

Progress continues on the publication plan of previously completed studies, including new analyses that explain gender-specific dosing.

### **Abuse Deterrent Immediate Release Oxycodone /ADIR - (OCI)**

**All R&D scorecard activities for OCI remain on track:**

- Complete evaluation of Rhodes and Purdue formulations and select product for continued development.

Testing of Purdue and Rhodes formulations was completed as planned, including oral PK, intranasal PK, Intranasal PD and non-clinical abuse deterrence studies.

Based upon a comparative evaluation of *in vivo* and *in vitro* data collected for the two Purdue and Rhodes formulations, the team has recommended proceeding with development of the Cranbury formulation.

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## **DISCOVERY RESEARCH**

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

- The main goal of the ORL-1 back-up program is to identify compounds with similar or better efficacy, drug-like profiles and low risk for kidney toxicity issues, as well as reduced side effects (fatigue/somnolence) compared to V117957.
- Due to the somnolence and fatigue seen in the clinic with V117957, the backup program will focus on pharmacological studies to elucidate the site and mechanism of action of the clinical effects and establish a method of differentiating a backup from V117957 in that regard. A small chemistry effort will continue to evaluate new chemical series. Once a method of differentiation has been established, full medicinal chemistry efforts will resume.

### **Sodium Channel (Nav) Blocker**

- This past quarter the Nav team continued to assess V121241 for its suitability for entering bridging studies. Genotoxicity studies were continued for V121241. Along with the earlier negative results in the AMES (mutagenicity) test, the Chromosomal Aberration studies were also found to be negative. The team identified a suitable formulation to allow the compound to achieve sufficient plasma exposure so that it could be assessed in toxicology studies. Using this formulation, V121241 and two further compounds (V121130 and V121039) are being assessed for side effects in repeat-dose studies.

- The chemistry team has been focused on synthesizing compounds with improved potency and physicochemical properties over V121241. In particular, the chemists have significantly improved the solubility of the compounds which should translate into improved pharmacokinetic (PK) properties. PK studies are currently underway to assess this improvement.

### **Exploration of Signal-Biased Opiates**

- We have profiled the Trevena clinical lead as a comparative in all assays and confirmed it to be a G pathway biased ligand. It is limited by lack of oral-bio availability and they are administering it via the IV route in the clinic.
- We have profiled R and S DHE in all assays and confirmed that they are not biased mu agonists. Moreover, they are stealth opioids and do not activate TLR4 receptors. This data has been communicated to Mundipharma colleagues.
- We are in the final stages of breeding  $\beta$ -arrestin knockout rats and they should be phenotyped and ready for experimental use by mid-late summer.

### **Abuse Deterrent Controlled Release Technologies**

- Results obtained with preliminary controlled-release opioid formulations based on Eudragit NE support further development. The tablets do not dose dump in ethanol, and are resistant to small volume extraction. In the medium term the focus will be to demonstrate chemical and physical stability and to determine the range of drug loadings possible and the stability of a variety of opioids. The efficiency of the manufacturing process will be evaluated, including collaboration with Mundipharma colleagues.

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## LICENSING AND BUSINESS DEVELOPMENT

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

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<b>Q12013 Results</b>		Declined in Level 1	Referred to R&D Innovation	Declined in Level 2	Declined in Level 3	Awaiting next BDC or Still Screening	Active with BDC	On Hold Pending Data
4Q12 Existing Opportunities active with BDC	7	1	0	4	0	0	2	0
New Opportunities 1Q13	64	46	8	0	0	5	5	0
<b>Total</b>	<b>71</b>	<b>47</b>	<b>8</b>	<b>4</b>	<b>0</b>	<b>5</b>	<b>7</b>	<b>0</b>

<b>Active with BDC end of 4Q2012</b>	Convergence, Transcept, Flexion FX-005, (Rhythm), IBSA / Flector Patch, Xalud, Katama
<b>Declined Level 3</b>	
<b>Declined Level 2</b>	Convergence, Flexion FX005, IBSA, Xalud
<b>Declined in Level 1 (existing opportunity)</b>	Katama

<b>Active with BDC End of 1Q2013</b>	Rhythm, Afferent AF219, Flexion FX-006, Targeted Medical Theramine Sentra, Ricanto Tabex cystine tablets, Transcept, Ampio IA injection of aspartyl alanyl diketopiperazine, Pathologica PA300 anti-inflammatory, MAST MST-188 for sickle cell disease
<b>Awaiting next BDC Or Still Screening</b>	Acadia Pimavanserin for Parkinsons Disease Psychosis, FFT Medical Nicotine replacement therapy

### ACTIVE LBD PROJECTS end of Q1 2013

Company	Product	Indication	Level & Status	Responsible Party	Screening Date
<b>Iroko Pharmaceuticals</b>	Zorvolex™ (diclofenac submicron particle capsules)	Pain & Inflammation	<b>Level 2a</b> Recommend to BDC to initiate due diligence	Dolan	4/11/2013
<b>Ricanto</b>	Tabex (cytosine) tablets	Smoking Cessation	<b>Level 1b</b> Study smoking cessation market. Limited due diligence on critical questions	Dolan	3/8/2013
<b>Rhythm Therapeutics</b>	RM-131 Ghrelin Agonist Peptide	Diabetic Gastro paresis	<b>Level 2a</b> Currently conducting Phase 2 trial. Initial DD and Market Research. Waiting for data. Meeting at BIO in Chicago.	Downs	6/18/2012

**OTHER ACTIVE LBD PROJECTS end of Q12013**

<b>Company</b>	<b>Product</b>	<b>Indication</b>	<b>Level &amp; Status</b>	<b>Responsible Party</b>	<b>Screening Date</b>
<b>Ampio</b>	Ampion (DA-DKP HAS derivative)	OA Pain	<b>Level 1b</b> Ph2 study initiated	Yao	3/27/2013
<b>Afferent</b>	AF-219P2X3	Pain	<b>Level 1b</b> Assess POC data in June 2013	Darland	1/6/2013
<b>Flexion</b>	FX-006, IA sustained release triamcinolone acetonide	1 <sup>st</sup> line therapy for knee OA	<b>Level 2a</b> Meeting at BIO in Chicago. Ph2 data released in June. Subject to BDC review.	Darland	6/10/2012
<b>Grüenthal</b>	Tamper Resistant CR Morphine (MS Contin)	Pain	<b>Level 3</b> Being presented to Purdue BOD on 4-10-2013	Kraft	9/28/2012
<b>Targeted Medical Pharma</b>	Theramine, Sentra PM & AM TRGM	Pain, sleep disorders & medical food therapeutics	<b>Level 1a</b> Medical foods market is under review by LBD; present to BDC in May	Yao	1/6/2013

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## CORPORATE COMPLIANCE

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

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### Corporate Integrity Agreement

By letter dated January 24<sup>th</sup>, the Office of Inspector General advised that Purdue's Corporate Integrity Agreement had concluded. In communications to employees we stress nothing changes with respect to the compliance imperative in our industry and at Purdue.

### Key Compliance Issues in 1Q13

Throughout the First Quarter, the Company continues to maintain a state of effective compliance, with all components of the Annual Compliance Scorecard above the established standards, including Sales and Marketing, Manufacturing and Quality, and R&D.

While there are compliance matters detected, investigated, and remediated on an ongoing basis, there have been no *significant* compliance matters to report. As a result of monitoring and rapid completion of current field sales call notes, we look to address compliance issues before they develop into serious concerns; e.g., pro-active discussions of OxyContin reformulation, quality of life and implied superiority claims; speaker programs are a significant risk and monitoring forms for each program is an important compliance requirement; likewise district manager completion of a minimum of two-days of ride-alongs and Field Contact Reports each quarter.

### Priority Compliance Risks to be Addressed in 2013

The most significant compliance risks to be addressed in 2013 through Purdue's compliance program include:

- Government price and rebate reporting
- Study Manager review of clinical site monitoring reports
- Managed Care
- Appropriate product promotion
- Federal Physician Payments Sunshine Act
- Timely completion and closure of Quality investigations

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## EXTERNAL AFFAIRS

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

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### **Build Support For Appropriate Pain Care Through Policy Development And Implementation**

- A group of U. S. Senators and U.S. Congressmen, FDA, ONDCP, the White House, and 22 Pain Care Forum organizations have now weighed in with the Centers for Medicaid & Medicare Services (CMS) expressing their belief that CMS has misinterpreted the intent of the law by including abuse deterrent formulations in the definition of "line extension." We have received very positive feedback from FDA and ONDCP that a satisfactory solution may have been reached, but will not be sure until the final regulation is published. A confirmation hearing for the CMS Administrator is scheduled, and we have asked a Senator to question her on this issue in a way that shows support for exempting ADF from "line extension". CMS could issue a final rule at any time.
- Members of Congress introduced legislation, ([H.R. 6160](#)), that would prevent FDA from approving a non-deterrent controlled substance where a deterrent formulation of the same drug is already approved. The legislation has received considerable attention from Congress. Articles have been generated from thought leaders and Members of Congress and sponsors of the STOPP Act have repeatedly told FDA they do not want to see generics that are not also abuse deterrent and FDA has confirmed in writing that they have the authority to require generics to have abuse deterrence. Key Senators, Minority Leader McConnell, and Assistant Majority Leader Schumer have informed FDA that they support the concept of the STOPP Act. And a bipartisan group of members in the Senate and the House are contemplating potential amendments similar in nature to the STOPP Act.
- Letters were solicited from approximately 150 state elected officials and local law enforcement to the FDA discouraging non - abuse resistant generic formulations of opioids.

- 48 State Attorneys General signed a joint letter through the National Association of Attorneys General to the FDA discouraging approval of non-abuse deterrent generic formulations of opioids.

### **Take Appropriate Action On External Threats To Optimal Pain Care**

- The FDA held two meetings in January and February 2013. Organizations from the Pain Care Forum and through our Healthcare Alliance Development (HAD) group encouraged third party organizations to participate and there was strong representation at the hearings. (FDA meeting in January considered hydrocodone (rescheduling); [http://www.ofr.gov/OFRUpload/OFRData/2012-30517\\_PI.pdf](http://www.ofr.gov/OFRUpload/OFRData/2012-30517_PI.pdf) and the February public meeting was on the impact of labeling of opioid analgesic drug products [http://www.pharmcast.com/FederalRegistrar/Yr2012/Dec2012/121712/12192\\_Opioid.htm](http://www.pharmcast.com/FederalRegistrar/Yr2012/Dec2012/121712/12192_Opioid.htm))

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

- Fourteen states are now operational with the National Association of Boards of Pharmacy (NABP) Interconnect Hub program which allows state prescription monitoring programs to share data across state lines. Eight more states have signed Memorandums of Understanding (MOU) to participate. Purdue supported this initiative.
- A direct mail campaign to targeted physicians and using the new brochure "Advancing Medical Science" was initiated in January to help recruit clinical investigators and facilitate patient enrollment in Purdue's clinical trials. The mailing resulted in a spike in inquiries from potential investigators expressing interest in becoming investigators and also served to position Purdue as a leader in pain management to key healthcare professionals.
- Engagement was made with reporters from the Pink Sheet, FDA News, FDA Week and the Wall Street Journal that favorably impacted several stories written about the use of opioids. Media outreach efforts during the first quarter resulted in more than 15 stories with brand mentions in both consumer and healthcare professional media outlets. General education about middle-of-the-night awakenings continued with more than 100 media placements. Additionally, Public Affairs produced a product theater video featuring an Intermezzo KOL that will be leveraged on various websites including [Intermezzorx.com](http://Intermezzorx.com).

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

- State Legislation to address prescription drug abuse was introduced in many states this session. Two specific concerns are Massachusetts HB 1786 which reschedules OxyContin to a CI controlled substance and Mississippi HB 599 which sets a 75 unit limit per RX on OxyContin.
- Florida and California have introduced bills that would require pharmaceutical companies to pay for or be allowed to pay for the state prescription monitoring programs.

There are approximately 440 state bills introduced this session that could impact the company, however state sessions are still ongoing and all bills are being addressed.

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

- Awareness of Purdue's comprehensive efforts to combat prescription drug abuse continues to increase. Digital marketing (including search engine marketing and banner advertising) achieved a 20 percent increase in visits to the RxSafetyMatters.org web site during the first quarter of 2013 compared to the fourth quarter 2012. Proactive media relations were conducted to promote RxPATROL, and the Law Enforcement Liaison & Education Program. In the first quarter of 2013, Public Affairs achieved positive delivery of Purdue's anti-diversion/anti-abuse messages by garnering more than 125 stories to more than five million readers/views for both RxPATROL and LELE.
- The National Governors Association has selected the seven states that were awarded grants to provide prescription drug abuse programs in their state. Purdue has been an active participant in this initiative.
- The US Conference of Mayors, due to a grant from Purdue, provided the 2013 Prescription Drug Abuse Recognition Program awards for outstanding initiatives to address Rx Drug Abuse at their annual winter meeting to: The Honorable Stephanie C. Rawlings-Blake, Mayor of Baltimore, MD; The Honorable Jon Mitchell, Mayor of New Bedford, MA; The Honorable Terry Bellamy, Mayor of Asheville, NC; and The Honorable Paul Soglin, Mayor of Madison, WI.

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## HEALTH POLICY

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The Health Policy Group helps shape the public face of Purdue, enhances corporate visibility, and cultivates a supportive environment through communication and collaboration (e.g., presentations, participation with external entities, and support of Purdue Governmental Affairs). Medical Education provides high-quality, relevant resources to meet clinical and learning needs that complement the drug product portfolio. Medical Services responds to external queries on our products and provides medical review of Materials for the Sales Forces and external customers (eg, healthcare professionals, patients, regulators, and general public). Library & Information Services deliver resources to meet the scientific and business needs of Purdue.

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### Policy-Related

- Communication & External Affairs Committee
  - Rewrote Purdue's final response to PROP Citizen Petition
  - Drafted Purdue's response to A. Kolodny re: HYD consent document
  - Interviewed by the Senate Finance & Judiciary Committee staffers
  - National Safety Council – Reducing Rx Drug Overdose Strategy planning
  - Edited/revised Public Affairs responses/standby statements
- Risk Management
  - Planning RPC External Communications strategy
  - Finalizing translation of REMS Patient Counseling Document into Spanish
- Other collaborations
  - 100th Annual NCPO Conference: *Reducing Prescription Drug Abuse*
  - Tufts MSPREP: *Review of Pain Mechanisms, Assessment, & Management*
  - FDA Public Hearing: *Impact of Approved Drug Labeling on Chronic Opioid Therapy*
  - Edited/revised numerous Medical Services Standard Response Letters
  - Prosecuting US Patent Application No. 13/602,151: System and Method for Algorithmic Assessment of Abusive Prescriber Traits

### Healthcare Grants and Giving

- 188 (YTD=188) healthcare educational and non-educational grants were reviewed.
- Eighty-six (46%) were approved for a total of \$1,639,551.00.

## Medical Science Liaisons

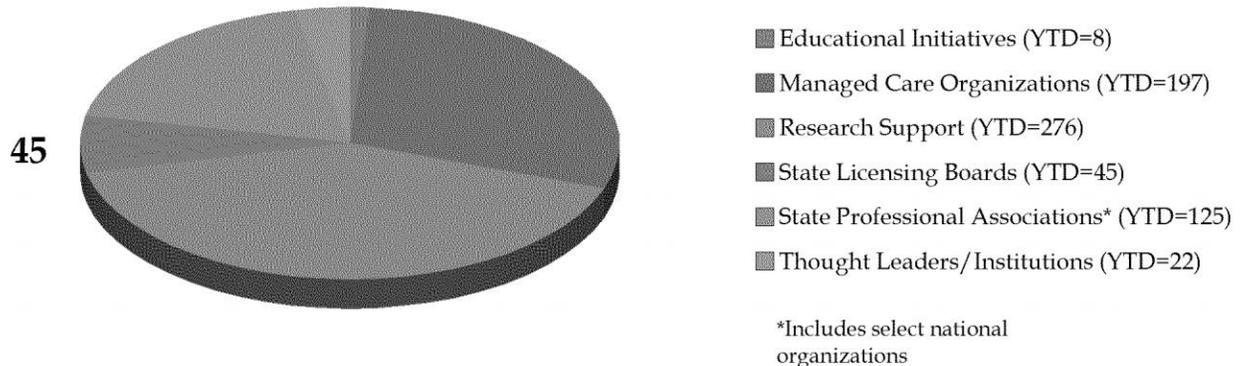
### (Managed Health-Systems, Alliance Outreach, Research Support)

Major areas of Medical Science Liaison (MSL) interactions with the Healthcare Community included: 41% Research Support, 29% Managed Care, 19% State Professional Associations, 7% State Licensing Boards

#### Q1 2013 Interfaces with Healthcare Community

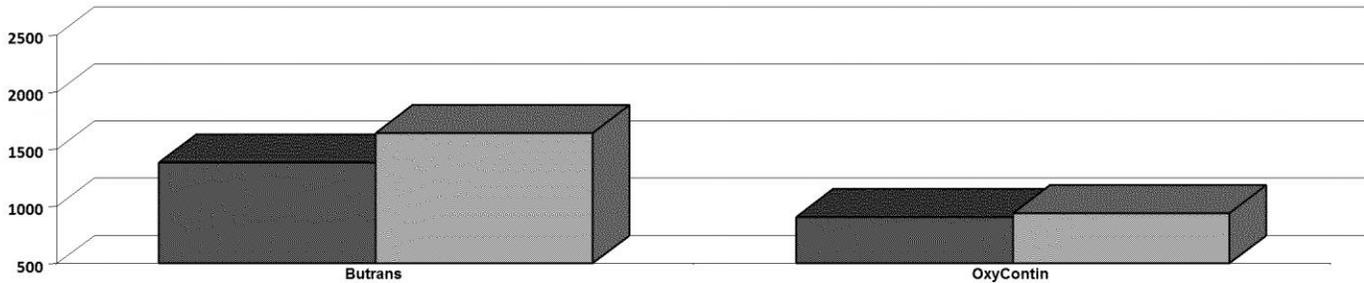
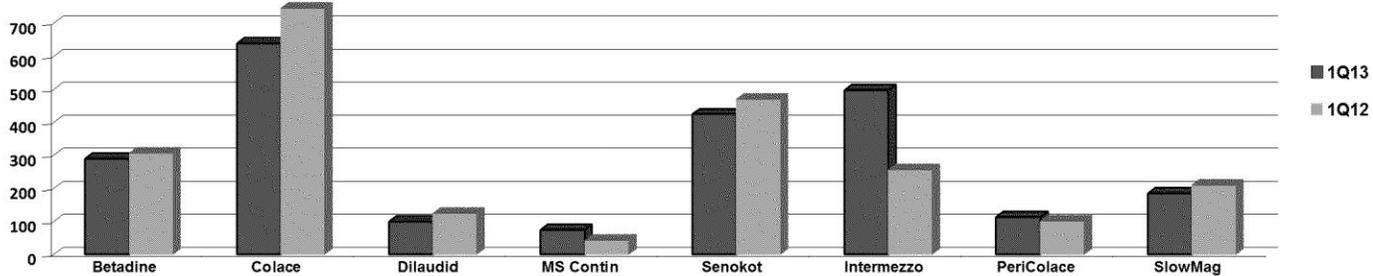
Total = 673 (YTD=673)

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## Medical Services

- 1Q13 Inquiries
  - 5,146 total inquiries
    1. 3% decrease from 1Q12 and an 18% increase from 4Q12.
    2. 82% of inquiries answered within (1) one business day
    3. 99% answered within (10) ten business days



- Specific Products (details for above)
  - Butrans = 1,384 inquiries
    1. 16% physicians, 66% consumers
    2. Application instructions (115), Application site reaction (94), Adhesion (55), Dose conversion from or to other opioids (44), Lack of Effect (43), AE Management (38), Cardiovascular (9), Urine Drug Screen (22), Withdrawal (36), Effect of Heat (22), Onset of Action (19)
  - Intermezzo = 498 inquiries
    1. 26% physicians, 55% consumers
    2. Comparison to other zolpidem products (41), Gender specific dosing (24), Use with other zolpidem products (16), Use with sedative hypnotics (14), Oral Administration (9), Driving Study (9), Long term use (9), Complex behaviors (2)
  - OxyContin = 910 inquiries
    1. 12% physicians, 72% consumers
    2. Lack of Effect (39), Reformulation - what has changed (24), Request for Epi data (24), Dosing frequency (19), Dose conversion (15), Maximum dose (13), Withdrawal (13)

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## HUMAN RESOURCES

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

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### Staffing, Employee Engagement, Relations and Retention

- 99 vacancies were filled in the 1<sup>st</sup> Quarter 2013. Employee turnover was 2.2% vs. 1.9% at the same time last year.
- [REDACTED] has been named Director, Supplier Quality Assurance, reporting to [REDACTED] Head of Quality Operations in Wilson. Initially [REDACTED] will be based in Totowa and will move to the Wilson site within 18 months, consistent with the Totowa transition plans.
- New searches have been initiated for Head of Clinical Research reporting to Dr. Craig Landau, and Director, Clinical Supply Management, reporting to [REDACTED]
- A military recruitment program is in place, in collaboration with Sales Management. The program has been offered to seven branches of the military, in concert with the Department of Defense "Heroes 2 Hire" program, and is intended to provide the company with a pipeline of readily accessible candidates of commissioned officers with college degrees, technical proficiency, leadership skills and awards on performance, while providing jobs to returning heroes, with a significant tax benefit to Purdue. Purdue will attend a job fair at the Marine Corp Base of Camp Lejeune in North Carolina in the near future. While the recruiting focus is to attract candidates into the sales openings, the program has been expanded for candidates to be considered for other current open positions.
- Human Resources facilitated a reorganization of the Information Technology Department and collaborated with IT project sponsors to build stronger synergies among IT colleagues at all sites for improved efficiency of resources and operations.
- A Company-wide Fraud and Abuse Control Information System (FACIS) Level 1 review has been completed for all employees of PPLP and U.S. Associated Companies on March 18, 2013, with favorable findings that all employees for whom such searches were conducted are "sanction free."

## **Compensation & Benefits**

- Purdue's amended retirement benefit plan went into effect January 1<sup>st</sup>, 2013. Employees nearer to retirement continue to participate in the Purdue Pharma L.P. Pension Plan ("Pension Plan"), while employees with a longer time period to prepare for retirement shift from Pension Plan participation to a new benefit providing additional contributions to the Purdue Pharma L.P. and Retirement Savings 401(k) Plan.

## **Training & Development**

- A newly developed scientific career ladder has been established for Discovery Research and Pharmaceuticals & Analytics organizations. Details were communicated in March with full transitions occurring in April.
- Communications on the 2013 Mentoring Program has been sent to all colleagues (excluding Field Sales) and Lunch & Learn meetings were conducted. Matching is currently underway for this year's program which is expected to accommodate 50 mentoring pairs across four sites. Organizationally, mentoring facilitates cross-functional knowledge sharing and the flow of information and ideas throughout the organization. It also strengthens organizational culture by giving colleagues broader exposure to and understanding of the organization's operations, policies and local culture and provides another avenue of professional development.
- One-on-one coaching is being provided for 25 colleagues (leaders, directors, managers and contributors) to facilitate leadership development and personal growth.

## **Environment, Facility and Regulatory Compliance**

- Preliminary Process Hazards Analysis was conducted for the Oxycodone/APAP process in Wilson, as well as an Operational Readiness Review of equipment, to ascertain any equipment, raw material or process issues that may arise and lead to an injury or EHS incident.
- Significant support was provided to the Discovery PBEB5 Novel Opioid Program in February by EHS, including developing and reviewing protocols, training on safe handling, de-gowning, emergency response procedures and the installation of emergency push button security alarms to be connected in the near future.
- Each year The Fairfield County Business Council recognizes organizations from the tri-state area for their success in promoting healthy lifestyles though the workplace, with a silver, gold or platinum award. Purdue was this year's platinum award winner - the third award for Purdue for best practices.

## Facilities and Engineering

The final phase of cafeteria serving line and lighting refurbishment was completed within budget. The replacement of vintage air handlers continued. AC-5 was replaced prior to the cooling system and 10% below budget. Parking lot repairs are ongoing.

## New Facility & Totowa Transition Project

Human Resources continues to facilitate organizational reviews, analysis and action plans associated with the Totowa Transition Plan and New Manufacturing Facility Plan. Discussions are underway with affected leaders about the organizational designs and continuity plans for each business function, as well as headcount, costs, timing and risks.

## Human Resources Support of Associated Companies

- Human Resources supported the Rhodes Board via the Rhodes Human Resources Committee:
  1. Facilitated 2012 business outcomes review and resulting bonus payout recommendations
  2. Developed and distributed proposed decision documents for MNP Consulting (Mundipharma, Napp, Purdue) review and recommendation
  3. Facilitated the review of executive performance and resulting performance ratings
  4. Expedited executive bonus discussions and recommendations
  5. Facilitated executive merit increase discussions and recommendations
- [REDACTED] Vice President Sales & Marketing, Mundipharma, China was hosted by Human Resources for meetings with Purdue executives, in advance of her developmental assignment to begin at Purdue, Stamford in August. The primary focus for [REDACTED] assignment will be in the Marketing Department and will last a year or more, to provide her with a better understanding of the commercialization process in the U.S. pharmaceutical marketplace.

## Full-Time Turnover Projection - March YTD 2013

	Begin Count	End Count	Terminations	% Term EE's	Retired	% Retired EE's	Resignations	% Resigned	Total # T/O	YTD T/O % Rate	Prior Year Same Period YTD T/O
<b>S&amp;P</b>											
SALES	599	637	11	1.8%	0	0.0%	9	1.5%	20	3.3%	
MARKETING	48	50	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
SALES SUPPORT	29	29	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
FIELD OPS, SUPPORT & ADMIN	15	16	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total S&amp;P</b>	<b>691</b>	<b>732</b>	<b>11</b>	<b>1.6%</b>	<b>0</b>	<b>0.0%</b>	<b>9</b>	<b>1.3%</b>	<b>20</b>	<b>2.9%</b>	<b>2.8%</b>
	% of X-FTE's		55.0%		0.0%		45.0%				
<b>G&amp;A</b>											
ADMINISTRATIVE SERVICES	34	34	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
BUSINESS DEVELOPMENT	7	7	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
CORPORATE COMPLIANCE	11	10	0	0.0%	0	0.0%	1	9.1%	1	9.1%	
ENVIRONMENT, HEALTH & SAFETY	6	6	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
EXECUTIVE	13	13	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
EXTERNAL AFFAIRS	18	18	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
FINANCE	61	58	0	0.0%	1	1.6%	2	3.3%	3	4.9%	
GENERAL COUNSEL	45	44	0	0.0%	2	4.4%	0	0.0%	2	4.4%	
HUMAN RESOURCES	23	23	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
IT	96	97	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
PROCUREMENT	12	12	1	8.3%	0	0.0%	0	0.0%	1	8.3%	
QA	31	30	0	0.0%	0	0.0%	1	3.2%	1	3.2%	
SECURITY	14	14	0	0.0%	1	7.1%	0	0.0%	1	7.1%	
<b>Total G&amp;A</b>	<b>371</b>	<b>366</b>	<b>1</b>	<b>0.3%</b>	<b>4</b>	<b>1.1%</b>	<b>4</b>	<b>1.1%</b>	<b>9</b>	<b>2.4%</b>	<b>0.6%</b>
	% of X-FTE's		11.1%		44.4%		44.4%				
<b>IRD/US</b>											
DISCOVERY	50	51	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
CRANBURY SUPPORT	14	14	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
DRUG SAFETY & PHARMACOVIGILANCE	33	34	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
HEALTH POLICY	40	41	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
MEDICAL RESEARCH	95	100	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
NONCLINICAL R&D	50	49	0	0.0%	0	0.0%	1	2.0%	1	2.0%	
PROGRAM MGMT	26	25	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
REGULATORY AFFAIRS	26	25	0	0.0%	0	0.0%	1	3.8%	1	3.8%	
<b>Total IRD/US</b>	<b>334</b>	<b>339</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>2</b>	<b>0.6%</b>	<b>2</b>	<b>0.6%</b>	<b>0.3%</b>
	% of X-FTE's		0.0%		0.0%		100.0%				
<b>MFG/OPERATIONS</b>											
PF LABS. SALARIED	18	18	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
M&SC	57	57	1	1.8%	1	1.8%	0	0.0%	2	3.5%	
WILSON NC	186	192	0	0.0%	2	1.1%	2	1.1%	4	2.2%	
<b>Total MFG/OPERATIONS</b>	<b>261</b>	<b>267</b>	<b>1</b>	<b>0.4%</b>	<b>3</b>	<b>1.1%</b>	<b>2</b>	<b>0.8%</b>	<b>6</b>	<b>2.3%</b>	<b>3.4%</b>
	% of X-FTE's		16.7%		50.0%		33.3%				
<b>Total PURDUE</b>	<b>1,657</b>	<b>1,704</b>	<b>13</b>	<b>0.8%</b>	<b>7</b>	<b>0.4%</b>	<b>17</b>	<b>1.0%</b>	<b>37</b>	<b>2.2%</b>	<b>2.0%</b>
	% of X-FTE's		35.1%		18.9%		45.9%				
RHODES TECHNOLOGIES	148	150	0	0.0%	0	0.0%	1	0.7%	1	0.7%	
RHODES PHARMA	30	36	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
<b>Total RHODES</b>	<b>178</b>	<b>186</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>1</b>	<b>0.6%</b>	<b>1</b>	<b>0.6%</b>	<b>1.2%</b>
	% of X-FTE's		0.0%		0.0%		100.0%				
<b>Grand Total</b>	<b>1,835</b>	<b>1,890</b>	<b>13</b>	<b>0.7%</b>	<b>7</b>	<b>0.4%</b>	<b>18</b>	<b>1.0%</b>	<b>38</b>	<b>2.1%</b>	<b>1.9%</b>
	% of X-FTE's		34.2%		18.4%		47.4%				

### INTERMEZZO CONTRACT SALES

REDACTED

% of X-FTE's 100.0%

Note: All turnover percentages are based upon the employee "Begin Count"

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## INFORMATION TECHNOLOGY

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Deliver technology solutions and provide pre and post launch support for approved products and for existing business functions, such as Sales and Marketing, Manufacturing and Supply Chain. Develop technology capabilities and maintain support activities for products and business functions which support portfolio diversification, such as R&D. Ensure continued and uninterrupted general IT service across the organization. Reduce cost, time or defects, by driving operational efficiency across the company via technology and process. Support business functions such as Finance, HR, Legal, IT and improvements for talent development, communications, information sharing, and collaboration between IT groups and teams.

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- The Board Portal, an application designed to ensure that Directors have the latest information prior to and during board meetings, was rolled out during the January 15 meeting. Sync technology allows the system administrator to push any new Board material directly to the Directors' repository. The repository is encrypted and password-protected to safeguard content in the event that the device is lost or stolen. The Board Vantage software runs at the Basel data center and is administered by Chadbourne & Parke.
- In March, IT delivered a single combined website for Purdue's three Risk Evaluation and Mitigation Strategy (REMS) programs: OxyContin, Butrans and MS Contin. The REMS website, containing relevant information and Medication Guides for healthcare professionals, patients and caregivers, was developed to manage known or potential serious risks associated with a drug product, as required by the FDA to ensure that the benefits of a drug outweigh its risks. Previously, Purdue had two product-specific REMS websites: one for OxyContin and one for Butrans. The link is: <http://www.purduesrems.com/default.aspx>
- The mobile site for the Direct to Consumer (DTC) website [myIntermezzo.com](http://myIntermezzo.com) was launched in January, and included the Intermezzo commercial. A survey tool was approved for use on the DTC site, enabling users to provide insights which could lead to future site improvements, enhancing the user experience.
- IT completed implementation of Trackwise Product Complaints (January 28) and Change Control (February 28). The Audit Management module will be implemented later this year.
- The Intellectual Property Management Project (IPAM) project was implemented in

2012 and is being expanded in 2013. The full capability of the Anaqua application implementation has been realized, where processes for invention submission through patent asset management have been fully vetted and realized an efficiency savings of \$70,000 annually. Additional data sets reflecting other aspects of the IP portfolio, specifically the Freedom-to-Operate, IP Licenses, electronic docketing with outside counsel, and annuity services, will be incorporated throughout 2013.

- iGallery, a custom sales gallery designed for the iPad, was launched at the 2013 National Sales Meeting. The field received weekly and monthly script data, plan level data, longitudinal data (prescribing habits at the product level), call data, current sales force rankings and a snapshot view upon entering the new system. In addition, Intermezzo & Insomnia market data were added. IT developed and delivered a comprehensive user guide, FAQ document, and training curriculum including several short training videos. iGallery provides new functionality, rolling up plan data to a single view that enables management to identify success of pull-through programs at the plan level.
- The SAP team supporting manufacturing, distribution, and quality is spending about 35% of their time developing applications for Rhodes' benefit. Examples are the Coventry Spare Parts inventory system, the Chargeback Management system implemented just for Rhodes, and Rhodes Product Launches (Dilaudid AG, Theophylline, and Dronabinol). Rhodes is being charged for this support.

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**Purdue**  
**Quarterly Report to the Board**  
**2nd Quarter, 2013**

**July 23<sup>rd</sup>, 2013**

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## FINANCE / INFORMATION TECHNOLOGY

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Assure 2013 sales, profitability, efficiency, cash flow, compliance and pipeline objectives are supported by proactive, future-focused and meaningful financial analysis. Assure that Purdue's financial reporting and forecasting provide transparency into business results, and financial reporting internal controls are in place.

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Topics covered:

- |                                  |   |
|----------------------------------|---|
| 1. 2013-Q2 Financial Performance | 5. Treasury - Short-term Cash Investments |
| 2. Non-Tax Distributions         |   |
| 3. 2013 Forecast                 | 6. Pension Investment Committee           |
| 4. Executive Audit Committee     |   |

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### 1. 2013-Q2 Financial Performance

	June Year-to-Date				Full Year		
	2013 Actual	2013 Forecast	2013 Budget	2012 Actual	2013 Forecast	2013 Budget	2012 Actual
<u>Expressed in 000's</u>							
Net Branded Revenues	982,916	1,030,832	1,193,444	1,064,796	2,107,208	2,410,349	2,200,922
Operating Margin	385,313	434,783	525,076	483,771	918,660	1,124,604	992,750
EBITDA	486,816	511,878	496,214	482,062	948,265	1,066,878	1,038,561
Net Profit Before Tax	470,836	495,875	480,231	468,124	916,260	1,034,912	1,010,856
Owner's Equity	518,573	581,944	855,844	624,308	590,000	705,232	671,725
Non-tax Distributions	357,626	357,626	120,250	471,600	575,600	538,100	471,643
Days Sales Outstanding	33.2	35.0	35.0	35.4	35.0	35.0	33.2
Accounts Receivable Outstanding > 90 Days Past Due	< 1%	< 1%	< 1%	< 1%	< 1%	< 1%	< 1%
Capital Spending	12,887	17,500	17,500	13,203	35,000	35,000	30,467
Unrestricted Cash on Hand	830,712	823,778	985,738	787,797	576,056	600,000	755,593
Available Liquidity	830,712	823,778	985,738	787,797	576,056	600,000	755,593
Available Liquidity - Average Months Sales	5.1	4.8	5.0	4.4	3.3	3.0	4.1
Headcount	1,689	1,751	1,784	1,672	1,751	1,784	1,666

Notes:

- (1) Net revenues are lower than budget primarily due to lower OxyContin sales.
- (2) Partner non-tax distributions of \$42 million were made in early July.
- (3) See full financial report for detailed information.

## 2. Non-Tax Distributions

In 2013 Forecast, non-tax distributions were projected to total \$600.8 million. Of the \$600.8 million, \$30 million was budgeted to be reinvested into Rhodes Pharmaceuticals and \$4.2 million for Japan and Thailand investments.

- April -- \$127 million cash paid plus \$216.7 million in Infinity shares (5.4 million shares at \$40 per share),
- July -- \$42 million cash paid,
- October -- \$130.5 million cash,
- December -- \$50.5 million cash,
- Rhodes reinvestment Q3 / Q4 -- \$30 million cash, and
- Japan and Thailand investments in Q3 -- \$4.2 million cash.

## 3. 2013 Forecast

<u>Expressed in 000's</u>	2013 Forecast	2013 Budget	Variance	Variance %
Gross Branded Product Sales	2,821,387	3,228,472	(407,085)	-12.6%
Net Branded Sales	2,107,208	2,410,349	(303,141)	-12.6%
Operating Margin	918,660	1,124,604	(205,944)	-18.3%
Operating Margin %	43.6%	46.7%	-3.1%	-6.6%
Net Profit Before Tax	916,260	1,034,912	(118,652)	-11.5%
EBITDA	948,265	1,066,878	(118,613)	-11.1%
Tax Distributions	331,800	444,000	(112,200)	-25.3%
Non-tax Distributions	575,600	538,100	37,500	7.0%
Total Equity (all Companies in Pharmaceuticals Group reported to Management Revisions)	590,000	705,232	(115,232)	-16.3%
Total Equity (US Operating Companies - Bank Reporting Group)	550,000	670,000	(120,000)	-17.9%
Unrestricted Cash on Hand	576,056	600,000	(23,944)	-4.0%

Notes: Lower than budget gross sales due to lower OxyContin sales (\$363 million) and lower Intermezzo sales (\$44 million).

- Lower operating expenses
  - R&D of \$50 million primarily due to enrollment delays in the ONU pain/OIC studies (\$35 million) and close out of Butrans higher strength studies (\$14 million).
  - S&P of \$22 million due to lower Intermezzo promotional support and termination of contract field force (\$12 million) and target reductions (\$10 million).

#### 4. Executive Audit Committee

Members: [REDACTED] Stuart Baker, [REDACTED] Ed Mahony, and Bert Weinstein

Purpose: To ensure the effectiveness of internal controls, integrity of financial statements, and performance of internal and external auditors.

Frequency: Quarterly

- The committee's most recent meeting in June included discussions of controls relating to procurement card usage, controls and audits related to managed care rebates, an update on CSA Compliance activities and Internal Audit activities.
- The committee members routinely meet with Ernst & Young, without Purdue financial management present.
- No material matters to report.

#### 5. Treasury - Short-Term Cash Investments

- Purdue's cash holding is currently invested in Treasury bills and U.S. Government Securities mutual funds. These securities are primarily registered in Purdue's name to reduce counter-party risk.
- These investments earn approximately 0.05-0.07% per annum with an outstanding investment balance of \$952 million at the end of June 2013.
- The group invests 80-90% of investable funds in Treasury investments with the rest in FDIC-insured bank accounts for daily funding operations.

#### 6. Pension Investment Committee

Members: Stuart Baker, [REDACTED] Ed Mahony, [REDACTED]

Frequency: 4 to 5 meetings per year

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

#### **Defined Benefits Pension Plans**

- PPLP Plan - The plan's Accumulated Benefit Obligation<sup>1</sup> is projected at \$220-230 million at 12/31/2013 and the plan assets were \$241 million at 6/30/2013.
- The plan investments returned 16.9% for the 12-month ended 5/31/2013. The fund assets are invested in: (a) passive equity indexed funds and (b) actively

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

managed fixed income funds – which have outperformed passive fixed income. The plan's 1-year return over-performed the portfolio benchmark passive index by 1.6%.

- The 2013 budget assumes a total funding of \$10.5 million (spread out evenly during the year) to the PPLP plan.
- PF Labs (Union) Plan - PF Labs has a smaller defined benefit plan - \$6.7 million in assets – covering ex-employees, the plan is well funded and small contributions are being made.

#### **Change to PPLP Defined Benefits Pension Plan**

- With an expectation of rising interest rates, SEI (our investment manager) recommended a reduction in fixed income investment allocation from the current 45% to 35% by the end of 2013 while increasing equity investment allocation from the current 55% to 65%. Most of the shifts go to international and emerging markets equities.
- The Pension Investment Committee reviewed the proposal and agreed to adopt SEI's recommendation.

#### **Defined Contribution Pension Plan**

- Purdue Pharma LP also offers employees a 401(k) defined contribution savings plan. The company's contribution to this plan is expected to be \$8.2 million in 2013.
- The 401(k) plan funds' assets total \$310 million and \$344 million at the end of 2012 and June 2013 respectively.
- The plan offers employees a broad range of active, passive, and target-date investment options. The funds offered are generally very good performers in their classes. Marginal and poor performers are frozen to new investment and/or removed. Nearly all funds in Purdue's lineup are rated by Morningstar at 3-star or higher.
- The employees choose how their account balances are invested from the investment choices offered.

#### **Changes to PPLP 401(k) Plan Line-Up**

- Vanguard Inflation-Protected Secs Inv (index fund) -- TIPS investment category (VAIPX) is added.
- Fidelity Freedom Funds have been changed from actively-managed funds to passive index funds. Freedom Funds are target-dated funds.

- Fidelity Asset Manager 50% Fund is removed amid its performance correlation with Fidelity Puritan Fund which is a better overall performer.

## MARKETING & SALES

Assure 2013 sales and market share targets are met or exceeded. 2013 ex-factory net sales budget is \$2,410.3 mm. Operate within approved S&P budget of \$309.9 mm, with a target savings goal of \$15.6 mm.

Meet or exceed total prescriber call targets of 744,777 with Primary Detail Equivalents split 50/50 between Butrans and OxyContin. OxyContin and Butrans will receive second position presentations following primary presentations for each product in at least 90% of all prescriber calls. Intermezzo will be in third position on at least 35% of all prescriber calls.

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

**Gross Sales Budget: \$3,228.5MM**

**Net Sales Budget: \$2,410.3MM**

2013 (\$MM)	Actual		Budget		Prior Year	
	Gross Sales	Net Sales	Gross Sales	Net Sales	Gross Sales	Net Sales
Q1	620.0	461.4	773.4	575.8	674.0	508.0
Q2	685.3	521.5	819.4	617.6	764.0	556.8
Q3			816.4	616.7	749.6	533.0
Q4			819.3	600.2	817.3	603.1
Total	1305.3	982.9	3228.5	2410.3	3004.9	2200.9

*Note: Net sales for all periods reported have been restated to include other income.*

2013 year-to-date actual net sales of \$982.9 mm is lower than budget by \$210.5 mm or 17.6%. This variance was driven by:

- OxyContin net sales of \$878.1 mm were \$192.9 mm or 18.0% less than budget. This variance versus budget was due to (a) a trend toward lower tablets and milligrams per prescription not anticipated in the budget, and (b) lower wholesaler inventory.
- Butrans net sales of \$52.2 mm were \$7.1 mm or 12.0% less than budget driven primarily by contraction in trade inventory.