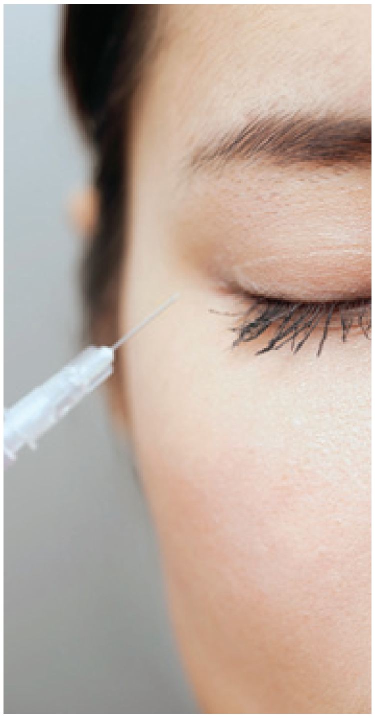
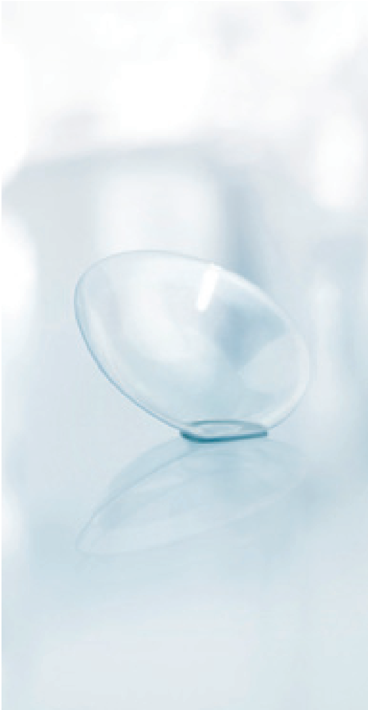
VALEANT
Pharmaceuticals International, Inc.

HEARING FROM OUR INDEPENDENT DIRECTORS.
BUILD. INVEST. GROW.

2013 Valeant Annual Report



DOCKET ALARM
Find authenticated court documents without watermarks at docketalarm.com.

COMPANY OVERVIEW

Valeant Pharmaceuticals International, Inc. (NYSE/TSX: VRX) is a multinational specialty pharmaceutical and medical device company that develops, manufactures and markets prescription and non-prescription pharmaceutical products that make a meaningful difference in patients' lives throughout more than 100 countries. Valeant's primary focus is in the areas of dermatology and eye health.

We have an established portfolio of durable products and our strategy is to focus the business on core geographies and therapeutic classes that offer growth opportunities. Another critical element of our strategy is business development. We have completed numerous transactions over the past few years to expand our portfolio offering and geographic footprint, and will continue to pursue value-added business development opportunities as they arise.

We look to strategically expand our product pipeline by adding new compounds or products through acquisitions and will maximize our pipeline through strategic partnerships.

Valeant's strategic markets are primarily in the United States, Canada, Europe, the Middle East, Latin America, Asia Pacific and Africa. Headquartered in Laval, Quebec, Valeant has approximately 17,000 employees worldwide.

FORWARD-LOOKING STATEMENTS
In addition to current and historical information, this Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and may be forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things: our strategy and operating principles and our ability to implement such strategy and operating principles; the characteristics of our future operating segments and product portfolio; the prospects for and anticipated timing of the approval and launch of product candidates; our ability to achieve the anticipated benefits, results and targeted returns and paybacks of our acquisitions and other transactions; the growth and future development of the Company, its business units and its products; and our expectations regarding our financial performance. Forward-looking statements can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "estimate", "plan", "continue", "will", "may", "should", "could", "would", "target", "potential" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although we have indicated above certain of these statements set out herein, all of the statements in this Annual Report that contain forward-looking statements are qualified by these cautionary statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Actual results may differ materially from those expressed or implied in such statements. Factors that might cause or contribute to these differences include, but are not limited to, risks and uncertainties discussed in our most recent annual or quarterly report and other filings filed with the U.S. Securities and Exchange Commission and the Canadian Securities Administrators, which factors are incorporated herein by reference. You should consider these factors (and other uncertainties and potential events) in evaluating our prospects and future financial performance and in making decisions with respect to the Company. The forward-looking statements in this report are made as of the date of this report. We undertake no obligation to update any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect actual outcomes, except as required by law.

Non-GAAP Information

To supplement the financial measures prepared in accordance with U.S. generally accepted accounting principles (GAAP), the Company uses non-GAAP financial measures that exclude certain items, such as amortization of inventory step-up, amortization of alliance product assets & property, plant and equipment step up, stock-based compensation step-up, contingent consideration fair value adjustments, restructuring, acquisition-related and other costs, In-process research and development, impairments and other charges ("IPR&D"), legal settlements outside the ordinary course of business, the impact of currency fluctuations, amortization and other non-cash charges, amortization including intangible asset impairments and write-down of deferred financing costs, debt discounts and ASC 470-20 (FSP APB 14-1) interest, loss on extinguishment of debt, (gain) loss on assets sold/held for sale/impairment, net, (gain) loss on investments, net, and adjusts tax expense to cash taxes. Management uses non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. By disclosing non-GAAP financial measures, management intends to provide investors with a meaningful, consistent comparison of the Company's core operating results and trends for the periods presented. Non-GAAP financial measures are not prepared in accordance with GAAP. Therefore, the information is not necessarily comparable to other companies and should be considered as a supplement to, not a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Reconciliations of the non-GAAP financial measures contained herein to the comparable GAAP financial measures can be found in our press release dated February 27, 2014, which can be found, along with reconciliations of other historical non-GAAP financials, at www.valeant.com.

DOCKET ALARM Find authenticated court documents without watermarks at docketalarm.com.

We listen.
Build a diversified collection of businesses.
Invest in durable products. Grow beyond expectations
and set a new goal for the future.

Navigating a multifaceted company like Valeant through these exceptional times requires an exceptional board of directors. In their roles as advisors and in providing oversight, Valeant's independent board members bring a wealth of executive experience that is broad and deep, along with a diverse range of backgrounds and experiences. What they have in common however, is their collective ability to view Valeant from a 50,000-foot strategic vantage point, as well as their understanding of the operational details that are foundational to our business. For this 2013 Valeant Annual Report, our independent board members were asked to give their perspective on the valuable insight they bring to their roles and how they work together in helping drive Valeant's unparalleled success.

DOCKET ALARM Find authenticated court documents without watermarks at docketalarm.com.

Fellow shareholders,

Valeant's strategy and operating philosophy are both simple and powerful and a departure from the traditional pharmaceutical business model. Our strategy is anchored in ten principles that we use to run the company.

Valeant's Operating Principles

1. Put patients and our customers first by maintaining the highest ethical standards in the industry.
2. Select high-growth business segments (therapeutic areas and geographies) where the healthcare professional is still the primary decision maker.
3. Maintain a bias toward durable products that are largely cash pay, or are reimbursed through private insurance.
4. Focus our resources on bringing new products to the market (output), not R&D spend (input).
5. Maintain a decentralized operating model to ensure decisions are made close to the customer.
6. Focus our promotional spending on customer-facing activities.
7. Measure all of our operating units on organic growth and cash flow generation.
8. Require Internal Rates of Return (IRR) significantly above our cost of capital, coupled with short-term cash paybacks for all of our deals.
9. Directly link senior management compensation to long-term shareholder returns.
10. Ensure tight controls and rigorous compliance standards while avoiding overspending.

1. **Put patients and our customers first by maintaining the highest ethical standards in the industry.**
Each member of our management team is required to create an ethical environment for their employees. Our primary mission as an organization is to serve the patients and consumers who use our products, as well as the physicians and other healthcare professionals who prescribe and recommend them.

2. **Select high-growth business segments (therapeutic areas and geographies) where the physician is still the primary decision maker.**
Our primary therapeutic focus is in dermatology, aesthetics, ophthalmology, and oral health. Our primary geographic focus is in North America and the emerging markets – Asia, Latin America, Central and Eastern Europe, Russia, the Middle East, and North Africa. These segments share two attributes – they are growing faster than the global pharmaceutical and/or healthcare market; and the physician or healthcare professional still plays an important role in product choices. In these markets, the relationship between the physician and the sales representative is critically important. We will continue to invest in segments that share these characteristics as we evolve over time.

3. **Maintain a bias toward durable products that are largely cash pay, or are reimbursed through private insurance.**
Over 85% of our product portfolio is composed of durable products – products that do not have a pending patent cliff. These include: products used directly in a physician's practice such as our intraocular lens used in cataract surgery and aesthetic products used for facial rejuvenation; physician recommended over-the-counter (OTC) products such as the CeraVe® moisturizer line and BioTrue® contact lens solution; devices such as the Ultra™ contact lens and Thermage® skin tightener; and our branded generic portfolio and OTC products sold throughout the emerging markets. In our Emerging Markets, the branded generic products are primarily cash pay, physician recommended with lives similar to OTC products. Over 75% of our product sales are also cash pay or reimbursed through private insurance, helping to protect us from government-driven price decreases that are becoming increasingly common around the world. We expect to continue our focus on durable products in less price-sensitive markets, which should ensure our longer-term outlook mirrors that of a consumer packaged goods company, not a traditional pharmaceutical company.

DOCKET ALARM Find authenticated court documents without watermarks at docketalarm.com.

4. **Focus our resources on bringing new products to the market (output), not R&D spend (input).**
Traditionally, pharmaceutical companies have pointed to R&D spend as the best metric for predicting new product flow in the coming years. More recently, most of these companies have had to resort to in-licensing products and M&A activity to fill their new product gaps. By contrast, we have focused our R&D spending on line extensions and higher-probability, late-stage development programs. We have also completed over 25 transactions this past year to augment our product portfolio. In 2014, we expect to launch over 15 products in the United States alone, and over 300 products in the emerging markets. As a large shareholder myself, I am delighted with the output of our R&D and business development teams who have helped build one of the richest launch pipelines in the industry.

2014 EXPECTED LAUNCHES

Product	Description	Source	Expected launch date	Estimated peak sales ($MM)
Dermatology/Aesthetics				
Bensal HP®	Topical treatment for inflammation and irritation associated with many forms of dermatitis	Licensed	Relaunched	25-75
Luzu®	Topical antifungal treatment for athlete's foot	Medicis	Launched	50-75
Neotensil™	Topical product to reduce appearance of under-eye bags	Licensed	Launched	80-100
Obagi360™ System	Skincare kit for women in their 30's	Internal	Launched	10-30
Retin-A Micro® .08%	Topical treatment for acne	Internal	June 2014	20-30
Jublia®	Topical antifungal treatment for onychomycosis	Internal	Q3 2014 (pending FDA approval)	300-800
Ideal Implants	Breast implant	Acquired	Q3 2014	25-75
Hyaluronic acid for lips	Small particle filler	Internal	Q4 2014	20-30
Onexton™	Topical treatment for acne	Internal	December 2014/early Q1 2015 (pending FDA approval)	50-75
Eye Health				
enVista™ inserter (lens)	Further enhancements	B&L	Launched	40-50
PureVision2 for Presbyopia	Daily contact lens	B&L	Launched	20-30
Victus™ enhancements	Multiple enhancements	B&L	Corneal incision launched; lens fragmentation 2H 2014	100-200
Ultra™	Silicone hydrogel monthly lens	B&L	Launched	300-400
BioTrue® multifocal	Daily contact lens	B&L	May 2014	60-80
Trulign™ expanded ranges (lens)	Broader range of powers	B&L	Q2 2014	40-60
Consumer				
CeraVe® baby line	OTC moisturizer	Internal	Launched	15-20
Peroxiclear™	Hydrogen peroxide based contact lens solution	B&L	Launched	50-70
Oral Health				
Ossix® Plus	Dental membrane	Exclusive distribution	Launched	10-20
Onset®	Dental analgesic	Acquisition	Launched	40-50
			TOTAL	**1,255-2,270**

In addition, we have a number of exciting earlier-stage compounds in development, including Brimonidine (eye whitener), Latanoprostene bunod (glaucoma), MIM-D3 (Mimetogen - dry eye) and IDP-118 (psoriasis), which if successful, all combined could have multi-billion dollar peak sales.

DOCKET ALARM Find authenticated court documents without watermarks at docketalarm.com.

DOCKET ALARM

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts

Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research

With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips

Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.