Our gross revenues for the years ended December 31, 2014 (Successor), December 31, 2013 (Successor), the periods from September 29, 2012 to December 31, 2012 (Successor), January 1, 2012 to September 28, 2012 (Predecessor) with the percentage of gross revenues on a combined basis (labeled "Total") for purposes of comparison with 2014 and 2013 before deductions for chargebacks, rebates and incentive programs (including rebates paid under federal and state government Medicaid drug reimbursement programs), sales returns and other sales allowances were as follows:

	For the Year Ended		For the Year Ended		For the Period		
	December 31, 2014	Percentage of Gross Revenues	December 31, 2013	Percentage of Gross Revenues	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012	Percentage of Gross Revenues
($ thousands)	(Successor)		(Successor)		(Successor)	(Predecessor)	(Total) (non-GAAP)
Gross revenues	$ 3,064,079		$ 2,327,023		$ 527,734	$ 1,436,704	
Chargebacks	(868,511)	28.3%	(630,097)	27.1%	(132,834)	(309,411)	22.5%
Rebates and incentive programs	(480,949)	15.7%	(290,275)	12.5%	(69,749)	(147,171)	11.0%
Returns	(31,361)	1.0%	(37,956)	1.6%	(8,522)	(23,191)	1.6%
Cash discounts and other	(292,602)	9.5%	(194,068)	8.3%	(46,053)	(103,527)	7.6%
Medicaid rebates and rebates due under other US Government pricing programs	(82,035)	2.7%	(77,160)	3.3%	(24,437)	(49,536)	3.8%
Total deductions	(1,755,458)	57.3%	(1,229,556)	52.8%	(281,595)	(632,836)	46.5%
Total revenues	$ 1,308,621	42.7%	$ 1,097,467	47.2%	$ 246,139	$ 803,868	53.5%

The total gross-to-net adjustments as a percentage of gross revenues increased for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to:

- Chargebacks: the increase was primarily driven by customer mix as a result of shift in business from non-wholesalers to wholesalers in addition to a decrease in price for modafinil (higher volume and rate), tempered by impact of higher sales of products with lower discount rates, including amlodipine/valsartan and entecavir and favorable impact of divalproex and bupropion ER price increases.

- Rebates and incentive programs: the increase was primarily driven by higher divalproex (volume and rate), bupropion ER (volume and rate), lamotrigine (rate) and budesonide (rate), coupled with the impact of various wholesaler and retailer alliances.

- Returns: the decrease in the rate was primarily driven by the non-recurrence of an increase to the rizatriptan returns reserve in the prior year following additional competition, coupled with lower than expected returns for other products, primarily dronabinol, fluvoxamine and Megace® ES.

- Cash discounts and other: the increase in rate was primarily due to customer mix, including the impact of various wholesaler and retailer alliances coupled with pricing adjustments for products that had competitive changes in their respective markets, primarily bupropion (price protection as result of price increase effective in June 2014), lamotrigine, metoprolol, and amlodipine/valsartan, partially offset by impact of prior year price protection related to a divalproex and cholestyramine price increase.

- Medicaid rebates and rebates due under other U.S. Government pricing programs: decrease as a percentage of gross revenues primarily due to a reduction in the Medicaid accrual based upon additional available information related to Managed Medicaid utilization in California, coupled with lower amounts due under certain U.S. Government and state pricing programs (e.g., TriCare and Medicaid) due to lower utilization of our subject drugs (e.g., modafinil, Megace® ES, Nascobal®, and rizatriptan).

Gross-to-net deductions are discussed in the "Critical Accounting Policies and Use of Estimates" section below.

Gross Margin (2014 compared to 2013)

	For the Years Ended December 31,				
	2014	2013		Percentage of Total Revenues	
($ in thousands)	(Successor)	(Successor)	$ Change	2014	2013
Gross margin:					
Par Pharmaceutical	$ 436,078	271,396	$ 164,682	35.1%	26.4%
Par Specialty	43,037	46,647	(3,610)	63.8%	67.6%
Total gross margin	$ 479,115	$ 318,043	$ 161,072	36.6%	29.0%

The increase in Par Pharmaceutical gross margin dollars for the year ended December 31, 2014 as compared to the prior year period was primarily due to gross margin dollars from Par Sterile products, which were acquired in February 2014; coupled with the September 2014 launch of amlodipine/valsartan; bupropion ER which benefited from competitors that were not able to supply product to the market; and the full year impact of the fourth quarter of 2013 launch of clonidine HCl ER. These increases were tempered by the revenue and associated gross margin dollar decline of modafinil.

Par Specialty gross margin dollars decreased for the year ended December 31, 2014, primarily due to the revenue decline of Megace® ES.

Gross Margin (2013 compared to 2012)

	For the Years Ended December 31,				
	2013	2012		Percentage of Total Revenues	
($ in thousands)	(Successor)	(Total) (non-GAAP)	$ Change	2013	2012 (non-GAAP)
Gross margin:					
Par Pharmaceutical	$ 271,396	330,114	$ (58,718)	26.4%	34.0%
Par Specialty	46,647	57,681	(11,034)	67.6%	72.7%
Total gross margin	$ 318,043	$ 387,795	$ (69,752)	29.0%	36.9%

	For the Period		For the Year Ended
	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012	December 31, 2012
($ in thousands)	(Successor)	(Predecessor)	(Total) (non-GAAP)
Gross margin:			
Par Pharmaceutical	$ 33,776	$ 296,338	$ 330,114
Par Specialty	11,669	46,012	57,681
Total gross margin	$ 45,445	$ 342,350	$ 387,795

The decrease in Par Pharmaceutical gross margin dollars for the year ended December 31, 2013 as compared to the prior year period was primarily due to increased amortization of intangible assets associated with the Merger (an increase of approximately $116 million for the Company) coupled with the revenue declines of modafinil and metoprolol tempered by the launches of lamotrigine and fluvoxamine maleate ER in the first quarter of 2013 and the increase in divalproex gross margin dollars, which benefited from a competitor exiting the market in June 2013.

Par Specialty gross margin dollars decreased for the year ended December 31, 2013, primarily due to increased amortization of intangible assets associated with the Merger coupled with the revenue decline of Megace® ES.

Research and Development (2014 compared to 2013)

	For the Years Ended December 31,					
	2014	2013			Percentage of Total Revenues	
($ in thousands)	(Successor)	(Successor)	$ Change	% Change	2014	2013
Research and development:						
Par Pharmaceutical	$ 118,205	$ 99,177	$ 19,028	19.2 %	9.5%	9.6%
Par Specialty	890	1,586	(696)	(43.9)%	1.3%	2.3%
Total research and development	$ 119,095	$ 100,763	$ 18,332	18.2 %	9.1%	9.2%

Par Pharmaceutical:

The net increase in Par Pharmaceutical research and development expense for the year ended December 31, 2014 was driven by:

- $8.9 million of higher employment related and other costs due to the Par Sterile Acquisition;
- $5.6 million increase in outside development costs primarily driven by payment related to one new agreement partially offset by lower payments for existing development agreements;
- $2.5 million of higher expense for consulting and advisory services related to the Par Sterile Acquisition; and
- $2.3 million in incremental user fees due to 30 ANDA filings; tempered by
- $2.6 million decrease in biostudy, clinical trial and material costs related to ongoing internal development of generic products.

Par Specialty:

Par Specialty research and development principally reflects FDA filing fees for the year ended December 31, 2014 and December 31, 2013.

Research and Development (2013 compared to 2012)

	For the Years Ended December 31,					
	2013	2012			Percentage of Total Revenues	
($ in thousands)	(Successor)	(Total) (non-GAAP)	$ Change	% Change	2013	2012 (non-GAAP)
Research and development:						
Par Pharmaceutical	$ 99,177	$ 84,353	$ 14,824	17.6 %	9.6%	8.7%
Par Specialty	1,586	1,636	(50)	(3.1)%	2.3%	2.1%
Total research and development	$ 100,763	$ 85,989	$ 14,774	17.2 %	9.2%	8.2%

	For the Period		For the Year Ended
	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012	December 31, 2012
($ in thousands)	(Successor)	(Predecessor)	(Total) (non-GAAP)
Research and development:			
Par Pharmaceutical	$ 19,242	$ 65,111	$ 84,353
Par Specialty	141	1,495	1,636
Total research and development	$ 19,383	$ 66,606	$ 85,989

Par Pharmaceutical:

The increase in Par Pharmaceutical research and development expense for the year ended December 31, 2013 was driven by a $15.4 million increase in biostudy, clinical trial and material costs related to ongoing internal development of generic products.

Par Specialty:

Par Specialty research and development principally reflects FDA filing fees for the year ended December 31, 2013 and December 31, 2012.

Selling, General and Administrative (2014 compared to 2013)

	For the Years Ended December 31,					
	2014	2013			Percentage of Total Revenues	
($ in thousands)	(Successor)	(Successor)	$ Change	% Change	2014	2013
Selling, general and administrative:						
Par Pharmaceutical	$ 134,393	$ 114,383	$ 20,010	17.5%	10.8%	11.1%
Par Specialty	46,743	40,781	5,962	14.6%	69.3%	59.1%
Total selling, general and administrative	$ 181,136	$ 155,164	$ 25,972	16.7%	13.8%	14.1%

The net increase in selling, general and administrative expenditures for the year ended December 31, 2014 principally reflects:

- $12.0 million of higher employment related costs due to Par Sterile Acquisition, combined with higher accrued bonus;
- $8.0 million of higher expense for consulting and advisory services related to acquisitions and other business development activities;
- $6.6 million of expense related to additional borrowings and repricing of our Term Loan Facility plus associated transaction fees of $0.5 million; and
- $4.0 million increase in direct Par Specialty selling and marketing costs driven by Nascobal; tempered by
- $5.1 million of lower legal expenses primarily due to decreased corporate related activities.

Selling, General and Administrative (2013 compared to 2012)

	For the Years Ended December 31,					
	2013	2012			Percentage of Total Revenues	
($ in thousands)	(Successor)	(Total) (non-GAAP)	$ Change	% Change	2013	2012 (non-GAAP)
Selling, general and administrative:						
Par Pharmaceutical	$ 114,383	$ 140,213	$ (25,830)	(18.4)%	11.1%	14.4%
Par Specialty	40,781	70,916	(30,135)	(42.5)%	59.1%	89.4%
Total selling, general and administrative	$ 155,164	$ 211,129	$ (55,965)	(26.5)%	14.1%	20.1%

	For the Period		For the Year Ended
	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012	December 31, 2012
($ in thousands)	(Successor)	(Predecessor)	(Total) (non-GAAP)
Selling, general and administrative:			
Par Pharmaceutical	$ 31,279	$ 108,934	$ 140,213
Par Specialty	14,246	56,670	70,916
Total selling, general and administrative	$ 45,525	$ 165,604	$ 211,129

The net decrease in selling, general and administrative expenditures for the year ended December 31, 2013 principally reflects:

- a $42.2 million non-recurrence of expense in 2013 for the transaction fees and other costs related to the Merger;
- a $13 million reduction in direct Par Specialty selling and marketing costs driven by a 70 person reduction of headcount in 2013;
- a $2.7 million of incremental employment and related costs associated with certain executive severance.

Intangible Asset Impairment

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Intangible asset impairment	$ 146,934	$ 100,093	$ —	$ 5,700

During the year ended December 31, 2014, we recorded intangible asset impairments totaling $146.9 million related to an adjustment to the forecasted operating results for two IPR&D intangible asset groups and eight Par Pharmaceutical segment products compared to their originally forecasted operating results at date of acquisition, inclusive of one discontinued product, one partially impaired product primarily due to the contract ending with the partner and a partially impaired IPR&D project from the Par Sterile Acquisition due to an adverse court ruling pertaining to related patent litigation. The estimated fair values of the assets were determined by completing updated discounted cash flow models. During the year ended December 31, 2013, we recorded intangible asset impairments totaling approximately $100.1 million for IPR&D classes of products and projects that were evaluated as part of the annual evaluation of indefinite lived intangible assets, as well as five products not expected to achieve their originally forecasted operating results and we ceased selling a product that had been acquired with the divested products from the Watson/Actavis Group. During the period from January 1, 2012 to September 28, 2012 (Predecessor), we abandoned an in-process research and development project that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $2.0 million, and we exited the market of a commercial product that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $3.7 million.

Settlements and Loss Contingencies, Net (2014 compared to 2013 and 2013 compared to 2012)

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Settlements and loss contingencies, net	$ 90,107	$ 25,650	$ 10,059	$ 45,000

In 2014, we recorded an incremental provision of $91 million related to the settlement of omeprazole/sodium bicarbonate patent litigation for $100 million. During the 2014, we also received an arbitration award of approximately $0.9 million from a former partner related to a discontinued project.

In 2013, we recorded an incremental provision of $25.7 million related to the settlement of AWP litigation claims (Illinois $19.8 million, Louisiana $3.3 million, Utah $1.7 million and Kansas $0.9 million).

During the period from January 1, 2012 to September 28, 2012 (Predecessor), we recorded an accrual of $45 million as management's best estimate of a potential loss related to a potential global settlement with respect to an inquiry by the Department of Justice into Par Specialty's promotional practices in the sales and marketing of Megace® ES. In the period from September 29, 2012 to December 31, 2012 (Successor), we recorded additional estimated amounts for accrued interest and legal expenses that we are liable for paying in the final settlement. In the period from September 29, 2012 to December 31, 2012 (Successor), we also accrued for a contingent liability of $9 million related to omeprazole/sodium bicarbonate patent litigation.

Restructuring Costs (2014 compared to 2013 and 2013 compared to 2012)

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Restructuring costs	$ 5,413	$ 1,816	$ 241	$ —

In 2014, subsequent to the Par Sterile Acquisition, we eliminated approximately 25 redundant positions within Par Pharmaceutical and accrued severance and other employee-related costs for those employees affected by the workforce reduction. Additionally, due to a change in our product development strategy, we eliminated approximately 44 redundant positions within our Irvine location and accrued severance and other employee-related costs for these employees affected by the workforce reduction.

In January 2013, we initiated a restructuring of Par Specialty, our branded pharmaceuticals division, in anticipation of entering into

a settlement agreement and corporate integrity agreement that terminated the U.S. Department of Justice's ongoing investigation of Par Specialty's marketing of Megace® ES. We reduced our Par Specialty workforce by approximately 70 people, with the majority of the reductions in the sales force. The remaining Par Specialty sales force has been reorganized into a single sales team of

approximately 60 professionals that focus their marketing efforts principally on Nascobal® Nasal Spray. In connection with these actions, we incurred expenses for severance and other employee-related costs as well as the termination of certain contracts.

The following tables summarize the activity for 2014 and the remaining related restructuring liabilities balance (included in accrued expenses and other current liabilities on the consolidated balance sheet) as of December 31, 2014 ($ in thousands):

Restructuring Activities (Par Sterile)	Initial Charge	Additional Charge	Cash Payments	Non-Cash Charge Related to Inventory and/or Intangible Assets	Reversals, Reclass or Transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	1,146	3,527	(2,686)	—	—	1,987
Total restructuring costs line item	$ 1,146	$ 3,527	$ (2,686)	$ —	$ —	$ 1,987

Restructuring Activities (Irvine)	Initial Charge	Additional Charge	Cash Payments	Non-Cash Charge Related to Inventory and/or Intangible Assets	Reversals, Reclass or Transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	740	—	(127)	—	—	613
Total restructuring costs line item	$ 740	$ —	$ (127)	$ —	$ —	$ 613

The following table summarizes the activity for 2013 and the remaining related restructuring liabilities balance (included in accrued expenses and other current liabilities on the consolidated balance sheet) as of December 31, 2013 ($ in thousands):

Restructuring Activities	Initial Charge	Cash Payments	Non-Cash Charge Related to Inventory and/or Intangible Assets	Reversals, Reclass or Transfers	Liabilities at December 31, 2014
Severance and employee benefits to be paid in cash	$ 1,413	$ (1,409)	$ —	$ (4)	$ —
Asset impairments and other	403	—	(403)	—	—
Total restructuring costs line item	$ 1,816	$ (1,409)	$ (403)	$ (4)	$ —

Loss on Sale of Product Rights (2014 compared to 2013 and 2013 compared to 2012)

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Loss on sale of product rights	$ (3,042)	$ —	$ —	$ —

During the year ended December 31, 2014, we recorded a net provision of $3.0 million, related to sale of three ANDAs for approximately $0.8 million that had an associated book value of approximately $3.8 million, which was previously reflected as intangible assets on the consolidated balance sheet. The agreement related to the sale of the these ANDAs contains terms that specify future potential payments totaling $5.6 million related to the achievement by the buyer of certain regulatory approvals and product launches.

Operating Loss (2014 compared to 2013)

($ in thousands)	For the Years Ended December 31, 2014 (Successor)	2013 (Successor)	$ Change
Operating (loss) income:			
Par Pharmaceutical	$ (30,938)	$ (48,082)	$ 17,144
Par Specialty	(35,674)	(17,361)	(18,313)
Total operating (loss) income	$ (66,612)	$ (65,443)	$ (1,169)

For the year ended December 31, 2014, the increase in our operating loss as compared to prior year was primarily due to the $100 million settlement of the omeprazole/sodium bicarbonate patent litigation coupled with intangible asset impairments, additional research and development expense for payments related to existing product development agreements and additional selling, general and administrative expenditures related to the Par Sterile Acquisition, tempered by increased gross margin dollars for key products and new product launches subsequent to the year ended December 31, 2013.

Operating (Loss) Income 2013 compared to 2012)

($ in thousands)	For the Years Ended December 31, 2013 (Successor)	2012 (Total) (non-GAAP)	$ Change
Operating (loss) income:			
Par Pharmaceutical	$ (48,082)	$ 90,653	$ (138,735)
Par Specialty	(17,361)	(60,976)	43,615
Total operating (loss) income	$ (65,443)	$ 29,677	$ (95,120)

($ in thousands)	For the Period September 29, 2012 to December 31, 2012 (Successor)	January 1, 2012 to September 28, 2012 (Predecessor)	For the Year Ended December 31, 2012 (Total) (non-GAAP)
Operating (loss) income:			
Par Pharmaceutical	$ (25,938)	$ 116,591	$ 90,653
Par Specialty	(3,825)	(57,151)	(60,976)
Total operating (loss) income	$ (29,763)	$ 59,440	$ 29,677

For the year ended December 31, 2013, the decrease in our operating income as compared to prior year was primarily due to increased amortization of intangible assets associated with the Merger coupled with intangible asset impairment, tempered by the non-recurrence of an accrual of $45 million during the three months ended March 31, 2012 related to the U.S. Department of Justice investigation coupled with the non-recurrence of $42 million of transaction fees and other costs related to the Merger.

Gain on Bargain Purchase

($ in thousands)	For the Year Ended December 31, 2014 (Successor)	December 31, 2013 (Successor)	For the Period September 29, 2012 to December 31, 2012 (Successor)	January 1, 2012 to September 28, 2012 (Predecessor)
Gain on bargain purchase	$ —	$ —	$ 5,500	$ —

On November 6, 2012, Par acquired U.S. marketing rights to five generic products that were marketed by Watson or Actavis, as well as eight ANDAs currently awaiting regulatory approval and a generic product in late-stage development, in connection with the merger of Watson and Actavis. The acquisition resulted in a bargain purchase under FASB ASC 805 Business Combinations. The purchase price of the acquisition was allocated to the assets acquired, with the excess of the fair value of assets acquired over the purchase price

recorded as a gain. The gain was mainly attributed to the FTC mandated divestiture of products by Watson and Actavis in conjunction with the approval of the Watson and Actavis merger in the fourth quarter of 2012.

Loss on Debt Extinguishment

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Loss on debt extinguishment	$ (3,989)	$ (7,335)	$ —	$ —

During the year ended December 31, 2014, and in conjunction with the Par Sterile Acquisition, we entered into the Incremental Term B-2 Joinder Agreement (the "Joinder") among us, Holdings, and certain of our subsidiaries, and our lenders. Under the terms of the Joinder, we borrowed an additional $395 million of New Tranche B Term Loans from the lenders participating therein for the purpose of consummating our acquisition of Par Sterile. We also repriced our Term Loan Facility at the same time lowering our effective borrowing rate by 25 basis points. Based on these actions and the decision of certain lenders not to remain a party to our Term Loan Facility, we recorded a loss on debt extinguishment of approximately $4 million that represents a proportionate share of deferred financing costs that were written off.

During the year ended December 31, 2013, we refinanced our Term Loan Facility. As a result, $5.9 million of existing deferred financing costs and a portion of the related $10.5 million soft call premium were recorded as a loss on debt extinguishment for the portion of the associated transactions that were classified as extinguishment of debt.

Gain on Sale of Marketable Securities and Other Investments, Net

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Gain on sale of marketable securities and other investments, net	$ —	$ 1,122	$ —	$ —

During the year ended December 31, 2013, we recorded a gain on sale of stock of a public pharmaceutical company of $1.1 million.

Other Income, net

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Other income, net	$ 500	$ —	$ —	$ —

During the year ended December 31, 2014, we received a contractual reimbursement payment from a former partner related to the withdrawals of two ANDAs.

Interest Income

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Interest income	$ 18	$ 87	$ 50	$ 424

Interest income principally includes interest income derived primarily from money market and other short-term investments.

Interest Expense

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Interest expense	$ (108,427)	$ (95,484)	$ (25,985)	$ (9,159)

To finance the Merger, the Sponsor arranged for an offering of $490 million in aggregate principal amount of the Notes by Sky Growth Acquisition Corporation and for financing under the Senior Credit Facilities. Upon the consummation of the Merger, the Company assumed the obligations of Sky Growth Acquisition Corporation under the Notes and the related purchase agreement and entered into the related indenture and the registration rights agreement relating to the Notes. The proceeds from the Notes offering, together with the proceeds of the Senior Credit Facilities among other sources were used to fund the consummation of the Merger and other uses of funds.

The Senior Credit Facilities were initially comprised of a $1,055.0 million senior secured term loan (“Term Loan Facility”) and a $150 million senior secured revolving credit facility (“Revolving Facility”). On February 20, 2014 in conjunction with our acquisition of Par Sterile, we entered into an amendment to our Senior Credit Facility that refinanced all of the outstanding tranche B-1 term loans of the Borrower with new tranche B-2 term loans in an aggregate principal amount of $1,055.3 million. Additionally, we also entered into the Incremental Term B-2 Joinder Agreement and borrowed an additional $395.0 million of New Tranche B Term Loans from the lenders participating therein for the purpose of consummating our acquisition of Par Sterile. As of December 31, 2014, the effective interest rate on the seven-year Term Loan Facility was 4.00%, representing the 1.00% LIBOR floor plus 300 basis points. As of December 31, 2013, the effective interest rate on the seven-year Term Loan Facility was 4.25%, representing the 1.00% LIBOR floor plus 325 basis points. As of December 31, 2012, the effective interest rate on the seven-year Term Loan Facility was 4.75%, representing the 1.00% LIBOR floor plus 375 basis points. In addition to paying interest on outstanding principal under our Senior Credit Facilities, we paid customary agency fees and a commitment fee in respect of the unutilized commitments under the Revolving Facility. Refer to our consolidated financial statements, Note 14 - "Debt" elsewhere in this Annual Report on Form 10-K for a description of a refinancing and repricing of the Senior Credit Facilities completed in February 2014 and 2013. As a result of the Merger, our interest expense significantly increased after September 28, 2012 due to increased borrowings.

The outstanding balance of the Term Loan Facility that is part of the Senior Credit Facilities was $1,435.8 million at December 31, 2014. Interest expense for the twelve month period ended December 31, 2014 is principally comprised of interest related to the Notes and the Senior Credit Facilities.

In connection with the acquisition of Anchen in November 2011, we entered into a credit agreement (the "Predecessor Credit Agreement") with a syndicate of banks to provide senior credit facilities comprised of a five-year term loan facility in an initial aggregate principal amount of $350 million and a five-year revolving credit facility in an initial amount of $100 million. Interest expense for the period from January 1, 2012 to September 28, 2012 is principally comprised of interest on such term loan. The Predecessor Credit Agreement was extinguished on September 28, 2012 in connection with the Merger.

Income Taxes

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
(Benefit) provision for income taxes	$ (72,993)	$ (61,182)	$ (17,653)	$ 29,530
Effective tax rate	41%	37%	35%	58%

The (benefit)/provision for income taxes was based on the applicable federal and state tax rates for those periods (see Note to Consolidated Financial Statements - Note 18 - “Income Taxes”). For periods with a loss before benefit for income taxes, favorable tax items result in an increase in the effective tax rate, while unfavorable tax items result in a decrease in the effective tax rate. For periods with income before provision for income taxes, favorable tax items result in an decrease in the effective tax rate, while, unfavorable tax items result in a increase in the effective tax rate. The higher effective tax rate for the year ended December 31, 2014 (Successor) is principally due to tax benefits the Company receives as a domestic manufacturer and tax credits related to our research and development activity partially offset by non-deductibility of the annual pharmaceutical manufacturers’ fee. The higher effective tax rate for the period January 1, 2012 to September 28,2012 (Predecessor) is principally due to the non-deductibility of certain charges related to our settlement with the DOJ and non-deductibility of certain acquisition-related transaction costs, tempered by a reduction in tax contingencies.

FINANCIAL CONDITION

Liquidity and Capital Resources

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Cash and cash equivalents at beginning of period	$ 130,080	$ 36,794	$ 278,879	$ 162,516
Net cash provided by (used in) operating activities	144,880	112,349	(28,580)	153,760
Net cash used in investing activities	(519,575)	(12,198)	(2,026,531)	(46,602)
Net cash provided by (used in) financing activities	489,055	(6,865)	1,813,026	9,205
Net increase (decrease) in cash and cash equivalents	$ 114,360	$ 93,286	$ (242,085)	$ 116,363
Cash and cash equivalents at end of period	$ 244,440	$ 130,080	$ 36,794	$ 278,879

Discussion of Liquidity for the year ended and as of December 31, 2014

Cash provided by operations for the year ended December 31, 2014, reflects gross margin dollars (excluding amortization) generated from revenues coupled with collection of accounts receivables. Refer below for further details of operating cash flows.

Cash flows used in investing activities were primarily driven by the Par Sterile Acquisition plus capital expenditures.

Cash provided by financing activities for the year ended December 31, 2014, primarily represented new debt borrowings under our Senior Credit Facilities plus a capital contribution from Holdings less debt principal payments to reprice our Senior Credit Facilities coupled with other debt principal payments.

Our working capital, current assets minus current liabilities, of $375 million at December 31, 2014 increased approximately $168 million from $207 million at December 31, 2013, which primarily reflects the cash generated by operations coupled with increases in other working capital items. The working capital ratio, which is calculated by dividing current assets by current liabilities, was 2.35x at December 31, 2014 compared to 1.80x at December 31, 2013. We believe that our working capital ratio indicates the ability to meet our ongoing and foreseeable obligations for at least the next 12 fiscal months.

Detail of Operating Cash Flows

	For the Year Ended		For the Period	
	December 31, 2014	December 31, 2013	September 29, 2012 to December 31, 2012	January 1, 2012 to September 28, 2012
($ in thousands)	(Successor)	(Successor)	(Successor)	(Predecessor)
Cash received from customers, royalties and other	$ 1,493,521	$ 1,236,464	$ 275,079	$ 867,848
Cash paid for inventory	(272,731)	(233,631)	(50,356)	(136,440)
Cash paid to employees	(127,987)	(82,440)	(48,034)	(70,943)
Payment to Department of Justice	—	(46,071)	—	—
Payment related to AWP	(32,350)	(7,200)	—	(23,883)
Payment related to omeprazole litigation settlement	(100,000)	—	—	—
Cash paid to distribution partners	(288,149)	(303,426)	(58,747)	(247,894)
Cash paid to all other suppliers and third parties	(390,904)	(350,529)	(137,813)	(228,768)
Interest (paid) received, net	(97,305)	(85,916)	(13,756)	(6,615)
Income taxes (paid) received, net	(39,215)	(14,902)	5,047	455
Net cash provided by (used in) operating activities	$ 144,880	$ 112,349	$ (28,580)	$ 153,760

Sources of Liquidity

Our primary source of liquidity is cash received from customers. The increase in net cash provided by operating activities for the year ended December 31, 2014 as compared to 2013 resulted primarily from increased cash received from customers from increased gross margin dollars generated by increased revenues, tempered by the $100 million settlement of the omeprazole/sodium bicarbonate patent litigation coupled with other cash outflows detailed above.

Our ability to continue to generate cash from operations is predicated not only on our ability to maintain a sustainable amount of sales of our current product portfolio, but also our ability to monetize our product pipeline and future products that we may acquire. Our future profitability depends, to a significant extent, upon our ability to introduce, on a timely basis, new generic products that are either the first to market (or among the first to market) or otherwise can gain significant market share. No assurances can be given

that we or any of our strategic partners will successfully complete the development of any of these potential products either under development or proposed for development, that regulatory approvals will be granted for any such product, that any approved product will be produced in commercial quantities or that any approved product will be sold profitably. Commercializing brand pharmaceutical products is more costly than generic products. We cannot be certain that any of our branded product expenditures will result in the successful development or launch of branded product that will prove to be commercially successful or will improve the long-term profitability of our business.

Another source of available liquidity is our Senior Credit Facilities that include a five-year Revolving Facility in an initial amount of $150 million. The Senior Credit Facilities are more fully described in the "Financing" section below. There were no outstanding borrowings from the Revolving Facility as of December 31, 2014.

Uses of Liquidity

Our uses of liquidity and future and potential uses of liquidity include the following:

- Approximately $490 million in first quarter of 2014 for our acquisition of Par Sterile.
- $100 million settlement of the omeprazole/sodium bicarbonate patent litigation in the third quarter of 2014.
- Business development activities, including the acquisition of product rights, which are typically in a range near $40 million annually. As of December 31, 2014, the total potential future payments that ultimately could be due under existing agreements related to products in various stages of development were approximately $13.8 million. This amount is exclusive of contingent payments tied to the achievement of sales milestones, which cannot be determined at this time and would be funded through future revenue streams.
- Capital expenditures of approximately $50 million are planned for 2015.
- Potential liabilities related to the outcomes of litigation, such as the remaining AWP matters, or the outcomes of investigations by federal authorities, such as the U.S. Department of Justice. In the event that we experience a significant loss, such loss may result in a material impact on our liquidity or financial condition when such liability is paid.
- Cash paid for inventory purchases as detailed in "Details of Operating Cash Flows" above.
- Cash paid to all other suppliers and third parties as detailed in "Details of Operating Cash Flows" above.
- Cash compensation paid to employees as detailed in "Details of Operating Cash Flows" above.
- Potential liabilities related to the outcomes of audits by regulatory agencies like the IRS. In the event that our loss contingency is ultimately determined to be higher than originally accrued, the recording of the additional liability may result in a material impact on our liquidity or financial condition when such additional liability is paid.
- Normal course payables due to distribution agreement partners of approximately $53 million as of December 31, 2014 related primarily to amounts due under profit sharing agreements. We paid substantially all of the $53 million during the first two months of the first quarter of 2015. The risk of lower cash receipts from customers due to potential decreases in revenues associated with competition or supply issues related to partnered products would be generally mitigated by proportional decreases in amounts payable to distribution agreement partners.

We believe that we will be able to monetize our current product portfolio, our product pipeline, and future product acquisitions and generate sufficient operating cash flows that, along with existing cash, cash equivalents and available for sale securities, will allow us to meet our financial obligations over the foreseeable future. We expect to continue to fund our operations, including our research and development activities, capital projects, in-licensing product activity and obligations under our existing distribution and development arrangements discussed herein, out of our working capital and funds available under our Senior Credit Facilities.

Analysis of available for sale debt securities held as of December 31, 2014

We had no available for sale marketable debt securities classified as current assets on the consolidated balance sheet as of December 31, 2014.

Contractual Obligations as of December 31, 2014

The dollar values of our material contractual obligations and commercial commitments as of December 31, 2014 were as follows, ($ in thousands):

		Amounts Due by Period				
Obligation	Total Monetary Obligations	2015	2016 to 2017	2018 to 2019	2020 and thereafter	Other
Operating leases	33,940	6,329	8,669	6,415	12,527	—
Senior credit facilities	1,435,837	14,503	29,006	1,392,328	—	—
7.375% senior notes	490,000	—	—	—	490,000	—
Interest payments	507,547	100,032	197,667	173,710	36,138	—
Fees related to credit facilities	2,971	875	1,721	250	125	—
Purchase obligations (1)	165,056	165,056	—	—	—	—
Tax liabilities (2)	16,627	—	—	—	—	16,627
TPG Management fee (3)	28,000	4,000	8,000	8,000	8,000	—
Severance payments	502	502	—	—	—	—
Other	1,242	1,242	—	—	—	—
Total obligations	$ 2,681,722	$ 292,539	$ 245,063	$ 1,580,703	$ 546,790	$ 16,627

(1) Purchase obligations consist of both cancelable and non-cancelable inventory and non-inventory items.

(2) The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to ASC 740-10 Income Taxes represents an unrecognized tax benefit. An unrecognized tax benefit is a liability that represents a potential future obligation to the taxing authorities. As of December 31, 2014, the amount represents unrecognized tax benefits, interest and penalties based on evaluation of tax positions and concession on tax issues challenged by the IRS. We do not expect to make a significant tax payment related to these long-term liabilities within the next year; however, we cannot estimate in which period thereafter such tax payments may occur. For presentation on the table above, we include the related long-term liability in the "Other" column.

(3) In connection with the Merger, the Company entered into a management services agreement with an affiliate of TPG (the "Manager"). Pursuant to such agreement, and in exchange for on-going consulting and management advisory services, the Manager has a right to an annual monitoring fee paid quarterly equal to 1% of EBITDA as defined under the credit agreement for the Term Loan Facility that is part of our Senior Credit Facilities. There is an annual cap of $4 million for this fee. The Manager is also entitled to receive reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement.

Financing

Senior Credit Facilities

In connection with the Merger, on September 28, 2012, Sky Growth Acquisition Corporation, later merged with and into the Company upon consummation of the Merger, with the Company as the surviving corporation, entered into a credit agreement (the "Credit Agreement") with a syndicate of banks, led by Bank of America, N.A., as Administrative Agent, Bank of America, N.A., Deutsche Bank Securities, Inc., Goldman Sachs Bank USA, Citigroup Global Markets, Inc., RBC Capital Markets LLC and BMO Capital Markets as Joint Lead Arrangers and Joint Lead Bookrunners, Deutsche Bank Securities, Inc. and Goldman Sachs Bank USA as Co-Syndication Agents, and Citigroup Global Markets Inc. and RBC Capital Markets LLC as Co-Documentation Agents, to provide Senior Credit Facilities comprised of the seven-year Term Loan Facility and the five-year Revolving Facility. The proceeds of the Revolving Facility are available for general corporate purposes.

The Credit Agreement contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, breach of representations and warranties, insolvency proceedings, certain judgments and any change of control. The Credit Agreement also contains various customary covenants that, in certain instances, restrict our ability to: (i) create liens on assets; (ii) incur additional indebtedness; (iii) engage in mergers or consolidations with or into other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) pay dividends and distributions or repurchase capital stock; (vi) make investments, loans, guarantees or advances in or to other companies; (vii) repurchase or redeem certain junior indebtedness; (viii) change

the nature of our business; (ix) engage in transactions with affiliates; and (x) enter into restrictive agreements. In addition, the Credit Agreement requires us to demonstrate compliance with a maximum senior secured first lien leverage ratio

whenever amounts are outstanding under the revolving credit facility as of the last day of any quarterly testing period. All obligations under the Credit Agreement are guaranteed by our material domestic subsidiaries. We were in compliance with all applicable covenants as of December 31, 2014.

The interest rates payable under the Credit Agreement are based on defined published rates, subject to a minimum LIBOR rate in the case of Eurocurrency rate loans, plus an applicable margin. We are also obligated to pay a commitment fee based on the unused portion of the revolving credit facility.

The Credit Agreement includes an accordion feature pursuant to which we may increase the amount available to be borrowed by up to an additional $250,000 thousand (or a greater amount if we meet certain specified financial ratios) under certain circumstances. Repayments of the proceeds of the term loan were due in quarterly installments over the term of the Credit Agreement. Amounts borrowed under the revolving credit facility would be payable in full upon expiration of the Credit Agreement.

We are obligated to make mandatory principal prepayments for any fiscal year if the ratio of total amount of outstanding senior secured term loan less cash and cash equivalents divided by our consolidated EBITDA is greater than 2.50 to 1.00 as of December 31 of any fiscal year. When the ratio is greater than 2.50 to 1.00 but less than or equal to 3.00 to 1.00, we are required to pay 25% of excess cash flows, as defined in the Credit Agreement. When the ratio is greater than 3.00 to 1.00, we are required to pay 50% of excess cash flows in the form of principal prepayments. For the year ended December 31, 2013, we were obligated to pay $10,802 thousand of principal prepayments during the first quarter of 2014. However, certain Term Lenders exercised their right under the Credit Agreement to decline their pro rata share of the mandatory principal prepayment. Therefore our actual mandatory principal prepayment in the first quarter of 2014 was $5,036 thousand. As permitted under the Credit Agreement, we applied this mandatory principal prepayment amount against scheduled principal payments for the second and third quarters of 2014.

Repricing of the Term Loan Facility and Additional Borrowings - 2014

On February 20, 2014 in conjunction with our acquisition of Par Sterile, we entered into an amendment to our Senior Credit Facility that refinanced all of the outstanding tranche B-1 term loans of the Borrower (the "Existing Tranche B Term Loans") with new tranche B-2 term loans (the "New Tranche B Term Loans") in an aggregate principal amount of $1,055 million. The terms of the New Tranche B Term Loans are substantially the same as the terms of the then Existing Tranche B Term Loans, except that (1) the interest rate margins applicable to the New Tranche B Term Loans are 3.00% for LIBOR and 2.00% for base rate, a 25 basis point reduction compared to the Existing Tranche B Term Loans, and (2) the New Tranche B Loans were subject to a soft call provision applicable to the optional prepayment of the loans which would have required a premium equal to 1.00% of the aggregate principal amount of the loans being prepaid if, on or prior to August 20, 2014, the Company entered into certain repricing transactions. Additionally, the maximum senior secured net leverage ratio in compliance with which the Company can incur new incremental debt was increased by 25 basis points to 3.75:1.00.

Additionally, on February 20, 2014 in conjunction with our acquisition of Par Sterile, we also entered into the Incremental Term B-2 Joinder Agreement (the "Joinder") among us, Holdings, and certain of our subsidiaries, and our lenders. Under the terms of the Joinder, we borrowed an additional $395 million of New Tranche B Term Loans from the lenders participating therein for the purpose of consummating our acquisition of Par Sterile.

In connection with the transactions described herein, we incurred related transaction costs for the quarter ended March 31, 2014 that totaled $12,350 thousand of which $8,213 thousand were included in operating expenses as selling, general and administrative on the condensed consolidated statements of operations and $4,137 thousand were capitalized as deferred financing costs or debt discount on the condensed consolidated balance sheet. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $3,989 thousand of the existing unamortized deferred financing costs were written off in connection with this repricing and included in the condensed consolidated statements of operations as a loss on debt extinguishment.

Refinancing of the Term Loan Facility - 2013

On February 6, 2013, the Company, Par Pharmaceutical, Inc., as co-borrower, Sky Growth Intermediate Holdings II Corporation ("Intermediate Holdings"), the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Term Loan Facility (as amended, the "New Term Loan Facility") by entering into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement.

Amendment No. 1 replaced the existing term loans with a new class of term loans in an aggregate principal amount of $1,066 million (the "New Term Loans"). Borrowings under the New Term Loan Facility bore interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR (which is subject to a 1.00% floor) or the base rate rate (which is subject to a 2.00% floor). The applicable margin for borrowings under the New Term Loans was 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. Amendment No. 1 provided for a soft call option applicable to the New Term Loans. The soft call option provided for a premium equal to 1.00% of the amount of the outstanding principal if, on or prior to August 6, 2013, the Company entered into certain

repricing transactions. The other terms applicable to the New Term Loans were substantially the same terms as the original term loans.

In connection with the transactions described herein, the Company paid a 1.00% soft call premium in an aggregate amount of approximately $10.5 million on the existing term loan in February 2013, a portion of which was capitalized as a discount to the New Term Loan Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately $5.9 million of the existing unamortized deferred financing costs and $1.4 million of the related $10.5 million soft call premium were written off in connection with this refinancing and included in the consolidated statements of operations as a loss on debt extinguishment.

Repricing of the Revolving Facility - 2013

The Company and Par Pharmaceutical, Inc., as co-borrower, Intermediate Holdings, the subsidiary guarantor party thereto, Bank of America, as administrative agent, and the lenders and other parties thereto modified the Revolving Credit Facility by entering into Amendment No. 2 ("Amendment No. 2"), dated February 22, 2013, and Amendment No. 3 ("Amendment No. 3" and, together with Amendment No. 2, the "Revolver Amendments"), dated February 28, 2013, to the Credit Agreement.

The Revolver Amendments extend the scheduled maturity of the revolving credit commitments of certain existing lenders (the "Extending Lenders") who have elected to do so, such extension was effected by converting such amount of the existing revolving credit commitments of the Extending Lenders into a new tranche of revolving credit commitments (the "Extended Revolving Facility") that will mature on December 28, 2017. The Revolver Amendments also set forth the interest rate payable on borrowings outstanding under the Extended Revolving Facility, as described below. The aggregate commitments under the Extended Revolving Facility are $127.5 million and the aggregate commitments under the non-extended portion of the Revolving Facility are $22.5 million. There were no outstanding borrowings from the Revolving Facility or the Extended Revolving Facility as of December 31, 2014.

Borrowings under both the non-extended portion of the Revolving Facility and the Extended Revolving Facility bear interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR or the base rate. The initial applicable margin for borrowings under the Extended Revolving Facility is 3.25% for LIBOR borrowings and 2.25% for base rate borrowings. The initial applicable margin for LIBOR and base rate borrowings under the non-extended portion of the Revolving Facility remain at 3.75% and 2.75%, respectively. Borrowings and repayments of loans under the Extended Revolving Facility and the non-extended portion of the Revolving Facility may be made on a non-pro rata basis with one another, and the commitments under the non-extended portion of the Revolving Facility may be terminated prior to the commitments under the Extended Revolving Credit Facility. The other terms applicable to the Extended Revolving Credit Facility are substantially identical to those of the Revolving Credit Facility.

7.375% Senior Notes

In connection with the Merger, on September 28, 2012, Sky Growth Acquisition Corporation later merged with and into the Company upon consummation of the Merger, with the Company as the surviving corporation, and issued the Notes. The Notes were issued pursuant to an indenture entered into as of the same date between the Company and Wells Fargo Bank, National Association, as trustee. Interest on the Notes is payable semi-annually on April 15 and October 15, commencing on April 15, 2013. The Notes mature on October 15, 2020.

We may redeem the Notes at our option, in whole or in part on one or more occasions, at any time on or after October 15, 2015, at specified redemption prices that vary by year, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to October 15, 2015, we may redeem up to 40% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings at a redemption price equal to the sum of (i) 107.375% of the aggregate principal amount thereof, plus (ii) accrued and unpaid interest, if any, to the redemption date. At any time prior to October 15, 2015, we may also redeem the Notes, in whole or in part on one or more occasions, at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest and a specified "make-whole premium."

The Notes are guaranteed on a senior unsecured basis by our material existing direct and indirect wholly-owned domestic subsidiaries and, subject to certain exceptions, each of our future direct and indirect domestic subsidiaries that guarantees the Senior Credit Facilities or our other indebtedness or indebtedness of the guarantors will guarantee the Notes. Under certain circumstances, the subsidiary guarantors may be released from their guarantees without consent of the holders of Notes.

The Notes and the subsidiary guarantees are our and the guarantors' senior unsecured obligations and (i) rank senior in right of payment to all of our and the subsidiary guarantors' existing and future subordinated indebtedness; (ii) rank equally in right of payment with all of our and the subsidiary guarantors' existing and future senior indebtedness; (iii) are effectively subordinated to any of our and the subsidiary guarantors' existing and future secured debt, to the extent of the value of the assets securing such debt; and (iv) are structurally subordinated to all of the existing and future liabilities (including trade payables) of each of our subsidiaries that do not guarantee the Notes.

The indenture governing the Notes contains customary representations and warranties, as well as customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due, breach of covenants, a payment default or acceleration equaling $40 million or more according to the terms of certain other indebtedness, failure to pay final judgments aggregating in excess of $40 million when due, insolvency proceedings, a required guarantee shall cease to remain in full force. The indenture also contains various customary covenants that, in certain instances, restrict our ability to: (i) pay dividends and distributions or repurchase capital stock; (ii) incur additional indebtedness; (iii) make investments, loans, guarantees or advances in or to other companies; (iv) engage in dispositions of assets, including entering into a sale and leaseback transaction; (v) engage in transactions with affiliates; (vi) create liens on assets; (vii) repurchase or redeem certain subordinated indebtedness, (viii) engage in mergers or consolidations with or into other companies; and (ix) change the nature of our business. The covenants are subject to a number of exceptions and qualifications. Certain of these covenants will be suspended during any period of time that (1) the Notes have Investment Grade Ratings (as defined in the indenture) from both Moody's Investors Service, Inc. and Standard & Poor's, and (2) no default has occurred and is continuing under the indenture. In the event that the Notes are downgraded to below an Investment Grade Rating, the Company and certain subsidiaries will again be subject to the suspended covenants with respect to future events. We were in compliance with all covenants as of December 31, 2014.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, other than disclosed operating leases.

Critical Accounting Policies and Use of Estimates

Critical accounting policies are those policies that are most important to the portrayal of our financial condition and results of operations, and require management's most difficult, subjective and complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. Our most critical accounting policies, as discussed below, pertain to revenue recognition and the determination of deductions from gross revenues, the valuation and assessment of impairment of goodwill and intangible assets and inventory valuation. In applying such policies, management often must use amounts that are based on its informed judgments and estimates. Because of the uncertainties inherent in these estimates, actual results could differ from the estimates used in applying the critical accounting policies. We are not aware of any likely events or circumstances that would result in different amounts being reported that would materially affect our financial condition or results of operations.

Revenue Recognition and Provisions for Deductions from Gross Revenues

We recognize revenues for product sales when title and risk of loss have transferred to our customers, when reliable estimates of rebates, chargebacks, returns and other adjustments can be made, and when collectability is reasonably assured. This is generally at the time products are received by the customers. We also review available trade inventory levels at certain large wholesalers to evaluate any potential excess supply levels in relation to expected demand. Upon recognizing revenue from sales, we record estimates for the following items that reduce gross revenues:

- Chargebacks
- Rebates and incentive programs
- Product returns
- Cash discounts and other
- Medicaid rebates

The following table summarizes the activity for the years ended December 31, 2014, 2013 and 2012 in the accounts affected by the estimated provisions described below, ($ in thousands):

	For the Year Ended December 31, 2014					
	(Successor)					
Accounts receivable reserves	Beginning balance	Par Sterile beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (48,766)	$ (6,296)	$ (871,139)	$ 2,628 (1)	$ 827,081	$ (96,492)
Rebates and incentive programs	(75,321)	(5,489)	(480,949)	—	422,770	(138,989)
Returns	(78,181)	(4,820)	(31,361)	—	30,032	(84,330)
Cash discounts and other	(37,793)	(1,792)	(291,153)	(1,449) (3)	245,390	(86,797)
Total	$ (240,061)	$ (18,397)	$(1,674,602)	$ 1,179	$ 1,525,273	$ (406,608)

Accrued liabilities (2)	$ (35,829)	$ (382)	$ (84,840)	$ 2,805 (4)	$ 75,599	$ (42,647)

	For the Year Ended December 31, 2013				
	(Successor)				
Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (41,670)	$ (630,097)	$ — (1)	$ 623,001	$ (48,766)
Rebates and incentive programs	(59,426)	(290,934)	659	274,380	(75,321)
Returns	(68,062)	(37,956)	—	27,837	(78,181)
Cash discounts and other	(26,544)	(195,632)	1,564	182,819	(37,793)
Total	$ (195,702)	$ (1,154,619)	$ 2,223	$ 1,108,037	$ (240,061)
Accrued liabilities (2)	$ (42,162)	$ (80,726)	$ 3,566 (5)	$ 83,493	$ (35,829)

	For the period September 29, 2012 to December 31, 2012				
	(Successor)				
Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	(24,223)	$ (132,834)	$ — (1)	$ 115,387	$ (41,670)
Rebates and incentive programs	(43,866)	(69,749)	—	54,189	(59,426)
Returns	(64,119)	(8,522)	—	4,579	(68,062)
Cash discounts and other	(30,817)	(46,053)	—	50,326	(26,544)
Total	$ (163,025)	$ (257,158)	$ —	$ 224,481	$ (195,702)
Accrued liabilities (2)	$ (42,455)	$ (24,437)	$ —	$ 24,730	$ (42,162)

	For the period January 1, 2012 to September 28, 2012				
	(Predecessor)				
Accounts receivable reserves	Beginning balance	Provision recorded for current period sales	(Provision) reversal recorded for prior period sales	Credits processed	Ending balance
Chargebacks	$ (20,688)	$ (309,411)	$ — (1)	$ 305,876	$ (24,223)
Rebates and incentive programs	(35,132)	(147,112)	(59)	138,437	(43,866)
Returns	(58,672)	(24,793)	1,602 (6)	17,744	(64,119)
Cash discounts and other	(28,672)	(102,718)	(809)	101,382	(30,817)
Total	$ (143,164)	$ (584,034)	$ 734	$ 563,439	$ (163,025)
Accrued liabilities (2)	$ (39,614)	$ (49,536)	$ —	$ 46,695	$ (42,455)

(1) Unless specific in nature, the amount of provision or reversal of reserves related to prior periods for chargebacks is not determinable on a product or customer specific basis; however, based upon historical analysis and analysis of activity in subsequent periods, we believe that our chargeback estimates remain reasonable. During the year ended December 31, 2014, the Company settled a dispute with a customer resulting in a recovery payment of $3.6 million of which $2.6 million pertained to prior year transactions.

(2) Includes amounts due to indirect customers for which no underlying accounts receivable exists and is principally

comprised of Medicaid rebates and rebates due under other U.S. Government pricing programs, such as TriCare and the Department of Veterans Affairs.

(3) During the year ended December 31, 2014, the Company recorded expense of approximately $1.0 million related to a re-procurement claim from one customer for the period September 2012 through October 2012. In addition, we settled post audit claims from customers for the period January 2009 through December 2012 that resulted in net expense of approximately $0.5 million.

(4) During 2014, we received further additional information related to Managed Medicaid utilization in California and performed a recalculation of average manufacturer's price. As a result we reduced our 2014 Medicaid accruals by approximately $3.6 million related to the periods March 2010 through December 2013. This activity was partially offset by the expense of $0.8 million related to disputed TriCare claims for the period from January 2009 through December 2013. Our Medicaid and TriCare accruals represent our best estimate at this time.

(5) During 2013, we received additional information related to Managed Medicaid utilization in California and performed a recalculation of average manufacturer's price. As a result we reduced our 2013 Medicaid accruals by approximately $3.6 million related to the periods January 2010 through December 2012. Our Medicaid accrual represents our best estimate at this time.

(6) The amount principally represents the resolution of a customer dispute in the first quarter of 2012 regarding invalid deductions taken in prior years of approximately $1.6 million.

We sell our products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers and customers that purchase products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers. We have entered into agreements at negotiated contract prices with those health care providers that purchase products through our wholesale customers at those contract prices. Chargeback credits are issued to wholesalers for the difference between our invoice price to the wholesaler and the contract price through which the product is resold to health care providers. The information that we consider when establishing our chargeback reserves includes contract and non-contract sales trends, average historical contract pricing, actual price changes, processing time lags and customer inventory information from our three largest wholesale customers. Our chargeback provision and related reserve vary with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventory.

Customer rebates and incentive programs are generally provided to customers as an incentive for the customers to continue carrying the Company's products or replace competing products in their distribution channels with our products. Rebate programs may be based on either a wholesale or non-wholesale customer's direct purchases. Rebates may also be based on a non-wholesale customer's indirect purchases of the Company's products from a wholesaler under a contract with us. The incentive programs include stocking or trade show promotions where additional discounts may be given on a new product or certain existing products as an added incentive to stock the Company's products. We may, from time to time, also provide price and/or volume incentives on new products that have multiple competitors and/or on existing products that confront new competition in order to attempt to secure or maintain a certain market share. The information that the Company considers when establishing its rebate and incentive program reserves are rebate agreements with, and purchases by, each customer, tracking and analysis of promotional offers, projected annual sales for customers with annual incentive programs, actual rebates and incentive payments made, processing time lags, and for indirect rebates, the level of inventory in the distribution channel that will be subject to indirect rebates. We do not provide incentives designed to increase shipments to our customers that we believe would result in out-of-the-ordinary course of business inventory for them. The Company regularly reviews and monitors estimated or actual customer inventory information at its three largest wholesale customers for its key products to ascertain whether customer inventories are in excess of ordinary course of business levels.

Pursuant to a drug rebate agreement with the Centers for Medicare and Medicaid Services, TriCare and similar supplemental agreements with various states, we provide a rebate on drugs dispensed under such government programs. We determine our estimate of the Medicaid rebate accrual primarily based on historical experience of claims submitted by the various states and any new information regarding changes in the Medicaid program that might impact our provision for Medicaid rebates. In determining the appropriate accrual amount, we consider historical payment rates; processing lag for outstanding claims and payments; and levels of inventory in the distribution channel. We review the accrual and assumptions on a quarterly basis against actual claims data to help ensure that the estimates made are reliable. On January 28, 2008, the Fiscal Year 2008 National Defense Authorization Act was enacted, which expands TriCare to include prescription drugs dispensed by TriCare retail network pharmacies. TriCare rebate accruals reflect this program and are based on actual and estimated rebates on Department of Defense eligible sales.

We accept returns of product according to the following criteria: (i) the product returns must be approved by authorized personnel with the lot number and expiration date accompanying any request and (ii) we generally will accept returns of products from any customer and will provide the customer with a credit memo for such returns if such products are returned between six months prior to, and 12 months following, such products' expiration date. We record a provision for product returns based on historical experience, including actual rate of expired and damaged in-transit returns, average remaining shelf-lives of products sold, which generally range from 12 to 48 months, and estimated return dates. Additionally, we consider other factors when estimating our current period return

provision, including levels of inventory in the distribution channel, significant market changes that may impact future expected returns, and actual product returns, and may record additional provisions for specific returns that it believes are not covered by the historical rates. The Company generally will accept returns of injectable products from any customer and provide the customer with a

credit memo for returns if such products are returned between six months prior to and six months following, such products' expiration date. The Company's returns policy also states that refrigerated and temperature controlled injectable products are non-returnable.

We offer cash discounts to our customers, generally 2% of the sales price, as an incentive for paying within invoice terms, which generally range from 30 to 90 days. We account for cash discounts by reducing accounts receivable by the full amount of the discounts that we expect our customers to take. In addition to the significant gross-to-net sales adjustments described above, we periodically make other sales adjustments. We generally account for these other gross-to-net adjustments by establishing an accrual in the amount equal to our estimate of the adjustments attributable to the sale.

We may at our discretion provide price adjustments due to various competitive factors, through shelf-stock adjustments on customers' existing inventory levels. There are circumstances under which we may not provide price adjustments to certain customers as a matter of business strategy, and consequently may lose future sales volume to competitors and risk a greater level of sales returns on products that remain in the customer's existing inventory.

As detailed above, we have the experience and access to relevant information that we believe are necessary to reasonably estimate the amounts of such deductions from gross revenues. Some of the assumptions we use for certain of these estimates are based on information received from third parties, such as wholesale customer inventories and market data, or other market factors beyond our control. The estimates that are most critical to the establishment of these reserves, and therefore, would have the largest impact if these estimates were not accurate, are estimates related to contract sales volumes, average contract pricing, customer inventories and return volumes. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates. With the exception of the product returns allowance, the ending balances of accounts receivable reserves and allowances generally are processed during a two-month to four-month period.

Research and Development Agreements

We capitalize or expense amounts related to the development of new products and technologies through agreements with third parties based on our determination of our ability to recover in a reasonable period of time its cost from the estimated future cash flows anticipated to be generated pursuant to each agreement. Accordingly, amounts related to our funding of the research and development efforts of others or to the purchase of contractual rights to products that have not been approved by the FDA, and where we have no alternative future use for the product, are expensed and included in research and development costs. Amounts for contractual rights acquired by us to a process, product or other legal right having multiple or alternative future uses that support its realizability, as well as to an approved product, are capitalized and included in intangible assets on the consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market value. We establish reserves for our inventory to reflect situations in which the cost of the inventory is not expected to be recovered. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, estimated time required to sell such inventory, remaining shelf life, remaining contractual terms of any supply and distribution agreements including authorized generic agreements, and current expected market conditions, including level of competition. We record provisions for inventory to cost of goods sold.

We capitalize costs associated with certain products prior to regulatory approval and product launch ("pre-launch inventories") when it is reasonably certain that the pre-launch inventories will be saleable, based on management's judgment of future commercial use and net realizable value. The determination to capitalize is made once we (or our third party development partners) have filed an ANDA that has been acknowledged by the FDA for containing sufficient information to allow the FDA to conduct their review in an efficient and timely manner and management is reasonably certain that all regulatory and legal hurdles will be cleared. This determination is based on the particular facts and circumstances relating to the expected FDA approval of the generic drug product being considered, and accordingly, the time frame within which the determination is made varies from product to product. We could be required to expense previously capitalized costs related to pre-launch inventories upon a change in such judgment, due to a denial or delay of approval by regulatory bodies, a delay in commercialization, or other potential risk factors. If these risks were to materialize and the launch of such product were significantly delayed, we may have to write-off all or a portion of such pre-launch inventories and such amounts could be material. As of December 31, 2014, we had pre-launch inventories of $5.0 million. Should any launch be delayed, inventory write-offs may occur to the extent we are unable to recover the full value of our inventory investment. The recoverability of the cost of pre-launch inventories with a limited shelf life is evaluated based on the specific facts and circumstances surrounding the timing of anticipated product launches, including our expected number of competitors during the six-month period subsequent to any anticipated product launch. Further, we believe that the inventory balance at December 31, 2014 is recoverable based on anticipated launches and the related expected demand for lower priced generic products that may be substituted for referenced branded products upon FDA approval.

Goodwill and Intangible Assets

We determine the estimated fair values of goodwill and intangible assets with definite and/or indefinite lives based on valuations performed at the time of their acquisition. In addition, the fair value of certain amounts paid to third parties related to the development

of new products and technologies, as described above in "Research and Development Agreements", are capitalized and included in intangible assets on the accompanying consolidated balance sheets.

Goodwill and indefinite-lived intangible assets are reviewed for impairment annually, or when events or other changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment of goodwill and indefinite-lived intangibles is determined to exist when the fair value is less than the carrying value of the net assets being tested. Impairment of definite-lived intangibles is determined to exist when undiscounted forecasted cash flows related to the assets are less than the carrying value of the assets being tested.

As discussed above with respect to determining an asset's fair value, because this process involves management making certain estimates and because these estimates form the basis of the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates. The critical estimates include projected future cash flows related to subject product sales and related estimated costs, assumptions related to the time value of money and weighted average cost of capital, the market capitalization of our company, and the implied value of our business relative to similar companies and relative to acquisitions involving similar companies. For the intangible assets, the critical estimates include future projected prescriptions (demand), the operational execution of the related marketing and sales plans, the timing and operational execution of planned product launches, and the expected levels of competition in each product market.

As of October 1, 2014, Par performed its annual goodwill impairment assessment and of our intangible assets with indefinite lives noting no impairment of goodwill and impairment of certain of our intangible assets, as described below. No changes in business or other factors are known as of the December 31, 2014 balance sheet date that would necessitate an evaluation for impairment. In the year ended December 31, 2014, we adjusted our forecast for certain products to reflect competition and pricing assumptions which caused us to assess the carrying value of certain intangible assets. During the year ended December 31, 2014 we recorded intangible asset impairments totaling $146.9 million related to an adjustment to the forecasted operating results for 2 IPR&D intangible asset groups and eight Par Pharmaceutical segment products compared to their originally forecasted operating results at date of acquisition, inclusive of one discontinued product, one partially impaired product primarily due to the contract ending with the partner and a partially impaired IPR&D project from the Par Sterile Acquisition due to an adverse court ruling pertaining to related patent litigation. The estimated fair values of the assets were determined by completing updated discounted cash flow models. During the year ended December 31, 2013, we recorded intangible asset impairments totaling approximately $100.1 million for IPR&D classes of products and projects that were evaluated as part of the annual evaluation of indefinite lived intangible assets, as well as five products not expected to achieve their originally forecasted operating results and we ceased selling a product that had been acquired with the divested products from the Watson/Actavis Merger. During the period from January 1, 2012 to September 28, 2012, we abandoned an in-process research and development project that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $2.0 million, and we exited the market of a commercial product that was acquired in the Anchen Acquisition and recorded a corresponding intangible asset impairment of $3.7 million. We will continue to assess the carrying value of our goodwill and intangible assets in accordance with applicable accounting guidance and may in the future conclude that impairments exist. Events that may lead to future conclusions of impairment include product recalls, product supply issues, additional competition, pricing pressures from customers, competitors or governmental agencies, and/or failure to execute on marketing and sales plans.

As a result of the Par Sterile Acquisition on February 20, 2014, we recorded $156.4 million of incremental goodwill. With finalization of purchase price allocation, we had goodwill of $1,012 million at December 31, 2014. With the finalization of purchase accounting resulted from the Merger, at December 31, 2013 we had goodwill of $855.7 million. In addition, intangible assets, net of accumulated amortization, totaled $1,040.8 million at December 31, 2014 and $1,092.6 million at December 31, 2013.

Share-based compensation expense

Our stock-based compensation expense is estimated at the grant date, including our stock option grants that are valued using the Black-Scholes model (for options with service and performance conditions) and a Monte Carlo simulation model (for options with a market condition). These option-pricing models require the use of assumptions such as expected volatility. In addition, we estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate; stock-based compensation expense is adjusted accordingly. Our estimated grant date values and related inputs utilized and other data points are detailed in Note 17, "Share-Based Compensation" to our consolidated financial statements contained elsewhere in this Annual Report on Form 10-K.

Contingencies and Legal Fees

We are subject to various patent litigations, product liability litigations, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in selling, general and administrative expenses. Contingent accruals are recorded when we determine that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgment regarding future events. During the year ended December 31, 2014, we recorded an incremental provision of $91 million related to the settlement of omeprazole/sodium bicarbonate patent litigation for $100 million. In the year ended December 31, 2013, we accrued an additional $26 million as we continued to periodically assess and estimate our then remaining potential liability for AWP actions.

Income Taxes

We prepare and file tax returns based on our interpretation of tax laws and regulations and record estimates based on these judgments and interpretations. In the normal course of business, our tax returns are subject to examination by various taxing authorities, which may result in future tax, interest, and penalty assessments by these authorities. Inherent uncertainties exist in estimates of many tax positions due to changes in tax law resulting from legislation, regulation, and/or as concluded through the various jurisdictions' tax court systems. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in our financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits is adjusted for changes in facts and circumstances. For example, adjustments could result from significant amendments to existing tax law and the issuance of regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We believe that our estimates for uncertain tax positions are appropriate and sufficient to pay assessments that may result from examinations of our tax returns. We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense.

We have recorded valuation allowances against certain of our deferred tax assets, primarily those that have been generated from certain state net operating losses in certain taxing jurisdictions. In evaluating whether we would more likely than not recover these deferred tax assets, we have not assumed any future taxable income or tax planning strategies in the jurisdictions associated with these carryforwards where history does not support such an assumption. Implementation of tax planning strategies to recover these deferred tax assets or future income generation in these jurisdictions could lead to the reversal of these valuation allowances and a reduction of income tax expense. When evaluating valuation allowances, management utilizes forecasted financial information.

We believe that our estimates for the uncertain tax positions and valuation allowances against the deferred tax assets are appropriate based on current facts and circumstances.

Use of Estimates in Reserves

We believe that our reserves, allowances and accruals for items that are deducted from gross revenues are reasonable and appropriate based on current facts and circumstances. It is possible however, that other parties applying reasonable judgment to the same facts and circumstances could develop different allowance and accrual amounts for items that are deducted from gross revenues. Additionally, changes in actual experience or changes in other qualitative factors could cause our allowances and accruals to fluctuate, particularly with newly launched or acquired products. We review the rates and amounts in our allowance and accrual estimates on a quarterly basis. If future estimated rates and amounts are significantly greater than those reflected in our recorded reserves, the resulting adjustments to those reserves would decrease our reported net revenues; conversely, if actual product returns, rebates and chargebacks are significantly less than those reflected in our recorded reserves, the resulting adjustments to those reserves would increase our reported net revenues. If we were to change our assumptions and estimates, our reserves would change, which would impact the net revenues that we report. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

Use of Forecasted Financial Information in Accounting Estimates

The use of forecasted financial information is inherent in many of our accounting estimates, including determining the estimated fair value of goodwill and intangible assets, matching intangible amortization to underlying benefits (e.g. sales and cash inflows), establishing and evaluating inventory reserves, and evaluating the need for valuation allowances for deferred tax assets. Such forecasted financial information is based on numerous assumptions, including:

- our ability to achieve, and the timing of, FDA approval for pipeline products;
- our ability to successfully commercialize products in a highly competitive marketplace;
- the competitive landscape - including the number of competitors for a product at its introduction to the market and throughout its product lifecycle and the impact of such competition on both sales volume and price;
- our market share and our competitors' market share;
- our ability to execute and maintain agreements related to contract-manufactured products (which are manufactured for us by third-parties under contract) and licensed products (which are licensed to us from third-party development partners);
- the ability of our third party partners and suppliers to adequately perform their contractual obligations;
- our ability to maintain adequate product supply to meet market demand;
- the reimbursement landscape and its impact on pricing power; and
- the product lifecycle, which for generic products is generally relatively short (2-10 years), and which for branded products is generally longer (8-12 years).

We believe that our financial forecasts are reasonable and appropriate based upon current facts and circumstances. It is possible however, that other parties applying reasonable judgment to the same facts and circumstances could develop different forecasts and that the application of those forecasts could result in different valuations of certain assets on our balance sheet. Additionally, differences in actual experience versus forecasted experience could cause our valuations of certain assets to fluctuate. These differences may be more prevalent in products that are newly launched, products that are newly acquired, and products that are at the end of their lifecycles or

remaining contractual terms of any supply and distribution agreements including authorized generic

agreements. We regularly review the information related to these forecasts and adjust the carrying amounts of the applicable assets accordingly, if and when actual results differ from previous estimates.

Subsequent Events

In February 2015, the Company amended its existing Credit Agreement, which included new borrowings in an aggregate principal amount of $425 million and other amendments. These new borrowings, along with cash on hand, were used to pay a $494.3 million cash dividend to the stockholders of Holdings, a special discretionary dividend-equivalent bonus to certain Company employees totaling $40.7 million, and related financing fees and expenses totaling $7.7 million.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Senior Credit Facilities

In connection with the Merger and related transactions, on September 28, 2012 we entered into the Senior Credit Facilities comprised of the seven-year Term Loan Facility in an initial aggregate principal amount of $1,055 million and the five-year Revolving Facility in an initial amount of $150 million. The proceeds of the Revolving Facility are available for general corporate purposes. Refer to Note 14, "Debt" in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

Borrowings under the Senior Credit Facilities bear interest at a rate per annum equal to an applicable margin plus, at the Company's option, either LIBOR (which is subject to a 1.00% floor) or the base rate (which is subject to a 2.00% floor). During the fourth quarter of 2014, the effective interest rate on the seven-year Term Loan Facility was 4.00%, representing the 1.00% LIBOR floor plus 300 basis points. We are also obligated to pay a commitment fee based on the unused portion of the Revolving Facility. Repayments of the proceeds of the Term Loan Facility are due in quarterly installments over the term of the credit agreement governing our Senior Credit Facilities. Amounts borrowed under the Revolving Facility would be payable in full upon expiration of the credit agreement governing our Senior Credit Facilities.

If the three month LIBOR spot rate was to increase or decrease by 0.125% from current rates, interest expense would not change due to application of the 1.00% floor previously mentioned.

The following table summarizes the carrying value of our Senior Credit Facilities that subject us to market risk (interest rate risk) at December 31, 2014 and December 31, 2013:

($ amounts in thousands)	December 31, 2014 (Successor)	December 31, 2013 (Successor)
Senior secured term loan	$ 1,435,837	$ 1,055,340
Senior secured revolving credit facility	—	—
7.375% senior notes	490,000	490,000
	1,925,837	1,545,340
Less unamortized debt discount to senior secured term loan	(7,265)	(7,821)
Less current portion	(14,503)	(21,462)
Long-term debt	$ 1,904,069	$ 1,516,057

Debt Maturities as of December 31, 2014	($ amounts in thousands)
2015	$ 14,503
2016	14,503
2017	14,503
2018	14,503
2019	1,377,825

2020	490,000
Total debt at December 31, 2014	$ 1,925,837

ITEM 8. Consolidated Financial Statements and Supplementary Data

See "Index to Consolidated Financial Statements, Item 15."

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

During 2014, there were no disagreements of the type described in Item 304(a)(1)(iv) of Regulation S-K with Ernst & Young, LLP, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures and there were no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Act of 1934, as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in our filings with the SEC is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, we have recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply judgment in evaluating its controls and procedures.

We evaluated our disclosure controls and procedures under the supervision and with the participation of Company management, including our CEO and CFO, to assess the effectiveness of the design and operation of its disclosure controls and procedures (as defined under the Exchange Act) as of December 31, 2014. Based on this evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2014.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed, under the supervision of our CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

We based the evaluation on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework). Our management has concluded that we maintained effective internal controls over financial reporting as of December 31, 2014.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the fourth quarter of 2014, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

Our current Board of Directors (the "Board") consists of three members. Because we are an indirect wholly owned subsidiary of Holdings, ultimate control resides with the Board of Directors of Holdings (the "Holdings Board" and, collectively with the Board, the "Boards"), which is owned by individual investors and private investment firms affiliated with the Sponsor. The Holdings Board consists of five members, who have been selected pursuant to the terms of a stockholders agreement with the Sponsor. Because our directors, Messrs. Campanelli, Haughey, and Tropiano, are employees of our company, they cannot be considered independent under the independence standards of the NYSE.

Below is a list of names, ages and positions, and a brief account of the business experience, of the individuals who are serving as our executive officers, our directors and as directors of Holdings as of February 28, 2015.

Name	Age	Position
Paul V. Campanelli	52	Chief Executive Officer; Director, Holdings; and Director, Par Pharmaceutical Companies, Inc.
Thomas J. Haughey	51	General Counsel and Chief Administrative Officer; Director, Par Pharmaceutical Companies, Inc.
Michael A. Tropiano	57	Executive Vice President and Chief Financial Officer; Director, Par Pharmaceutical Companies, Inc.
Terrance J. Coughlin	49	Chief Operating Officer
Patrick G. LePore	59	Director, Holdings (Chairman)
Todd B. Sisitsky	43	Director, Holdings
Jeffrey K. Rhodes	40	Director, Holdings
Sharad Mansukani	45	Director, Holdings

Paul V. Campanelli has served as Chief Executive Officer and as a member of the board of directors since September 2012 following the closing of the Merger. Previously, he held certain roles at Par Pharmaceutical Companies, including Chief Operating Officer from November 2011 to September 2012 and Executive Vice President from February 2007 to November 2011. He also served as President of Par Pharmaceutical, our generic products division, from February 2007 to November 2011. As of November 2011, he assumed responsibility for Par Specialty, our branded products division. He was Executive Vice President, Business Development and Licensing of Par Pharmaceutical from September 2006 to March 2007. Mr. Campanelli also served as Par Pharmaceutical's Senior Vice President, Business Development and Licensing, from March 2004 to September 2006, and as Vice President, Business Development, from April 2002 to March 2004. Mr. Campanelli's past and ongoing management experience in the pharmaceutical industry as well as his intimate understanding of our day-to-day operations as Chief Executive Officer led to the conclusion that he should serve as a director of our company.

Thomas J. Haughey has served as General Counsel and Chief Administrative Officer since September 2012 following the closing of the Merger. Previously, he held certain roles at Par Pharmaceutical Companies, including as General Counsel and Chief Administrative Officer since November 2003 and October 2008, respectively, except during the period from November 2011 to November 2013 during which time he served as President. From March 2006 until October 2008, he served as Executive Vice President of Par Pharmaceutical Companies, and from November 2003 until November 2011, he served as Secretary. Prior to joining us, Mr. Haughey had served for more than five years as Legal Director of Licensing in the Law Department of Schering-Plough Corporation.

Michael A. Tropiano has served as Executive Vice President and Chief Financial Officer since September 2012 following the closing of the Merger. Previously he held certain roles at Par Pharmaceutical Companies, including as Executive Vice President and Chief Financial Officer since July 2010 and as Vice President and Treasurer from August 2005 to July 2010. Before joining us, Mr. Tropiano served from 2001 to July 2005 as Vice President and Corporate Treasurer of Medpointe Pharmaceuticals and Assistant Treasurer from 1984 to 2001 of Carter-Wallace, Inc. Mr. Tropiano is a Chartered Financial Consultant.

Terrance J. Coughlin has served as Chief Operating Officer since April 2014. From April 2007 to October 2013, Mr. Coughlin served as President and Chief Executive Officer of Glenmark Generics, Inc. USA/Glenmark Generics Limited, a generic drug company focused on developing, manufacturing, selling and distributing generic drugs. From September 2004 to April 2007 he served as President. During his tenure at Glenmark, he had overall responsibility for the North American, Western European and Eastern European generics businesses, as well as the global API business and Glenmark's generics operations in India. Prior to Glenmark, he served as Senior Vice President of Dr. Reddy's Laboratories, Inc., which he joined in 1995.

Patrick G. LePore served as Executive Chairman of the Holdings board of directors following the closing of the Merger in September 2012 until January 31, 2013, and as Chairman since that time. From August 2007 to the closing of the Merger in September 2012, Mr. LePore served as Chairman of the board of directors of Par Pharmaceutical Companies, Inc. and Chief Executive Officer (and

President until November 2011). He was a director of Par Pharmaceutical Companies, Inc. from May 2006 until January 31, 2013. From 2002 to 2005, Mr. LePore was President of the healthcare marketing group at Cardinal Health, Inc. From 1984 until 2002, he was with BLP Group
Companies, a full service medical communication/education company, as Chairman, President and Chief Executive Officer. BLP Group Companies was sold to Cardinal Health in 2002. Mr. LePore currently serves on the board of PharMerica Corporation (NYSE:PMC), a pharmacy management service provider in long-term care settings and in the home, and serves as chairman of the board of AgeneBio, Inc., a private biotech company based in Baltimore. He is also a trustee of Villanova University. Mr. LePore's knowledge of our company and our industry based on his experience as our former Chief Executive Officer and his experience as a pharmaceutical executive and board member of pharmaceutical companies led to the conclusion that he should serve as a director of Holdings.

Todd B. Sisitsky has been a Holdings director since the closing of the Merger in September 2012. Mr. Sisitsky is a partner of TPG, where he leads the firm's investment activities in the healthcare services, pharmaceutical and medical device sectors. He has played leadership roles in connection with TPG's investments in Aptalis (GI-focused specialty pharmaceutical company, which is now owned by Actavis), Biomet (leading orthopedic implant manufacturer), Fenwal Transfusion Therapies (blood product technologies business), IASIS Healthcare (Tennessee-based acute care hospital company), Surgical Care Affiliates (ambulatory surgery center business carved out from HealthSouth Corporation), HealthScope (hospital and pathology company based in Australia), IMS Health (leading global data services and consulting business to several segments of the healthcare industry) and Immucor (leading automated blood screening and testing business). Mr. Sisitsky serves on the board of directors of IASIS Healthcare Corporation, Immucor, Inc., Surgical Care Affiliates, Inc., IMS Health Holdings, Inc. and Biomet, Inc. He also serves on the board of the global not-for-profit organization, the Campaign for Tobacco Free Kids, as well as on the Dartmouth Medical School Board of Overseers. Prior to joining TPG in 2003, Mr. Sisitsky was with Forstmann Little & Company and Oak Hill Capital Partners. He received an M.B.A. from the Stanford Graduate School of Business, where he was an Arjay Miller Scholar, and earned his undergraduate degree from Dartmouth College, where he graduated summa cum laude. Mr. Sisitsky's financial expertise as well as his experience as a director of other companies in the healthcare industry led to the conclusion that he should serve as a director of Holdings.

Jeffrey K. Rhodes has been a Holdings director since the closing of the Merger in September 2012. Mr. Rhodes is a partner of TPG where he helps lead the firm's investment activities in the healthcare services, pharmaceutical and medical device sectors. He is involved with TPG's investments and serves on the board of directors of Biomet, Inc., IMS Health Holdings, Inc., Immucor Inc., Surgical Care Affiliates, Inc. and Envision Pharmaceutical Holdings, Inc. (an Ohio-based full service pharmacy benefit management company). Prior to joining TPG in 2005, Mr. Rhodes was with McKinsey & Company and Article27 LTD, a start-up software company. He was a founding board member of the Healthcare Private Equity Association, a non-profit trade association that represents the U.S. healthcare private equity industry. Mr. Rhodes earned his M.B.A. from the Harvard Business School, where he was a Baker Scholar, and earned his B.A. in Economics from Williams College, where he graduated summa cum laude. Mr. Rhodes's financial expertise as well as his experience as a director of other companies in the healthcare industry led to the conclusion that he should serve as a director of Holdings.

Sharad Mansukani has been a Holdings director since the closing of the Merger in September 2012. He serves as a senior advisor to TPG and as a strategic advisor to the board of directors of Cigna Corporation. Dr. Mansukani has served as Chairman of the board of directors of Envision Pharmaceutical Holdings, Inc. since November 2013. He serves on the board of directors of IASIS Healthcare Corporation, Surgical Care Affiliates, Inc., IMS Health Holdings, Inc. and Immucor, Inc. He also serves on the board of directors of Children's Hospital of Philadelphia and on the editorial boards of the American Journal of Medical Quality, Managed Care, Biotechnology Healthcare, and American Health & Drug Benefits. Dr. Mansukani previously served as Vice Chairman-Strategic Planning and a member of the board of directors of HealthSpring, Inc. from June 2010 to January 2012; from November 2008 to June 2010 he was Executive Vice President and Chief Strategy Officer. He also previously served as a senior advisor to the Administrator of Centers for Medicare and Medicaid Services ("CMS") from 2003 to 2005, and as Senior Vice President and Chief Medical Officer of Health Partners, a non-profit Medicaid and Medicare health plan owned at the time by Philadelphia-area hospitals. Dr. Mansukani was appointed to Medicare's Program Advisory and Oversight Committee by the Secretary of the Dept. of Health and Human Services, which was established by the U.S. Congress and is tasked to advise Medicare upon CMS payment policies. Dr. Mansukani completed a residency and fellowship in ophthalmology at the Perelman School of Medicine at the University of Pennsylvania a fellowship in quality management and managed care at the Wharton School of Business and is board certified in medical management by the American College of Physician Executives. Dr. Mansukani's expertise in the fields of medicine, managed care and medical management as well as his experience as a director and/or advisor to CMS and other companies in the healthcare industry led to the conclusion that he should serve as a director of Holdings.

The executive officers of Holdings and Par Pharmaceutical, Inc., our wholly owned and principal operating subsidiary, are Mr. Campanelli as Chief Executive Officer; Mr. Haughey as General Counsel and Chief Administrative Officer; Mr. Coughlin as Chief Operating Officer; and Mr. Tropiano as Executive Vice President and Chief Financial Officer. Each of Messrs. Campanelli, Haughey and Tropiano also serves on the board of directors of Par Pharmaceutical, Inc.

Corporate Governance

Audit Committee Financial Expert

Mr. Rhodes and Mr. LePore are the current members of Holdings' Audit Committee. In light of our status as a privately held

company and the absence of a public listing or trading market for our common stock, we are not required by the applicable SEC rules to have an "audit committee financial expert." However, we have determined that Messrs. Rhodes and

LePore are each an "audit committee financial expert" as defined by the applicable SEC rules. The Audit Committee performs its duties pursuant to a written Audit Committee Charter adopted by the Holdings Board.

Code of Conduct

We have adopted a Code of Conduct that applies to all of our employees, including our executive officers. The Code of Conduct is available on our website at http://www.parpharm.com/CodeOfConduct. Certain amendments to or waivers of the Code of Conduct will be promptly posted on our website or in a report on Form 8-K, as required by applicable law.

ITEM 11. Executive Compensation

Compensation Discussion and Analysis

This compensation discussion and analysis describes our executive compensation philosophy and objectives and the key elements of, and the decisions made and actions taken with respect to, our compensation program for 2014 as they applied to the individuals identified in the "Summary Compensation Table for Fiscal Years 2014, 2013 and 2012" below.

The Compensation and Management Development Committee of the Holdings Board (the "Committee"), which is comprised of Mr. Campanelli, who is the chair of the Committee, as well as Messrs. LePore and Sisitsky and Dr. Mansukani, generally oversees our executive compensation program. However, since the Merger, certain aspects of our executive compensation program, including Mr. Coughlin's compensation arrangements, which were entered into in 2014, and grants of certain equity awards, have been approved by the Holdings Board.

The capitalized term "Named Executives" refers to the following executive officers whose compensation is required to be reported in the "Summary Compensation Table for Fiscal Years 2014, 2013 and 2012."

Name	Position
Paul V. Campanelli	Chief Executive Officer
Michael A. Tropiano	Executive Vice President and Chief Financial Officer
Thomas J. Haughey	General Counsel and Chief Administrative Officer
Terrance J. Coughlin	Chief Operating Officer

Because we only have four executive officers, we are only required to report the compensation of four individuals in the "Summary Compensation Table for Fiscal Years 2014, 2013 and 2012."

Executive Summary

The overall objective of our executive compensation program is to effectively reward, motivate and retain individuals who are critical to the long-term success of our business. Our compensation decisions are guided by a "pay for performance" philosophy intended to align our compensation policies with the interests of our stockholders by tying a substantial portion of an executive's overall compensation opportunity to the achievement of key strategic business and financial objectives.

Highlights of Our Compensation Practices

The Committee evaluates our compensation practices and programs with the goal of establishing fairness in compensation for our employees and our stockholders alike. The following are highlights of our current compensation practices:

- Performance-Based Compensation. Our cash-based annual incentive program and equity-based long-term incentive program, which comprise a substantial portion of the total compensation opportunities for our Named Executives, are performance-oriented. The cash bonus payouts under the annual incentive program are contingent upon the achievement of our financial and strategic goals. Under our long-term incentive program, half of the stock options granted to our Named Executives are subject to performance-based vesting based on our achievement of specified Adjusted EBITDA goals or generating certain returns on the Sponsor's investment in us. See "Annual Cash Incentive" and "Long-Term Incentive" below.
- No Tax Gross Ups and Limited Benefits. We do not provide our executive officers with special benefits, supplemental executive retirement plans, or tax gross-ups. We provide our executive officers with modest perquisites and other personal benefits which we believe are reasonable and serve as useful retention tools. See *"Traditional Employee Benefits and Executive Perquisites"* below.

- Compensation Risk Assessment. We believe that our compensation programs are not designed to encourage our Named Executives or other employees to take unnecessary risks that would be reasonably likely to have a material adverse effect on us. See *"Compensation Risk Assessment"* below.

- Clawback Policy. Each of our Named Executives is subject to our Executive Financial Recoupment Program under which we can recoup incentive compensation in the event the executive engages in certain types of misconduct or fails to properly supervise employees who engage in misconduct.
- No Single Trigger Vesting. We do not provide for automatic single trigger vesting of our long-term incentive awards.

Highlights of Our 2014 Performance and Related Compensation Decisions

The following are highlights of our 2014 performance and related compensation decisions:

- We achieved Adjusted EBITDA (as described below) of $433.8 million for the year, exceeding our Adjusted EBITDA target by 18.5%.
- We generated $414.8 million in Operating Cash Flow (as described below) in 2014, which exceeded our Operating Cash Flow target by 29.8%.
- Consistent with the Company's strategic goal of obtaining exclusive marketing rights for generic pharmaceutical products, we submitted 30 ANDAs in 2014, exceeding our target by 15.4%.
- We significantly bolstered our product offerings through the acquisition and integration of Par Sterile.
- In accordance with our "pay for performance" philosophy, because we significantly exceeded most of our financial targets and strategic objectives for 2014, we funded our annual incentive bonus plan at 193% of the aggregate target for the Named Executives (154% of the aggregate target for all other eligible employees). See "*Annual Cash Incentive*" below.

Compensation Philosophy and Policies Regarding Executive Compensation

In addition to maintaining an executive compensation program that will provide competitive levels of total compensation necessary to attract and retain talented executives who will contribute to our financial success, our executive compensation program is guided by a "pay for performance" philosophy. This philosophy is intended to align executives' interests with those of our stockholders and to reward executives when Company and individual performance are strong. Therefore, we provide a substantial portion of Named Executives' overall compensation opportunity in the form of an annual incentive bonus, the payment of which is subject to the achievement of key financial and strategic business objectives. We also provide a substantial portion of Named Executives' overall compensation opportunity in the form of Holdings stock options, the value of which is directly tied to the performance of Holdings' stock. In addition, half of the stock options granted to our Named Executives are subject to time-based vesting and the other half are subject to performance-based vesting based on our achievement of specified Adjusted EBITDA goals or generating certain returns on the Sponsor's investment in Holdings.

The following principles influence and guide our compensation decisions:

- compensation should attract, motivate and retain qualified executives;
- compensation should reflect a "pay for performance" philosophy by focusing on financial targets and strategic objectives;
- compensation should reflect accountability and achievement; and
- compensation decisions should reflect alignment with stockholder interests.

The Committee follows these principles when making compensation decisions with respect to our Named Executives.

The Compensation Setting Process and Benchmarking

A Year-Round Process

Our compensation planning process, including evaluation of management performance and consideration of the business environment, is a year-round process. Compensation decisions are designed to promote our fundamental business objectives and strategies which, in turn, drive long-term stockholder value.

The Committee's Role in the Process

The compensation of our Named Executives is determined by the Committee, except where the Holdings Board has approved certain arrangements, such as Mr. Coughlin's compensation arrangements and grants of certain equity awards. The Committee's responsibilities generally include:

- reviewing and evaluating our equity incentive arrangements and granting equity incentive awards to our Named Executives;
- determining bonus payouts under the prior year's annual incentive program;
- reviewing performance milestones and strategic objectives for the annual incentive program for the upcoming year;
- reviewing management recommendations regarding our compensation program;
- reviewing our Chief Executive Officer's achievement of the prior year's goals and setting of objectives for the upcoming

year; and

- addressing any other compensation related matters that require the attention of the Committee.

Mr. Campanelli recuses himself from all Committee determinations of his own compensation.

Management's Role in the Process

Management plays a role in the compensation-setting process, other than with respect to compensation for our Chief Executive Officer. The most significant aspects of management's role are:

- our Chief Executive Officer, Chief Financial Officer and Senior Vice President of Human Resources review and recommend compensation plans;
- our Named Executives recommend business targets and goals;
- our Chief Executive Officer evaluates the performance of the other Named Executives based on agreed-upon objectives; and
- our Chief Executive Officer recommends salary, bonus levels and awards and long-term incentive awards for the other Named Executives.

Our Chief Executive Officer and Senior Vice President of Human Resources establish the agenda for Committee meetings. Our Chief Executive Officer provides compensation recommendations as to our Named Executives and other key employees (other than himself) and participates in Committee meetings as the chair of the Committee.

Competitive Compensation Practices

Our compensation arrangements must be competitive in the marketplace in order to attract and retain highly-qualified executives to lead the Company. We have not, however, engaged in formal benchmarking practices with a third-party consultant since prior to the Merger in 2012. The components and levels of compensation for our Named Executives (other than Mr. Coughlin) were established by the Holdings Board in 2012 after the completion of the Merger, and have been adjusted since the Merger, after considering the factors described below. The components and levels of Mr. Coughlin's compensation arrangement were negotiated between Mr. Coughlin, on the one hand, and the Company and Par Pharmaceutical, Inc., on the other hand, in connection with his commencement of employment with us, based on industry compensation practices for the position of chief operating officer and Mr. Coughlin's prior experience.

The Committee has also relied on the experience of its Sponsor-affiliated members and on analysis performed by the Sponsor that considers the compensation of our Named Executives in light of the compensation structure of other portfolio companies or private equity-backed companies in general.

Employment Agreements

We have entered into employment agreements with our Named Executives in order to attract a high level of talent to the Company and, equally important to our success, to retain key executives to execute our business strategies. Our executive employment agreements also protect us by setting forth the applicable terms for terminations of employment and provide valuable protection against improper use of our confidential business information, competition with our business and solicitation of employees and customers during and following the employment term.

A more detailed description of our employment agreements appears under the heading "*Narrative Disclosure to Summary Compensation Table and Grants of Plan Based-Awards Table*" below.

Components of Executive Compensation and Decisions Related to 2014 Compensation for Named Executives

Described below are the key components and objectives of our executive compensation program for 2014 as it relates to our Named Executives.

Base Salary

Base cash compensation is a critical element of executive compensation because it enables us to recruit and retain key executives. Base salaries for our Named Executives are set forth in employment agreements that were negotiated between each individual, on the one hand, and the Company and Par Pharmaceutical, Inc., on the other hand.

The following table sets forth, as of December 31, 2014, each Named Executive's base salary and percentage increase over the prior year.

Name / Position	Base Salary	Increase over prior year
Paul V. Campanelli, *Chief Executive Officer*	$871,250	2.5%
Michael A. Tropiano, *Executive Vice President and Chief Financial Officer*	$486,875	2.5%
Thomas J. Haughey, *General Counsel and Chief Administrative Officer*	$666,250	2.5%
Terrance J. Coughlin, *Chief Operating Officer*	$550,000	N/A

The increases shown above reflect cost-of-living increases in base salaries that were approved for our employees generally and became effective in 2014.

In December 2014, each of our Named Executives (other than Mr. Campanelli) received an additional 2.5% cost of living increase in his base salary and, in recognition of his success in driving the Company's exceptional performance, Mr. Campanelli's base salary was increased to $950,000. The base salary increases approved in December 2014 became effective on January 1, 2015, and are therefore not reflected in the table above.

Annual Cash Incentive

We provide an annual cash bonus opportunity to our Named Executives under our annual incentive program in order to drive Company and individual performance. Cash bonus payouts under the program are contingent on the achievement of key financial and strategic goals that are established at the beginning of the year by our Named Executives under the guidance and ultimate approval of the Committee. However, we do not follow a strict mathematical formula-based approach for determining the actual bonus awards, except that, as described below, threshold and maximum bonuses are determined based on the achievement of specified performance targets. Instead, we weigh each individual's contribution to our performance in determining individual awards, as described below.

The "target" amount of each Named Executive's cash bonus award is set as a percentage of his base salary. As position and responsibility increase, a greater portion of the Named Executive's overall cash compensation opportunity is attributable to the annual incentive program, subjecting it to the achievement of our performance targets and thus placing it "at risk." Accordingly, for 2014, the target bonus amount was set at 100% of base salary for Mr. Campanelli, 65% of base salary for Mr. Tropiano (increased from 60% for 2013 based on his outstanding performance and in recognition of the importance of his responsibilities for the business as a whole), 75% of base salary for Mr. Haughey, and 70% of base salary for Mr. Coughlin, which was pro-rated based upon the commencement date of his employment.

The chief component of the bonus funding target for 2014 consisted of key financial metric targets approved by the Holdings Board at the beginning of the year and formally incorporated in our 2014 operating plan. We chose these metrics based upon our detailed analysis of projected sales, on a product-by-product basis, and expenses, based on annual spending required to achieve our short- and long-term goals. Taken as a group, these selected financial parameters provided an objective basis for determining whether our executives had successfully executed on our 2014 operating plan. The second component of the bonus funding target consisted of key strategic objectives that the Holdings Board determined would contribute to our longer-term growth and increased stockholder value.

The following table sets forth the key financial targets set by the Holdings Board for 2014 and our actual performance for 2014:

2014 Financial Performance Objectives and Actual Performance

2014 Financial Metrics:	2014 Performance Target	2014 Performance Results	% of Performance Target Achieved
Adjusted EBITDA (1)	$366.1 million	$433.8 million	118.5%
Adjusted Gross Margin (2)	$613.3 million	$674.7 million	110%
Operating Cash Flow (3)	$319.5 million	$414.8 million	129.8%
Capital Expenditures	$52.1 million	$45.5 million	87.3%
Research & Development Expenditures	$124.2 million	$119.1 million	95.9%
Selling, General and Administrative Expenses	$152.7 million	$181.3 million	118.7%
ANDAs Submitted	21-26	30	115.4%
Product Launches (5)	18-24	13	54.2%

(1) "Adjusted EBITDA" is a non-GAAP financial measure that generally represents earnings (e.g., revenues less expenses) excluding interest, taxes, depreciation and amortization. In calculating Adjusted EBITDA for cash incentive purposes in 2014, we added back to loss from continuing operations before benefit for income taxes: (a) amortization of inventory step up established with the purchase accounting related to the Par Sterile Acquisition, (b) certain legal and restructuring costs, (c) amortization expense related to intangible assets as well as intangible asset impairment recorded, (d) certain transaction costs, (e) litigation settlements and loss contingencies, (f) depreciation expense related to property, plant and equipment, (g) interest expense, including costs associated with debt repricing and extinguishment, (h) share-based compensation and (i) management fees.

(2) "Adjusted Gross Margin" is a non-GAAP measure that represents GAAP gross margin excluding amortization expense and other non-cash items.

(3) "Operating Cash Flow" is a non-GAAP measure that represents Adjusted EBITDA, as defined above, adjusted for the net change in working capital (current assets less current liabilities) and other cash settled items related to restructuring charges, an annual monitoring fee paid to the Sponsor, and certain legal and accounting fees.

(4) Our achievement level relative to our target number of products launched in 2014 was largely due to delays in the regulatory approval process that were outside of our control. We anticipate introducing many of the products we expected to launch in 2014 after receiving further regulatory approvals.

Evaluation of Achievement

We set a minimum threshold and a maximum payout for cash bonus payments: In the event that less than 85% of our targeted 2014 Adjusted EBITDA goal was achieved, there would be no bonus payable (irrespective of the executive's individual performance and the achievement of our other targets) unless the Committee exercised its discretion to fund the bonus pool for achievement against the other financial and performance metrics; and in the event that 133% or greater of targeted 2014 Adjusted EBITDA goal was achieved, the bonus pool would be funded at 200% of target, subject to the Committee's ability to make downward adjustments in amounts earned. The "Grants of Plan-Based Awards for Fiscal Year 2014" table sets forth the hypothetical bonus awards available to our Named Executives in 2014 for achieving the minimum (or "threshold") performance target, the "target" bonus award, and the maximum bonus award.

The Committee viewed 2014 as a very successful year as measured by our financial and operational performance and determined that it was appropriate to fund our annual incentive bonus plan at 193% of the aggregate target for our Named Executives. The primary reason for this funding level was the fact that the Company substantially exceeded its 2014 Adjusted EBITDA goal and exceeded, or performed well against, a number of its other key financial metrics. In determining the funding level, the Committee also reviewed and took into account our strong 2014 operational performance, focusing specifically on the number of ANDAs submitted, the successful acquisition and integration of Par Sterile, which substantially enhanced our competitive standing, and the approval and launch of our generic version of Lovaza®, which represented the successful achievement of a long-term goal of the Company. For actual amounts awarded to each Named Executive, see the "Non-Equity Incentive Plan Compensation" column of the "Summary compensation table for fiscal years 2014, 2013 and 2012" below.

Long-Term Incentive

Equity-based compensation is an important element of our compensation program for our Named Executives. We believe that equity-based compensation is an effective long-term incentive and retention tool, and serves to align the interests of our Named Executives with our stockholders.

The Holdings Board has granted options to purchase common stock of Holdings ("options" or "stock options") to senior management, including our Named Executives, under the Sky Growth Holdings Corporation 2012 Equity Incentive Plan, as amended (the "2012 EIP").