IMPAX LABORATORIES INC
Form 10-Q
November 05, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2013**
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-34263

Impax Laboratories, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**65-0403311**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
30831 Huntwood Avenue, Hayward, CA	**94544**
(Address of principal executive offices)	*(Zip Code)*

(510) 240-6000
(*Registrant's telephone number, including area code*)

Not Applicable
(*Former name, former address and former fiscal year, if changed since last report*)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 1, 2013, there were 69,557,376 shares of the registrant’s common stock outstanding.

Impax Laboratories, Inc.

INDEX

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

Impax Laboratories, Inc.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share and per share data)

	September 30, 2013 (unaudited)	**December 31,** 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$233,129	$142,162
Short-term investments	203,517	156,756
Accounts receivable, net	133,506	92,249
Inventory, net	80,920	89,764
Deferred income taxes	47,764	42,529
Prepaid expenses and other current assets	8,432	22,083
Total current assets	707,268	545,543
Property, plant and equipment, net	179,885	180,758
Other assets	51,199	42,751
Deferred income taxes	29,248	19,394
Intangible assets, net	19,646	47,950
Goodwill	27,574	27,574
Total assets	$1,014,820	$863,970
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$25,925	$41,340
Accrued expenses	122,796	92,742
Accrued profit sharing and royalty expenses	11,908	4,936
Deferred revenue	4,452	6,277
Total current liabilities	165,081	145,295
Deferred revenue	4,848	6,362
Other liabilities	26,194	21,210

Total liabilities	196,123	172,867
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 2,000,000 shares authorized, 0 shares outstanding at September 30, 2013 and December 31, 2012	---	---
Common stock, $0.01 par value, 90,000,000 shares authorized and 69,198,996 and 68,516,251 shares issued at September 30, 2013 and December 31, 2012, respectively	692	685
Additional paid-in capital	333,618	314,717
Treasury stock - 243,729 shares	(2,157)	(2,157)
Accumulated other comprehensive income	3,049	5,244
Retained earnings	483,495	372,614
Total stockholders' equity	818,697	691,103
Total liabilities and stockholders' equity	$1,014,820	$863,970

The accompanying notes are an integral part of these interim consolidated financial statements.

Impax Laboratories, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except share and per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Revenues:				
Global Division revenues, net	$115,748	$100,430	$311,351	$356,759
Impax Division revenues, net	16,893	45,157	99,410	83,856
Total revenues	132,641	145,587	410,761	440,615
Cost of revenues	84,299	67,560	245,658	222,212
Gross profit	48,342	78,027	165,103	218,403
Operating expenses:				
Research and development	16,071	20,012	51,216	58,697
Patent litigation expense (recovery)	4,497	(371)	13,079	6,581
Selling, general and administrative	27,968	28,927	90,961	75,030
Total operating expenses	48,536	48,568	155,256	140,308
(Loss) income from operations	(194)	29,459	9,847	78,095
Other (expense) income, net	(85)	86	152,366	(19)
Interest income	349	272	940	771
Interest expense	(50)	(145)	(378)	(607)
Income before income taxes	20	29,672	162,775	78,240
Provision for income taxes	200	9,635	51,894	27,166
Net (loss) income	$(180)	$20,037	$110,881	$51,074
Net (loss) income per share:				
Basic	$(0.00)	$0.30	$1.66	$0.78
Diluted	$(0.00)	$0.29	$1.62	$0.75
Weighted average common shares outstanding:				
Basic	67,051,121	65,797,722	66,764,550	65,451,926
Diluted	67,051,121	68,366,849	68,354,439	68,230,487

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

4

Impax Laboratories, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Net (loss) income	$(180)	$ 20,037	$110,881	$ 51,074
Currency translation adjustments	1,609	2,160	(2,195)	2,643
Comprehensive income	$1,429	$ 22,197	$108,686	$ 53,717

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Impax Laboratories, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine Months Ended	
	September 30,	**September 30,**
	2013	2012
Cash flows from operating activities:		
Net income	$110,881	$51,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,482	23,273
Recognition of deferred charge – Zomig® royalty	---	24,997
In-process research and development charge	---	1,550
Intangible asset impairment charge	13,906	---
Provision for inventory reserves	21,073	7,375
Accretion of interest income on short-term investments	(518)	(473)
Deferred income taxes – net and uncertain tax positions	(13,996)	(26,951)
Tax impact related to the exercise of employee stock options	(742)	(3,515)
Deferred revenue	---	1,738
Deferred product manufacturing costs	---	(2,743)
Recognition of deferred revenue	(3,339)	(16,236)
Amortization of deferred product manufacturing costs	---	2,775
Accrued profit sharing and royalty expense	49,768	67,427
Payments of profit sharing and royalty expense	(42,797)	(99,034)
Share-based compensation expense	14,066	12,146
Changes in certain assets and liabilities:		
Accounts receivable	(41,257)	56,003
Inventory	(13,828)	(29,035)
Prepaid expenses and other assets	6,065	(2,526)
Accounts payable and accrued expenses	22,073	26,594
Other liabilities	3,429	5,774
Net cash provided by operating activities	155,266	100,213
Cash flows from investing activities:		
Purchase of short-term investments	(266,291)	(177,461)
Maturities of short-term investments	220,048	252,883
Purchases of property, plant and equipment	(24,222)	(58,618)
Payment for product licensing rights, net	---	(64,760)
Net cash used for investing activities	(70,465)	(47,956)

Cash flows from financing activities:		
Tax impact related to the exercise of employee stock options and restricted stock	742	3,515
Proceeds from exercise of stock options and ESPP	5,882	11,667
Net cash provided by financing activities	6,624	15,182
Effect of exchange rate changes on cash and cash equivalents	(458)	834
Net increase in cash and cash equivalents	90,967	68,273
Cash and cash equivalents, beginning of period	142,162	104,419
Cash and cash equivalents, end of period	$233,129	$172,692

Supplemental disclosure of non-cash investing and financing activities:

(in $000's)	**Nine Months Ended September 30,**	**September 30,**
	2013	2012
Cash paid for interest	$87	$ 15
Cash paid for income taxes	$16,338	$ 39,268

Accrued vendor invoices of approximately $2,299,000 and $6,677,000 at September 30, 2013 and 2012, respectively, are excluded from the purchase of property, plant, and equipment and the change in accounts payable and accrued expenses. Depreciation expense was $4,750,000 and $3,764,000 for the three months ended September 30, 2013 and 2012, respectively, and was $14,250,000 and $10,577,000 for the nine months ended September 30, 2013 and 2012, respectively.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. THE COMPANY & BASIS OF PRESENTATION

Impax Laboratories, Inc. ("Impax" or "Company") is a technology-based, specialty pharmaceutical company. The Company has two reportable segments, referred to as the "Global Pharmaceuticals Division" ("Global Division") and the "Impax Pharmaceuticals Division" ("Impax Division").

The Global Division develops, manufactures, sells, and distributes generic pharmaceutical products primarily through four sales channels: the "Global products" sales channel, for generic pharmaceutical prescription products the Company sells directly to wholesalers, large retail drug chains, and others; the "Private Label" sales channel, for generic pharmaceutical over-the-counter ("OTC") and prescription products the Company sells to unrelated third-party customers who in turn sell the product to third parties under their own label; the "Rx Partner" sales channel, for generic prescription products sold through unrelated third-party pharmaceutical entities under their own label pursuant to alliance agreements; and the "OTC Partner" sales channel, for generic pharmaceutical OTC products sold through unrelated third-party pharmaceutical entities under their own labels pursuant to alliance and supply agreements. Revenues from the "Global Products" sales channel and the "Private Label" sales channel are reported under the caption "Global Product sales, net" in "Note 18 – Supplementary Financial Information." The Company also generates revenue from research and development services provided under a joint development agreement with an unrelated third-party pharmaceutical company, and reports such revenue under the caption "Other Revenues" in "Note 18 – Supplementary Financial Information." The Company provides these services through the research and development group in the Global Division. Revenues from the "OTC Partner" sales channel are also reported under the caption "Other Revenues" in "Note 18 – Supplementary Financial Information."

The Impax Division is engaged in the development of proprietary brand pharmaceutical products that the Company believes represent improvements to already-approved pharmaceutical products addressing central nervous system ("CNS") disorders. The Impax Division currently has one internally developed late stage branded pharmaceutical product candidate, RYTARY™ (IPX066), an extended release capsule formulation of carbidopa-levodopa for the symptomatic treatment of Parkinson's disease, for which the New Drug Application ("NDA") was accepted for filing by the U.S. Food and Drug Administration ("FDA") in February 2012 and for which the Company received a Complete Response Letter from the FDA in January 2013. The Company is currently working with the FDA on the appropriate next steps for the RYTARY™ NDA. The Company has also initiated the preparation of required documents for a European Market Authorization Application filing for RYTARY™, currently targeted for filing during the second half of 2014. In addition to RYTARY™, the Impax Division has a number of other product candidates that are in varying stages of development. The Impax Division is also engaged in the sale and distribution of Zomig® (zolmitriptan) products, indicated for the treatment of migraine headaches, under the terms of a Distribution, License, Development and Supply Agreement ("AZ Agreement") with AstraZeneca UK Limited ("AstraZeneca") in the United States and in certain U.S. territories. Revenues from Impax-labeled branded Zomig® products are reported under the caption "Impax Product sales, net" in "Note 18 – Supplementary Financial Information." Finally, the Company generates revenue in the Impax Division from research and development services provided under a development and license agreement with

another unrelated third-party pharmaceutical company, and reports such revenue under the caption “Other Revenues” in “Note 18 – Supplementary Financial Information.”

In California, the Company utilizes a combination of owned and leased facilities mainly located in Hayward. The Company’s primary properties in California consist of a leased office building used as the Company’s corporate headquarters, in addition to five properties it owns, including a research and development center facility and a manufacturing facility. Additionally, the Company leases two facilities in Hayward, utilized for additional research and development, administrative services, and equipment storage. In Pennsylvania, the Company owns a packaging, warehousing, and distribution center located in Philadelphia and leases a facility in New Britain used for sales and marketing, finance, and administrative personnel, as well as providing additional warehouse space. Outside the United States, in Taiwan, Republic of China (“R.O.C.”), the Company owns a manufacturing facility.

The accompanying unaudited interim consolidated financial statements of the Company, have been prepared based upon United States Securities and Exchange Commission (“SEC”) rules permitting reduced disclosure for interim periods, and include all adjustments necessary for a fair presentation of statements of operations, statements of comprehensive income, statements of cash flows, and financial condition for the interim periods shown, including normal recurring accruals and other items, noted below. While certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to SEC rules and regulations, the Company believes the disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements of the Company include the accounts of the operating parent company, Impax Laboratories, Inc., its wholly owned subsidiaries, including Impax Laboratories (Taiwan) Inc., Impax Laboratories USA, LLC, ThoRx Laboratories, Inc. and Impax Laboratories (Netherlands) BV, and an equity investment in Prohealth Biotech, Inc. (“Prohealth”), in which the Company held a 57.54% majority ownership interest at September 30, 2013. All significant intercompany accounts and transactions have been eliminated.

The unaudited results of operations and cash flows for the interim period are not necessarily indicative of the expected results of the Company's operations for any other interim period or for the full year ending December 31, 2013. The unaudited interim consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC, wherein a more complete discussion of significant accounting policies and certain other information can be found.

The preparation of financial statements in conformity with GAAP and the rules and regulations of the SEC requires the use of estimates and assumptions, based on complex judgments considered reasonable, which affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant judgments are employed in estimates used in determining values of tangible and intangible assets, legal contingencies, tax assets and tax liabilities, fair value of share-based compensation related to equity incentive awards issued to employees and directors, and estimates used in applying the Company's revenue recognition policy including those related to accrued chargebacks, rebates, product returns, Medicare, Medicaid, and other government rebate programs, shelf-stock adjustments, and the timing and amount of deferred and recognized revenue and deferred and amortized product manufacturing costs related to alliance and collaboration agreements. Actual results may differ from estimated results. Certain prior year amounts have been reclassified to conform to the current year presentation.

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, covering a wide range of matters, including, among others, patent litigation, and product and clinical trial liability. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 450, "Contingencies," the Company records accrued loss contingencies when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company, in accordance with FASB ASC Topic 450, does not recognize gain contingencies until realized.

Workforce reduction

On June 4, 2013, the Company committed to a reduction in the Company's workforce, eliminating approximately 110 positions, with the majority of these positions at the Company's Hayward, California manufacturing facility. The reduction in workforce is part of the Company's efforts to streamline its operations in response to the need to reduce expenses and adapt to changing market conditions. The Company recorded an accrual for severance and related termination costs of $3.0 million in the three month period ended June 30, 2013 as a result of this workforce reduction. As of September 30, 2013, payments of $2.6 million were made and the Company currently expects the remainder of this balance to be paid before December 31, 2013.

CEO transition

On June 25, 2013, the Company announced that Dr. Larry Hsu plans to retire as President and Chief Executive Officer of Impax. Dr. Hsu is expected to remain with the Company in his current position until a replacement has been

appointed. Dr. Hsu is also expected to remain as a member of the Board of Directors after his retirement from the Company. In connection with his retirement, Dr. Hsu entered into a Separation Agreement with the Company dated June 24, 2013 (the "Agreement"). Pursuant to the Agreement, the Company will provide Dr. Hsu with certain termination benefits and payments. The Company recorded a $5.0 million accrual for costs associated with Dr. Hsu's retirement in the three month period ended June 30, 2013, comprised of $2.7 million of separation pay and benefits and $2.3 million of accelerated expense related to Dr. Hsu's outstanding stock options and restricted stock. Refer to "Note 13 – Share-based Compensation" for more information on the acceleration of Dr. Hsu's equity awards.

2. REVENUE RECOGNITION

The Company recognizes revenue when the earnings process is complete, which under SEC Staff Accounting Bulletin No. 104, Topic No. 13, "Revenue Recognition" ("SAB 104"), is when revenue is realized or realizable and earned, there is persuasive evidence a revenue arrangement exists, delivery of goods or services has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company accounts for revenue arrangements with multiple deliverables in accordance with FASB ASC Topic 605-25, revenue recognition for arrangements with multiple elements, which addresses the determination of whether an arrangement involving multiple deliverables contains more than one unit of accounting. A delivered item within an arrangement is considered a separate unit of accounting only if both of the following criteria are met:

- the delivered item has value to the customer on a stand-alone basis; and
- if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor.

Under FASB ASC Topic 605-25, if both of the criteria above are not met, then separate accounting for the individual deliverables is not appropriate. Revenue recognition for arrangements with multiple deliverables constituting a single unit of accounting is recognized generally over the greater of the term of the arrangement or the expected period of performance, either on a straight-line basis or on a modified proportional performance basis.

The Company accounts for milestones related to research and development activities in accordance with FASB ASC Topic 605-28, milestone method of revenue recognition. FASB ASC Topic 605-28 allows for the recognition of consideration, which is contingent on the achievement of a substantive milestone, in its entirety in the period the milestone is achieved. A milestone is considered to be substantive if all of the following criteria are met: the milestone is commensurate with either: (1) the performance required to achieve the milestone, or (2) the enhancement of the value of the delivered items resulting from the performance required to achieve the milestone; the milestone relates solely to past performance; and, the milestone is reasonable relative to all of the deliverables and payment terms within the agreement.

Global Product sales, net, and Impax Product sales, net:

Global Product sales, net and Impax Product sales, net include revenue recognized related to shipments of generic and branded pharmaceutical products to the Company's customers, primarily drug wholesalers and retail chains. Gross sales revenue is recognized at the time title and risk of loss passes to the customer, which is generally when product is received by the customer. Global and Impax Product revenue, net may include deductions from the gross sales price related to estimates for chargebacks, rebates, distribution service fees, returns, shelf-stock, and other pricing

adjustments. The Company records an estimate for these deductions in the same period when the revenue is recognized. A summary of each of these deductions is as follows:

Chargebacks

The Company has agreements establishing contract prices for certain products with certain indirect customers, such as managed care organizations, hospitals and government agencies who purchase products from drug wholesalers. The contract prices are lower than the prices the customer would otherwise pay to the wholesaler, and the price difference is referred to as a chargeback, which generally takes the form of a credit memo issued by the Company to reduce the invoiced gross selling price charged to the wholesaler. An estimated accrued provision for chargeback deductions is recognized at the time of product shipment. The primary factors considered when estimating the provision for chargebacks are the average historical chargeback credits given, the mix of products shipped, and the amount of inventory on hand at the major drug wholesalers with whom the Company does business. The Company also monitors actual chargebacks granted and compares them to the estimated provision for chargebacks to assess the reasonableness of the chargeback reserve at each quarterly balance sheet date.

2. REVENUE RECOGNITION (continued)

Rebates

The Company maintains various rebate programs with its customers in an effort to maintain a competitive position in the marketplace and to promote sales and customer loyalty. The rebates generally take the form of a credit memo to reduce the invoiced gross selling price charged to a customer for products shipped. An estimated accrued provision for rebate deductions is recognized at the time of product shipment. The primary factors the Company considers when estimating the provision for rebates are the average historical experience of aggregate credits issued, the mix of products shipped and the historical relationship of rebates as a percentage of total gross product sales, the contract terms and conditions of the various rebate programs in effect at the time of shipment, and the amount of inventory on hand at the major drug wholesalers with whom the Company does business. The Company also monitors actual rebates granted and compares them to the estimated provision for rebates to assess the reasonableness of the rebate reserve at each quarterly balance sheet date.

Distribution Service Fees

The Company pays distribution service fees to several of its wholesaler customers related to sales of its Impax Products. The wholesalers are generally obligated to provide the Company with periodic outbound sales information as well as inventory levels of the Company's Impax Products held in their warehouses. Additionally, the wholesalers have agreed to manage the variability of their purchases and inventory levels within specified days on hand limits. An accrued provision for distribution service fees is recognized at the time products are shipped to wholesalers.

Returns

The Company allows its customers to return product if approved by authorized personnel in writing or by telephone with the lot number and expiration date accompanying any request and if such products are returned within six months prior to or until twelve months following, the products' expiration date. The Company estimates and recognizes an accrued provision for product returns as a percentage of gross sales based upon historical experience. The product return reserve is estimated using a historical lag period, which is the time between when the product is sold and when it is ultimately returned and estimated return rates which may be adjusted based on various assumptions including changes to internal policies and procedures, changes in business practices, and commercial terms with customers, competitive position of each product, amount of inventory in the wholesaler supply chain, the introduction of new products, and changes in market sales information. The Company also considers other factors, including significant market changes which may impact future expected returns, and actual product returns. The Company monitors actual returns on a quarterly basis and may record specific provisions for returns it believes are not covered by historical percentages.

Shelf-Stock Adjustments

Based upon competitive market conditions, the Company may reduce the selling price of certain Global Division products. The Company may issue a credit against the sales amount to a customer based upon their remaining inventory of the product in question, provided the customer agrees to continue to make future purchases of product from the Company. This type of customer credit is referred to as a shelf-stock adjustment, which is the difference between the original selling price and the revised lower sales price, multiplied by an estimate of the number of product units on hand at a given date. Decreases in selling prices are discretionary decisions made by the Company in response to market conditions, including estimated launch dates of competing products and declines in market price. The Company records an estimate for shelf-stock adjustments in the period it agrees to grant such a credit memo to a customer.

Medicaid and Other Government Pricing Programs

As required by law, the Company provides a rebate on drugs dispensed under the Medicaid program, Medicare Part D, TRICARE, and other U.S. government pricing programs. The Company determines its estimated government rebate accrual primarily based on historical experience of claims submitted by the various states and other jurisdictions and any new information regarding changes in the various programs which may impact the Company's estimate of government rebates. In determining the appropriate accrual amount, the Company considers historical payment rates and processing lag for outstanding claims and payments. The Company records estimates for government rebates as a deduction from gross sales, with corresponding adjustment to accrued liabilities.

2. REVENUE RECOGNITION (continued)

Cash Discounts

The Company offers cash discounts to its customers, generally 2% of the gross selling price, as an incentive for paying within invoice terms, which generally range from 30 to 90 days. An estimate of cash discounts is recorded in the same period when revenue is recognized.

Rx Partner and OTC Partner:

The Rx Partner and OTC Partner contracts include revenue recognized under alliance and collaboration agreements between the Company and unrelated third-party pharmaceutical companies. The Company has entered into these alliance agreements to develop marketing and/or distribution relationships with its partners to fully leverage its technology platform.

The Rx Partners and OTC Partners alliance agreements obligate the Company to deliver multiple goods and/or services over extended periods. Such deliverables include manufactured pharmaceutical products, exclusive and semi-exclusive marketing rights, distribution licenses, and research and development services. In exchange for these deliverables, the Company receives payments from its agreement partners for product shipments and research and development services, and may also receive other payments including royalty, profit sharing, upfront, and periodic milestone payments. Revenue received from the alliance agreement partners for product shipments under these agreements is not subject to deductions for chargebacks, rebates, product returns, and other pricing adjustments. Royalty and profit sharing amounts the Company receives under these agreements are calculated by the respective agreement partner, with such royalty and profit share amounts generally based upon estimates of net product sales or gross profit which include estimates of deductions for chargebacks, rebates, product returns, and other adjustments the alliance agreement partners may negotiate with their respective customers. The Company records the alliance agreement partner's adjustments to such estimated amounts in the period the agreement partner reports the amounts to the Company.

The Company applies the updated guidance of ASC 605-25 “Multiple Element Arrangements” to the Strategic Alliance Agreement with Teva Pharmaceuticals Curacao N.V., a subsidiary of Teva Pharmaceutical Industries Limited (“Teva Agreement”). The Company looks to the underlying delivery of goods and/or services which give rise to the payment of consideration under the Teva Agreement to determine the appropriate revenue recognition. The Company initially defers consideration received as a result of research and development-related activities performed under the Teva Agreement. The Company recognizes deferred revenue on a straight-line basis over the Company’s expected period of performance of such services. Consideration received as a result of the manufacture and delivery of products under the Teva Agreement is recognized at the time title and risk of loss passes to the customer which is generally when product is received by Teva. The Company recognizes profit share revenue in the period earned.

OTC Partner revenue is related to agreements with Pfizer Inc. (formerly Wyeth) and L. Perrigo Company with respect to the supply of over-the-counter pharmaceutical products. The OTC Partner sales channel is no longer a core area of the business, and the over-the-counter pharmaceutical products the Company sells through this sales channel are older products which are only sold to Pfizer and Perrigo, and which are currently sold at a loss. The Company is currently only required to manufacture the over-the-counter pharmaceutical products under its agreements with Pfizer and Perrigo. In order to avoid deferring the losses incurred upon shipment of these products to Pfizer and Perrigo, the Company recognizes revenue, and the associated manufacturing costs, at the time title and risk of loss passes to Pfizer or Perrigo, as applicable, which is generally when the product is shipped. The Company recognizes profit share revenue in the period earned.

2. REVENUE RECOGNITION (continued)

Research Partner:

The Research Partner contracts include revenue recognized under development agreements with unrelated third-party pharmaceutical companies. The development agreements generally obligate the Company to provide research and development services over multiple periods. In exchange for this service, the Company received upfront payments upon signing of each development agreement and is eligible to receive contingent milestone payments, based upon the achievement of contractually specified events. Additionally, the Company may also receive royalty payments from the sale, if any, of a successfully developed and commercialized product under one of these development agreements. The Company recognizes revenue received from the provision of research and development services, including the upfront payment and the milestone payments received before January 1, 2011 on a straight-line basis over the expected period of performance of the research and development services. The Company recognizes revenue received from the achievement of contingent research and development milestones after January 1, 2011 in the period such payment is earned. Royalty fee income, if any, will be recognized by the Company in the period when the revenue is earned.

Promotional Partner:

The Promotional Partner contract includes revenue recognized under a promotional services agreement with an unrelated third-party pharmaceutical company. The promotional services agreement obligated the Company to provide physician detailing sales calls services to promote certain of the unrelated third-party company's branded drug products. The Company received service fee revenue in exchange for providing this service. The Company recognized revenue from providing physician detailing sales calls services as the services were provided. The Company's obligation to provide physician detailing sales calls under the promotional services agreement ended on June 30, 2012.

Shipping and Handling Fees and Costs

Shipping and handling fees related to sales transactions are recorded as selling expense.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued its updated guidance on balance sheet offsetting. This new standard provides guidance to determine when offsetting in the balance sheet is appropriate. The guidance is designed to enhance disclosures by requiring improved information about financial instruments and derivative instruments. The goal is to provide users of the financial statements the ability to evaluate the effect or potential effect of netting arrangements on an entity's statement of financial position. This guidance will only impact the disclosures within an entity's financial statements and notes to the financial statements and does not result in a change to the accounting treatment of financial instruments and derivative instruments. The Company adopted this guidance on January 1, 2013, and it did not have a material impact on the Company’s consolidated financial statements.

In March 2013, the FASB issued updated guidance on foreign currency matters. The update applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. The Company is required to adopt this guidance on January 1, 2014 and does not expect the adoption to have a material effect on its consolidated financial statements.

4. INVESTMENTS

Investments consist of commercial paper, corporate bonds and government sponsored enterprise obligations. The Company’s policy is to invest in only high quality “AAA-rated” or investment-grade securities. Investments in debt securities are accounted for as “held-to-maturity’ and are recorded at amortized cost, which approximates fair value, generally based upon observable market values of similar securities. The Company has historically held all investments in debt securities until maturity, and has the ability and intent to continue to do so. All of the Company’s investments have remaining contractual maturities of less than 12 months and are classified as short-term. Upon maturity, the Company uses a specific identification method.

A summary of short-term investments as of September 30, 2013 and December 31, 2012 is as follows:

(in $000’s)	**Amortized**	**Gross**	**Gross**	**Fair**
		Unrecognized	Unrecognized	
September 30, 2013	**Cost**	**Gains**	**Losses**	**Value**
Commercial paper	$ 67,947	$ 17	$ --	$ 67,964

Corporate bonds	135,570	14	(31)	135,553
Total short-term investments	$ 203,517	$ 31	$ (31)	$ 203,517

(in $000's)	**Amortized**	**Gross** Unrecognized	**Gross** Unrecognized	**Fair**
December 31, 2012	**Cost**	**Gains**	**Losses**	**Value**
Commercial paper	$ 70,140	$ 28	$ --	$ 70,168
Government sponsored enterprise obligations	9,994	4	--	9,998
Corporate bonds	76,622	23	(12)	76,633
Total short-term investments	$ 156,756	$ 55	$ (12)	$ 156,799

5. ACCOUNTS RECEIVABLE

The composition of accounts receivable, net is as follows:

(in $000's)	September 30, 2013	December 31, 2012
Gross accounts receivable	$ 244,078	$ 167,696
Less: Rebate reserve	(71,119)	(46,011)
Less: Chargeback reserve	(30,616)	(18,410)
Less: Other deductions	(8,837)	(11,026)
Accounts receivable, net	$ 133,506	$ 92,249

A roll forward of the rebate and chargeback reserves activity for the nine months ended September 30, 2013 and the year ended December 31, 2012 is as follows:

(in $000's)	September 30,	December 31,
Rebate reserve	**2013**	**2012**
Beginning balance	$ 46,011	$ 29,164
Provision recorded during the period	124,440	111,099
Credits issued during the period	(99,332)	(94,252)
Ending balance	$ 71,119	$ 46,011

(in $000's)	September 30,	December 31,
Chargeback reserve	**2013**	**2012**
Beginning balance	$ 18,410	$ 22,161
Provision recorded during the period	271,114	209,452
Credits issued during the period	(258,908)	(213,203)
Ending balance	$ 30,616	$ 18,410

Other deductions include allowance for uncollectible amounts and cash discounts. The Company maintains an allowance for doubtful accounts for estimated losses resulting from amounts deemed to be uncollectible from its customers, with such allowances for specific amounts on certain accounts. The Company had an allowance for uncollectible amounts of $539,000 and $553,000 at September 30, 2013 and December 31, 2012, respectively.

15

6. INVENTORY

Inventory is stated at the lower of cost or market. Cost is determined using a standard cost method, and the cost flow assumption is first in, first out ("FIFO") flow of goods. Standard costs are revised annually, and significant variances between actual costs and standard costs are apportioned to inventory and cost of goods sold based upon inventory turnover. Costs include materials, labor, quality control, and production overhead. Inventory is adjusted for short-dated, unmarketable inventory equal to the difference between the cost of inventory and the estimated value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Consistent with industry practice, the Company may build pre-launch inventories of certain products which are pending required approval from the FDA and/or resolution of patent infringement litigation, when, in the Company's assessment, such action is appropriate to increase the commercial opportunity and FDA approval is expected in the near term and/or the litigation will be resolved in the Company's favor. The Company accounts for all costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) as a current period charge in accordance with GAAP.

Inventory, net of carrying value reserves at September 30, 2013 and December 31, 2012 consisted of the following:

(in $000's)	**September 30,**	**December 31,**
	2013	2012
Raw materials	$ 31,633	$ 31,884
Work in process	2,162	4,005
Finished goods	55,619	60,956
Total inventory	89,414	96,845
Less: Non-current inventory	8,494	7,081
Total inventory-current	$ 80,920	$ 89,764

Inventory carrying value reserves were $26,300,000 and $5,231,000 at September 30, 2013 and December 31, 2012, respectively. During the three month period ended March 31, 2013, the Company decided to discontinue the manufacture and distribution of certain unprofitable products after the Company conducted a strategic review of its currently manufactured generic product portfolio. As a result of this decision, the Company recorded an inventory reserve of $6.7 million related to the discontinued products. In addition, upon receipt of the Complete Response Letter for RYTARY™, the Company evaluated the impact of the expected delay of FDA approval on its ability to sell the associated inventory. The Company determined that a reserve of $5.0 million was appropriate and recorded this amount in the three month period ended March 31, 2013. During the three month period ended March 31, 2013, the Company also recorded a $6.4 million reserve for pre-launch inventory of a product manufactured for another third-party pharmaceutical company due to the anticipated delayed launch of such product as a result of the warning letter related to our Hayward, California manufacturing facility. The carrying value of unapproved inventory less reserves was $6,644,000 and $12,106,000 at September 30, 2013 and December 31, 2012, respectively.

The Company recognizes pre-launch inventories at the lower of its cost or the expected net selling price. Cost is determined using a standard cost method, which approximates actual cost, and assumes a FIFO flow of goods. Costs of unapproved products are the same as approved products and include materials, labor, quality control, and production overhead. When the Company concludes that FDA approval is expected within approximately six months for a drug product candidate, the Company may begin to schedule manufacturing process validation studies as required by the FDA to demonstrate the production process can be scaled up to manufacture commercial batches. Consistent with industry practice, the Company may build quantities of unapproved product inventory pending final FDA approval and/or resolution of patent infringement litigation, when, in the Company's assessment, such action is appropriate to increase its commercial product opportunity, and FDA approval is expected in the near term, and/or the litigation will be resolved in the Company's favor. The capitalization of unapproved pre-launch inventory involves risks, including, among other items, FDA approval may not occur; approvals may require additional or different testing and/or specifications than used for unapproved inventory, and in cases where the unapproved inventory is for a product subject to litigation, the litigation may not be resolved or settled in the Company's favor. If any of these risks materialize and the launch of the unapproved product inventory is delayed or prevented, then the net carrying value of unapproved inventory may be partially or fully reserved. Generally, the selling price of a generic pharmaceutical product is at discount from the corresponding brand product selling price. Typically, a generic drug is easily substituted for the corresponding brand product, and once a generic product is approved, the pre-launch inventory is typically sold within the next three months. If the market prices become lower than the product inventory carrying costs, then the pre-launch inventory value is reduced to such lower market value. If the inventory produced exceeds the estimated market acceptance of the generic product and becomes short-dated, a carrying value reserve will be recorded. In all cases, the carrying value of the Company's pre-launch product inventory is lower than the respective estimated net selling prices.

To the extent inventory is not scheduled to be utilized in the manufacturing process and/or sold within twelve months of the balance sheet date, it is included as a component of other non-current assets. Amounts classified as non-current inventory consist of raw materials, net of valuation reserves. Raw materials generally have a shelf life of approximately three to five years, while finished goods generally have a shelf life of approximately two years.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following:

(in $000's)	**September 30,**	**December 31,**
	2013	2012
Land	$ 5,773	$ 5,773
Buildings and improvements	135,613	130,995
Equipment	114,299	110,353
Office furniture and equipment	11,521	10,558
Construction-in-progress	10,981	9,843
Property, plant and equipment, gross	$ 278,187	$ 267,522
Less: Accumulated depreciation	(98,302)	(86,764)
Property, plant and equipment, net	$ 179,885	$ 180,758

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill was $27,574,000 at September 30, 2013 and December 31, 2012, and the Company attributes the entire carrying amount of goodwill to the Global Division. Goodwill is tested at least annually for impairment or whenever events or changes in circumstances have occurred which could have a material adverse effect on the estimated fair value of the reporting unit, and thus indicate a potential impairment of the goodwill carrying value. The Company concluded the carrying value of goodwill was not impaired as of December 31, 2012.

Intangible assets consisted of the following:

(in $000's) **September 30, 2013**	**Initial Cost**	**Accumulated Amortization**	**Impairment**	**Carrying Value**
Amortized intangible assets:				
Zomig® product rights	$42,045	$ (28,173)	$ ---	$ 13,872
Tolmar product rights	19,450	(2,020)	(13,156)	4,274
Other product rights	2,250	---	(750)	1,500
Total intangible assets	$63,745	$ (30,193)	$ (13,906)	$ 19,646

(in $000's) **December 31, 2012**	**Initial Cost**	**Accumulated Amortization**	**Impairment**	**Carrying Value**
Amortized intangible assets:				
Zomig® product rights	$45,096	$ (17,987)	$ ---	$ 27,109
Tolmar product rights	19,450	(859)	---	18,591
Other product rights	2,250	---	---	2,250
Total intangible assets	$66,796	$ (18,846)	$ ---	$ 47,950

The Zomig® product rights under the Distribution, License, Development and Supply Agreement ("AZ Agreement") with AstraZeneca UK Limited ("AstraZeneca") were amortized on a straight-line basis over a period of 14 months starting in April 2012 and ending upon the expiration of the underlying patent for the tablet and over a period of 11 months starting in July 2012 and ending upon the expiration of the underlying patent for the orally disintegrating tablet. The Zomig® product rights under the AZ Agreement are also being amortized over a period of 72 months starting in July 2012 for the nasal spray. The initial cost of the Zomig® product rights was adjusted during the three month period ended June 30, 2013 as a result of certain gross to net adjustments which were recorded during the second quarter of 2013 as more information became available. In June 2012, the Company entered into a Development, Supply and Distribution Agreement (the "Tolmar Agreement") with TOLMAR, Inc. ("Tolmar"). Under the terms of the Tolmar Agreement, Tolmar granted to the Company an exclusive license to commercialize up to 11

generic topical prescription drug products, including ten currently approved products and one product pending approval at the FDA, in the United States and its territories. Under the terms of the Tolmar Agreement, Tolmar is responsible for developing and manufacturing the products, and the Company is responsible for the marketing and sale of the products. During the three month period ended September 30, 2013, as a result of the most recent market share data obtained by the Company and the Company's revised five year projections for the Tolmar product lines, the Company performed an intangible asset impairment test on the Tolmar products. Based on the results of the impairment analysis, the Company recorded a $13.2 million impairment charge to cost of revenues for the Global Division in the three month period ended September 30, 2013, which brought the intangible asset down to its estimated fair value. The remaining carrying value of the Tolmar product rights are being amortized over the remaining estimated useful lives of the underlying products over a period ranging from five to 12 years, starting upon commencement of commercialization activities by the Company during the year ended December 31, 2012. Information concerning the AZ Agreement and the Tolmar Agreement can be found in "Note 12 - Alliance and Collaboration Agreements." Other product rights consist of Abbreviated New Drug Applications ("ANDAs") which have been filed with the FDA. During the three month period ended September 30, 2013, as a result of a decision by management to withdraw one of these ANDAs and no longer seek FDA approval, the Company recorded an intangible asset impairment charge of $0.8 million in research and development expense, representing the full carrying value of the ANDA. For the remaining ANDA, the Company will either commence amortization upon FDA approval and commercialization over the estimated useful life of the product rights, or will expense the related costs immediately upon failure to obtain FDA approval. Amortization expense is included as a component of cost of revenues on the consolidated statement of operations and was $1,032,000 and $11,347,000 for the three and nine month periods ended September 30, 2013, respectively.

The following schedule shows the expected amortization of the Zomig® and Tolmar product rights as of September 30, 2013 for the next five years and thereafter:

(in $000s)	**Amortization Expense**
2013	$ 857
2014	3,427
2015	3,427
2016	3,427
2017	3,352
Thereafter	3,656
Totals	$ 18,146

9. ACCRUED EXPENSES, COMMITMENTS AND CONTINGENCIES

The following table sets forth the Company's accrued expenses:

(in $000's)	**September 30,**	**December 31,**
	2013	2012
Payroll-related expenses	$ 24,741	$ 22,553
Product returns	27,212	23,440
Government rebates	17,055	33,794
Legal and professional fees	8,731	3,993
Clinical trial costs	19	1,610
Income taxes payable	37,023	1,541
Physician detailing sales force fees	1,542	1,471
Other	6,473	4,340
Total accrued expenses	$ 122,796	$ 92,742

Product Returns

The Company maintains a return policy to allow customers to return product within specified guidelines. At the time of sale, the Company estimates a provision for product returns based upon historical experience for sales made through its Global Products and Impax Products sales channels. Sales of product under the Private Label, Rx Partner and OTC Partner alliance and collaboration agreements are generally not subject to returns. A roll forward of the product return reserve for the nine month period ended September 30, 2013 and the year ended December 31, 2012 is as follows:

(in $000's)	**September 30,**	**December 31,**
Returns Reserve	**2013**	**2012**
Beginning balance	$ 23,440	$ 24,101
Provision related to sales recorded in the period	8,802	3,003
Credits issued during the period	(5,030)	(3,664)
Ending balance	$ 27,212	$ 23,440

Taiwan Facility Construction

The Company has entered into several contracts relating to ongoing construction at its manufacturing facility located in Jhunan, Taiwan, R.O.C. As of September 30, 2013, the Company had remaining obligations under these contracts of approximately $14,627,000.

Purchase Order Commitments

As of September 30, 2013, the Company had $28,202,000 of open purchase order commitments, primarily for raw materials. The terms of these purchase order commitments are less than one year in duration.

10. INCOME TAXES

The Company calculates its interim income tax provision in accordance with FASB ASC Topics 270 and 740. At the end of each interim period, the Company makes an estimate of the annual United States domestic and foreign jurisdictions' expected effective tax rates and applies these rates to its respective year-to-date taxable income or loss. The computation of the annual estimated effective tax rates at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in the United States, and the various state and local tax jurisdictions, as well as tax jurisdictions outside the United States, along with permanent differences, and the likelihood of deferred tax asset utilization. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired or additional information is obtained. The computation of the annual estimated effective tax rate includes modifications, which were projected for the year, for share-based compensation and federal and state research and development credits, among others. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the respective change occurs.

During the nine month period ended September 30, 2013, the Company recognized an aggregate consolidated tax provision of $51,894,000 for United States domestic and foreign income taxes. In the nine month period ended September 30, 2012, the Company recognized an aggregate consolidated tax provision of $27,166,000 for United States domestic and foreign income taxes. The increase in the tax provision resulted from higher consolidated income before taxes in the nine month period ended September 30, 2013, as compared to the same period in the prior year. The effective tax rate of 32% for the nine month period ended September 30, 2013 was lower than the effective tax rate of 35% for the prior year period primarily as a result of recording the estimated 2012 federal research and development credit, which was enacted retroactively in January 2013, in the nine month period ended September 30, 2013, as well as the partial year 2013 estimated federal research and development credit recorded in the nine month period ended September 30, 2013, which was not available for the same period last year due to the expiration of the credit.

11. REVOLVING LINE OF CREDIT

The Company has a Credit Agreement, as amended (the "Credit Agreement") with Wells Fargo Bank, N.A., as a lender and as administrative agent (the "Administrative Agent"). The Credit Agreement provides the Company with a revolving line of credit in the aggregate principal amount of up to $50,000,000 (the "Revolving Credit Facility"). Under the Revolving Credit Facility, up to $10,000,000 is available for letters of credit, the outstanding face amounts of which reduce availability under the Revolving Credit Facility on a dollar for dollar basis. Proceeds under the Credit Agreement may be used for working capital, general corporate and other lawful purposes. The Company has not yet borrowed any amounts under the Revolving Credit Facility.

The Company's borrowings under the Credit Agreement are secured by substantially all of the personal property assets of the Company pursuant to a Security Agreement (the "Security Agreement") entered into by the Company and the Administrative Agent. As further security, the Company also pledged to the Administrative Agent, 65% of the Company's equity interest in its wholly owned subsidiary Impax Laboratories (Taiwan), Inc., all of the Company's equity interests in its wholly owned domestic subsidiaries and must similarly pledge all or a portion of its equity interest in future subsidiaries. Under the Credit Agreement, among other things:

The outstanding principal amount of all revolving credit loans, together with accrued and unpaid interest thereon, will be due and payable on the maturity date, which will occur four years following the February 11, 2011 closing date.

Borrowings under the Revolving Credit Facility will bear interest, at the Company's option, at either an Alternate Base Rate (as defined in the Credit Agreement) plus the applicable margin in effect from time to time ranging from 0.5% to 1.5%, or a LIBOR Rate (as defined in the Credit Agreement) plus the applicable margin in effect from time to time ranging from 1.5% to 2.5%. The Company is also required to pay an unused commitment fee ranging from 0.25% to 0.45% per annum based on the daily average undrawn portion of the Revolving Credit Facility. The applicable margin described above and the unused commitment fee in effect at any given time will be determined based on the Company's Total Net Leverage Ratio (as defined in the Credit Agreement), which is based upon the Company's consolidated total debt, net of unrestricted cash in excess of $100 million, compared to Consolidated EBITDA (as defined in the Credit Agreement) for the immediately preceding four quarters.

The Company may prepay any outstanding loan under the Revolving Credit Facility without premium or penalty.

The Company is required under the Credit Agreement and the Security Agreement to comply with a number of affirmative, negative and financial covenants. Among other things, these covenants (i) require the Company to provide periodic reports, notices of material events and information regarding collateral, (ii) restrict the Company's ability, subject to certain exceptions and baskets, to incur additional indebtedness, grant liens on assets, undergo fundamental changes, change the nature of its business, make investments, undertake acquisitions, sell assets, make restricted payments (including the ability to pay dividends and repurchase stock) or engage in affiliate transactions,

and (iii) require the Company to maintain a Total Net Leverage Ratio (which is, generally, total funded debt, net of unrestricted cash in excess of $100 million, over EBITDA for the preceding four quarters) of less than 3.75 to 1.00, a Senior Secured Leverage Ratio (which is, generally, total senior secured debt over EBITDA for the preceding four quarters) of less than 2.50 to 1.00 and a Fixed Charge Coverage Ratio (which is, generally, EBITDA for the preceding four quarters over the sum of cash interest expense, cash tax payments, scheduled funded debt payments and capital expenditures during such four quarter period, subject to certain specified exceptions) of at least 2.00 to 1.00 (with each such ratio as more particularly defined as set forth in the Credit Agreement). As of September 30, 2013, the Company was in compliance with the various covenants contained in the Credit Agreement and the Security Agreement.

The Credit Agreement contains customary events of default (subject to customary grace periods, cure rights and materiality thresholds), including, among others, failure to pay principal, interest or fees, violation of covenants, material inaccuracy of representations and warranties, cross-default and cross-acceleration of material indebtedness and other obligations, certain bankruptcy and insolvency events, certain judgments, certain events related to the Employee Retirement Income Security Act of 1974, as amended, and a change of control.

11. REVOLVING LINE OF CREDIT (continued)

Following an event of default under the Credit Agreement, the Administrative Agent would be entitled to take various actions, including the acceleration of amounts due under the Credit Agreement and seek other remedies that may be taken by secured creditors.

During the nine month periods ended September 30, 2013 and 2012, unused line fees incurred under the Credit Agreement were $107,000 and $95,000, respectively.

12. ALLIANCE AND COLLABORATION AGREEMENTS

The Company has entered into several alliance, collaboration, license and distribution agreements, and similar agreements with respect to certain of its products and services, with unrelated third-party pharmaceutical companies. The consolidated statement of operations includes revenue recognized under agreements the Company has entered into to develop marketing and/or distribution relationships with its partners to fully leverage its technology platform, revenue recognized under development agreements which generally obligate the Company to provide research and development services over multiple periods, and revenue recognized under a promotional services agreement which obligates the Company to provide physician detailing sales calls services to promote its promotional partner's branded drug products over multiple periods.

The Company's alliance and collaboration agreements often include milestones and provide for milestone payments upon achievement of these milestones. Generally, the milestone events contained in the Company's alliance and collaboration agreements coincide with the progression of the Company's products and technologies from pre-commercialization to commercialization.

The Company groups pre-commercialization milestones in its alliance and collaboration agreements into clinical and regulatory categories, each of which may include the following types of events:

Clinical Milestone Events:

Designation of a development candidate. Following the designation of a development candidate, generally, IND-enabling animal studies for a new development candidate take 12 to 18 months to complete.

Initiation of a Phase I clinical trial. Generally, Phase I clinical trials take one to two years to complete.

Initiation or completion of a Phase II clinical trial. Generally, Phase II clinical trials take one to three years to complete.

Initiation or completion of a Phase III clinical trial. Generally, Phase III clinical trials take two to four years to complete.

Completion of a bioequivalence study. Generally, bioequivalence studies take three months to one year to complete.

Regulatory Milestone Events:

Filing or acceptance of regulatory applications for marketing approval such as a New Drug Application in the United States or Marketing Authorization Application in Europe. Generally, it takes six to twelve months to prepare and submit regulatory filings and approximately two months for a regulatory filing to be accepted for substantive review.

Marketing approval in a major market, such as the United States or Europe. Generally it takes one to three years after an application is submitted to obtain approval from the applicable regulatory agency.

Marketing approval in a major market, such as the United States or Europe for a new indication of an already-approved product. Generally it takes one to three years after an application for a new indication is submitted to obtain approval from the applicable regulatory agency.

Commercialization milestones in the Company's alliance and collaboration agreements may include the following types of events:

First commercial sale in a particular market, *such as in the United States or Europe*.

Product sales in excess of a pre-specified threshold, such as annual sales exceeding $100 million. The amount of time to achieve this type of milestone depends on several factors including but not limited to the dollar amount of the threshold, the pricing of the product and the pace at which customers begin using the product.

12. ALLIANCE AND COLLABORATION AGREEMENTS (continued)

License and Distribution Agreement with Shire

In January 2006, the Company entered into a License and Distribution Agreement with an affiliate of Shire Laboratories, Inc. ("Prior Shire Agreement"), under which the Company received a non-exclusive license to market and sell an authorized generic of Shire's Adderall XR® product ("AG Product") subject to certain conditions, but in any event by no later than January 1, 2010. The Company commenced sales of the AG Product in October 2009. On February 7, 2013, the Company entered into an Amended and Restated License and Distribution Agreement with Shire (the "Amended and Restated Shire Agreement"), which amended and restated the Prior Shire Agreement. The Amended and Restated Shire Agreement was entered into by the parties in connection with the settlement of the Company's litigation with Shire relating to Shire's supply of the AG Product to the Company under the Prior Shire Agreement. During the three month period ended March 31, 2013, the Company received a payment in the amount of $48,000,000 from Shire in connection with such litigation settlement, which was recorded in the first quarter of 2013 as other income on the consolidated statement of operations. The Amended and Restated Shire Agreement provides for Shire to supply the AG Product and for the Company to market and sell the AG Product subject to the terms and conditions thereof until the earlier of (i) the first commercial sale of the Company's generic equivalent product to Adderall XR® and (ii) September 30, 2014 (the "Supply Term"), subject to certain continuing obligations of the parties upon expiration or early termination of the Supply Term, including Shire's obligation to deliver AG Products still owed to the Company as of the end of the Supply Term. The Company is required to pay a profit share to Shire on sales of the AG Product, of which the Company owed a profit share payable to Shire of $16,235,000 and $66,951,000 on sales of the AG Product during the nine month periods ended September 30, 2013 and 2012, respectively, with a corresponding charge included in the cost of revenues line on the consolidated statement of operations.

Development, Supply and Distribution Agreement with TOLMAR, Inc.

In June 2012, the Company entered into the Tolmar Agreement with Tolmar. Under the terms of the Tolmar Agreement, Tolmar granted to the Company an exclusive license to commercialize up to 11 generic topical prescription drug products, including ten currently approved products and one product pending approval at the FDA, in the United States and its territories. Under the terms of the Tolmar Agreement, Tolmar is responsible for developing and manufacturing the products, and the Company is responsible for marketing and sale of the products. The Company is required to pay a profit share to Tolmar on sales of each product commercialized pursuant to the terms of the Tolmar Agreement. The Company paid Tolmar a $21,000,000 up-front payment upon signing of the agreement and a $1,000,000 milestone payment in the year ended December 31, 2012. The Company has the potential to pay up to $24,000,000 in additional contingent milestone payments if certain commercialization and regulatory events occur. The up-front payment for the Tolmar product rights has been allocated to the underlying topical products based upon the relative fair value of each product and is being amortized over the remaining estimated useful life of each underlying product, ranging from five to 12 years, starting upon commencement of commercialization activities by the Company during the second half of 2012. The amortization of the Tolmar product rights is included as a component of cost of revenues on the consolidated statement of operations. The Company initially allocated

$1,550,000 of the up-front payment to two products which are still in development and recorded such amount as in-process research and development expense in its results of operations for the year ended December 31, 2012. The Company similarly recorded the $1,000,000 milestone paid in the year ended December 31, 2012 as a research and development expense. Contingent milestone payments will be initially recognized in the period the triggering event occurs. Milestone payments which are contingent upon commercialization events will be accounted for as an additional cost of acquiring the product license rights. Milestone payments that are contingent upon regulatory approval events will be capitalized and amortized over the remaining estimated useful life of the approved product. As discussed in “Note 8 – Goodwill and Intangible Assets,” the Company recorded a $13.2 million intangible asset impairment charge to cost of revenues in the three month period ended September 30, 2013 related to the Tolmar product rights acquired under the Tolmar Agreement.

The Company entered into a Loan and Security Agreement with Tolmar in March 2012 (the “Tolmar Loan Agreement”), under which the Company has agreed to lend to Tolmar one or more loans through December 31, 2014, in an aggregate amount not to exceed $15,000,000. As of September 30, 2013, Tolmar has borrowed $11,000,000 under the Tolmar Loan Agreement. The outstanding principal amount of, including any accrued and unpaid interest on, the loans under the Tolmar Loan Agreement are payable by Tolmar beginning from March 31, 2017 through March 31, 2020 or the maturity date, in accordance with the terms therein. Tolmar may prepay all or any portion of the outstanding balance of the loans prior to the maturity date without penalty or premium.

Strategic Alliance Agreement with Teva

The Company entered into a Strategic Alliance Agreement with Teva in June 2001 ("Teva Agreement"). The Teva Agreement commits the Company to develop and manufacture, and Teva to distribute, a specified number of controlled release generic pharmaceutical products ("generic products"), each for a 10-year period. The Company identified the following deliverables under the Teva Agreement: (i) the manufacture and delivery of generic products; (ii) the provision of research and development activities (including regulatory services) related to each product; and (iii) market exclusivity associated with the products. In July 2010, the Teva Agreement was amended to terminate the provisions of the Teva Agreement with respect to the Omeprazole (generic to Prilosec®) 10mg, 20mg and 40mg products. Additionally, in exchange for the return of product rights, the Company agreed to pay to Teva a profit share on future sales of the fexofenadine HCI/pseudoephedrine (generic to Allegra-D®) product, if any, but in no event will such profit share payments exceed an aggregate amount of $3,000,000. The Company recognized previously deferred revenue related to the Teva Agreement of $981,000 in the nine month periods ended September 30, 2013 and 2012. No additional amounts were deferred during the nine month periods ended September 30, 2013 and 2012.

OTC Partners Alliance Agreement

In June 2002, the Company entered into a Development, License and Supply Agreement with Pfizer Inc. (formerly Wyeth) (the "Pfizer Agreement"), for a term of approximately 15 years, relating to the Company's Loratadine and Pseudoephedrine Sulfate 5 mg/120 mg 12-hour Extended Release Tablets and Loratadine and Pseudoephedrine Sulfate 10 mg/240 mg 24-hour Extended Release Tablets for the OTC market. The Pfizer Agreement included payments to the Company upon achievement of development milestones, as well as royalties paid to the Company by Pfizer on its sales of the product. Pfizer launched this product in May 2003 as Alavert® D-12 Hour. In February 2005, the agreement was partially cancelled with respect to the 24-hour Extended Release Product due to lower than planned sales volume. In December 2011, Pfizer and the Company entered into an agreement with L. Perrigo Company whereby the parties agreed that the Company would supply the Company's Loratadine and Pseudoephedrine Sulfate 5 mg/120 mg 12-hour Extended Release Tablets to Perrigo in the United States and its territories (the "Perrigo Agreement"). The Company previously developed the products, and is currently only responsible for manufacturing the products, and Pfizer and Perrigo are responsible for marketing and sale of the products. The Pfizer and Perrigo Agreements are no longer a core area of the Company's business, and the over-the-counter pharmaceutical products the Company sells under both agreements are older products which are only sold to Pfizer and to Perrigo, and which are sold at a loss, on a fully absorbed basis. The Company recognized previously deferred revenue of $2,126,000 and product manufacturing costs of $2,729,000 in the nine month period ended September 30, 2012, related to the Pfizer and Perrigo Agreements.

Joint Development Agreement with Valeant Pharmaceuticals International, Inc.

In November 2008, the Company and Valeant Pharmaceuticals International, Inc., formerly Medicis Pharmaceutical Corporation ("Valeant"), entered into a Joint Development Agreement ("Joint Development Agreement") and a License and Settlement Agreement. The Joint Development Agreement provides for the Company and Valeant to collaborate in the development of a total of five dermatology products, including four of the Company's generic products and one branded advanced form of Valeant's SOLODYN® product. Under the provisions of the Joint Development Agreement the Company received a $40,000,000 upfront payment, paid by Valeant in December 2008. The Company has also received an aggregate of $15,000,000 in milestone payments composed of two $5,000,000 milestone payments, paid by Valeant in March 2009 and September 2009, a $2,000,000 milestone payment paid by Valeant in December 2009, and a $3,000,000 milestone payment paid by Valeant in March 2011. The Company has the potential to receive up to an additional $8,000,000 of contingent regulatory milestone payments each of which the Company believes to be substantive, as well as the potential to receive royalty payments from sales, if any, by Valeant of its advanced form SOLODYN® brand product. Finally, to the extent the Company commercializes any of its four generic dermatology products covered by the Joint Development Agreement, the Company will pay to Valeant a gross profit share on sales of such products. The Company began selling one of the four dermatology products during the year ended December 31, 2011. During the three month period ended March 31, 2013, the Company extended the revenue recognition period for the Joint Development Agreement from the previous recognition period ending in November 2013 to December 2014, due to changes in the estimated timing of completion of certain research and development activities. This change was made on a prospective basis, and resulted in a reduced quarterly amount of revenue recognized in 2013, as compared to prior year quarters, and a reduced periodic amount of revenue to be recognized in future periods.

License, Development and Commercialization Agreement & Supply Agreement with Glaxo Group Limited

In December 2010, the Company entered into a License, Development and Commercialization Agreement with Glaxo Group Limited ("GSK"). Under the terms of the agreement with GSK, GSK received an exclusive license to develop and commercialize IPX066 (brand name RYTARY™ in the United States) throughout the world, except in the United States and Taiwan, and certain follow-on products at the option of GSK. Under the terms of the agreement, GSK paid an $11,500,000 upfront payment in December 2010, and the Company had the potential to receive up to $169,000,000 of contingent milestone payments. The upfront payment was recognized as revenue on a straight-line basis over the Company's expected period of performance to provide research and development services which ended on December 31, 2012. In April 2013, the Company and GSK announced that they were terminating their collaboration for the development and commercialization of IPX066 outside the United States and Taiwan as a result of delays in the anticipated regulatory approval and launch dates in countries in which GSK has rights to commercialize the product and terminated the License, Development and Commercialization Agreement. At the end of July 2013, GSK's rights to develop and commercialize IPX066 outside the United States and Taiwan were transferred back to the Company.

Distribution, License, Development and Supply Agreement with AstraZeneca UK Limited

In January 2012, the Company entered into the AZ Agreement with AstraZeneca. Under the terms of the AZ Agreement, AstraZeneca granted to the Company an exclusive license to commercialize the tablet, orally disintegrating tablet and nasal spray formulations of Zomig® (zolmitriptan) products for the treatment of migraine headaches in the United States and in certain U.S. territories, except during an initial transition period when AstraZeneca fulfilled all orders of Zomig® products on the Company's behalf and AstraZeneca paid to the Company the gross profit on such Zomig® products. The Company is obligated to fulfill certain minimum requirements with respect to the promotion of currently approved Zomig® products as well as other dosage strengths of such products approved by the FDA in the future. The Company may, but has no obligation to, develop and commercialize additional products containing zolmitriptan and additional indications for Zomig®, subject to certain restrictions as set forth in the AZ Agreement. The Company will be responsible for conducting clinical studies and preparing regulatory filings related to the development of any such additional products and would bear all related costs. During the term of the AZ Agreement, AstraZeneca will continue to be the holder of the NDA for existing Zomig® products, as well as any future dosage strengths thereof approved by the FDA, and will be responsible for certain regulatory and quality-related activities for such Zomig® products. AstraZeneca will manufacture and supply Zomig® products to the Company and the Company will purchase its requirements of Zomig® products from AstraZeneca until a date determined in the AZ Agreement. Thereafter, AstraZeneca may terminate its supply obligations upon certain advance notice to the Company, in which case the Company would have the right to manufacture or have manufactured its own requirements for the applicable Zomig® product.

Under the terms of the AZ Agreement, AstraZeneca was required to make payments to the Company representing 100% of the gross profit on sales of AstraZeneca-labeled Zomig® products during the specified transition period. The Company received transition payments from AstraZeneca aggregating $43,564,000 during 2012, and accounted for these payments as a reduction of the aggregate $130,000,000 in quarterly payments made to AstraZeneca during 2012.

The Company allocated $45,096,000 of the $86,436,000 net payments made to AstraZeneca to an intangible asset, and the remaining $41,340,000 to prepaid royalty expense related to sales of Impax-labeled branded Zomig® products during 2012, with such royalty expense included in cost of revenues on the consolidated statement of operations. Beginning in January 2013, the Company is obligated to pay AstraZeneca tiered royalties on net sales of Zomig® products, depending on brand exclusivity and subject to customary reductions and other terms and conditions set forth in the AZ Agreement. The Company is also obligated to pay AstraZeneca royalties after a certain specified date based on gross profit from sales of authorized generic versions of the Zomig products subject to certain terms and conditions set forth in the AZ Agreement. In May 2013, the Company's exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and the Company launched authorized generic versions of those products in the United States.

12. ALLIANCE AND COLLABORATION AGREEMENTS (continued)

Development and Co-Promotion Agreement with Endo Pharmaceuticals, Inc.

In June 2010, the Company and Endo Pharmaceuticals, Inc. ("Endo") entered into a Development and Co-Promotion Agreement (“Endo Agreement”) under which the Company and Endo have agreed to collaborate in the development and commercialization of a next-generation advanced form of the Company’s lead brand product candidate ("Endo Agreement Product"). Under the provisions of the Endo Agreement, in June 2010, Endo paid to the Company a $10,000,000 up-front payment. The Company has the potential to receive up to an additional $30,000,000 of contingent milestone payments, which includes $15,000,000 contingent upon the achievement of clinical events, $5,000,000 contingent upon the achievement of regulatory events, and $10,000,000 contingent upon the achievement of commercialization events. The Company believes all milestones under the Endo Agreement are substantive. Upon commercialization of the Endo Agreement Product in the United States, Endo will have the right to co-promote such product to non-neurologists, which will require the Company to pay Endo a co-promotion service fee of up to 100% of the gross profits attributable to prescriptions for the Endo Agreement Product which are written by the non-neurologists.

The Company is recognizing the $10,000,000 upfront payment as revenue on a straight-line basis over a period of 91 months, which is the estimated expected period of performance of research and development activities under the Endo Agreement, commencing with the June 2010 effective date of the Endo Agreement and ending in December 2017, the estimated date of FDA approval of the Company's NDA. The FDA approval of the Endo Agreement Product NDA represents the end of the Company’s expected period of performance, as the Company will have no further contractual obligation to perform research and development activities under the Endo Agreement, and therefore the earnings process will be completed. Deferred revenue is recorded as a liability captioned “Deferred revenue” on the consolidated balance sheet and deferred revenue under the Endo Agreement was $5,604,000 as of September 30, 2013. Revenue recognized under the Endo Agreement is reported in the line item “Other Revenues” in “Note 18 - Supplementary Financial Information.” The Company determined the straight-line method aligns revenue recognition with performance as the level of research and development activities performed under the Endo Agreement are expected to be performed on a ratable basis over the Company’s estimated expected period of performance. Upon FDA approval of the Company’s Endo Agreement Product NDA, the Company will have the right (but not the obligation) to begin manufacture and sale of such product. The Company will sell its manufactured branded product to customers in the ordinary course of business through its Impax Pharmaceuticals Division. The Company will account for any sale of the product covered by the Endo Agreement as current period revenue. The co-promotion service fee paid to Endo, as described above, if any, will be accounted for as a current period selling expense as incurred.

The Company and Endo also entered into a Settlement and License Agreement in June 2010 (the “Endo Settlement Agreement”) pursuant to which Endo agreed to make a payment to the Company should Prescription Sales of Opana® ER (as defined in the Endo Settlement Agreement) fall below a predetermined contractual threshold in the quarter immediately prior to the Company launching a generic version of Opana® ER. As a result of the Company’s launch of its generic version of Opana ER in January 2013 and Endo’s Prescription Sales of Opana ER during the fourth quarter

of 2012, the Company recorded a $102,049,000 settlement gain during the three month period ended March 31, 2013, which is included in “Other Income” in the consolidated statement of operations. Payment of the $102,049,000 settlement was received from Endo in April 2013.

Co-Promotion Agreement with Pfizer

In March 2010, the Company and Pfizer, Inc. (“Pfizer”) entered into the First Amendment to the Co-Promotion Agreement (originally entered into with Wyeth, now a wholly owned subsidiary of Pfizer) ("Pfizer Co-Promotion Agreement"). The Company’s obligation to provide physician detailing sales calls under the Pfizer Co-Promotion Agreement ended on June 30, 2012. Prior to such time, the Company had received a fixed fee, effective January 1, 2010, for providing such physician detailing sales calls within a contractually defined range of an aggregate number of physician detailing sales calls rendered, determined on a quarterly basis. The Company recognized the physician detailing sales force fee revenue as the related services were performed and the performance obligations were met. The Company recognized $7,070,000 in the six month period ended June 30, 2012 under the Pfizer Co-Promotion Agreement, which is included in the line item “Other Revenues” in “Note 18 - Supplementary Financial Information.” As the Company’s obligation under the Pfizer Co-Promotion Agreement ended on June 30, 2012, no amounts were recognized under this agreement during the nine month period ended September 30, 2013.

13. SHARE-BASED COMPENSATION

The Company recognizes the grant date fair value of each stock option and restricted stock award over its vesting period. Stock options and restricted stock awards are granted under the Company's Second Amended and Restated 2002 Equity Incentive Plan ("2002 Plan") and generally vest over a three or four year period and have a term of ten years. Total share-based compensation expense recognized in the consolidated statement of operations during the three and nine month periods ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in $000's)	**2013**	**2012**	**2013**	**2012**
Manufacturing expenses	$618	$559	$1,498	$1,726
Research and development	1,074	1,163	3,802	3,462
Selling, general and administrative	1,871	2,101	8,766	6,958
Total	$3,563	$3,823	$14,066	$12,146

As discussed in "Note 1 - The Company & Basis of Presentation," in June 2013, the Company announced that Dr. Larry Hsu plans to retire as President and Chief Executive Officer of Impax. Pursuant to his Separation Agreement, all option grants and restricted stock grants expected to vest in the twelve month period following his retirement date will vest as of the retirement date. As a result, the Company recorded accelerated expense of $2.3 million during the three month period ended June 30, 2013 associated with Dr. Hsu's outstanding options and restricted stock.

The following table summarizes stock option activity during the nine month period ended September 30, 2013:

	Number of Shares Under Option	**Weighted Average** Exercise Price per Share
Outstanding at December 31, 2012	4,177,221	$ 12.72
Options granted	503,000	$ 17.56
Options exercised	(641,596)	$ 8.40
Options forfeited	(90,663)	$ 19.75
Outstanding at September 30, 2013	3,947,962	$ 13.94
Options exercisable at September 30, 2013	2,897,461	$ 12.09

The Company estimated the fair value of each stock option award on the grant date using the Black-Scholes option pricing model. Expected volatility is based solely on historical volatility of the Company's common stock. The expected term calculation is based on the "simplified" method described in SAB No. 107, Share-Based Payment and SAB No. 110, Share-Based Payment, as the result of the simplified method provides a reasonable estimate in comparison to the Company's actual experience. The risk-free interest rate is based on the U.S. Treasury yield at the date of grant for an instrument with a maturity that is commensurate with the expected term of the stock options. The dividend yield of zero is based on the fact that the Company has never paid cash dividends on its common stock, and has no present intention to pay cash dividends.

A summary of the Company's non-vested restricted stock awards activity during the nine month period ended September 30, 2013 is presented below:

Restricted Stock Awards	Number of Restricted Stock Awards	**Weighted Average** Grant Date Fair Value
Non-vested at December 31, 2012	1,954,570	$ 20.97
Granted	326,500	$ 18.72
Vested	(228,758)	$ 16.78
Forfeited	(222,432)	$ 20.64
Non-vested at September 30, 2013	1,829,880	$ 21.14

The Company grants restricted stock awards to certain eligible employees and directors as a component of its long-term incentive compensation program. The restricted stock award grants are made in accordance with the Company's 2002 Plan, and typically specify that the shares of common stock underlying the restricted stock awards are not issued until they vest. The restricted stock awards generally vest ratably over a three or four year period from the date of grant.

As of September 30, 2013, the Company had total unrecognized share-based compensation expense, net of estimated forfeitures, of $31,662,000 related to all of its share-based awards, which will be recognized over a weighted-average period of 1.99 years. As of September 30, 2013, the Company estimated 3,495,000 stock options and 1,620,000 shares of restricted stock awards granted to employees which were vested or expected to vest. The intrinsic value of stock options exercised during the nine month periods ended September 30, 2013 and 2012 was $7,013,000 and $11,484,000, respectively. The total fair value of restricted stock awards which vested during the nine month periods ended September 30, 2013 and 2012 was $3,839,000 and $3,563,000, respectively. As of September 30, 2013, the Company had 4,049,424 shares of common stock available for issuance of stock options, restricted stock awards, and/or stock appreciation rights.

14. STOCKHOLDERS' EQUITY

Preferred Stock

Pursuant to its certificate of incorporation, the Company is authorized to issue 2,000,000 shares, $0.01 par value per share, "blank check" preferred stock, which enables the Board of Directors, from time to time, to create one or more new series of preferred stock. Each series of preferred stock issued can have the rights, preferences, privileges and restrictions designated by the Board of Directors. The issuance of any new series of preferred stock could affect, among other things, the dividend, voting, and liquidation rights of the Company's common stock. During the nine month periods ended September 30, 2013 and 2012, the Company did not issue any preferred stock.

Common Stock

The Company's certificate of incorporation, as amended, authorizes the Company to issue 90,000,000 shares of common stock with $0.01 par value.

In May 2013, the Company's stockholders approved an increase of 3,150,000 shares of common stock that may be issued under the Company's 2002 Plan.

15. EARNINGS PER SHARE

The Company's earnings per share (EPS) includes basic net income per share, computed by dividing net income (as presented on the consolidated statement of operations), by the weighted average number of shares of common stock outstanding for the period, along with diluted net income per share, computed by dividing net income by the weighted average number of shares of common stock adjusted for the dilutive effect of common stock equivalents outstanding during the period. A reconciliation of basic and diluted net income per share of common stock for the three and nine month periods ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in $000's except share and per share amounts)	2013	2012	2013	2012
Numerator:				
Net income	$(180)	$20,037	$110,881	$51,074
Denominator:				
Weighted average common shares outstanding	67,051,121	65,797,722	66,764,550	65,451,926
Effect of dilutive stock options and restricted stock awards	---	2,569,127	1,589,889	2,778,561
Diluted weighted average common shares outstanding	67,051,121	68,366,849	68,354,439	68,230,487
Basic net (loss) income per share	$(0.00)	$0.30	$1.66	$0.78
Diluted net (loss) income per share	$(0.00)	$0.29	$1.62	$0.75

For the three month period ended September 30, 2013, the Company had a net loss. Only the weighted average of common shares outstanding has been used to calculate both basic earnings per share and diluted earnings per share for the three month period ended September 30, 2013 as inclusion of the potential common shares would be anti-dilutive. For the three month period ended September 30, 2012, the Company excluded 769,335 and for the nine month periods ended September 30, 2013 and 2012, the Company excluded 1,943,746 and 911,274, respectively, of shares issuable upon the exercise of stock options and unvested restricted stock awards from the computation of diluted net income per common share as the effect of these options and unvested restricted stock awards would have been anti-dilutive. Quarterly computations of net income per share amounts are made independently for each quarterly reporting period, and the sum of the per share amounts for the quarterly reporting periods may not equal the per share amounts for the year-to-date reporting period.

31

16. SEGMENT INFORMATION

The Company has two reportable segments, the Global Division and the Impax Division. The Global Division develops, manufactures, sells, and distributes generic pharmaceutical products, primarily through the following sales channels: the Global Products sales channel for sales of generic prescription products directly to wholesalers, large retail drug chains, and others; the Private Label Product sales channel for generic over-the-counter and prescription products sold to unrelated third-party customers who, in turn, sell the products under their own label; the Rx Partner sales channel for generic prescription products sold through unrelated third-party pharmaceutical entities under their own label pursuant to alliance agreements; and the OTC Partner sales channel for over-the-counter products sold through unrelated third-party pharmaceutical entities under their own labels pursuant to alliance and supply agreements. Revenues from the “Global Products” sales channel and the “Private Label” sales channel are reported under the caption “Global Product sales, net” in “Note 18 – Supplementary Financial Information.” The Company also generates revenue in its Global Division from research and development services provided under a joint development agreement with another unrelated third-party pharmaceutical company, and reports such revenue under the caption “Other Revenues” revenue in “Note 18 – Supplementary Financial Information.” Revenues from the “OTC Partner” sales channel are also reported under the caption “Other Revenues” in “Note 18 – Supplementary Financial Information.”

The Impax Division is engaged in the development of proprietary brand pharmaceutical products that the Company believes represent improvements to already-approved pharmaceutical products addressing CNS disorders. The Impax Division currently has one internally developed late stage branded pharmaceutical product candidate, RYTARY™, an extended release capsule formulation of carbidopa-levodopa for the symptomatic treatment of Parkinson’s disease, for which the NDA was accepted for filing by the FDA in February 2012 and for which the Company received a Complete Response Letter from the FDA in January 2013. The Company is currently working with the FDA on the appropriate next steps for the RYTARY™ NDA. The Company has also initiated the preparation of required documents for a European Market Authorization Application filing for RYTARY™, currently targeted for filing during the second half of 2014. In addition to RYTARY™, the Impax Division has a number of other product candidates that are in varying stages of development. The Impax Division is also engaged in the sale and distribution of Zomig® (zolmitriptan) products, indicated for the treatment of migraine headaches, under the terms of the AZ Agreement with AstraZeneca in the United States and in certain U.S. territories. Revenues from Impax-labeled branded Zomig® products are reported under the caption “Impax Product sales, net” in “Note 18 – Supplementary Financial Information.” Finally, the Company generates revenue in the Impax Division from research and development services provided under a development and license agreement with another unrelated third-party pharmaceutical company, and reports such revenue under the caption “Other Revenues” revenue in “Note 18 – Supplementary Financial Information.”

The Company’s chief operating decision maker evaluates the financial performance of the Company’s segments based upon segment income (loss) before income taxes. Items below income (loss) from operations are not reported by segment, except litigation settlements, since they are excluded from the measure of segment profitability reviewed by the Company’s chief operating decision maker. Additionally, general and administrative expenses, certain selling expenses, certain litigation settlements, and non-operating income and expenses are included in “Corporate and Other.” The Company does not report balance sheet information by segment since it is not reviewed by the Company’s chief operating decision maker. The accounting policies for the Company’s segments are the same as those described above in the discussion of "Revenue Recognition" and in the “Summary of Significant Accounting Policies” in the Company's

Form 10-K for the year ended December 31, 2012. The Company has no inter-segment revenue.

16. SEGMENT INFORMATION (continued)

The tables below present segment information reconciled to total Company consolidated financial results, with segment operating income or loss including gross profit less direct research and development expenses and direct selling expenses as well as any litigation settlements, to the extent specifically identified by segment:

(in $000's) **Three Months Ended September 30, 2013**	**Global Division**	**Impax Division**	**Corporate and Other**	**Total Company**
Revenues, net	$115,748	$16,893	$---	$132,641
Cost of revenues	77,082	7,217	---	84,299
Research and development	10,970	5,101	---	16,071
Patent litigation expense	4,497	---	---	4,497
Income (loss) before provision for income taxes	$19,528	$(5,503)	$(14,005)	$20

(in $000's) **Three Months Ended September 30, 2012**	**Global Division**	**Impax Division**	**Corporate and Other**	**Total Company**
Revenues, net	$100,430	$45,157	$---	$145,587
Cost of revenues	44,106	23,454	---	67,560
Research and development	12,400	7,612	---	20,012
Patent litigation recovery	(371)	---	---	(371)
Income (loss) before provision for income taxes	$40,561	$1,593	$(12,482)	$29,672

(in $000's) **Nine Months Ended September 30, 2013**	**Global Division**	**Impax Division**	**Corporate and Other**	**Total Company**
Revenues, net	$311,351	$99,410	$---	$410,761
Cost of revenues	193,251	52,407	---	245,658
Research and development	31,972	19,244	---	51,216
Patent litigation expense	13,079	---	---	13,079
Income (loss) before provision for income taxes	$60,452	$(6,918)	$109,241	$162,775

(in $000's) **Nine Months Ended September 30, 2012**	**Global Division**	**Impax Division**	**Corporate and Other**	**Total Company**
Revenues, net	$356,759	$83,856	$---	$440,615
Cost of revenues	177,690	44,522	---	222,212
Research and development	35,219	23,478	---	58,697
Patent litigation expense	6,581	---	---	6,581
Income (loss) before provision for income taxes	$125,957	$(6,410)	$(41,307)	$78,240

Foreign Operations

The Company’s wholly owned subsidiary, Impax Laboratories (Taiwan) Inc., is constructing a manufacturing facility in Jhunan, Taiwan R.O.C. which is utilized for manufacturing, research and development, warehouse, and administrative functions, with approximately $141,703,000 of net carrying value of assets, composed principally of a building and equipment, included in the Company's consolidated balance sheet at September 30, 2013.

17. LEGAL AND REGULATORY MATTERS

Patent Litigation

There is substantial litigation in the pharmaceutical, biological, and biotechnology industries with respect to the manufacture, use, and sale of new products which are the subject of conflicting patent and intellectual property claims. One or more patents typically cover most of the brand name controlled release products for which the Company is developing generic versions.

Under federal law, when a drug developer files an ANDA for a generic drug seeking approval before expiration of a patent, which has been listed with the FDA as covering the brand name product, the developer must certify its product will not infringe the listed patent(s) and/or the listed patent is invalid or unenforceable (commonly referred to as a "Paragraph IV" certification). Notices of such certification must be provided to the patent holder, who may file a suit for patent infringement within 45 days of the patent holder's receipt of such notice. If the patent holder files suit within the 45 day period, the FDA can review and approve the ANDA, but is prevented from granting final marketing approval of the product until a final judgment in the action has been rendered in favor of the generic drug developer, or 30 months from the date the notice was received, whichever is sooner. Lawsuits have been filed against the Company in connection with the Company's Paragraph IV certifications seeking an order delaying the approval of the Company's ANDA until expiration of the patent(s) at issue in the litigation.

Should a patent holder commence a lawsuit with respect to an alleged patent infringement by the Company, the uncertainties inherent in patent litigation make the outcome of such litigation difficult to predict. The delay in obtaining FDA approval to market the Company's product candidates as a result of litigation, as well as the expense of such litigation, whether or not the Company is ultimately successful, could have a material adverse effect on the Company's results of operations and financial position. In addition, there can be no assurance that any patent litigation will be resolved prior to the end of the 30-month period. As a result, even if the FDA were to approve a product upon expiration of the 30-month period, the Company may elect to not commence marketing the product if patent litigation is still pending.

The Company is generally responsible for all of the patent litigation fees and costs associated with current and future products not covered by its alliance and collaboration agreements. The Company has agreed to share legal expenses with respect to third-party and Company products under the terms of certain of the alliance and collaboration agreements. For instance, the Company is currently sharing litigation costs with respect to three products under the terms of separate agreements with two third parties. The Company records the costs of patent litigation as expense in the period when incurred for products it has developed, as well as for products which are the subject of an alliance or collaboration agreement with a third-party.

Although the outcome and costs of the asserted and unasserted claims is difficult to predict, the Company does not expect the ultimate liability, if any, for such matters to have a material adverse effect on its financial condition, results of operations, or cash flows.

17. LEGAL AND REGULATORY MATTERS (continued)

Patent Infringement Litigation

The Research Foundation of State University of New York et al. v. Impax Laboratories, Inc.; Galderma Laboratories Inc., et al. v. Impax Laboratories, Inc. (Doxycycline Monohydrate)

In September 2009, The Research Foundation of State University of New York; New York University; Galderma Laboratories Inc.; and Galderma Laboratories, L.P. (collectively, "Galderma") filed suit against the Company in the U.S. District Court for the District of Delaware (the "District Court") alleging patent infringement for the filing of the Company's ANDA relating to Doxycycline Monohydrate Delayed-Release Capsules, 40 mg, generic to Oracea®. In May 2011, Galderma Laboratories Inc., Galderma Laboratories, L.P. and Supernus Pharmaceuticals, Inc. filed a second lawsuit in Delaware alleging infringement of an additional patent related to Oracea®. The Company filed an answer and counterclaims in both matters. In October 2009 for the first lawsuit and in July 2011 for the second lawsuit, the parties agreed to be bound by the final judgment concerning infringement, validity and enforceability of the patents at issue in an earlier-filed case brought by Galderma and Supernus against another generic drug manufacturer. Proceedings in the lawsuits involving the Company were stayed pending resolution of the related matter. In July 2011, a four-day trial was held in the case involving the other generic manufacturer in the District Court on the issues of patent infringement and validity. In August 2011, the District Court issued its decision finding four of the five patents invalid and/or not infringed, and the fifth patent, which expires in December 2027, infringed and not invalid. After proceedings related to the remedy, on June 8, 2012, the District Court entered final judgment with respect to that litigation. On June 22, 2012, the District Court entered its final judgment with respect to the Company. All parties filed notices of appeal and/or cross-appeal in July 2012. The briefing at the United States Court of Appeals for the Federal Circuit (the "Federal Circuit") was completed for all parties on January 28, 2013. The decision of the District Court will be binding on the Company unless reversed or modified on appeal or in subsequent litigation. On August 7, 2013, the Federal Circuit affirmed-in-part, reversed-in-part, and remanded the case to the District Court. The finding that the fifth patent was infringed and not invalid was affirmed, as was the finding that the asserted independent claims of the other four patents were invalid and/or not infringed. The Federal Circuit reversed the District Court's finding that some of the dependent claims of the four patents were invalid and remanded for further proceedings.

17. LEGAL AND REGULATORY MATTERS (continued)

Takeda Pharmaceutical Co., Ltd, et al. v. Impax Laboratories, Inc. (Dexlansoprazole)

In April 2011, Takeda Pharmaceutical Co., Ltd., Takeda Pharmaceuticals North America, Inc., Takeda Pharmaceuticals LLC, and Takeda Pharmaceuticals America, Inc. (collectively, "Takeda") filed suit against the Company in the U.S. District Court for the Northern District of California alleging patent infringement based on the filing of the Company's ANDA relating to Dexlansoprazole Delayed Release Capsules, 30 and 60 mg, generic to Dexilant®. The Company filed an answer and counterclaims. The trial court issued a claim construction ruling on April 11, 2012. In November 2012, the Company and Takeda filed cross motions for summary judgment regarding infringement and validity of the patents at issue. On April 8, 2013, the District Court ruled on the summary judgment motions as follows: (a) granted the Company's motion for non-infringement of U.S. Patent No. 7,790,755, (b) granted Takeda's motion of infringement of U.S. Patent Nos. 6,664,276, 6,462,058 and 6,939,971 and (c) denied the Company's motion of invalidity for U.S. Patent No. 6,939,971. A bench trial was conducted beginning on June 5, 2013, and a decision was rendered on October 17, 2013, finding the asserted claims of U.S. Patent Nos. 6,462,058, 6,664,276, and 6,939,971 infringed and not invalid. The Company is currently considering its options, including an appeal.

In May 2013, Takeda filed another complaint against the Company in the U.S. District Court for the Northern District of California, alleging infringement of U.S. Patent No. 8,173,158 based on the filing of the Company's ANDA relating to Dexlansoprazole Delayed Release Capsules, 30 and 60 mg, generic to Dexilant®. Takeda filed an amended complaint in July 2013, alleging infringement of another patent, U.S. Patent No. 8,461,187. The Company filed an answer and counterclaims. Discovery is proceeding. Trial is scheduled for April 13, 2015.

Purdue Pharma L.P., The P.F. Laboratories, Inc., Purdue Pharmaceuticals L.P., Rhodes Technologies, Board of Regents of the University of Texas System, and Grunenthal GmbH v. Impax Laboratories, Inc. (Oxycodone)

In April 2011, Purdue Pharma L.P., The P.F. Laboratories, Inc., Purdue Pharmaceuticals L.P., Rhodes Technologies, Board of Regents of the University of Texas System, and Grunenthal GmbH filed suit against the Company in the U.S. District Court for the Southern District of New York alleging patent infringement based on the filing of the Company's ANDA relating to Oxycodone Hydrochloride, Controlled Release tablets, 10, 15, 20, 30, 40, 60 and 80 mg, generic to Oxycontin® (related to NDA 022272). The Company filed an answer and counterclaims. A bench trial was held in September and October 2013, and a decision is pending. In February 2013, Purdue Pharma L.P. and Grunenthal GmbH filed a separate lawsuit against the Company involving the same product and ANDA, asserting infringement of two newly issued patents. Purdue Pharma L.P. filed a third lawsuit in May 2013 against the Company involving the same product and ANDA, asserting infringement of a third newly issued patent. The Company filed an

answer and counterclaims in both of these lawsuits. Discovery is proceeding, with a trial-ready date of July 9, 2014.

Avanir Pharmaceuticals, Inc. et al. v. Impax Laboratories, Inc. (Dextromethorphan/Quinidine)

In August 2011, Avanir Pharmaceuticals, Inc., Avanir Holding Co., and Center for Neurological Study filed suit against the Company in the U.S. District Court for the District of Delaware alleging patent infringement based on the filing of the Company's ANDA relating to Dextromethorphan/Quinidine Capsules, 20 mg/10 mg, generic of Nuedexta®. The Company filed an answer and counterclaims. On October 8, 2012, Avanir Pharmaceuticals, Inc. filed suit against the Company in the U.S. District Court for the District of Delaware alleging patent infringement of a new patent, US Patent 8,227,484, issued July 24, 2012, also based on the filing of the Company's ANDA relating to Dextromethorphan/Quinidine Capsules, 20 mg/10 mg, generic of Nuedexta. The Company filed an answer and counterclaims on October 10, 2012. A bench trial was conducted beginning on September 9, 2013, and a decision is pending.

GlaxoSmithKline LLC, et al. v. Impax Laboratories, Inc., et al. (Dutasteride/Tamsulosin)

In September 2011, GlaxoSmithKline LLC and SmithKline Beecham Corp. filed suit against the Company in the U.S. District Court for the District of Delaware alleging patent infringement based on the filing of the Company's ANDA relating to Dutasteride/Tamsulosin Capsules, 0.5 mg/0.4 mg, generic of Jalyn®. The Company filed an answer and counterclaim. The trial court issued a claim construction ruling on November 15, 2012. A bench trial was conducted starting on January 28, 2013, and a decision was rendered on August 9, 2013, finding the asserted claims of the patent in suit infringed and not invalid. The Company has filed a notice of appeal and an expedited appeal of the decision is pending.

17. LEGAL AND REGULATORY MATTERS (continued)

Cephalon, Inc. et al. v. Impax Laboratories, Inc. (Fentanyl Citrate)

In November 2011, Cephalon, Inc. and CIMA Labs, Inc. (together "Cephalon") filed suit against the Company in the U.S. District Court for the District of Delaware, alleging patent infringement of U.S. Patent Nos. 6,200,604, 6,974,590, 7,862,832, and 7,862,833, based on the filing of the Company's ANDA relating to Fentanyl Citrate Buccal Tablets, 100, 200, 400, 600, and 800 mcg, generic to Fentora®. The Company filed an answer and counterclaims, as well as declaratory judgment counterclaims to include three other patents (U.S. Patent Nos. 6,264,981; 8,092,832; and 8,119,158). In response, Cephalon alleged infringement of those three patents against the Company. The Company also filed a supplemental counterclaim seeking declaratory judgment regarding U.S. Patent No. 8,119,158. The claims for infringement of U.S. Patent Nos. 6,200,604 and 6,974,590 were subsequently dismissed based on a judgment of invalidity in another case. That decision of invalidity was reversed on appeal. The parties have settled and the case was dismissed on July 16, 2013.

Acura Pharmaceuticals, Inc. v. Impax Laboratories, Inc. (Oxycodone HCl)

In October 2012, Acura Pharmaceuticals, Inc. ("Acura") filed suit against the Company in the U.S. District Court for the District of Delaware (the "District Court") alleging patent infringement for the filing of the Company's ANDA relating to Oxycodone Hydrochloride Tablets, 5 mg and 7.5 mg, generic to Oxecta®. In November 2012, the Company filed its answer and counterclaims. Discovery is proceeding. Trial is scheduled for October 27, 2014. On October 2, 2013, the Company and Acura filed a Stipulation and Order announcing that they have reached an agreement to settle the action and requesting that the District Court stay the action for 45 days. The District Court stayed the case for 45 days on October 2, 2013.

Endo Pharmaceuticals Inc. and Grunenthal GmbH v. Impax Laboratories, Inc. and ThoRx Laboratories, Inc. (Oxymorphone hydrochloride); Endo Pharmaceuticals Inc. and Grunenthal GmbH v. Impax Laboratories, Inc. (Oxymorphone hydrochloride)

In November 2012, Endo Pharmaceuticals, Inc. and Grunenthal GmbH (collectively, "Endo") filed suit against ThoRx Laboratories, Inc., a wholly owned subsidiary of the Company ("ThoRx"), and the Company in the U.S. District Court for the Southern District of New York alleging patent infringement based on the filing of ThoRx's ANDA relating to Oxymorphone Hydrochloride, Extended Release tablets, 5, 7.5, 10, 15, 20, 30 and 40 mg, generic to Opana ER®. In January 2013, Endo filed a separate suit against the Company in the U.S. District Court for the Southern District of New York alleging patent infringement based on the filing of the Company's ANDA relating to the same products. ThoRx and the Company filed an answer and counterclaims to the November 2012 suit and the Company filed an

answer and counterclaims with respect to the January 2013 suit. Discovery is proceeding. No trial date has been set.

Purdue Pharma L.P., The P.F. Laboratories, Inc., Purdue Pharmaceuticals L.P. and Rhodes Technologies v. Impax Laboratories, Inc. (Oxycodone HCl)

In January 2013, Purdue Pharma L.P., The P.F. Laboratories, Inc., Purdue Pharmaceuticals L.P. and Rhodes Technologies filed suit against the Company in the U.S. District Court for the Southern District of New York (the "District Court") alleging patent infringement based on the filing of the Company's two ANDAs relating to Oxycodone Hydrochloride, extended-release tablets: one for 10, 15, 20, 30 and 40 mg, and one for 60 and 80 mg. The dosage forms are generic to OxyContin® (related to NDA 020553). The Company filed an answer and counterclaims in February 2013. The District Court dismissed the action in July 2013.

17. LEGAL AND REGULATORY MATTERS (continued)

Pfizer Inc. and UCB Pharma GMBH v. Impax Laboratories, Inc. (Fesoterodine)

In June 2013, Pfizer Inc. and UCB Pharma GMBH filed suit against the Company in the U.S. District Court for the District of Delaware alleging patent infringement based on the filing of the Company's ANDA relating to Fesoterodine Fumarate Extended-Release Tablets, 4 and 8 mg, generic to Toviaz®. The Company filed its answer and counterclaims.

Meda Pharmaceuticals Inc. v. Perrigo Israel Pharmaceuticals Ltd., Perrigo Company, L. Perrigo Company and Impax Laboratories, Inc. (Azelastine HCl)

In May 2013, Meda Pharmaceuticals, Inc. ("Meda") filed suit against the Company in the United States District Court for the District of New Jersey, alleging that the Company participated in, contributed to, aided, abetted, and/or induced infringement of Meda's United States Patent No. 8,071,073 based on the submission by Perrigo Israel Pharmaceutical Ltd., Perrigo Company and L. Perrigo Company of an ANDA relating to Azelastine Hydrochloride Nasal Spray (0.15%, eq. 0.1876 mg base/spray), generic to Astepro®. The Company filed its answer and discovery is ongoing. A final pretrial conference is scheduled for April 7, 2014. No trial date has been set.

Warner Chilcott Co., LLC and Warner Chilcott (US), LLC v. Impax Laboratories, Inc. (Risedronate)

In October 2013, Warner Chilcott Co., LLC and Warner Chilcott (US), LLC (together, "Warner Chilcott") filed suit against the Company in the United States District Court for the District of New Jersey, alleging patent infringement based on the filing of the Company's ANDA relating to Risedronate Sodium Delayed Release Tablets, 35 mg, generic to Atelvia®.

Other Litigation Related to the Company's Business

Civil Investigative Demand from the FTC

On May 2, 2012, the Company received a Civil Investigative Demand ("CID") from the United States Federal Trade Commission ("FTC") concerning its investigation into the drug SOLODYN® and its generic equivalents. According to the FTC, the investigation is to determine whether Medicis Pharmaceutical Corporation, now a wholly owned subsidiary of Valeant Pharmaceuticals International, Inc. ("Medicis"), the Company, and six other companies have engaged or are engaged in unfair methods of competition in or affecting commerce by (i) entering into agreements regarding SOLODYN® or its generic equivalents and/or (ii) engaging in other conduct regarding the sale or marketing of SOLODYN® or its generic equivalents. The Company is cooperating with the FTC in producing documents and information in response to the investigation. To the knowledge of the Company no FTC proceedings have been initiated against the Company to date, however no assurance can be given as to the timing or outcome of this investigation.

Solodyn® Antitrust Class Actions

From July to October 2013, thirteen class action complaints were filed against manufacturers of the brand drug Solodyn® and its generic equivalents, including the Company.

On July 22, 2013, Plaintiff United Food and Commercial Workers Local 1776 & Participating Employers Health and Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On July 23, 2013, Plaintiff Rochester Drug Co-Operative, Inc., a direct purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On August 1, 2013, Plaintiff International Union of Operating Engineers Local 132 Health and Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Northern District of California on behalf of itself and others similarly situated. On August 29, 2013, this Plaintiff withdrew its complaint from the United States District Court for the Northern District of California, and on August 30, 2013, re-filed the same complaint in the United States Court for the Eastern District of Pennsylvania, on behalf of itself and others similarly situated.

17. LEGAL AND REGULATORY MATTERS (continued)

On August 9, 2013, Plaintiff Local 274 Health & Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On August 12, 2013, Plaintiff Sheet Metal Workers Local No. 25 Health & Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On August 27, 2013, Plaintiff Fraternal Order of Police, Fort Lauderdale Lodge 31, Insurance Trust Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On August 29, 2013, Plaintiff Heather Morgan, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On August 30, 2013, Plaintiff Plumbers & Pipefitters Local 178 Health & Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On September 9, 2013, Plaintiff Ahold USA, Inc., a direct purchaser, filed a class action complaint in the United States District Court for the District of Massachusetts on behalf of itself and others similarly situated.

On September 24, 2013, Plaintiff City of Providence, Rhode Island, an indirect purchaser, filed a class action complaint in the United States District Court for the District of Arizona on behalf of itself and others similarly situated.

On October 2, 2013, Plaintiff International Union of Operating Engineers Stationary Engineers Local 39 Health & Welfare Trust Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the District of Massachusetts on behalf of itself and others similarly situated.

On October 7, 2013, Painters District Council No. 30 Health and Welfare Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the District of Massachusetts on behalf of itself and others similarly situated.

On October 25, 2013, Plaintiff Man-U Service Contract Trust Fund, an indirect purchaser, filed a class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of itself and others similarly situated.

On October 11, 2013, defendants in these actions (including the Company) moved the United States Judicial Panel on Multidistrict Litigation to consolidate these actions in either the District of Arizona or the Eastern District of Pennsylvania for coordinated pretrial proceedings.

In each case, the complaints allege that Medicis engaged in an overarching anticompetitive scheme by, among other things, filing frivolous patent litigation lawsuits, submitting frivolous Citizen Petitions, and entering into anticompetitive settlement agreements with several generic manufacturers, including the Company, to delay generic competition of Solodyn® and in violation of state and federal antitrust laws. Plaintiffs seek, among other things, unspecified monetary damages and equitable relief, including disgorgement and restitution.

Securities and Derivative Class Actions

On March 7, 2013 and April 8, 2013, two class action complaints were filed against the Company and certain current and former officers and directors of the Company in the United States District Court for the Northern District of California by Denis Mulligan, individually and on behalf of others similarly situated, and Haverhill Retirement System, individually and on behalf of others similarly situated, respectively (“Securities Class Actions”), alleging that the Company and those named officers and directors violated the federal securities law by making materially false and misleading statements and/or failed to disclose material adverse facts to the public in connection with manufacturing deficiencies at the Hayward, California manufacturing facility, including but not limited to the impact the deficiencies would have on the Company’s ability to gain approval from the FDA for the Company’s branded product candidate, RYTARY™ and its generic version of Concerta®. These two Securities Class Actions have subsequently been consolidated, assigned to the same judge, and lead plaintiff has been chosen. The plaintiff’s consolidated amended complaint was filed on September 13, 2013.

17. LEGAL AND REGULATORY MATTERS (continued)

On March 19, 2013, Virender Singh, derivatively on behalf of the Company, filed a state court action against certain current and former officers and board of directors for breach of fiduciary duty and unjust enrichment in the Superior Court of the State of California County of Santa Clara, asserting similar allegations as those in the Securities Class Actions. That action has been stayed pending resolution of the Securities Class Actions. In addition, the Company is aware of two letters from stockholders demanding action by the Company's board of directors, including to: (i) undertake an independent internal investigation into management's alleged violations of Delaware and/or federal law; (ii) commence a civil action against members of management to recover damages sustained as a result of alleged breaches of fiduciary duties; and/or (iii) spearhead meaningful corporate reform to address alleged internal control inadequacies. Each letter further states that if such action is not commenced within a reasonable period of time, the stockholder will commence a shareholder's derivative action on behalf of the Company.

18. SUPPLEMENTARY FINANCIAL INFORMATION (unaudited)

Selected financial information for the quarterly periods noted is as follows:

	2013 Quarters Ended:		
(in $000's except shares and per share amounts)	**March 31**	**June 30**	**September 30**
Revenue:			
Global Product sales, gross	$197,956	$217,721	$279,441
Less:			
Chargebacks	64,345	82,013	98,449
Rebates	30,572	35,649	54,530
Product Returns	94	1,989	2,857
Other credits	5,160	8,312	11,919
Global Product sales, net	97,785	89,758	111,686
Rx Partner	3,114	3,668	3,016
Other Revenues	737	539	1,046
Global Division revenues, net	101,636	93,965	115,748
Impax Product sales, gross	69,292	48,300	22,849
Less:			
Chargebacks	7,790	10,095	8,422
Rebates	6,236	(1,735)	(812)
Product Returns	1,490	2,197	175
Other credits	7,255	2,409	(1,498)
Impax Product sales, net	46,521	35,334	16,562
Other Revenues	332	332	331
Impax Division revenues, net	46,853	35,666	16,893
Total revenues	148,489	129,631	132,641
Gross profit	57,871	58,887	48,342
Net income (loss)	$105,442	$5,619	$(180)
Net income (loss) per share (basic)	$1.59	$0.08	$(0.00)
Net income (loss) per share (diluted)	$1.55	$0.08	$(0.00)
Weighted average: common shares outstanding:			
Basic	66,487,470	66,748,864	67,051,121
Diluted	68,178,355	68,287,948	67,051,121

Quarterly computations of net income per share amounts are made independently for each quarterly reporting period, and the sum of the per share amounts for the quarterly reporting periods may not equal the per share amounts for the year-to-date reporting period.

18. SUPPLEMENTARY FINANCIAL INFORMATION (unaudited) (continued)

Selected financial information for the quarterly periods noted is as follows:

	2012 Quarters Ended:		
(in $000's except shares and per share amounts)	**March 31**	**June 30**	**September 30**
Revenue:			
Global Product sales, gross	$185,671	$223,452	$178,628
Less:			
Chargebacks	39,155	50,670	47,366
Rebates	20,589	26,847	24,285
Product Returns	(329)	948	304
Other credits	10,045	18,552	7,210
Global Product sales, net	116,211	126,435	99,463
Rx Partner	2,978	2,466	(792)
Other Revenues	4,076	4,167	1,759
Global Division revenues, net	123,265	133,068	100,430
Impax Product sales, gross	--	40,815	63,909
Less:			
Chargebacks	--	4,449	8,308
Rebates	--	3,714	5,113
Product Returns	--	878	1,374
Other credits	--	3,683	5,787
Impax Product sales, net	--	28,091	43,327
Other Revenues	5,303	5,301	1,830
Impax Division revenues, net	5,303	33,392	45,157
Total revenues	128,568	166,460	145,587
Gross profit	62,553	77,823	78,027
Net income	$12,365	$18,672	$20,037
Net income per share (basic)	$0.19	$0.29	$0.30
Net income per share (diluted)	$0.18	$0.27	$0.29
Weighted average: common shares outstanding:			
Basic	65,122,240	65,482,700	65,797,722
Diluted	67,907,263	67,954,573	68,366,849

Quarterly computations of net income per share amounts are made independently for each quarterly reporting period, and the sum of the per share amounts for the quarterly reporting periods may not equal the per share amounts for the year-to-date reporting period.

19. SUBSEQUENT EVENTS

Under the Tolmar Loan Agreement, the Company has agreed to lend to Tolmar one or more loans through December 31, 2014, in an aggregate amount not to exceed $15.0 million. As of September 30, 2013, Tolmar had borrowed $11.0 million under the Tolmar Loan Agreement. During October 2013, Tolmar borrowed the remaining $4.0 million under the Tolmar Loan Agreement. The outstanding principal amount of, including any accrued and unpaid interest on, the loans under the Tolmar Loan Agreement are payable by Tolmar beginning from March 31, 2017 through March 31, 2020 or the maturity date, in accordance with the terms therein. Tolmar may prepay all or any portion of the outstanding balance of the loans prior to the maturity date without penalty or premium.

In June 2012, the Company entered into the Tolmar Agreement. Under the terms of the Tolmar Agreement, Tolmar granted to the Company an exclusive license to commercialize Diclofenac Gel 3% (generic to Solaraze®) in the United States and its territories. In October 2013, the FDA granted final approval of Tolmar's ANDA for its generic version of Solaraze®. Tolmar was the first company to file a substantially complete ANDA containing a Paragraph IV certification and the Company intends to shortly commercialize this first-to-file product through its Global Division. Under the terms of the Tolmar Agreement, Tolmar is responsible for developing and manufacturing the product, and the Company is responsible for marketing and sale of the product. Upon commercialization of generic Solaraze®, the Company will be required to pay a $12.0 million milestone payment as well as a profit share to Tolmar on sales of the product pursuant to the terms of the Tolmar Agreement.

ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

The following discussion and analysis, as well as other sections in this Quarterly Report on Form 10-Q, should be read in conjunction with the unaudited interim consolidated financial statements and related notes to the unaudited interim consolidated financial statements included elsewhere herein.

Statements included in this Quarterly Report on Form 10-Q not related to present or historical conditions are "forward-looking statements." Such forward-looking statements involve risks and uncertainties which could cause results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include statements relating to our plans, strategies, objectives, expectations and intentions. Words such as "believes," "forecasts," "intends," "possible," "estimates," "anticipates," "plans," "will," "should," "could" and similar are intended to identify forward-looking statements. Our ability to predict results or the effect of events on our operating results is inherently uncertain. Forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those discussed in this Quarterly Report on Form 10-Q. Such risks and uncertainties include the effect of current economic conditions on our industry, business, financial position and results of operations, fluctuations in our revenues and operating income, our ability to promptly correct the issues raised in the warning letter and Form 483 observations received from the FDA, our ability to successfully develop and commercialize pharmaceutical products in a timely manner, reductions or loss of business with any significant customer, the impact of consolidation of our customer base, the impact of competition, our ability to sustain profitability and positive cash flows, any delays or unanticipated expenses in connection with the operation of our Taiwan facility, the effect of foreign economic, political, legal and other risks on our operations abroad, the uncertainty of patent litigation, the increased government scrutiny on our agreements with brand pharmaceutical companies, consumer acceptance and demand for new pharmaceutical products, the impact of market perceptions of the Company and the safety and quality of our products, the difficulty of predicting FDA filings and approvals, our ability to achieve returns on our investments in research and development activities, our inexperience in conducting clinical trials and submitting new drug applications, our inexperience in conducting clinical trials and submitting new drug applications, our ability to successfully conduct clinical trials, our reliance on third parties to conduct clinical trials and testing, the impact of illegal distribution and sale by third parties of counterfeits or stolen products, the availability of raw materials and impact of interruptions in our supply chain, the use of controlled substances in our products, disruptions or failures in our information technology systems and network infrastructure, our reliance on alliance and collaboration agreements, our dependence on certain employees, our ability to comply with legal and regulatory requirements governing the healthcare industry, the regulatory environment, our ability to protect our intellectual property, exposure to product liability claims, changes in tax regulations, our ability to manage our growth, including through potential acquisitions, the restrictions imposed by our credit facility, uncertainties involved in the preparation of our financial statements, our ability to maintain an effective system of internal control over financial reporting, any manufacturing difficulties or delays, the effect of terrorist attacks on our business, the location of our manufacturing and research and development facilities near earthquake fault lines, and other risks described herein and in our Annual Report on Form 10-K for the year ended December 31, 2012. You should not place undue reliance on forward-looking statements. Such statements speak only as to the date on which they are made, and we undertake no obligation to update or revise any forward-looking statement, regardless of future developments or availability of new information, except to the extent required by applicable law.

RYTARY™ is a trademark of Impax Laboratories, Inc. Other names are for informational purposes only and are used to identify companies and products and may be trademarks of their respective owners.

Overview

We are a technology based, specialty pharmaceutical company applying formulation and development expertise, as well as our drug delivery technology, to the development, manufacture and marketing of controlled-release and niche generics, in addition to the development of branded products. We operate in two segments, referred to as the "Global Pharmaceuticals Division" or "Global Division" and the "Impax Pharmaceuticals Division" or "Impax Division." The Global Division concentrates its efforts on the development, manufacture, sale and distribution of our generic products, which are the pharmaceutical and therapeutic equivalents of brand-name drug products and are usually marketed under their established nonproprietary drug names rather than by a brand name. The Impax Division is currently focused on the development of proprietary brand pharmaceutical products that we believe represent improvements to already-approved pharmaceutical products addressing central nervous system ("CNS") disorders. The Impax Division is also engaged in the sale and distribution of Zomig® (zolmitriptan) products, indicated for the treatment of migraine headaches, under the terms of a Distribution, License, Development and Supply Agreement ("AZ Agreement") with AstraZeneca UK Limited ("AstraZeneca") in the United States and in certain U.S. territories. Each of the Global Division and the Impax Division also generates revenue from research and development services provided to unrelated third-party pharmaceutical entities.

We plan to continue to expand our Global Division through targeted ANDAs and a first-to-file and first-to-market strategy and to continue to evaluate and pursue external growth initiatives, including acquisitions and partnerships. We focus our efforts on developing, manufacturing, selling and distributing controlled-release generic versions of selected brand-name pharmaceuticals covering a broad range of therapeutic areas and having technically challenging drug-delivery mechanisms or unique product formulations. We employ our technologies and formulation expertise to develop generic products that reproduce brand-name products' physiological characteristics but do not infringe any valid patents relating to such brand-name products. Generic products contain the same active ingredient and are of the same route of administration, dosage form, strength and indication(s) as brand-name products already approved for use in the United States by the FDA. We generally focus our generic product development on brand-name products as to which the patents covering the active pharmaceutical ingredient have expired or are near expiration, and we employ our proprietary formulation expertise to develop controlled-release technologies that do not infringe patents covering the brand-name products' controlled-release technologies. We also develop, manufacture, sell and distribute specialty generic pharmaceuticals that we believe present one or more competitive advantages, such as difficulty in raw materials sourcing, complex formulation or development characteristics or special handling requirements. Our Global Division also generates revenues from research and development services provided under a joint development agreement with an unrelated third-party pharmaceutical entity. In addition to our focus on solid oral dosage products, we have expanded our generic pharmaceutical products portfolio to include alternative dosage form products, primarily through alliance and collaboration agreements with third parties, such as our development, supply and distribution agreement with TOLMAR, Inc. ("Tolmar") pursuant to which we received an exclusive license to commercialize up to 11 generic topical prescription drug products, including ten currently approved products and one product pending at the FDA, in the United States and its territories.

We sell and distribute generic pharmaceutical products primarily through four sales channels:

the *"Global Product" sales channel*: generic pharmaceutical prescription products we sell directly to wholesalers, large retail drug chains, and others;

the *"Private Label" sales channel*: generic pharmaceutical over-the-counter ("OTC") and prescription products we sell to unrelated third parties who in turn sell the product under their own label;

the *"Rx Partner" sales channel*: generic prescription products sold through unrelated third-party pharmaceutical entities pursuant to alliance and collaboration agreements; and

the *"OTC Partner" sales channel*: sales of generic pharmaceutical OTC products sold through unrelated third-party pharmaceutical entities pursuant to alliance, collaboration and supply agreements.

As of November 1, 2013, we marketed 116 generic pharmaceutical products representing dosage variations of 37 different pharmaceutical compounds through our Global Division, and 14 other generic pharmaceutical products, representing dosage variations of four different pharmaceutical compounds, through our alliance and collaboration agreement partners. As of November 1, 2013, our marketed generic products included, but are not limited to, authorized generic Adderall XR®, fenofibrate (generic to Lofibra®) and oxymorphone HCI ER (generic to OPANA® ER). Our exclusivity period for the oxymorphone tablets expired in early July 2013. Also in July 2013, we launched our authorized generic Trilipix® delayed release capsules, through our Global Division.

The Impax Division is focused on developing proprietary branded pharmaceuticals products for the treatment of CNS disorders, which include migraine, multiple sclerosis and Parkinson's disease, and the promotion and sale of branded pharmaceutical products through our specialty sales force. We believe that we have the research, development and formulation expertise to develop branded products that will deliver significant improvements over existing therapies.

Our branded pharmaceutical product portfolio consists of commercial CNS products and development stage projects. In February 2012, we licensed from AstraZeneca the exclusive U.S. commercial rights to Zomig® (zolmitriptan) tablet, orally disintegrating tablet, and nasal spray formulations pursuant to the terms of the AZ Agreement, and began sales of the Zomig® products under our label during the year ended December 31, 2012 through our specialty sales force. As part of the AZ Agreement, we also have non-exclusive rights to develop new products containing zolmitriptan and to exclusively commercialize these products in the United States in connection with the Zomig® brand. With the addition of Zomig® to the promotional product portfolio, we increased our specialty sales team during 2012. In May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States.

In the development of our pipeline products, we apply formulation and development expertise to develop differentiated, modified, or controlled-release versions of drug substances that are currently marketed either in the U.S. or outside the U.S. We currently have one late-stage branded pharmaceutical product candidate which we are developing internally, RYTARY™ (IPX066) for the treatment of symptomatic Parkinson's disease, for which an NDA was accepted for filing by the FDA in February 2012. In January 2013, the FDA issued a Complete Response Letter regarding the NDA for RYTARY™. A Complete Response Letter is issued by the FDA's Center for Drug Evaluation and Research when the review cycle for a pharmaceutical product candidate is complete and the application is not yet ready for approval. In the Complete Response Letter, the FDA indicated that it required a satisfactory re-inspection of our Hayward manufacturing facility as a result of the warning letter issued to us in May 2011 before the NDA may be approved by the FDA due to the facility's involvement in the development of RYTARY™ and supportive manufacturing and distribution activities. During the assessment of the NDA, we withdrew our Hayward site as an alternative site of commercial production at launch for RYTARY™. We are currently working with the FDA on the appropriate next steps for the RYTARY™ NDA and on resolving the warning letter. We have also initiated the preparation of required documents for a European Market Authorization Application filing for RYTARY™, currently targeted for filing during the second half of 2014.

Our branded product pharmaceutical programs in the Impax Division previously included a program for IPX159, an oral controlled-release formulation for the potential treatment of moderate to severe Restless Legs Syndrome ("RLS"). After a review of the results from the Phase IIb clinical study of IPX159 in patients, we determined that although the results showed a modest improvement in addressing RLS symptoms, such results from the study did not achieve the statistical criteria for its primary efficacy endpoints compared to placebo. Given these results, in mid-February 2013, we discontinued our development program for IPX159 and redirected our resources to our other programs. We also discontinued development of one of our branded product candidates for the treatment of epilepsy as a result of technical and competitive factors. We have a number of other product candidates that are in varying stages of development and currently intend to expand our portfolio of branded pharmaceutical products through internal development and through licensing and acquisition.

We have entered into several alliance and collaboration agreements with respect to certain of our products and services and may enter into similar agreements in the future. These agreements typically obligate us to deliver multiple goods and/or services over extended periods. Such deliverables include manufactured pharmaceutical products, exclusive and semi-exclusive marketing rights, distribution licenses, and research and development services. Our alliance and collaboration agreements often include milestones and provide for milestone payments upon achievement of these milestones. For more information about the types of milestone events in our agreements and how we categorize them, see “Item 1. Financial Statements — Note 12 to Interim Consolidated Financial Statements.”

Pursuant to a license and distribution agreement, we are dependent on a third-party pharmaceutical company to supply us with our authorized generic Adderall XR®, which we market and sell. We experienced disruptions related to the supply of our authorized generic Adderall XR® from this third-party pharmaceutical company. In November 2010, we filed suit against the third-party supplier of our authorized generic of Adderall XR® for breach of contract and other related claims due to a failure to fill our orders as required by the license and distribution agreement. We entered into a settlement agreement and an amended and restated license and distribution agreement with the third-party supplier in February 2013. If we suffer supply disruptions related to our authorized generic Adderall XR® product in the future, our revenues and relationships with our customers may be materially adversely affected. Further, we may enter into similar license and distribution agreements in the future.

Quality Control

In late May 2011, we received a warning letter from the FDA related to an on-site FDA inspection of our Hayward, California manufacturing facility citing deviations from current Good Manufacturing Practices (cGMP), which are extensive regulations governing manufacturing practices for finished pharmaceutical products and which establish requirements for manufacturing processes, stability testing, record keeping and quality standards and controls. The FDA observations set forth in the warning letter related to sampling and testing of in-process materials and drug products, production record review, and our process for investigating the failure of certain manufacturing batches (or portions of batches) to meet specifications.

During the quarter ended March 31, 2012 and the quarter ended March 31, 2013, the FDA conducted inspections of our Hayward manufacturing facility and at the conclusion of each inspection, we received a Form 483. The Form 483 issued during the quarter ended March 31, 2012 contained observations primarily relating to our Quality Control Laboratory and the Form 483 issued during the quarter ended March 31, 2013 contained several observations pertaining to the operations of the Hayward facility, three of which were designated by the FDA as repeat observations from inspections that occurred prior to the warning letter. We provided the FDA with what we believe to be our complete written responses relating to the observations in the warning letter and the Form 483 issued in 2012. In connection with the Form 483 issued in 2013, we provided our written response to the FDA during the first quarter ended March 31, 2013 and continue to provide the FDA with updates. In late October 2013, at the FDA's request, we participated in a regulatory meeting with representatives of the FDA to provide additional information and clarifications on our response and updates related to the Form 483 issued in 2013. We will continue to provide information to the agency about our quality and manufacturing improvement programs and have committed to answering any questions the FDA might have on any applications or programs. We believe that a satisfactory re-inspection of our Hayward manufacturing facility would be required to close out the warning letter and resolve the 2013 Form 483 observations. The FDA did not notify us at the meeting of any additional enforcement actions, however, no assurance can be given as to whether the FDA will take any further actions. We are currently cooperating with the FDA to close out the warning letter and resolve the Form 483 observations. The warning letter and Form 483 observations do not currently place restrictions on our ability to manufacture and ship our products.

We have taken a number of steps to thoroughly review our quality control and manufacturing systems and standards and are working with several third-party experts to assist us with our review and assist in enhancing such systems and standards. This work is ongoing and we are committed to improving our quality control and manufacturing practices. We cannot be assured, however, that the FDA will be satisfied with our corrective actions and as such, we cannot be assured of when the warning letter will be closed out. Unless and until the warning letter is closed out and the Form 483 observations resolved, it is possible we may be subject to additional regulatory action by the FDA as a result of the current or future FDA observations, including, among others, monetary sanctions or penalties, product recalls or seizure, injunctions, total or partial suspension of production and/or distribution, and suspension or withdrawal of regulatory approvals. Additionally, the FDA has withheld and may continue to withhold approval of pending drug applications listing our Hayward, California facility as a manufacturing location of finished dosage forms until the warning letter is closed out and the Form 483 observations are resolved. Further, other federal agencies, our customers and partners in our alliance, development, collaboration and other partnership agreements with respect to our products and services may take the warning letter and Form 483 observations into account when considering the award of

contracts or the continuation or extension of such partnership agreements. If we are unable to promptly correct the issues raised in the warning letter and Form 483 observations, our business, consolidated results of operations and consolidated financial condition could be materially and adversely affected.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) and the rules and regulations of the U.S. Securities & Exchange Commission (“SEC”) require the use of estimates and assumptions, based on complex judgments considered reasonable, and affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant judgments are employed in estimates used in determining values of tangible and intangible assets, legal contingencies, tax assets and tax liabilities, fair value of share-based compensation related to equity incentive awards issued to employees and directors, and estimates used in applying the Company’s revenue recognition policy including those related to accrued chargebacks, rebates, distribution service fees, product returns, Medicare, Medicaid, and other government rebate programs, shelf-stock adjustments, and the timing and amount of deferred and recognized revenue and deferred and amortized manufacturing costs under the Company's several alliance and collaboration agreements. Actual results may differ from estimated results. Certain prior year amounts have been reclassified to conform to the current year presentation.

Although we believe our estimates and assumptions are reasonable when made, they are based upon information available to us at the time they are made. We periodically review the factors having an influence on our estimates and, if necessary, adjust such estimates. Although historically our estimates have generally been reasonably accurate, due to the risks and uncertainties involved in our business and evolving market conditions, and given the subjective element of the estimates made, actual results may differ from estimated results. This possibility may be greater than normal during times of pronounced economic volatility.

Global Product sales, net, and Impax Product sales, net. We recognize revenue from direct sales in accordance with SEC Staff Accounting Bulletin No. 104, Topic 13 "Revenue Recognition" (“SAB 104”). We recognize revenue from direct product sales at the time title and risk of loss pass to customers, which is generally when product is received by the customer. We establish accrued provisions for estimated chargebacks, rebates, distribution service fees, product returns, shelf-stock and other pricing adjustments in the period we record the related sales.

Consistent with industry practice, we record an accrued provision for estimated deductions for chargebacks, rebates, distribution service fees, product returns, Medicare, Medicaid, and other government rebate programs, shelf-stock adjustments, and other pricing adjustments, in the same period when revenue is recognized. The objective of recording provisions for these deductions at the time of sale is to provide a reasonable estimate of the aggregate amount we expect to ultimately credit our customers. Since arrangements giving rise to the various sales credits are typically time driven (i.e. particular promotions entitling customers who make purchases of our products during a specific period of time, to certain levels of rebates or chargebacks), these deductions represent important reductions of the amounts those customers would otherwise owe us for their purchases of those products. Customers typically process their claims for deductions in a reasonably timely manner, usually within the established payment terms. We monitor actual credit memos issued to our customers and compare actual amounts to the estimated provisions, in the aggregate, for each deduction category to assess the reasonableness of the various reserves at each quarterly balance sheet date.

Differences between our estimated provisions and actual credits issued have not been significant, and are accounted for in the current period as a change in estimate in accordance with GAAP. We do not have the ability to specifically link any particular sales credit to an exact sales transaction and since there have been no material differences, we believe our systems and procedures are adequate for managing our business. An event such as the failure to report a particular promotion could result in a significant difference between the estimated amount accrued and the actual amount claimed by the customer, and, while there have been none to date, we would evaluate the particular events and factors giving rise to any such significant difference in determining the appropriate accounting.

Chargebacks. We have agreements establishing contract prices for specified products with some of our indirect customers, such as managed care organizations, hospitals, and government agencies who purchase our products from drug wholesalers. The contract prices are lower than the prices the customer would otherwise pay to the wholesaler, and the difference is referred to as a chargeback, which generally takes the form of a credit memo issued by us to reduce the gross sales amount we invoiced to our wholesaler customer. We recognize an estimated accrued provision for chargeback deductions at the time we ship the products to our wholesaler customers. The primary factors we consider when estimating the accrued provision for chargebacks are the average historical chargeback credits given, the mix of products shipped, and the amount of inventory on hand at the major drug wholesalers with whom we do business. We monitor aggregate actual chargebacks granted and compare them to the estimated accrued provision for chargebacks to assess the reasonableness of the chargeback reserve at each quarterly balance sheet date. The following table is a roll-forward of the activity in the chargeback reserve for the nine months ended September 30, 2013 and the year ended December 31, 2012:

	September 30, 2013		**December 31, 2012**	
	($ in 000's)			
Chargeback reserve				
Beginning balance	$18,410		$22,161	
Provision recorded during the period	271,114		209,452	
Credits issued during the period	(258,908)		(213,203)	
Ending balance	$30,616		$18,410	
Provision as a percent of gross product sales	32	%	22	%

As noted in the table above, the provision for chargebacks, as a percent of gross product sales, increased 10% during the nine month period ended September 30, 2013 as a result of an increase in the estimated provision for chargebacks related to our authorized generic Adderall XR® products due to price erosion resulting from increased competition.

Rebates. In an effort to maintain a competitive position in the marketplace and to promote sales and customer loyalty, we maintain various rebate programs with our customers to whom we market our products through our Global Division Global Products sales channel. The rebates generally take the form of a credit memo to reduce the invoiced gross sales amount charged to a customer for products shipped. We recognize an estimated accrued provision for rebate deductions at the time of product shipment. The primary factors we consider when estimating the provision for rebates are the average historical experience of aggregate credits issued, the mix of products shipped and the historical relationship of rebates as a percentage of total gross product sales, the contract terms and conditions of the various rebate programs in effect at the time of shipment, and the amount of inventory on hand at the major drug wholesalers with which we do business. We also monitor aggregate actual rebates granted and compare them to the estimated aggregate provision for rebates to assess the reasonableness of the aggregate rebate reserve at each quarterly balance sheet date. The following table is a roll-forward of the activity in the rebate reserve for the nine months ended September 30, 2013 and the year ended December 31, 2012:

	September 30, 2013 ($ in 000's)	December 31, 2012
Rebate reserve		
Beginning balance	$46,011	$29,164
Provision recorded during the period	124,440	111,099
Credits issued during the period	(99,332)	(94,252)
Ending balance	$71,119	$46,011
Provision as a percent of gross product sales	15%	12%

As noted in the table above, the provision for rebates, as a percent of gross product sales, increased 3% during the nine month period ended September 30, 2013 as a result of product sales mix, as well as higher levels of rebates offered on our authorized generic Adderall XR® products.

Returns. We allow our customers to return product (i) if approved by authorized personnel in writing or by telephone with the lot number and expiration date accompanying any request and (ii) if such products are returned within six months prior to, or until twelve months following, the products' expiration date. We estimate and recognize an accrued provision for product returns as a percentage of gross sales based upon historical experience of product sales. We estimate the product return reserve using a historical lag period, which is the time between when the product is sold and when it is ultimately returned, and return rates, adjusted by estimates of the future return rates based on various assumptions, which may include changes to internal policies and procedures, changes in business practices, and commercial terms with customers, competitive position of each product, amount of inventory in the wholesaler supply chain, the introduction of new products and changes in market sales information. We also consider other factors, including significant market changes which may impact future expected returns, and actual product returns. We monitor aggregate actual product returns on a quarterly basis and we may record specific provisions for product returns we believe are not covered by historical percentages. The following table is a roll-forward of the activity in the product returns reserve for the nine months ended September 30, 2013 and the year ended December 31, 2012:

	September 30, 2013	**December 31, 2012**
	($ in 000's)	
Returns reserve		
Beginning balance	$23,440	$ 24,101
Provision related to sales recorded in the period	8,802	3,003
Credits issued during the period	(5,030)	(3,664)
Ending balance	$27,212	$ 23,440
Provision as a percent of gross product sales	1.1 %	0.3 %

As noted in the table above, the provision for returns as a percent of gross product sales increased 0.8% during the nine month period ended September 30, 2013, as compared to the year ended December 31, 2012. For 2012, the Company's historical experience for returns continued to decrease as a result of lower actual returns being factored into our historical lag period for higher volume products such as fenofibrate. The primary factor driving the 2013 rate is due to a shifting sales mix within both the generic and brand product divisions.

Medicaid and Other Government Pricing Programs. As required by law, we provide a rebate payment on drugs dispensed under the Medicaid, Medicare Part D, TRICARE, and other U.S. government pricing programs. We determine our estimate of the accrued rebate reserve for government programs primarily based on historical experience of claims submitted by the various states, and other jurisdictions, and any new information regarding changes in the pricing programs which may impact our estimate of rebates. In determining the appropriate accrual amount, we consider historical payment rates and processing lag for outstanding claims and payments. We record estimates for government rebate payments as a deduction from gross sales, with corresponding adjustments to accrued liabilities. The accrual for payments under government pricing programs totaled $17,055,000 and $33,794,000 as of September 30, 2013 and December 31, 2012, respectively. The decrease from December 31, 2012 is primarily the result of a lower portion of our sales coming from Medicaid patients.

Shelf-Stock Adjustments. Based upon competitive market conditions, we may reduce the selling price of some of our products to customers for certain future product shipments. We may issue a credit against the sales amount to a customer based upon their remaining inventory of the product in question, provided the customer agrees to continue to make future purchases of product from us. This type of customer credit is referred to as a shelf-stock adjustment, which is the difference between the sales price and the revised lower sales price, multiplied by an estimate of the number of product units on hand at a given date. Decreases in selling prices are discretionary decisions made by us in response to market conditions, including estimated launch dates of competing products and estimated declines in market price. The accrued reserve for shelf-stock adjustments totaled $733,000 and $390,000 as of September 30, 2013 and December 31, 2012, respectively.

Rx Partner and OTC Partner. Each of our Rx Partner and OTC Partner agreements involves multiple deliverables in the form of products, services and/or licenses over extended periods. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) Topic 605-25 supplemented SAB 104 providing guidance for accounting for such multiple-element revenue arrangements. With respect to our multiple-element revenue arrangements, we determine whether any or all of the elements of the arrangement should be separated into individual units of accounting under FASB ASC Topic 605-25. If separation into individual units of accounting is appropriate, we recognize revenue for each deliverable when the revenue recognition criteria specified by SAB 104 are achieved for the deliverable. If separation is not appropriate, we recognize revenue and related direct manufacturing costs over the estimated life of the agreement or our estimated expected period of performance using either the straight-line method or a modified proportional performance method.

The Rx Partners and OTC Partners agreements obligate us to deliver multiple goods and/or services over extended periods. Such deliverables include manufactured pharmaceutical products, exclusive and semi-exclusive marketing rights, distribution licenses, and research and development services. In exchange for these deliverables, we receive payments from our agreement partners for product shipments and research and development services, and may also receive other payments including royalty, profit sharing, upfront payments, and periodic milestone payments. Revenue received from our partners for product shipments under these agreements is generally not subject to deductions for chargebacks, rebates, product returns, and other pricing adjustments. Royalty and profit sharing amounts we receive under these agreements are calculated by the respective agreement partner, with such royalty and profit share amounts generally based upon estimates of net product sales or gross profit which include estimates of deductions for chargebacks, rebates, product returns, and other adjustments the alliance agreement partners may negotiate with their

customers. We record the agreement partner's adjustments to such estimated amounts in the period the agreement partner reports the amounts to us.

We apply the updated guidance of ASC 605-25, “Multiple Element Arrangements”, to the Strategic Alliance Agreement with Teva Pharmaceuticals Curacao N.V., a subsidiary of Teva Pharmaceutical Industries Ltd. (“Teva Agreement”). We look to the underlying delivery of goods and/or services which give rise to the payment of consideration under the Teva Agreement to determine the appropriate revenue recognition. Consideration received as a result of research and development-related activities performed under the Teva Agreement is initially deferred and recorded as a liability captioned “Deferred revenue”. We recognize the deferred revenue on a straight-line basis over our expected period of performance for such services. Consideration received as a result of the manufacture and delivery of products under the Teva Agreement is recognized at the time title and risk of loss passes to the customer which is generally when the product is received by Teva. We recognize profit share revenue in the period earned.

OTC Partner revenue is related to our alliance, collaboration and supply agreements with Pfizer Inc. (formerly Wyeth) and L. Perrigo Company with respect to the supply of over-the-counter pharmaceutical products. The OTC Partner sales channel is no longer a core area of our business, and the over-the-counter pharmaceutical products we sell through this sales channel are older products which are only sold to Pfizer and Perrigo, and which we sell at a loss. The Company is currently only required to manufacture the over-the-counter pharmaceutical products under its agreements with Pfizer and Perrigo. In order to avoid deferring the losses we incur upon shipment of these products to Pfizer and Perrigo, we recognize revenue, and the associated manufacturing costs, at the time title and risk of loss passes to Pfizer and Perrigo, as applicable, which is generally when the product is shipped by us. We recognize profit share revenue in the period earned.

Research Partner. We have entered into development agreements with unrelated third-party pharmaceutical companies under which we are collaborating in the development of five dermatological products, including four generic products and one branded dermatological product, and one branded CNS product. Under each of the development agreements, we received an upfront fee with the potential to receive additional milestone payments upon completion of contractually specified clinical and regulatory milestones. Additionally, we may also receive royalty payments from the sale, if any, of a successfully developed and commercialized branded product under one of the development agreements. We defer and recognize revenue received from the provision of research and development services, including the upfront payment and the milestone payments received before January 1, 2011 on a straight-line basis over the expected period of performance of the research and development services. We recognize revenue received from the achievement of contingent research and development milestones after January 1, 2011 currently in the period such payment is earned. We will recognize royalty fee income, if any, as current period revenue when earned.

Promotional Partner. We entered into a promotional services agreement with an unrelated third-party pharmaceutical company under which we provided physician detailing sales calls services to promote certain of the unrelated third-party company’s branded drug products. We received service fee revenue in exchange for providing this service. We recognized revenue from the provision of physician detailing sales calls as such services were rendered. Our obligations to provide physician detailing sales calls under the promotional services agreement ended on June 30, 2012.

Estimated Lives of Alliance and Collaboration Agreements. The revenue we receive under our alliance and collaboration agreements is not subject to adjustment for estimated chargebacks, rebates, product returns and other pricing adjustments as such adjustments are included in the amounts we receive from our alliance partners. However, because we may defer revenue we receive under our alliance agreements, and recognize it over the estimated life of the related agreement, or our expected period of performance, we are required to estimate the recognition period under each such agreement in order to determine the amount of revenue to be recognized in each period. Sometimes this estimate is based on the fixed term of the particular alliance agreement. In other cases the estimate may be based on more subjective factors as noted in the following paragraphs. While changes to the estimated recognition periods have been infrequent, such changes, should they occur, may have a significant impact on our consolidated financial statements.

As an illustration, the consideration received from the provision of research and development services under the Joint Development Agreement with Valeant Pharmaceuticals International, Inc., formerly Medicis Pharmaceutical Corporation ("Valeant Agreement"), including the upfront fee and milestone payments received before January 1, 2011, have been initially deferred and are being recognized as revenue on a straight-line basis over our expected period of performance to provide research and development services under the Valeant Agreement. The completion of the final deliverable under the Valeant Agreement represents the end of our estimated expected period of performance, as we will have no further contractual obligation to perform research and development services under the Valeant Agreement, and therefore the earnings process will be complete. The expected period of performance was initially estimated to be a 48 month period, starting in December 2008, upon receipt of the $40.0 million upfront payment, and ending in November 2012. During the year ended December 31, 2012, we extended the end of the revenue recognition period for the Valeant Agreement from November 2012 to November 2013 and during the three month period ended March 31, 2013, we further extended the end of the revenue recognition period for the agreement from November 2013 to December 2014 due to changes in the estimated timing of completion of certain research and development activities under the agreement. This change in estimate was made on a prospective basis and resulted in a reduced quarterly amount of revenue recognized in 2013, as compared to prior year quarters, and a reduced periodic amount of revenue to be recognized in future periods. If there are additional changes in the estimated timing of the completion of the final deliverable under the Valeant Agreement, the revenue recognition period will change on a prospective basis at such time the event occurs. If we were to further extend the revenue recognition period, the amount of revenue recognized in future periods would further reduce.

Third-Party Research and Development Agreements. In addition to our own research and development resources, we may use unrelated third-party vendors, including universities and independent research companies, to assist in our research and development activities. These vendors provide a range of research and development services to us, including clinical and bio-equivalency studies. We generally sign agreements with these vendors which establish the terms of each study performed by them, including, among other things, the technical specifications of the study, the payment schedule, and timing of work to be performed. Third-party researchers generally earn payments either upon the achievement of a milestone, or on a pre-determined date, as specified in each study agreement. We account for third-party research and development expenses as they are incurred according to the terms and conditions of the respective agreement for each study performed, with an accrued expense at each balance sheet date for estimated fees and charges incurred by us, but not yet billed to us. We monitor aggregate actual payments and compare them to the estimated provisions to assess the reasonableness of the accrued expense balance at each quarterly balance sheet date.

Share-Based Compensation. We recognize the grant date fair value of each option and restricted share over its vesting period. Options and restricted shares granted under the 2002 Plan typically vest over a three or four year period and have a term of ten years. We estimate the fair value of each stock option award on the grant date using the Black-Scholes-Merton option-pricing model. Expected volatility is determined based on historical volatility of our common stock. We base the expected term calculation on the “simplified” method described in SAB No. 107, Share-Based Payment, and SAB No. 110, Share-Based Payment, because it provides a reasonable estimate in comparison to our actual experience. We base the risk-free interest rate on the U.S. Treasury yield in effect at the time of grant for an instrument with a maturity that is commensurate with the expected term of the stock options. The dividend yield is zero as we have never paid cash dividends on our common stock and have no present intention to pay cash dividends.

Income Taxes. We are subject to U.S. federal, state and local income taxes and Taiwan R.O.C. income taxes. We create a deferred tax asset, or a deferred tax liability, when we have temporary differences between the financial statement carrying values (GAAP) and the tax bases of our assets and liabilities.

We calculate our interim income tax provision in accordance with FASB ASC Topics 270 and 740. At the end of each interim period, we make an estimate of the annual U.S. domestic and foreign jurisdictions’ expected effective tax rates and apply these rates to their respective year-to-date taxable income or loss. The computation of the annual estimated effective tax rates at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in the United States, and the various state and local tax jurisdictions, as well as tax jurisdictions outside the United States, along with permanent differences, and the likelihood of deferred tax asset utilization. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, or additional information is obtained. The computation of the annual estimated effective tax rate includes modifications, which were projected for the year, for share-based compensation charges and federal and state research and development credits, among others. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the respective change occurs.

Fair Value of Financial Instruments. Our cash and cash equivalents include a portfolio of high-quality credit securities, including U.S. Government sponsored entity securities, treasury bills, corporate bonds, short-term commercial paper, and/or high rated money market funds. Our entire portfolio matures in less than one year. The carrying value of the portfolio approximated the market value at September 30, 2013. We carry our deferred compensation liability at fair value, based upon observable market values. We had no debt outstanding as of September 30, 2013. Our only remaining debt instrument at September 30, 2013 was our credit facility with Wells Fargo Bank, N.A., which would be subject to variable interest rates and principal payments should we decide to borrow under it.

Contingencies. In the normal course of business, we are subject to loss contingencies, such as legal proceedings and claims arising out of our business, covering a wide range of matters, including, among others, patent litigation, shareholder lawsuits, and product and clinical trial liability. In accordance with FASB ASC Topic 450 - Contingencies, we record accrued loss contingencies when it is probable a liability will be incurred and the amount of loss can be reasonably estimated and we do not recognize gain contingencies until realized.

Goodwill. In accordance with FASB ASC Topic 350, "Goodwill and Other Intangibles," rather than recording periodic amortization of goodwill, goodwill is subject to an annual assessment for impairment by applying a fair-value-based test. Under FASB ASC Topic 350, if the fair value of the reporting unit exceeds the reporting unit's carrying value, including goodwill, then goodwill is considered not impaired, making further analysis not required. We consider each of our Global Division and Impax Division operating segments to be a reporting unit, as this is the lowest level for each of which discrete financial information is available. We attribute the entire carrying amount of goodwill to the Global Division. We concluded the carrying value of goodwill was not impaired as of December 31, 2012, as the fair value of the Global Division exceeded its carrying value. We perform our annual goodwill impairment test in the fourth quarter of each year. We estimate the fair value of the Global Division using a discounted cash flow model for both the reporting unit and the enterprise, as well as earnings and revenue multiples per common share outstanding for enterprise fair value. In addition, on a quarterly basis, we perform a review of our business operations to determine whether events or changes in circumstances have occurred that could have a material adverse effect on the estimated fair value of the reporting unit, and thus indicate a potential impairment of the goodwill carrying value. If such events or changes in circumstances were deemed to have occurred, we would perform an interim impairment analysis, which may include the preparation of a discounted cash flow model, or consultation with one or more valuation specialists, to analyze the impact, if any, on our assessment of the reporting unit's fair value. To date, we have not deemed there to be any significant adverse changes in the legal, regulatory or business environment in which we conduct our operations.

Results of Operations

Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Overview:

The following table sets forth our summarized, consolidated results of operations for the three month periods ended September 30, 2013 and 2012:

(in $000's)	Three Months Ended September 30, 2013 (unaudited)	September 30, 2012	Increase/ (Decrease) $	%
Total revenues	$132,641	$145,587	$(12,946)	(9)%
Gross profit	48,342	78,027	(29,685)	(38)%
(Loss) income from operations	(194)	29,459	(29,653)	nm
Income before income taxes	20	29,672	(29,652)	nm
Provision for income taxes	200	9,635	(9,435)	nm
Net (loss) income	$(180)	$20,037	$(20,217)	nm

**nm-not meaningful*

Net loss for the three month period ended September 30, 2013 was $0.2 million, a decrease of $20.2 million as compared to net income of $20.0 million for the three month period ended September 30, 2012. The decrease was attributable to a decline in sales of certain of our Global Products, specifically our authorized generic Adderall XR® and fenofibrate products, as well as a decline in our Impax-labeled branded Zomig® products. In May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States. Also contributing to the decline in net income were intangible asset impairment charges of $13.9 million recorded in the three month period ended September 30, 2013, as discussed in "Note 8 – Goodwill and Intangible Assets." Partially offsetting these declines were sales of our non AB-rated oxymorphone hydrochloride extended-release tablets, as well as our authorized generic Trilipix® delayed release capsules, which we launched in July 2013.

56

Global Division

The following table sets forth results of operations for the Global Division for the three month periods ended September 30, 2013 and 2012:

	Three Months Ended		Increase/ (Decrease)	
	September 30, 2013	September 30, 2012		
(in $000's)	(unaudited)			
Revenues:			$	%
Global Product sales, net	$111,686	$99,463	$12,223	12 %
Rx Partner	3,016	(792)	3,808	nm
Other Revenues	1,046	1,759	(713)	(41)%
Total revenues	115,748	100,430	15,318	15 %
Cost of revenues	77,082	44,106	32,976	75 %
Gross profit	38,666	56,324	(17,658)	(31)%
Operating expenses:				
Research and development	10,970	12,400	(1,430)	(12)%
Patent litigation expense (recovery)	4,497	(371)	4,868	nm
Selling, general and administrative	3,671	3,734	(63)	(2)%
Total operating expenses	19,138	15,763	3,375	21 %
Income from operations	$19,528	$40,561	$(21,033)	(52)%

**nm-not meaningful*

Revenues

Total revenues for the Global Division for the three month period ended September 30, 2013, were $115.7 million, an increase of 15% over the same period in 2012, principally resulting from the increase in Global Product sales, net, as discussed below.

Global Product sales, net, were $111.7 million for the three month period ended September 30, 2013, an increase of 12% over the same period in 2012, primarily as a result of sales of our authorized generic Trilipix® delayed release capsules, which we launched in July 2013, and our non AB-rated oxymorphone hydrochloride extended-release tablets, which we launched in January 2013. In addition, in May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States. Partially offsetting these increases were lower sales of our authorized generic Adderall XR® and

fenofibrate products. With respect to our authorized generic Adderall XR® products, we have experienced declines in both market share and average net selling prices as a result of an unrelated pharmaceutical company receiving FDA approval in June 2012 for a competitor product and beginning to market their product. With respect to our fenofibrate product, in October 2012, a competitor product to our fenofibrate capsule product was approved for sale by the FDA and began being marketed. Any further diminution in the consolidated revenue and/or gross profit of our authorized generic Adderall XR® and fenofibrate products, or any of our other products, due to competition and/or product supply delays or disruptions or any other reasons in future periods may materially and adversely affect our consolidated results of operations in such future periods.

Rx Partner revenues were $3.0 million for the three month period ended September 30, 2013, an increase of $3.8 million from the prior year period, resulting from a charge of $2.0 million in the three month period ended September 30, 2012 related to the voluntary market withdrawal of our bupropion XL 300 mg product in 2012 for which there was no similar charge in the current year period, in addition to a $1.2 million increase from the prior year period in profit-share revenue received under the Teva Agreement.

Other Revenues were $1.0 million for the three month period ended September 30, 2013, with the decrease of $0.7 million from the prior year period primarily resulting from our extension of the revenue recognition period for the Valeant Agreement from the initial recognition period ending in November 2012 to December 2014, due to changes in the estimated timing of completion of certain research and development activities under the agreement.

Cost of Revenues

Cost of revenues was $77.1 million for the three month period ended September 30, 2013, an increase of $33.0 million compared to the prior year period. Cost of revenues increased primarily as a result of an intangible asset impairment charge of $13.2 million, as discussed in “Note 8 – Goodwill and Intangible Assets,” an increase in remediation-related expenses of $8.1 million and reduced efficiencies as a result of lower production levels.

Gross Profit

Gross profit for the three month period ended September 30, 2013 was $38.7 million, or approximately 33% of total revenues, as compared to $56.3 million, or approximately 56% of total revenues, in the prior year period. Gross profit in the current year period decreased, on a percentage basis, when compared to gross profit in the prior year period due primarily to the previously disclosed intangible asset impairment charge and higher remediation-related expenses.

Research and Development Expenses

Total research and development expenses for the three month period ended September 30, 2013 were $11.0 million, a decrease of 12%, as compared to $12.4 million in the prior year period. Generic research and development expenses decreased $1.4 million as compared to the prior year period primarily due to the timing of completion of certain research and development projects.

Patent Litigation Expenses

Patent litigation expenses for the three month period ended September 30, 2013 were $4.5 million, as compared to a recovery of $0.4 million for the three month period ended September 30, 2012. The increase in patent litigation expenses of $4.9 million compared to the prior year period was primarily the result of the receipt of $5.0 million in the prior year period for the reimbursement of legal fees received pursuant to the settlement of patent litigation.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended September 30, 2013 were $3.7 million, remaining relatively consistent over the same period in 2012.

Impax Division

The following table sets forth results of operations for the Impax Division for the three month periods ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013	September 30, 2012	Increase/ (Decrease)	
(in $000's)	(unaudited)			
Revenues:			$	%
Impax Product sales, net	$16,562	$ 43,327	$(26,765)	(62)%
Other Revenues	331	1,830	(1,499)	(82)%
Total revenues	16,893	45,157	(28,264)	(63)%
Cost of revenues	7,217	23,454	(16,237)	(69)%
Gross profit	9,676	21,703	(12,027)	(55)%
Operating expenses:				
Research and development	5,101	7,612	(2,511)	(33)%
Selling, general and administrative	10,078	12,498	(2,420)	(19)%
Total operating expenses	15,179	20,110	(4,931)	(25)%
(Loss) income from operations	$(5,503)	$ 1,593	$(7,096)	nm

**nm-not meaningful*

Revenues

Total revenues for the Impax Division were $16.9 million for the three month period ended September 30, 2013, a decrease of $28.3 million over the same period in the prior year due to lower sales of our Impax-labeled branded Zomig® products which we began selling during the three month period ended September 30, 2012. In May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States. We continue to commercialize the branded Zomig® nasal spray which has U.S. patents expiring as late as May 2021. Other Revenues for the three month period ended September 30, 2013 were $0.3 million, representing an initial $10.0 million up-front payment we received in June 2010 under a Development and Co-Promotion Agreement with Endo Pharmaceuticals, Inc. which we are recognizing as revenue on a straight-line basis over our expected period of performance during the development period, which we currently estimate to be the 91 month period ending December 2017. Other Revenues decreased $1.5 million from the prior year period as a result of the recognition of $1.5 million in the three month period ended September 30, 2012 related to an $11.5 million up-front payment received under our License, Development and Commercialization Agreement with GSK in December 2010 which we recognized as revenue on a straight-line basis over the 24 month

development period that ended in December 2012, and for which there was no similar amount recognized during the current year period.

Cost of Revenues

Cost of revenues was $7.2 million for the three month period ended September 30, 2013, a decrease of $16.2 million over the prior year period commensurate with a reduction in revenues.

Gross Profit

Gross profit for the three month period ended September 30, 2013 was $9.7 million, a decrease of $12.0 million over the prior year period commensurate with a reduction in revenues.

Research and Development Expenses

Total research and development expenses for the three month period ended September 30, 2013 were $5.1 million, a decrease of 33%, as compared to $7.6 million in the prior year period. The decrease was principally driven by a reduction in research and development expenses related to our branded product initiatives, including our decision to terminate development of one of our branded product candidates for the treatment of epilepsy as a result of technical and competitive factors.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $10.1 million for the three month period ended September 30, 2013, a decrease of $2.4 million as compared to $12.5 million in the prior period. The decrease was driven by a $2.1 million reduction in pre-launch support for RYTARY™, a $1.0 million reduction in sales force expenses due to a reduction in force and a $0.4 million reduction in advertising and promotion expenses for Zomig® compared to the prior year period. These reductions were partially offset by a $0.6 million increase in expenses for administrative support and a $0.5 million increase in compensation costs related to the expansion of the sales, marketing and administrative group compared to the prior year period.

Corporate and Other

The following table sets forth corporate general and administrative expenses, as well as other items of income and expense presented below income or loss from operations for the three month periods ended September 30, 2013 and 2012:

(in $000's)	Three Months Ended September 30, 2013 (unaudited)	September 30, 2012	Increase/ (Decrease) $	%
General and administrative expenses	$14,219	$ 12,695	$1,524	12 %
Loss from operations	(14,219)	(12,695)	(1,524)	(12)%
Other (expense) income, net	(85)	86	(171)	nm
Interest income	349	272	77	28 %
Interest expense	(50)	(145)	95	66 %
Loss before income taxes	(14,005)	(12,482)	(1,523)	(12)%
Provision for income taxes	$200	$ 9,635	$(9,435)	(98)%

**nm-not meaningful*

General and Administrative Expenses

General and administrative expenses for the three month period ended September 30, 2013 were $14.2 million, a 12% increase over the same period in 2012. The increase was principally driven by an increase in incentive compensation of $0.7 million and recruiting fees of $0.4 million.

Other (Expense) Income, net

Other expense, net of $0.1 million primarily resulted from realized exchange rate losses on foreign currency denominated transactions during the three month period ended September 30, 2013, as compared to realized exchange rate gains during the three month period ended September 30, 2012.

Interest Income

Interest income in the three month period ended September 30, 2013 was $0.3 million, and was relatively consistent with the same period in 2012.

Interest Expense

Interest expense in the three month period ended September 30, 2013 was $0.1 million, and was relatively consistent with the same period in 2012.

Income Taxes

During the three month period ended September 30, 2013, we recorded an aggregate tax provision of $0.2 million for U.S. domestic income taxes and for foreign income taxes. In the three month period ended September 30, 2012, we recorded an aggregate tax provision of $9.6 million for U.S. domestic income taxes and for foreign income taxes. The decrease in the tax provision resulted from lower pretax income for the three month period ended September 30, 2013 compared to the three month period ended September 30, 2012. Refer to the Results of Operations for the nine month period ended September 30, 2013 for information regarding the effective tax rate.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Overview:

The following table sets forth our summarized, consolidated results of operations for the nine month periods ended September 30, 2013 and 2012:

(in $000's)	Nine Months Ended September 30, 2013 (unaudited)	September 30, 2012	Increase/ (Decrease) $	%
Total revenues	$410,761	$440,615	$(29,854)	(7)%
Gross profit	165,103	218,403	(53,300)	(24)%
Income from operations	9,847	78,095	(68,248)	(87)%
Income before income taxes	162,775	78,240	84,535	nm
Provision for income taxes	51,894	27,166	24,728	91 %
Net income	$110,881	$51,074	$59,807	nm

**nm-not meaningful*

Net income for the nine month period ended September 30, 2013 was $110.9 million, an increase of $59.8 million as compared to $51.1 million for the nine month period ended September 30, 2012. The increase is primarily attributable to a $102.0 million gain in connection with the settlement of litigation under the June 2010 settlement and license agreement with Endo which we recorded as other income in the three month period ended March 31, 2013, as well as the receipt of a $48.0 million payment from Shire in the three month period ended March 31, 2013, in connection with the settlement of litigation. In addition, revenue from our Impax Division increased $27.0 million as compared to the same period in 2012, as a result of sales of Impax-labeled branded Zomig® tablets which we began selling in the three month period ended June 30, 2012, and sales of Impax-labeled branded Zomig® orally-disintegrating tablets and nasal spray which we began selling in the three month period ended September 30, 2012. In May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States. These increases were partially offset by a $42.9 million decrease in revenue from our Global Products during the nine month period ended September 30, 2013, as compared to the same period in the prior year, driven primarily by lower sales of our authorized generic Adderall XR® and fenofibrate products, as discussed below. In July 2013, we launched our authorized generic Trilipix® delayed release capsules.

62

Global Division

The following table sets forth results of operations for the Global Division for the nine month periods ended September 30, 2013 and 2012:

	Nine Months Ended		Increase/	
	September 30, 2013	September 30, 2012	(Decrease)	
(in $000's)	(unaudited)			
Revenues:			$	%
Global Product sales, net	$299,231	$ 342,105	$(42,874)	(13)%
Rx Partner	9,797	4,652	5,145	nm
Other Revenues	2,323	10,002	(7,679)	(77)%
Total revenues	311,351	356,759	(45,408)	(13)%
Cost of revenues	193,251	177,690	15,561	9 %
Gross profit	118,100	179,069	(60,969)	(34)%
Operating expenses:				
Research and development	31,972	35,219	(3,247)	(9)%
Patent litigation expense	13,079	6,581	6,498	99 %
Selling, general and administrative	12,597	11,312	1,285	11 %
Total operating expenses	57,648	53,112	4,536	9 %
Income from operations	$60,452	$ 125,957	$(65,505)	(52)%

**nm-not meaningful*

Revenues

Total revenues for the Global Division for the nine month period ended September 30, 2013, were $311.4 million, a decrease of 13% over the same period in 2012, principally resulting from the decrease in Global Product sales, net, as discussed below.

Global Product sales, net, were $299.2 million for the nine month period ended September 30, 2013, a decrease of 13% over the same period in 2012, primarily as a result of lower sales of our authorized generic Adderall XR® and fenofibrate products. With respect to our authorized generic Adderall XR® products, we have experienced declines in both market share and average net selling prices as a result of an unrelated pharmaceutical company receiving FDA approval in June 2012 for a competitor product and beginning to market their product. With respect to our fenofibrate products, in October 2012, a competitor product to our fenofibrate capsule product was approved for sale by the FDA

and began being marketed. Any further diminution in the consolidated revenue and/or gross profit of our authorized generic Adderall XR® and fenofibrate products, or any of our other products, due to competition and/or product supply delays or disruptions or any other reasons in future periods may materially and adversely affect our consolidated results of operations in such future periods. Partially offsetting these declines were sales of our non AB-rated oxymorphone hydrochloride extended-release tablets, which we launched in January 2013, and our authorized generic Trilipix® delayed release capsules, which we launched in July 2013. In addition, in May 2013, our exclusivity period for branded Zomig® tablets and orally disintegrating tablets expired and we launched authorized generic versions of those products in the United States.

Rx Partner revenues were $9.8 million for the nine month period ended September 30, 2013, an increase of $5.1 million from the prior year period, resulting from a charge of $2.0 million in the nine month period ended September 30, 2012 related to the voluntary market withdrawal of our bupropion XL 300 mg product in 2012 for which there was no similar charge in the current year period, in addition to a $2.6 million increase over the prior year period in profit-share revenue received under the Teva Agreement.

Other Revenues were $2.3 million for the nine month period ended September 30, 2013, with the decrease of $7.7 million from the prior year period primarily resulting from our extension of the revenue recognition period for the Valeant Agreement from the initial recognition period ending in November 2012 to December 2014, due to changes in the estimated timing of completion of certain research and development activities under the agreement.

Cost of Revenues

Cost of revenues was $193.3 million for the nine month period ended September 30, 2013, an increase of $15.6 million compared to the prior year period. Cost of revenues increased primarily as a result of an intangible asset impairment charge of $13.2 million, as discussed in “Note 8 – Goodwill and Intangible Assets,” an increase in remediation-related costs, manufacturing inefficiencies related to lower production activity, separation expenses and inventory reserves for products discontinued by the Company and other reserves for pre-launch inventory due to delays caused by the warning letter related to our Hayward, California manufacturing facility. These costs were partially offset by lower profit share expense related to sales of our authorized generic Adderall XR®.

Gross Profit

Gross profit for the nine month period ended September 30, 2013 was $118.1 million, or approximately 38% of total revenues, as compared to $179.1 million, or approximately 50% of total revenues, in the prior year period. Gross profit in the current year period decreased, on a percentage basis, when compared to gross profit in the prior year period due primarily to the intangible asset impairment charge noted above and an increase in expenses associated with new product launch delays caused by the warning letter related to our Hayward, California manufacturing facility, including a $6.4 million charge related to pre-launch inventory for products which will no longer be marketed and $6.7 million of inventory reserves recorded in the three month period ended March 31, 2013 for products discontinued by the Company during the period. Partially offsetting these reductions in gross profit margin was the benefit of lower profit share expenses related to sales of our authorized generic Adderall XR®.

Research and Development Expenses

Total research and development expenses for the nine month period ended September 30, 2013 were $32.0 million, a decrease of 9%, as compared to $35.2 million in the prior year period. Generic research and development expenses decreased primarily due to the timing of completion of certain research and development projects.

Patent Litigation Expenses

Patent litigation expenses for the nine month period ended September 30, 2013 and 2012 were $13.1 million and $6.6 million, respectively. The increase in patent litigation expenses of $6.5 million compared to the prior year period was primarily the result of the receipt of $5.0 million in the prior year period for the reimbursement of legal fees received pursuant to the settlement of patent litigation.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine month period ended September 30, 2013 were $12.6 million, an 11% increase over the same period in 2012. The increase resulted primarily from an increase in freight expenses of $0.7 million due to higher unit volume, in addition to an increase in marketing expenses of $0.4 million.

Impax Division

The following table sets forth results of operations for the Impax Division for the nine month periods ended September 30, 2013 and 2012:

	Nine Months Ended		Increase/ (Decrease)	
	September 30, 2013	September 30, 2012		
(in $000's)	(unaudited)			
Revenues:			$	%
Impax Product sales, net	$98,416	$ 71,422	$26,994	38 %
Other Revenues	994	12,434	(11,440)	(92)%
Total revenues	99,410	83,856	15,554	19 %
Cost of revenues	52,407	44,522	7,885	18 %
Gross profit	47,003	39,334	7,669	19 %
Operating expenses:				
Research and development	19,244	23,478	(4,234)	(18)%
Selling, general and administrative	34,677	22,266	12,411	56 %
Total operating expenses	53,921	45,744	8,177	18 %
Loss from operations	$(6,918)	$ (6,410)	$(508)	(8)%

Revenues

Total revenues for the Impax Division were $99.4 million for the nine month period ended September 30, 2013, an increase of $15.6 million over the same period in the prior year due to sales of our Impax-labeled branded Zomig® tablets which we began selling during the three month period ended June 30, 2012, and our branded Impax-labeled Zomig® orally disintegrating tablets and nasal spray, which we began selling during the three month period ended September 30, 2012. This increase was partially offset by an $11.4 million decrease in Other Revenues. Other Revenues during the nine month periods ended September 30, 2013 and 2012 included $1.0 million representing an initial $10.0 million up-front payment we received in June 2010 under a Development and Co-Promotion Agreement with Endo Pharmaceuticals, Inc. which we are recognizing as revenue on a straight-line basis over our expected period of performance during the development period, which we currently estimate to be the 91 month period ending December 2017. Also included in Other Revenues for the nine month period ended September 30, 2012, is $4.4 million related to an $11.5 million up-front payment received under our License, Development and Commercialization Agreement with GSK in December 2010 which we recognized as revenue on a straight-line basis over the 24 month development period that ended in December 2012, and for which there was no similar amount recognized during the current year period. Finally, Other Revenues for the nine month period ended September 30, 2012 included $7.1 million under our Co-Promotion Agreement with Pfizer which ended on June 30, 2012, and for which there was no similar amount recognized during the current year period.

Cost of Revenues

Cost of revenues was $52.4 million for the nine month period ended September 30, 2013, an increase of $7.9 million over the prior year period primarily as a result of an increase of $8.7 million in costs related to our Impax-labeled branded Zomig® products which we commenced selling during 2012. In addition, as a result of the Complete Response Letter received in the current year, we recorded a $5.0 million reserve in the three month period ended March 31, 2013 for pre-launch inventory related to RYTARY™. Partially offsetting these increases was $5.8 million in charges related to our branded products sales force that we incurred during the nine month period ended September 30, 2012, for which there were no similar amounts included in cost of revenues in the current year period. Charges for our branded products sales force had been included as a component of cost of revenues in the prior year period as the sales force was previously engaged in providing co-promotion services to Pfizer under an agreement which ended on June 30, 2012.

Gross Profit

Gross profit for the nine month period ended September 30, 2013 was $47.0 million, an increase of $7.7 million over the prior year period primarily resulting from the commencement of sales of our Impax-labeled branded Zomig® products during 2012.

Research and Development Expenses

Total research and development expenses for the nine month period ended September 30, 2013 were $19.2 million, a decrease of 18%, as compared to $23.5 million in the prior year period. The decrease was principally driven by a reduction in research and development expenses related to our branded product initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $34.7 million for the nine month period ended September 30, 2013, an increase of $12.4 million as compared to $22.3 million in the prior period. The increase primarily related to $2.5 million of higher sales expenses during the nine month period ended September 30, 2013 related to an increase in our sales force necessary to support Zomig®, which we launched in April 2012. Charges for our branded products sales force of $5.8 million had been included as a component of cost of revenues in the prior year period as the sales force was previously engaged in providing co-promotion services to Pfizer under an agreement which ended on June 30, 2012. We also incurred $2.3 million in increased compensation costs related to the expansion of the sales, marketing and administrative group, $1.7 million in increased advertising and promotion expenses for Zomig® and $1.6 million in increased expenses for administrative support. These increases were partially offset by a $1.5 million reduction in advertising and promotion expenses for pre-launch support for RYTARY™.

Corporate and Other

The following table sets forth corporate general and administrative expenses, as well as other items of income and expense presented below income or loss from operations for the nine month periods ended September 30, 2013 and 2012:

(in $000's)	Nine Months Ended September 30, 2013 (unaudited)	September 30, 2012	Increase/ (Decrease) $	%
General and administrative expenses	$43,687	$ 41,452	$2,235	5 %
Loss from operations	(43,687)	(41,452)	(2,235)	(5)%
Other income (expense), net	152,366	(19)	152,385	nm
Interest income	940	771	169	22 %
Interest expense	(378)	(607)	229	(38)%
Income (loss) before income taxes	109,241	(41,307)	150,548	nm
Provision for income taxes	$51,894	$ 27,166	$24,728	91 %

**nm-not meaningful*

General and Administrative Expenses

General and administrative expenses for the nine month period ended September 30, 2013 were $43.7 million, a 5% increase over the same period in 2012. The increase was principally driven by an increase in personnel expenses of $3.5 million and higher executive severance expenses of $3.1 million, in addition to an increase in information technology resource expenses of $0.4 million, partially offset by a decrease in litigation expenses of $4.1 million and a decrease in outside consulting expenses of $1.1 million.

Other Income (Expense), net

Other income, net of $152.4 million in the nine month period ended September 30, 2013 primarily resulted from a $102.0 million gain in connection with the settlement of litigation under the June 2010 settlement and license agreement with Endo which we recorded as other income in the three month period ended March 31, 2013, as well as a $48.0 million payment received from Shire in connection with the settlement of litigation in the three month period

ended March 31, 2013. In addition, we recorded a $3.0 million gain in connection with the settlement of litigation in other income during the three month period ended June 30, 2013. Partially offsetting this income was a $0.9 million loss on disposal of software in the three month period ended March 31, 2013.

Interest Income

Interest income in the nine month period ended September 30, 2013 was $0.9 million, a slight increase from the same period in 2012.

Interest Expense

Interest expense was $0.4 million in the nine month period ended September 30, 2013, a slight decrease from the same period in 2012.

Income Taxes

During the nine month period ended September 30, 2013, we recorded an aggregate tax provision of $51.9 million for U.S. domestic income taxes and for foreign income taxes. In the nine month period ended September 30, 2012, we recorded an aggregate tax provision of $27.2 million for U.S. domestic income taxes and for foreign income taxes. The increase in the tax provision resulted from higher income before taxes in the nine month period ended September 30, 2013 as compared to the same period in the prior year. The effective tax rate was 32% for the nine month period ended September 30, 2013 and 35% for the nine month period ended September 30, 2012. The decrease in the effective tax rate was primarily the result of recording the estimated 2012 federal research and development credit, which was enacted retroactively in January 2013, in the nine month period ended September 30, 2013, as well as the partial year 2013 estimated federal research and development credit recorded in the nine month period ended September 30, 2013, which was not available for the same period last year due to the expiration of the credit.

Liquidity and Capital Resources

We have historically funded our operations with the proceeds from the sale of debt and equity securities, and more recently, with cash from operations. Currently, our principal source of liquidity is cash from operations, consisting of the proceeds from the sales of our products and the provision of services, as well as payments received in connection with legal settlements.

We expect to incur significant operating expenses, including research and development activities and patent litigation expenses, for the foreseeable future. In addition, we are generally required to make cash expenditures to manufacture and/or acquire finished product inventory in advance of selling the finished product to our customers and collecting payment for such product sales, which may result in a significant use of cash. We believe our existing cash and cash equivalents and short-term investment balances, together with cash expected to be generated from operations, and our bank revolving line of credit, will be sufficient to meet our cash requirements through the next 12 months. We may seek additional financing through alliance, collaboration, and licensing agreements, as well as from the debt or equity capital markets to fund the planned capital expenditures, our research and development plans, potential acquisitions, and potential revenue shortfalls due to delays in new product introductions.

Cash and Cash Equivalents

At September 30, 2013, we had $233.1 million in cash and cash equivalents, an increase of $91.0 million as compared to December 31, 2012. As more fully discussed below, the increase in cash and cash equivalents during the nine month period ended September 30, 2013 was primarily driven by $155.3 million of net cash provided by operating activities, partially offset by $70.5 million of cash used in investing activities.

Cash Flows

Nine Month Period Ended September 30, 2013 Compared to the Nine Month Period Ended September 30, 2012

Net cash provided by operating activities for the nine month period ended September 30, 2013 was $155.3 million, an increase of $55.1 million as compared to the prior year period of $100.2 million net cash provided by operating activities. The period over period increase in net cash provided by operating activities principally resulted from the receipt of a $102.0 million payment in connection with the settlement of litigation under the June 2010 settlement and license agreement with Endo and a $48.0 million payment from Shire in connection with the settlement of litigation during the three month period ended March 31, 2013. This increase was partially offset by the increase in accounts receivable resulting in a $41.3 million use of cash for the nine month period ended September 30, 2013, compared to the same period in the prior year when accounts receivable resulted in a $56.0 million source of cash.

Net cash used in investing activities for the nine month period ended September 30, 2013, was $70.5 million, compared to the prior year period of $48.0 million of net cash used in investing activities. The change was due primarily to $43.8 million in net payments to AstraZeneca and $21.0 million in payments to Tolmar for product licensing rights in the nine month period ended September 30, 2012, for which there were no corresponding payments in the current period. In addition, purchases of property, plant and equipment for the nine month period ended September 30, 2013 were $24.2 million as compared to $58.6 million for the prior year period. These changes were partially offset by net purchases of short-term investments during the nine month period ended September 30, 2013 resulting in a $46.2 million use of cash, as compared to net maturities of short-term investments during the same period in the prior year resulting in a $75.4 million source of cash.

Net cash provided by financing activities for the nine month period ended September 30, 2013 was $6.6 million, representing a decrease of $8.6 million as compared to $15.2 million of net cash provided by financing activities in the prior year period. The period over period decrease in net cash provided by financing activities was due to a $5.8 million decrease in cash proceeds received from the exercise of stock options and contributions to the employee stock purchase plan, as well as a $2.8 million decrease in the tax benefit related to the exercise of employee stock options and restricted stock as a result of the lower level of exercise activity in the current year period.

Outstanding Debt Obligations

Senior Lenders; Wells Fargo Bank, N.A.

We have a Credit Agreement, as amended (the "Credit Agreement") with Wells Fargo Bank, N. A., as a lender and as administrative agent (the "Administrative Agent"). The Credit Agreement provides us with a revolving line of credit in the aggregate principal amount of up to $50.0 million (the "Revolving Credit Facility"). Under the Revolving Credit Facility, up to $10.0 million is available for letters of credit, the outstanding face amounts of which reduce availability under the Revolving Credit Facility on a dollar for dollar basis. Proceeds under the Credit Agreement may be used for working capital, general corporate and other lawful purposes. We have not yet borrowed any amounts under the Revolving Credit Facility.

Borrowings under the Credit Agreement are secured by substantially all of our personal property assets pursuant to a Security Agreement (the "Security Agreement") entered into by us and the Administrative Agent. As further security, we also pledged to the Administrative Agent 65% of our equity interest in Impax Laboratories (Taiwan), Inc., all of our equity interests in our wholly owned domestic subsidiaries and must similarly pledge all or a portion of our equity interest in future subsidiaries. Under the Credit Agreement, among other things:

The outstanding principal amount of all revolving credit loans, together with accrued and unpaid interest thereon, will be due and payable on the maturity date, which will occur four years following the February 11, 2011 closing date.

Borrowings under the Revolving Credit Facility will bear interest, at our option, at either an Alternate Base Rate (as defined in the Credit Agreement) plus the applicable margin in effect from time to time ranging from 0.5% to 1.5%, or a LIBOR Rate (as defined in the Credit Agreement) plus the applicable margin in effect from time to time ranging from 1.5% to 2.5%. We are also required to pay an unused commitment fee ranging from 0.25% to 0.45% per annum based on the daily average undrawn portion of the Revolving Credit Facility. The applicable margin described above and the unused commitment fee in effect at any given time will be determined based on the Company's Total Net Leverage Ratio (as defined in the Credit Agreement), which is based upon our consolidated total debt, net of unrestricted cash in excess of $100 million, compared to Consolidated EBITDA (as defined in the Credit Agreement) for the immediately preceding four quarters.

We may prepay any outstanding loan under the Revolving Credit Facility without premium or penalty.

We are required under the Credit Agreement and the Security Agreement to comply with a number of affirmative, negative and financial covenants. Among other things, these covenants (i) require us to provide periodic reports, notices of material events and information regarding collateral, (ii) restrict our ability, subject to certain exceptions

and baskets, to incur additional indebtedness, grant liens on assets, undergo fundamental changes, change the nature of its business, make investments, undertake acquisitions, sell assets, make restricted payments (including the ability to pay dividends and repurchase stock) or engage in affiliate transactions, and (iii) require us to maintain a Total Net Leverage Ratio (which is, generally, our total funded debt, net of unrestricted cash in excess of $100 million, over our EBITDA for the preceding four quarters) of less than 3.75 to 1.00, a Senior Secured Leverage Ratio (which is, generally, our total senior secured debt over our EBITDA for the preceding four quarters) of less than 2.50 to 1.00 and a Fixed Charge Coverage Ratio (which is, generally, our EBITDA for the preceding four quarters over the sum of cash interest expense, cash tax payments, scheduled funded debt payments and capital expenditures during such four quarter period, subject to certain specified exceptions) of at least 2.00 to 1.00 (with each such ratio as more particularly defined as set forth in the Credit Agreement). As of September 30, 2013, we were in compliance with the various covenants contained in the Credit Agreement and the Security Agreement.

The Credit Agreement contains customary events of default (subject to customary grace periods, cure rights and materiality thresholds), including, among others, failure to pay principal, interest or fees, violation of covenants, material inaccuracy of representations and warranties, cross-default and cross-acceleration of material indebtedness and other obligations, certain bankruptcy and insolvency events, certain judgments, certain events related to the Employee Retirement Income Security Act of 1974, as amended, and a change of control.

Following an event of default under the Credit Agreement, the Administrative Agent would be entitled to take various actions, including the acceleration of amounts due under the Credit Agreement and seek other remedies that may be taken by secured creditors.

During the nine month periods ended September 30, 2013 and 2012, unused line fees incurred under the Credit Agreement were $107,000 and $95,000, respectively.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2013.

Contractual Obligations

As of September 30, 2013, there were no significant changes to our contractual obligations as set forth in our Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Accounting Pronouncements

In December 2011, the FASB issued its updated guidance on balance sheet offsetting. This new standard provides guidance to determine when offsetting in the balance sheet is appropriate. The guidance is designed to enhance disclosures by requiring improved information about financial instruments and derivative instruments. The goal is to provide users of the financial statements the ability to evaluate the effect or potential effect of netting arrangements on an entity's statement of financial position. This guidance will only impact the disclosures within an entity's financial statements and notes to the financial statements and does not result in a change to the accounting treatment of financial instruments and derivative instruments. We were required to adopt this guidance on January 1, 2013, and it did not have a material impact on our consolidated financial statements.

In March 2013, the FASB issued updated guidance on foreign currency matters. The update applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. The Company is required to adopt this guidance on January 1, 2014 and does not expect the adoption to have a

material effect on its consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the quantitative and qualitative disclosures about market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, were effective as of September 30, 2013 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2013, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Systems of disclosure controls and internal controls over financial reporting and their associated policies and procedures, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance the objectives of the system of control are achieved. Further, the design of a control system must be balanced against resource constraints, and therefore the benefits of controls must be considered relative to their costs. Given the inherent limitations in all systems of controls, no evaluation of controls can provide absolute assurance all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate

because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Accordingly, given the inherent limitations in a cost-effective system of internal control, financial statement misstatements due to error or fraud may occur and may not be detected. Our disclosure controls and procedures are designed to provide a reasonable assurance of achieving their objectives. We conduct periodic evaluations of our systems of controls to enhance, where necessary, our control policies and procedures.

PART II. Other Information

Item 1. Legal Proceedings

Information pertaining to legal proceedings can be found in "Item 1. Financial Statements – Note 17. Legal and Regulatory Matters" and is incorporated by reference herein.

Item 1A. Risk Factors

During the quarter ended September 30, 2013, except as set forth below, there were no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and in Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, which could materially affect our business, consolidated financial condition or consolidated results of operations. The risks described in such reports and herein are not the only risks we face. Additional risks and uncertainties not currently known to us or which we currently deem to be immaterial may also materially adversely affect our business, consolidated financial condition and/or consolidated results of operations.

We have received a warning letter and Form 483 observations from the FDA. If we are unable to promptly correct the issues raised in the warning letter and/or Form 483 observations, our business, results of operations and financial condition could be materially and adversely affected.

In late May 2011, we received a warning letter from the FDA related to an on-site FDA inspection of our Hayward, California manufacturing facility citing deviations from current Good Manufacturing Practices (cGMP), which are extensive regulations governing manufacturing practices for finished pharmaceutical products and which establish requirements for manufacturing processes, stability testing, record keeping and quality standards and controls. The FDA observations set forth in the warning letter related to sampling and testing of in-process materials and drug products, production record review, and our process for investigating the failure of certain manufacturing batches (or portions of batches) to meet specifications. During the quarter ended March 31, 2012 and the quarter ended March 31, 2013, the FDA conducted inspections of our Hayward manufacturing facility and at the conclusion of each inspection, we received a Form 483. The Form 483 issued during the quarter ended March 31, 2012 contained observations primarily relating to our Quality Control Laboratory and the Form 483 issued during the quarter ended March 31, 2013 contained several observations pertaining to the operations of the Hayward facility, three of which were designated by the FDA as repeat observations from inspections that occurred prior to the warning letter. We provided the FDA with what we believe to be our complete written responses relating to the observations in the warning letter and the Form 483 issued in 2012. In connection with the Form 483 issued in 2013, we provided our written response to the FDA during the first quarter ended March 31, 2013 and continue to provide the FDA with

updates. In late October 2013, at the FDA's request, we participated in a regulatory meeting with representatives of the FDA to provide additional information and clarifications on our response and updates related to the Form 483 issued in 2013. We will continue to provide information to the agency about our quality and manufacturing improvement programs and have committed to answering any questions FDA might have on any applications or programs. We believe that a satisfactory re-inspection of our Hayward manufacturing facility would be required to close out the warning letter and resolve the 2013 Form 483 observations. The FDA did not notify us at the meeting of any additional enforcement actions, however, no assurance can be given as to whether the FDA will take any further actions. We are currently cooperating with the FDA to close out the warning letter and resolve the Form 483 observations. The warning letter and Form 483 observations do not currently place restrictions on our ability to manufacture and ship our products.

We have taken a number of steps to thoroughly review our quality control and manufacturing systems and standards and are working with several third-party experts to assist us with our review and assist in enhancing such systems and standards. This work is ongoing and we are committed to improving our quality control and manufacturing practices. We cannot be assured, however, that the FDA will be satisfied with our corrective actions and as such, we cannot be assured of when the warning letter will be closed out. Unless and until the warning letter is closed out and the Form 483 observations resolved, it is possible we may be subject to additional regulatory action by the FDA as a result of the current or future FDA observations, including, among others, monetary sanctions or penalties, product recalls or seizure, injunctions, total or partial suspension of production and/or distribution, and suspension or withdrawal of regulatory approvals. Additionally, the FDA has withheld and may continue to withhold approval of pending drug applications currently or previously listing our Hayward, California facility as a manufacturing location of finished dosage forms until the warning letter is closed out and the Form 483 observations are resolved. For instance, in January 2013, the FDA issued a Complete Response Letter regarding our NDA for our late stage branded pharmaceutical product candidate, RYTARY™, which we are developing internally, for the symptomatic treatment of Parkinson's disease. In the Complete Response Letter, the FDA indicated that it required a satisfactory inspection of our Hayward manufacturing facility as a result of the warning letter issued to us in May 2011 before the NDA may be approved by the FDA due to the facility's involvement in the development of RYTARY™ and supportive manufacturing and distribution activities. During the assessment of the NDA, we had amended the NDA to withdraw the Hayward site as an alternative site of commercial production in the launch of RYTARY™. We are currently working with the FDA on the appropriate next steps for the RYTARY™ NDA and, as noted above, on closing out the warning letter, however we cannot be assured of when that will occur. Further, other federal agencies, our customers and partners in our alliance, development, collaboration and other partnership agreements with respect to our products and services may take the warning letter and the Form 483 observations into account when considering the award of contracts or the continuation or extension of such partnership agreements. Any such actions could significantly disrupt our business and harm our reputation, resulting in a material adverse effect on our business, results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding the purchases of our equity securities by us during the three months ended September 30, 2013.

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1, 2013 to July 31, 2013	14,176 shares of common stock	$ 20.34	—	—
August 1, 2013 to August 31, 2013	—	—	—	—
September 1, 2013 to September 30, 2013	476 shares of common stock	$ 20.65	—	—

(1) Represents shares of our common stock that we accepted during the indicated periods as a tax withholding from certain of our employees in connection with the vesting of shares of restricted stock pursuant to the terms of our 2002 Plan.

ITEM 3. Defaults Upon Senior Securities.

Not Applicable.

ITEM 4. Mine Safety Disclosures.

Not Applicable.

ITEM 5. Other Information.

Not Applicable.

ITEM 6. Exhibits

Exhibit No.	Description of Document
11.1	Statement re computation of per share earnings (incorporated by reference to Note 15 in the Notes to the unaudited interim Consolidated Financial Statements in this Quarterly Report on Form 10-Q).
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for each of the three and nine months ended September 30, 2013 and September 30, 2012, (iii) Consolidated Statements of Comprehensive Income for each of the three and nine months ended September 30, 2013 and September 30, 2012, (iv) Consolidated Statements of Cash Flows for each of the nine months ended September 30, 2013 and September 30, 2012 and (v) Notes to Interim Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2013 **Impax Laboratories, Inc.**

By: /s/ Larry Hsu, Ph.D.

Name: Larry Hsu, Ph.D.

Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Bryan M. Reasons

Name: Bryan M. Reasons

Title: Chief Financial Officer and
Senior Vice President, Finance
(Principal Financial and Accounting Officer)

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