estimate | Proposal | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate | |
| Butrans | | | | | | | | | | | |
| BUP - Existing Strengths | \$ 10.8 | \$ 8.6 | \$ 9.1 | \$ 0.4 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 29.0 |
| BUP - Add'l Strengths | 7.3 | 1.4 | 0.9 | 0.6 | - | - | - | - | - | - | 10.1 |
| BUP - 2nd Generation | 1.0 | 6.2 | 14.9 | 3.3 | - | - | - | - | - | - | 25.4 |
| Total | 19.2 | 16.1 | 24.9 | 4.3 | - | - | - | - | - | - | 64.5 |
| Hydrocodone (HYD) | 65.4 | 40.5 | 29.9 | 16.6 | 11.6 | 0.9 | - | - | - | - | 164.9 |
| Targiniq (ONJ) (1) | 80.3 | 60.4 | 36.4 | 9.7 | 8.4 | 6.9 | 2.6 | - | - | - | 204.7 |
| Oxy ADIR (OCI) | 17.9 | 13.5 | 0.8 | - | - | - | - | - | - | - | 32.2 |
| Oxycontin | 25.5 | 21.9 | 4.7 | 0.2 | - | - | - | - | - | - | 52.3 |
| ORL-1 - Shionogi (2) | 2.8 | 7.4 | 1.8 | - | - | - | - | - | - | - | 12.0 |
| TRPV1 - Purdue (3) | 13.7 | 12.5 | 46.9 | 133.7 | 101.5 | 58.1 | 13.9 | 6.6 | - | - | 387.0 |
| TRPV1 - Shionogi (4) | 8.6 | 5.9 | 15.7 | - | - | - | - | - | - | - | 30.2 |
| MSC - Reformulated | 3.2 | 21.2 | 24.2 | - | - | - | - | - | - | - | 48.7 |
| BNA - Eli/Inna | 3.2 | 5.4 | 5.1 | 0.6 | - | - | - | - | - | - | 14.2 |
| Total Development Projects | 239.8 | 204.9 | 190.4 | 165.1 | 121.4 | 65.9 | 16.6 | 6.6 | - | - | 1,010.7 |
| Discovery (5) | 22.5 | 23.6 | 25.9 | 26.7 | 27.5 | 28.3 | 29.2 | 30.0 | 30.9 | 31.9 | 276.4 |
| All Other (5), (6) | 49.1 | 59.6 | 61.4 | 63.2 | 54.8 | 41.0 | 32.0 | 17.5 | 7.7 | 7.9 | 394.3 |
| Total R&D (before Underspend Estimate) | 311.5 | 288.1 | 277.7 | 255.0 | 203.7 | 135.2 | 77.7 | 54.1 | 38.6 | 39.8 | 1,681.4 |
| Underspend Estimate | (12.3) | (24.7) | (15.0) | 10.0 | 15.0 | 20.0 | 7.0 | - | - | - | - |
| Total R&D | \$ 299.2 | \$ 263.4 | \$ 262.7 | \$ 265.0 | \$ 218.7 | \$ 155.2 | \$ 84.7 | \$ 54.1 | \$ 38.6 | \$ 39.8 | \$ 1,681.4 |

Note 1: Includes clinical/nonclinical expense related to OIC studies.

Note 2: As assumes that we progress the ORL1 program through Dental Pain study stage gate. Note that costs for Shionogi collaboration projects are at 50% in accordance with the contract.

Note 3: As assumes post herpetic neuralgia phase 2 POC study favorable leading to phase 2 POC for diabetic peripheral neuropathy and subsequent phase 3 studies.

Note 4: As assumes that we progress the TRPV1 back-up program through IND filing to Lead program (TRPV1 - Purdue) decision point.

Note 5: Discovery and All Other impact future years. We assume annual growth based on inflation of 3%.

Note 6: Includes cost not allocated to specific development projects or Market Support (other than pediatric and phase 4 clinical studies that are budgeted specifically in the project budgets). Reduced in out years due to the decline in project spend.

2014 Budget Proposal – S&P Headcount

| | 2013 Last Estimate | 2014 Budget Proposal | Increase / (Decrease) | Comments |
|--|--------------------------|----------------------------|--------------------------|---|
| Sales | 615 | 608 | (7) | |
| Sales Training | 16 | 15 | (1) | |
| Sales Operations | 12 | 15 | 3 | <p>1- Coordinator - This is a request to convert an unbudgeted interim position to a regular budgeted headcount currently filled by Sue Vosler. This position will be responsible for multiple Sales Operations deliverables and data management/validation of the following areas: • Generate, validate and publish weekly, biweekly and monthly Alternative Savings Programs data and reports; • Voucher, Sample, Savings/Thru card and letter program reports for all brands; • Generate, validate, and distribute executive level Alternative Savings Program reports • Responsible for purchase order tracking and invoice management for multiple programs totaling over \$40 million. • Act as a main contact with Savings Card, Voucher, and Letter Program vendors - , data management and decision support. • Understands inquiries received from various internal stakeholders related to the Alternative Savings Programs. • Responsible for the monthly creation and distribution of savings inventory reports. • Create router files for savings card and SRF distribution. • Assist with eLearning scheduling, surveys, assessments, and certifications. Including tracking test results. • Serve as backup to SAP no charge order processing.</p> <p>2- Field Sales Analyst - Last year we added the Area Director position (2) within the Purdue Sales Force, but did not approve any additional administrative support for these two individuals. The Area Director involves managing roughly one-half of the Purdue Sales Force or roughly 300 individuals. We have an enormous amount of data to use to assess market potential and evaluate performance at the regional, district and representative level. The Area Director does not have the time to deep dive into each of the individual areas they supervise. The objective of a single position shared among the two Area Directors would be that rather than regular administrative support we provide an analyst dedicated to conducting analysis and preparing standard reports as well as ad hoc analysis of market trends and penetration and sales force effectiveness at all levels to better prepare the Area Director to appropriately manage his/her business unit.</p> |
| Marketing | 26 | 27 | 1 | <p>1- Sr. Product Manager - The addition of a Senior Product Manager would provide needed support and expertise in order to develop the launch strategy and execute all the necessary pre-launch activities needed for Targiniq.</p> <p>• There will be significant development of new work streams to prepare for the launch of Targiniq in order to help ensure successful commercialization including: Market Research, Development/ Execution of various promotional initiatives required for launch, KOL Development, Advisory Boards, Speaker Training, Cross-functional Leadership - Work with various departments (i.e., Sales, Sales Training, Medical Affairs, Market Strategies, Medical Services, Finance, Public Affairs, Project Management) to ensure the organization is strategically aligned in efforts to successfully commercialize Targiniq and to continue the success of the OxyContin franchise.</p> <p>• Based on research conducted by IQVIA, with less than 18 months to launch a product in the US, pharmaceutical companies typically have 3 brand managers to support a product launch. In some instances, companies have much higher headcount to support a launching product with blockbuster potential.</p> |
| Managed Health Care & Managed Marketing Strategies | 29 | 26 | (3) | |
| Managed Markets Contracting & Ops | 19 | 18 | (1) | |
| All Other Functions | 35 | 35 | - | |
| TOTAL S&P | 752 | 744 | (8) | |

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2014 Budget Proposal – R&D Headcount

| | 2013 Latest Estimate | 2014 Budget Proposal | Increase / (Decrease) | Comments |
|-------------------------|----------------------------|----------------------------|--------------------------|---|
| Outsource Management | 7 | 8 | 1 | 1 - Contracting Compliance Specialist: This role will support a newly required work stream. This role is responsible to provide analysis and reporting support to Corporate Compliance regarding Health Care Expenditures as per the laws enacted in the US and other countries and in particular the United States Sunshine Act: National Physician Payment Transparency Program: Open Payments." The rule will require drug and device manufacturers that receive government reimbursements to collect data on gifts and payments to teaching hospitals and physicians, starting on August 1st, 2013 and continuing yearly thereafter. Within this new work stream, the manufacturers will report the August to December 2013 data to CMS by March 31, 2014, which will then become public on Sept. 30, 2014. |
| Health Outcomes | 5 | 9 | 4 | 1 - Head of Payer Scientific Liaisons : New capability added to Purdue. Description of groups function is below. 3 - Payer Scientific Liaisons (PSL) - • Overview: The decisions that payers make with respect to listing drug products on their formularies exert a great influence on the ultimate commercial success of those products – and payers are increasingly demanding information beyond that which is required by the FDA. The head of the Payer Scientific Liaison team is responsible for leading the members of the PSL team, establishing team and individual objectives in collaboration with the commercial organization, developing performance indicators and measuring progress toward the achievement of the team's objectives. The position will also have responsibilities for leading scientific communication with assigned payers' organizations to demonstrate the value of pharmaceuticals and health care solutions. Communications include approved scientific, medical, financial, and economics data that will be shared with formulary decision makers, pharmacy directors, medical directors, their advisors and other entities who make or influence market access decisions. The head of the Payer Scientific Liaison team will communicate back to the R&D organization opportunities to demonstrate value and guide the design of economic analysis and clinical programs that demonstrate to payers the value of marketed and pipeline products. • Staffing levels at comparable companies: Boehringer Ingelheim is currently recruiting for an Executive Director to head the HEOR field team. Boehringer Ingelheim is currently recruiting for director level HEOR field team. The accounts assigned to individual PSLs will be 1:1 matched to the accounts of the National Account Executives. |
| Discovery | 53 | 52 | (1) | |
| NonClinical | 55 | 54 | (1) | |
| Project Mgmt | 20 | 18 | (2) | |
| Health Policy | 41 | 40 | (1) | |
| All Other Functions | 179 | 179 | - | |
| TOTAL R&D | 360 | 360 | - | |

2014 Budget Proposal – Tech Ops Headcount

| | 2007 Approved | 2013 Latest Estimate | 2014 Budget Proposal | Position Eliminated | Treyburn Transfers | Treyburn New Requests | Comments |
|-----------------|------------------|----------------------------|-------------------------|------------------------|-----------------------|-----------------------------|---|
| Totowa | 90 | 18 | 15 | - | (3) | - | |
| Supply Chain | 50 | 55 | 53 | - | (2) | - | |
| Wilson | 135 | 202 | 196 | (2) | (4) | - | |
| Treyburn | - | - | 11 | - | 9 | 2 | 2 new professionals and 9 transfers within Tech Ops |
| TOTAL | 275 | 275 | 275 | (2) | - | 2 | |

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2014 Budget Proposal - P&L Ratios Compared to Other Pharma Companies

| Annual Data | | As % of Net Sales | | |
|--------------------------|--------|-------------------|-------|-----------|
| | | Pretax Profit | R&D | SG&A |
| Purdue US | 2012A | 45.9% | 14.3% | (1) 24.3% |
| | 2013LE | 42.6% | 15.6% | 25.8% |
| | 2014B | 24.8% | 17.5% | 29.7% |
| Endo | 2012 | -24.5% | 7.5% | 28.1% |
| Allergan | 2012 | 26.4% | 17.0% | 38.9% |
| Forest | 2012/3 | -1.4% | 31.1% | 50.3% |
| Abbott | 2012 | 15.7% | 10.5% | 29.7% |
| Pfizer | 2012 | 20.5% | 12.4% | 27.6% |
| Eli Lilly | 2012 | 23.9% | 23.4% | 33.2% |
| AstraZeneca | 2012 | 27.6% | 15.3% | 33.8% |
| J&J | 2012 | 20.5% | 11.4% | 31.0% |
| Peers (17) Median | 2012 | 20.0% | 16.9% | 29.7% |

(1) Includes Legal fees and Health Care Reform Fee.

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2014 Budget Proposal - Gross to Net Sales Reconciliation – All Products

| (\$MM's) | 2011 Actual | % of Sales | 2012 Actual | % of Sales | 2013 Budget | % of Sales | 2013 Latest Estimate | % of Sales | 2014 Budget Proposal | % of Sales |
|---|-------------|------------|-------------|------------|-------------|------------|----------------------|------------|----------------------|------------|
| Gross Sales | \$ 2,971.2 | 100.0% | \$ 3,004.9 | 100.0% | \$ 3,228.5 | 100.0% | \$ 2,711.6 | 100.0% | \$ 2,258.8 | 100.0% |
| Variable Deductions ¹ | 146.3 | 4.9% | 228.5 | 7.6% | 188.2 | 5.8% | 138.5 | 5.1% | 133.8 | 5.9% |
| Rebates: | | | | | | | | | | |
| Commercial ² | 221.4 | | 221.0 | | 258.0 | | 217.3 | | 205.0 | |
| Medicare Part D ³ | 143.2 | | 178.8 | | 192.0 | | 190.5 | | 197.9 | |
| Medicare Part D - Coverage Gap ³ | 42.4 | | 32.8 | | 45.6 | | 48.4 | | 70.1 | |
| Medicaid ⁴ | 105.0 | | 61.0 | | 95.6 | | 77.2 | | 95.3 | |
| Impact of Proposed Regulation | 68.9 | | 60.4 | | 76.8 | | 55.0 | | 28.5 | |
| TRICARE | 32.2 | | 14.5 | | 15.4 | | 18.1 | | 16.3 | |
| Hospice | 0.5 | | 0.5 | | 0.5 | | 0.3 | | 0.3 | |
| Trade Inventory ⁵ | 1.2 | | 9.0 | | (12.2) | | (16.4) | | (24.8) | |
| Total Rebates | 614.8 | 20.7% | 578.0 | 19.2% | 612.7 | 19.0% | 590.4 | 21.8% | 588.6 | 26.5% |
| Other | 12.4 | 0.4% | 2.5 | 0.1% | 1.7 | 0.1% | 4.8 | 0.2% | 8.0 | 0.4% |
| Net Sales | \$ 2,222.5 | 74.8% | \$ 2,200.9 | 73.2% | \$ 2,410.3 | 74.7% | \$ 1,987.5 | 73.3% | \$ 1,544.4 | 67.9% |

(1) Variable Deductions represent fee for service, prompt pay discounts, patient savings card expense and change in the reserves for future returns of product. Variable deductions remain around 5% - 6% with the exception of 2013 Actual driven by higher returns reserve for OxyContin new formula.

(2) Refer to slides X and Y.

(3) Medicare Part D Coverage Gap (i.e., donut hole) increasing significantly due to a number of factors including an increasing Medicare Part D population, price increases and fewer branded drugs in the coverage gap causing OxyContin to represent a larger percentage of the donut hole.

(4) Medicaid business reflects decreasing utilization offset by higher OxyContin rebate rates.

(5) Trade inventory reflects adjustment for changes in trade inventory levels.

(6) Other represents authorized generic transfer price margin under OxyContin settlement agreements (in 2014 Budget Proposal) and Watson MS Contin agreement (in 2011), as well as third party royalty income earned under various agreements.

| Rollforward of Effective Rebate Rate to the 2014 Budget Proposal: | |
|---|-------|
| 2013 Budget | 19.6% |
| Change in Payer: | |
| OxyContin higher than anticipated Commercial sales (Primarily Caremark, Optum and Prime) | 0.7% |
| OxyContin Optum MAPD formulary loss | -0.7% |
| OxyContin higher than anticipated Medicare Part D sales (Primarily Medco, Envision and Caremark) | 1.9% |
| Medicare Part D Coverage Gap Discount Expense | 0.7% |
| Lower OxyContin Medicaid sales, offset by Butrans formulary wins and other | -0.4% |
| 2013 Latest Estimate | 21.8% |
| OxyContin increase in Medicare Part D Rates (Primarily Optum Medicare Part D from 23.5% to 50.6%) | 2.4% |
| OxyContin Medicaid Impact (Primarily Best Price impact of the OxyContin authorized generic settlements) | 1.5% |
| Medicare Part D Coverage Gap Discount Expense | 1.1% |
| Other | -0.2% |
| 2014 Budget Proposal | 26.5% |

2014 Budget Proposal - Third Party Milestones Expense – US: OxyContin

| (\$MMs) | 2009 & Prior ACT | 2010 ACT | 2011 ACT | 2012 ACT | 2013 Budget | 2013 Latest Estimate | 2014 Budget Proposal | Cumulative Payment |
|---|---------------------|---------------|---------------|----------------|----------------|-------------------------|-------------------------|-----------------------|
| Grunenthal: | | | | | | | | |
| Contract Execution | \$ 23.8 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Broad Claim Patent (assumes patent issued) | - | - | - | 13.2 | - | - | - | |
| Further Claim Patent (assumes patent issued) | - | - | - | 6.6 | - | - | - | |
| McGinity: | | | | | | | | |
| License Fee | 5.0 | - | - | - | - | - | - | |
| NDA Filing in U.S. (OxyContin) | 1.0 | - | - | - | - | - | - | |
| NDA Approval in U.S. (OxyContin) | - | 4.0 | - | - | - | - | - | |
| Total Milestones Paid⁽¹⁾ | \$ 29.8 | \$ 4.0 | \$ - | \$ 19.8 | \$ - | \$ - | \$ - | \$ 53.6 |
| Milestone Amortization Expense⁽²⁾ | \$ 23.8 | \$ 0.2 | \$ 0.6 | \$ 4.2 | \$ 4.2 | \$ 4.2 | \$ 4.2 | |

(1) Ex US milestones paid or to be paid by the end of 2014 total \$27.3 mm (Grunenthal) are not included above.

(2) Milestones incurred prior to FDA approval are expensed immediately (100%). Milestones incurred at or subsequent to FDA approval are amortized through 2017 (over their expected useful life).

2014 Budget Proposal - Historical Laxatives P&L

(\$MMs)

| | 2009 Actual | % Sales | 2010 Actual | % Sales | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales |
|------------------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|
| GROSS SALES ⁽¹⁾ | \$ 52.2 | 100.0% | \$ 48.1 | 100.0% | \$ 51.1 | 100.0% | \$ 51.5 | 100.0% | \$ 49.3 | 100.0% | \$ 50.3 | 100.0% |
| NET SALES | 51.1 | 97.9% | 46.9 | 97.5% | 50.0 | 97.9% | 48.8 | 94.8% | 47.9 | 97.3% | 49.3 | 97.9% |
| GROSS PROFIT | 42.0 | 82.1% | 35.9 | 76.5% | 38.9 | 77.7% | 37.6 | 76.9% | 36.4 | 75.9% | 36.2 | 73.4% |
| S&P EXPENSES | | | | | | | | | | | | |
| Marketing Expense ⁽²⁾ | (11.8) | 23.2% | (15.5) | 32.9% | (13.8) | 27.6% | (14.3) | 29.3% | (15.4) | 32.0% | (14.5) | 29.4% |
| Sales Force Expense ⁽³⁾ | (6.2) | 12.1% | (6.3) | 13.4% | (3.9) | 7.7% | (4.6) | 9.5% | (0.7) | 1.4% | (0.7) | 1.4% |
| TOTAL | (18.0) | 35.3% | (21.7) | 46.3% | (17.7) | 35.4% | (19.0) | 38.8% | (16.0) | 33.4% | (15.2) | 30.8% |
| OTHER EXPENSES ⁽⁴⁾ | (11.2) | 21.9% | (1.2) | 2.6% | (1.3) | 2.5% | (1.3) | 2.7% | (0.8) | 1.7% | (0.8) | 1.6% |
| PRODUCT CONTRIBUTION | \$ 12.7 | 24.9% | \$ 13.0 | 27.6% | \$ 19.9 | 39.8% | \$ 17.3 | 35.4% | \$ 19.5 | 40.7% | \$ 20.2 | 41.0% |

Notes:

(1) Laxatives includes Senokot, Senokot S, Colace and Peri-Colace Brands. The Gross Sales impact of product diversion is estimated at \$2.8 mm in 2013 and \$1.0 mm in 2012.

(2) Marketing expenses include consumer advertising, co-op advertising, advertising and agency fees, samples, coupons and others. 2013 Latest Estimate includes samples reserve transferred to S&P from COGS (\$0.6 mm).

(3) Sales force expense includes cost of outside sales agents (Acosta). In 2012 and prior Laxatives were detailed in a tertiary position by sales force.

(4) Other includes estimated R&D market support across Medical Services, Drug Safety, Regulatory and other support functions. 2009 Actual includes \$10.0 mm of costs related to product recall and qualification of Purdue Canada.

2014 Budget Proposal – Butrans Inception to date P&L

| (\$MM's) | 2009 & Prior Actual | 2010 Actual | 2011 Actual | % Sales | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal | % Sales | Growth |
|---|------------------------|----------------|----------------|------------|----------------|------------|----------------|------------|-------------------------|------------|-------------------------|------------|--------|
| Gross Sales | \$ - | \$ - | \$ 73.5 | | \$ 112.9 | | \$ 160.0 | | \$ 144.7 | | \$ 188.8 | | |
| Fee for Service | - | - | (1.8) | | (2.7) | | (3.4) | | (3.0) | | (3.8) | | |
| Sales Disc. & Allowances/Savings Cards/Discounts ⁽¹⁾ | - | - | (12.6) | 24% | (19.9) | 25% | (15.4) | 21% | (14.2) | 24% | (13.8) | 28% | |
| Rebates ⁽²⁾⁽³⁾ | - | - | (3.1) | | (6.1) | | (14.3) | | (17.2) | | (25.7) | | |
| Net Sales | - | - | 55.9 | | 84.1 | | 126.9 | | 110.3 | | 135.5 | | 22% |
| COGS | - | (0.9) | (10.2) | 18.3% | (13.1) | 15.5% | (15.0) | 11.8% | (11.3) | 10.2% | (15.4) | 11.4% | |
| COGS/Shipping & Warehousing | - | (0.9) | (6.9) | | (8.5) | | (7.1) | | (5.1) | | (7.9) | | |
| Royalty Expense/Amount of Milestone Pymt. ⁽⁴⁾ | - | - | (3.4) | | (4.5) | | (7.9) | | (6.1) | | (7.5) | | |
| Gross Profit | - | (0.9) | 45.7 | | 71.1 | | 111.9 | | 99.0 | | 120.0 | | |
| Product Spending | - | (6.7) | (120.5) | 215.5% | (105.9) | 125.9% | (100.5) | 79.2% | (96.7) | 85.5% | (88.1) | 65.0% | 11% |
| Marketing Expense ⁽⁵⁾ | 0.0 | (6.7) | (28.1) | | (20.4) | | (22.5) | | (21.9) | | (23.7) | | |
| Sales Force Expense ⁽⁶⁾ | 0.0 | 0.0 | (92.4) | | (85.5) | | (76.7) | | (76.8) | | (64.4) | | |
| Other Expenses | - | - | - | | - | | - | | - | | - | | |
| R&D/Manufacturing/SG&A/COGS | 0.0 | 0.0 | (2.4) | | (2.1) | | (2.6) | | (3.6) | | (8.1) | | |
| R&D/Market Support ⁽⁷⁾ | 0.0 | (8.9) | (22.2) | | (17.9) | | (24.7) | | (17.9) | | (15.6) | | |
| Health Care Reform Fee ⁽⁸⁾ | - | - | - | | (1.2) | | (1.7) | | (1.1) | | (1.6) | | |
| Product Contribution | \$ - | \$ (16.8) | \$ (101.1) | -189.8% | \$ (59.2) | -70.3% | \$ (25.0) | -19.7% | \$ (26.4) | -23.9% | \$ 5.6 | 4.2% | 121% |
| Pre-Launch R&D | (491.2) | - | - | | - | | - | | - | | - | | |
| R&D on Higher Strengths and 2nd Generation Patch | - | (29.1) | (13.5) | | (24.0) | | (14.2) | | (1.3) | | - | | |
| Net Contribution | \$ (491.2) | \$ (42.9) | \$ (114.6) | -204.9% | \$ (83.2) | -88.9% | \$ (19.2) | -38.9% | \$ (27.7) | -25.1% | \$ 5.6 | 4.2% | |

Notes:

- (1) Lower expenses after 2012 reflects decreasing estimates of returns offset by increasing savings card discount expense.
- (2) Increase in blended rebate rate from 11.9% in 2013 to 18.9% in 2014 is primarily due to (a) formula wins in Medicare Part D and commercial (4.4%); (b) higher Medicaid rebates due to inflation adjustment and best price being lowered as a result of additional price protection rebates as a result of 2014 price increases being higher than the price reset (0.8%); (c) additional price protection rebates on commercial and Medicare Part D (1.5%) and (d) higher Medicare Part D coverage gap discount expense (0.4%).
- (3) The increase in blended rebate rate from 9% in the 2013 Budget to 11.9% in the 2013 Latest Estimate is due to higher Commercial sales (1.1% (Medco, ESI, Aetna and Envision), TRICARE sales (0.6%); higher blended rebate rates for commercial (0.9%) and higher Medicare Part D Coverage Gap expense (0.3%).
- (4) Royalty is paid to LTS at 5.5% of net sales.
- (5) Marketing expenses include marketing education programs, market research, journal advertising, agency fees, e-marketing, patient savings card admin fees, conventions and other special promotions.
- (6) Sales force allocation is based upon call position and cost per call. Butrans primary calls are weighted at 82% in 2012 Actual, 58% in 2013 Latest Estimate and 33% in 2014 Budget Proposal.
- (7) R&D/Market Support includes sales and marketing programs for commercial and Medicare Part D sales.
- (8) Represents Purdue's portion of the \$2.8 billion industry fee, which is allocated to Butrans based on estimated prescription drug sales to the government.

2014 Budget Proposal –Intermezzo Inception to date P&L

| (\$MMs) | Milestones | 2010 Actual | 2011 Actual | 2012 Actual | % Sales | 2013 Budget | % Sales | 2013 Latest Estimate | % Sales | 2014 Budget Proposal |
|---|------------|----------------|----------------|----------------|---------|----------------|------------|-------------------------|------------|-------------------------|
| Gross Sales | \$ - | \$ - | \$ - | \$ 16.6 | | \$ 57.6 | | \$ 13.9 | | See Note 1 |
| Fee for Service | - | - | - | (0.4) | 66% | (1.1) | 24% | (0.3) | 14% | |
| Sales Discounts & Allowances | - | - | - | (9.9) | | (6.9) | | (0.0) | | |
| Savings Cards Discounts | - | - | - | (0.6) | | (2.2) | | (1.4) | | |
| Rebates | - | - | - | (0.1) | | (2.4) | | (0.3) | | |
| Net Sales | - | - | - | 5.6 | | 44.0 | | 11.9 | | |
| COGS/Shipping & Warehousing | - | - | - | (2.4) | 43.3% | (3.6) | 6.2% | (3.6) | 30.5% | |
| Royalty Expense | - | - | - | (0.8) | 13.9% | (6.6) | 15.0% | (1.7) | 14.4% | |
| Gross Profit | - | - | - | 2.4 | | 33.8 | | 6.6 | | |
| Product Spending | - | (1.6) | (3.0) | (7.6) | N/A | (61.2) | N/A | (50.7) | N/A | |
| Marketing Expense | 0.0 | (1.6) | (3.0) | (33.4) | | (36.6) | | (31.0) | | |
| Sales Force Expense - ISF | 0.0 | 0.0 | 0.0 | (45.1) | | (20.9) | | (10.5) | | |
| Sales Force Expense - SF Allocation (Note 2) | - | - | - | - | | (3.7) | | (9.2) | | |
| Other Expenses | | | | | | | | | | |
| G & A | 0.0 | 0.0 | 0.0 | (0.2) | | (1.3) | | (1.2) | | |
| Research & Development | | | | | | | | | | |
| R&D Market Support | 0.0 | 0.0 | 0.0 | (2.7) | | (0.4) | | (1.5) | | |
| Transcript Contribution | - | - | - | - | | 10.0 | | 8.6 | | |
| Other Expense/Milestones (Note 3) | (45.0) | - | - | - | | 0.0 | | 0.0 | | |
| Product Contribution | \$ (45.0) | \$ (1.6) | \$ (3.0) | \$ (79.4) | N/A | \$ (79.5) | N/A | \$ (39.7) | N/A | |

Note 1 - 2014 Budgeted Gross Sales are estimated to be between \$10MM-\$11MM. Product Contribution is expected to be break even.

Note 2 - Increase from 2013 Forecast due to higher PDEs as a result of a) Tertiary calls as % of primary calls at 70% versus 35% in original budget and b) Limited Intermezzo Primary calls in Q3 and Q4 2013 (approximately

Note 3 - Reflects upfront milestone payments (\$25MM paid in 2009) and IP payment for orange book listings (\$20MM paid in 2012).

2014 Budget Proposal – Assumptions

A. Sales

OxyContin:

1. ERO market and OxyContin Rx's ⁽⁴⁾ are projected as follows:

| | 2011 Actual | 2012 Actual | 2013 Latest Estimate | 2014 Proposed |
|------------------------|----------------|----------------|-------------------------|------------------|
| Total ERO Market Rx's | 26.0MM | 26.4MM | 26.1MM | 25.0MM |
| OxyContin Rx's (a) | 6.1MM | 5.8MM | 5.5MM | 4.6MM |
| OxyContin Share of ERO | 23.5% | 22.0% | 21.1% | 18.4% |

(a) Restated to correct for a 6% overstatement recently acknowledged by IMS.

2. OxyContin price increased by 5.5% in February 2013 and is budgeted to increase 7.0% in February 2014 resulting in a Net Sales increase of approximately \$80.7 million net of all expected rebate impacts. The following is an excerpt from the supporting documentation for the Board approved price increase recommendation:

| | | |
|---|--------------|-------------|
| Gross Sales impact of 7% price increase effective February 1st | 149.4 | |
| Impact on rebates: | | |
| Blended rebate rate in unofficial outlook of 24.3% on increase in sales | (36.3) | 24.3% |
| Impact of inflation penalty on Medicaid rebates | (13.9) | 9.3% |
| Impact of price protection on Medicaid rebates (price protection rebates lower "Best Price" which increases Medicaid rebates) | (2.0) | 1.3% |
| Impact of price protection on commercial rebates | (6.3) | 4.2% |
| Impact of price protection on Medicare Part D rebates | (4.2) | 2.8% |
| Fee For Service | (3.0) | 2.0% |
| Sales Discounts | (3.1) | 2.1% |
| Net Sales impact of 7% price increase effective February 1st | 5 | 80.7 |