BIOVAIL Corp
Form 10-Q
August 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2010

OR

o **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: 001-14956

BIOVAIL CORPORATION

(Exact name of registrant as specified in its charter)

Canada	**98-0448205**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7150 Mississauga Road, Mississauga, Ontario	**L5N 8M5**
(Address of principal executive offices)	(Zip Code)

(905) 286-3000
(Registrant's telephone number, including area code)

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 ý No o

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 ý No o

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common shares, no par value	158,602,025 shares issued and outstanding at August 3, 2010

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BASIS OF PRESENTATION

General

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q ("Form 10-Q") to the "Company", "Biovail", "we", "us", "our" or similar words or phrases are to Biovail Corporation and its subsidiaries, taken together.

All dollar amounts in this report are expressed in United States ("U.S.") dollars.

Trademarks

The following words are trademarks of our Company and are the subject of either registration, or application for registration, in one or more of Canada, the U.S. or certain other jurisdictions: ATTENADE , A Tablet Design (Apex Down)®, A Tablet Design (Apex Up)®, APLENZIN®, ATIVAN®, ASOLZA , BIOVAIL®, BIOVAIL CORPORATION INTERNATIONAL®, BIOVAIL & SWOOSH DESIGN®, BPI®, BVF®, CARDISENSE , CARDIZEM®, CEFORM®, CRYSTAAL CORPORATION & DESIGN®, DITECH , FLASHDOSE®, GLUMETZA®, INSTATAB , ISORDIL®, JOVOLA , JUBLIA , MIVURA , NITOMAN®, ONELZA , ONEXTEN , ORAMELT , PALVATA , RALIVIA®, SHEARFORM , SMARTCOAT , SOLBRI , TESIVEE , TIAZAC®, TITRADOSE®, TOVALT , UPZIMIA , VASERETIC®, VASOTEC®, VEMRETA , VOLZELO , XENAZINE®, XENAZINA®, and ZILERAN .

WELLBUTRIN®, WELLBUTRIN® SR, WELLBUTRIN® XL, WELLBUTRIN XL®, WELLBUTRIN® XR, ZOVIRAX® and ZYBAN® are trademarks of The GlaxoSmithKline Group of Companies and are used by us under license. ULTRAM® is a trademark of Ortho McNeil, Inc. (now known as PriCara, a division of Ortho McNeil Janssen Pharmaceuticals, Inc.) and is used by us under license. STACCATO® is a trademark of Alexza Pharmaceuticals, Inc. and is used by us under license. AMPAKINE® is a trademark of Cortex Pharmaceuticals, Inc. and is used by us under license.

In addition, we have filed trademark applications for many of our other trademarks in Barbados, the U.S., Canada and in other jurisdictions and have implemented, on an ongoing basis, a trademark protection program for new trademarks.

FORWARD-LOOKING STATEMENTS

Caution regarding forward-looking information and statements and "Safe Harbor" statements under the U.S. Private Securities Litigation Reform Act of 1995:

To the extent any statements made in this Form 10-Q contain information that is not historical, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and may be forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, "forward-looking statements").

These forward-looking statements relate to, among other things, our objectives, goals, strategies, beliefs, intentions, plans, estimates and outlook, including, without limitation:

- *the proposed merger between Biovail and Valeant Pharmaceuticals International ("Valeant"), including future financial and operating results and the combined company's plans, objectives, expectations and intentions and other statements that are not historical facts;*

- *closing of the proposed merger, including, but not limited to, our ability to satisfy the closing conditions and the timing thereof;*

the impact of healthcare reform in the U.S. and elsewhere, including the healthcare reform legislation enacted in the U.S. in March 2010, which may adversely affect the amount of reimbursement we receive for our products;

our intent and ability to implement and effectively execute plans and initiatives associated with our strategic focus on products targeting specialty central nervous system ("CNS") disorders and the anticipated impact of such strategy including, but not limited to, the amount and timing of expected contribution(s), from our product development pipeline;

our intent to complete in-license agreements and acquisitions and to successfully integrate such in-license agreements and acquisitions into our business and operations and to achieve the anticipated benefits of such in-license agreements and acquisitions;

our intent to deploy a specialty U.S. sales force to support our specialty CNS strategy, including our intent to develop a sales force to commercialize AZ-004 (Staccato® loxapine) and BVF-007 (AMPAKINE®) in the U.S., and the timing and amount of costs associated with establishing such sales force;

the competitive landscape in the markets in which we compete, including, but not limited to, the prescription trends, pricing and the formulary or Medicare/Medicaid utilization and positioning for our products, the opportunities present in the market for therapies for specialty CNS disorders, the anticipated level of demand for our products and the availability or introduction of generic formulations of our products;

our intent, timing and ability to close our Carolina, Puerto Rico manufacturing facility and operations and the anticipated impact of such closure;

the expected impact on revenues and expenses relating to the disposition of non-core assets;

anticipated level of demand for generic Tiazac® and generic Cardizem® CD products;

our intent and related success or failure regarding the defence of our intellectual property against infringement;

our views, beliefs and positions related to, results of, and costs associated with, certain litigation and regulatory proceedings and the timing, costs and expected impact of the resolution of certain litigation and regulatory proceedings;

the timing, results and progress of research and development and regulatory approval efforts;

our intent and ability to make future dividend payments or to repurchase our common shares under our share repurchase program;

the sufficiency of cash resources, including those under the accordion feature of our senior secured revolving credit facility, to support future spending and business development requirements;

the impact of market conditions on our ability to access additional funding at reasonable rates;

our ability to manage exposure to foreign currency exchange rate changes and interest rate changes;

our intent and ability to use a net share settlement approach upon conversion of our 5.375% Senior Convertible Notes due August 1, 2014 (the "Convertible Notes");

additional expected charges and anticipated annual savings related to ongoing or planned efficiency initiatives;

our expected capital expenditures; and

expected impact of the adoption of new accounting guidance.

Forward-looking statements can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "plan", "continue", "will", "may", "could", "would", "target", "potential" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements may not be appropriate for other purposes. Although we have indicated above certain of these statements set out herein, all of the statements in this Form 10-Q that contain forward-looking statements are qualified by these cautionary statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks

and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, including, but not limited to, factors and assumptions regarding the items outlined above. Actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following:

the risk that the anticipated benefits and synergies from the proposed merger between Biovail and Valeant cannot be fully realized or may take longer to realize than expected, due to, among other things:

the failure to receive, on a timely basis or otherwise, the required approvals by Valeant stockholders, Biovail shareholders and government or regulatory agencies;

the risk that a condition to closing of the proposed merger may not be satisfied;

the risk that the businesses will not be integrated successfully, or that the integration will be more costly or more time consuming and complex than anticipated;

the risk that disruption from the proposed merger will make maintaining business and operational relationships more difficult; and

the ability of the combined company to retain and hire key personnel and maintain relationships with customers, suppliers or other business partners;

the uncertainties associated with the specific determinations necessary to implement certain provisions under the healthcare reform legislation enacted in the U.S.;

the successful execution of our specialty CNS strategy, including our ability to successfully identify, evaluate, acquire, obtain regulatory approval for, develop, manufacture and commercialize pipeline products;

the success of pre-clinical and clinical trials for our drug development pipeline or delays in clinical trials which adversely impact the timely commercialization of our pipeline products;

the results of continuing safety and efficacy studies by industry and government agencies;

the uncertainties associated with the development, acquisition and launch of new products, including, but not limited to, the acceptance and demand for new pharmaceutical products, and the impact of competitive products and pricing;

our reliance on key strategic alliances, our ability to secure and maintain third-party research, development, manufacturing, marketing or distribution arrangements and securing other development partners for, and to share development costs associated with, certain product development programs;

the availability of capital and our ability to generate operating cash flows to support our growth strategy;

the continuation of the recent economic and market turmoil, which could result in fluctuations in currency exchange rates and interest rates;

our eligibility for benefits under tax treaties and the continued availability of low effective tax rates for the business profits of our principal operating subsidiary;

the difficulty of predicting the expense, timing and outcome within our legal and regulatory environment, including, but not limited to, U.S. Food and Drug Administration, Canadian Therapeutic Products Directorate and European regulatory approvals, legal and regulatory proceedings and settlements thereof, the protection afforded by our patents and other intellectual and proprietary property, successful challenges to our generic products, and infringement or alleged infringement of the intellectual property rights of others;

our ability to establish or acquire a specialty U.S. sales force to support our specialty CNS strategy;

our ability to attract and retain key personnel;

the reduction in the level of reimbursement for, or acceptance of, pharmaceutical products by governmental authorities, health maintenance organizations or other third-party payors;

our ability to satisfy the financial and non-financial covenants of our credit facility and Convertible Notes indenture;

our ability to repay or refinance the principal amount under the Convertible Notes indenture at maturity;

the disruption of delivery of our products and the routine flow of manufactured goods across the U.S. border; and

other risks detailed from time to time in our filings with the U.S. Securities and Exchange Commission (the "SEC") and the Canadian Securities Administrators (the "CSA"), as well as our ability to anticipate and manage the risks associated with the foregoing.

Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found in the body of this Form 10-Q, as well as under Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in the section entitled "Risk Factors" of our draft Registration Statement on Form S-4 filed with the SEC on July 21, 2010 and with the CSA on July 23, 2010. We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to our Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We undertake no obligation to update or revise any forward-looking statement, except as may be required by law.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BIOVAIL CORPORATION

CONSOLIDATED BALANCE SHEETS

In accordance with United States Generally Accepted Accounting Principles
(All dollar amounts are expressed in thousands of U.S. dollars)
(Unaudited)

	At June 30 2010	At December 31 2009
ASSETS		
Current		
Cash and cash equivalents	$ 176,566	$ 114,463
Marketable securities	6,238	9,566
Accounts receivable	114,409	119,919
Inventories	88,134	82,773
Prepaid expenses and other current assets	9,576	15,377
Deferred tax assets, net of valuation allowance	12,400	
Assets held for sale	7,117	8,542
	414,440	350,640
Marketable securities	9,660	11,516
Property, plant and equipment, net	96,480	103,848
Intangible assets, net	1,263,993	1,335,222
Goodwill	100,294	100,294
Deferred tax assets, net of valuation allowance	115,400	132,800
Other long-term assets, net	29,456	32,724
	$ 2,029,723	$ 2,067,044
LIABILITIES		
Current		
Accounts payable	$ 41,880	$ 72,022
Dividends payable	15,064	14,246
Accrued liabilities	125,471	121,898
Accrued legal settlements	2,000	7,950
Income taxes payable	11,323	6,846
Deferred revenue	21,131	21,834
Current portion of long-term obligations	16,284	12,110
Liabilities held for sale	1,083	
	234,236	256,906
Deferred revenue	59,446	69,247
Income taxes payable	66,900	66,200
Long-term obligations	302,939	313,975
Other long-term liabilities	5,519	6,344
	669,040	712,672
SHAREHOLDERS' EQUITY		
Common shares, no par value, unlimited shares authorized, 158,583,775 and 158,310,884 issued and outstanding at June 30, 2010 and December 31, 2009, respectively	1,468,245	1,465,004
Additional paid-in capital	95,070	91,768

Accumulated deficit	(244,669)	(245,974)
Accumulated other comprehensive income	42,037	43,574
	1,360,683	1,354,372
	$ 2,029,723	$ 2,067,044

Commitments and contingencies (note 14)

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

BIOVAIL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

In accordance with United States Generally Accepted Accounting Principles
(All dollar amounts are expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
REVENUE				
Product sales	$ 231,245	$ 187,716	$ 443,278	$ 353,109
Research and development	2,717	3,255	5,641	6,970
Royalty and other	4,809	2,564	9,487	6,775
	238,771	193,535	458,406	366,854
EXPENSES				
Cost of goods sold (exclusive of amortization of intangible assets shown separately below)	63,850	50,057	122,805	94,897
Research and development	37,258	44,692	104,145	59,220
Selling, general and administrative	45,094	49,498	88,607	92,742
Amortization of intangible assets	33,299	21,778	66,599	37,281
Restructuring costs	2,881	11,367	3,494	12,715
Acquisition-related costs	7,577	5,596	7,577	5,596
Legal settlements				241
	189,959	182,988	393,227	302,692
Operating income	48,812	10,547	65,179	64,162
Interest income	234	251	422	585
Interest expense	(9,952)	(4,049)	(19,779)	(4,389)
Foreign exchange gain	667	314	44	721
Impairment loss on debt securities	(392)	(1,617)	(547)	(4,324)
Gain on auction rate security settlement		22,000		22,000
Gain on disposal of investments		344		338
Income before provision for income taxes	39,369	27,790	45,319	79,093
Provision for income taxes	5,400	3,700	14,500	16,000
Net income	$ 33,969	$ 24,090	$ 30,819	$ 63,093
Basic and diluted earnings per share	$ 0.21	$ 0.15	$ 0.19	$ 0.40
Weighted-average number of common shares outstanding (000s)				
Basic	158,510	158,224	158,449	158,222
Diluted	161,019	158,331	160,115	158,301
Cash dividends declared per share	$ 0.095	$ 0.090	$ 0.185	$ 0.465

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

BIOVAIL CORPORATION

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT

In accordance with United States Generally Accepted Accounting Principles
(All dollar amounts are expressed in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
Accumulated deficit, beginning of period	$ (263,464)	$ (340,356)	$ (245,974)	$ (319,909)
Net income	33,969	24,090	30,819	63,093
Cash dividends declared and dividend equivalents	(15,174)	(14,243)	(29,514)	(73,693)
Accumulated deficit, end of period	$ (244,669)	$ (330,509)	$ (244,669)	$ (330,509)

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

BIOVAIL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

In accordance with United States Generally Accepted Accounting Principles
(All dollar amounts are expressed in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 33,969	$ 24,090	$ 30,819	$ 63,093
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	40,233	32,089	80,281	58,780
Amortization of deferred revenue	(4,776)	(5,301)	(9,551)	(10,601)
Amortization of discounts on long-term obligations	2,837	564	5,638	564
Amortization and write-down of deferred financing costs	1,332	968	2,644	1,098
Acquired in-process research and development	10,242	30,414	61,245	30,414
Deferred income taxes	700	400	5,000	8,200
Payment of accrued legal settlements			(5,950)	(6,158)
Addition to accrued legal settlements				241
Stock-based compensation	1,895	1,334	3,552	3,091
Impairment charges	392	9,674	547	12,381
Gain on disposal of investments		(344)		(338)
Other	(154)	192	(676)	169
Changes in operating assets and liabilities:				
Accounts receivable	(11,397)	(14,204)	3,662	(7,365)
Insurance recoveries receivable				770
Inventories	9,036	(9,960)	(5,822)	(8,734)
Prepaid expenses and other current assets	2,961	2,770	5,236	5,980
Accounts payable	(566)	6,223	(30,296)	(10,111)
Accrued liabilities	17,803	20,512	3,000	11,736
Income taxes payable	3,676	(320)	5,077	690
Deferred revenue	730	(2,020)	(740)	(9,847)
Net cash provided by operating activities	108,913	97,081	153,666	144,053
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of intangible assets	(10,242)	(540,889)	(60,245)	(540,889)
Proceeds from sale of property, plant and equipment			8,542	
Additions to property, plant and equipment	(2,860)	(842)	(6,494)	(1,628)
Proceeds from sales and maturities of marketable securities	3,750	1,065	4,965	1,065
Acquisition of business		(200,000)		(200,000)
Proceeds from sale and leaseback of assets		5,300		5,300
Transfer to restricted cash				(5,250)
Additions to marketable securities		(1,744)		(2,763)
Other		357		370
Net cash used in investing activities	(9,352)	(736,753)	(53,232)	(743,795)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid	(14,256)	(59,331)	(28,502)	(118,662)
Repayment of other long-term obligations	(12,500)		(12,500)	
Proceeds from exercise of stock options	1,254	18	2,798	18
Issuance of Convertible Notes		350,000		350,000
Advances under credit facility		130,000		130,000

Financing costs paid		(26,274)		(26,274)
Other		(393)		(393)
Net cash provided by (used in) financing activities	(25,502)	394,020	(38,204)	334,689
Effect of exchange rate changes on cash and cash equivalents	(385)	876	(127)	424
Net increase (decrease) in cash and cash equivalents	73,674	(244,776)	62,103	(264,629)
Cash and cash equivalents, beginning of period	102,892	297,694	114,463	317,547
Cash and cash equivalents, end of period	$ 176,566	$ 52,918	$ 176,566	$ 52,918
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Cash dividends declared but unpaid	$ (15,064)	$ (14,240)	$ (15,064)	$ (14,240)
Accrued acquisition of in-process research and development intangible assets			(1,000)	
Long-term obligation related to acquisition of business		(26,768)		(26,768)

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

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with United States Generally Accepted Accounting Principles
(All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

The Company was formed under the *Business Corporations Act* (Ontario) on February 18, 2000, and was continued under the *Canada Business Corporations Act* on June 29, 2005. The Company is a specialty pharmaceutical company with a strategic focus on developing and commercializing products that address unmet medical needs in specialty central nervous system ("CNS") disorders.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in United States ("U.S.") dollars and in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting, which do not conform in all respects to the requirements of U.S. GAAP for annual financial statements. Accordingly, these condensed notes to the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. These interim consolidated financial statements have been prepared using accounting policies that are consistent with the policies used in preparing the Company's audited consolidated financial statements for the year ended December 31, 2009. There have been no material changes to the Company's significant accounting policies since December 31, 2009, except as described below under "Adoption of New Accounting Guidance". The consolidated financial statements reflect all normal and recurring adjustments necessary for the fair presentation of the Company's financial position and results of operations for the interim periods presented.

Certain prior year amounts have been reclassified to conform to the presentation adopted in the current year.

On June 20, 2010, the Board of Directors of Biovail and the Board of Directors of Valeant Pharmaceuticals International ("Valeant") unanimously approved an Agreement and Plan of Merger (the "merger agreement") under which the companies would merge to create a combined company. Biovail is both the legal and accounting acquirer in the merger. The merger is subject to approval by Biovail shareholders and Valeant stockholders, consummation of the financing contemplated by the commitment letter entered into among Biovail, Valeant and certain financial institutions or alternative financing, and the satisfaction or waiver (if permissible under applicable law) of customary closing conditions and regulatory approvals. While the Company has incurred costs associated with the transaction that are reflected in these consolidated financial statements, the results of operations of Valeant will not be included in the Company's consolidated financial statements until the completion of the merger. See note 16 for additional details regarding the proposed merger.

Use of Estimates

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with United States Generally Accepted Accounting Principles
(All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's results of operations and financial position could be materially impacted.

Adoption of New Accounting Guidance

Effective January 1, 2010, the Company adopted the following new accounting guidance:

Authoritative guidance requiring additional disclosure about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This guidance also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring Level 2 and Level 3 measurements. As the guidance only requires new disclosures, the adoption of this guidance did not impact the Company's financial position or results of operations. In addition, effective for interim and annual periods beginning after December 15, 2010, this guidance will require additional disclosure and require an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis.

Authoritative guidance for determining whether an entity is a variable interest entity ("VIE"). Under this guidance, an enterprise has a controlling financial interest when it has the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Upon adoption of this guidance, the Company determined that none of its existing collaboration and license arrangements with other entities for various products under development represented arrangements with VIEs. Accordingly, the adoption of this guidance did not have any impact on the Company's consolidated financial statements.

Recently Issued Accounting Guidance, Not Adopted as of June 30, 2010

In March 2010, new authoritative guidance was issued recognizing the milestone method of revenue recognition as a valid application of the proportional performance model when applied to research and development arrangements. An entity may make an accounting policy election to recognize the receipt of a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The guidance is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company is currently evaluating the effect that the adoption of this guidance will have on its consolidated financial statements.

3. ASSET ACQUISITIONS

Istradefylline

On June 2, 2010, the Company entered into a license agreement with Kyowa Hakko Kirin Co., Ltd. ("Kyowa Hakko Kirin") to acquire the U.S. and Canadian rights to develop and commercialize products containing istradefylline a new chemical entity targeted for the treatment of Parkinson's disease.

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with United States Generally Accepted Accounting Principles
(All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data)
(Unaudited)

3. ASSET ACQUISITIONS (Continued)

Under the terms of the license agreement, the Company paid an upfront fee of $10,000,000, and could pay up to $20,000,000 in potential development milestones through U.S. Food and Drug Administration ("FDA") approval and up to an additional $35,000,000 if certain sales-based milestones are met. The Company will also make tiered royalty payments of up to 30% on net commercial sales of products containing istradefylline. In connection with this acquisition, the Company has also entered into an agreement with Kyowa Hakko Kirin for the supply of the istradefylline compound.

This acquisition was accounted for as a purchase of in-process research and development ("IPR&D") intangible assets with no alternative future use. Accordingly, the $10,000,000 upfront payment, together with $242,000 of acquisition costs, was charged to research and development expenses at the acquisition date.

AMPAKINE®

On March 25, 2010, the Company acquired certain AMPAKINE® compounds, including associated intellectual property, from Cortex Pharmaceuticals, Inc. ("Cortex") for use in the field of respiratory depression, a brain-mediated breathing disorder. The acquired compounds include the Phase 2 compound CX717 in an oral formulation, the pre-clinical compounds CX1763 and CX1942, and the injectable dosage form of CX1739.

Under the terms of the asset purchase agreement, the Company paid an upfront fee of $9,000,000 and expects to pay an additional $1,000,000 upon the completion of a six-month transition period. In addition, the Company could pay up to $15,000,000 in potential milestones contingent on the successful demonstration of the utility of an intravenous formulation of CX717 in treating respiratory depression (BVF-007), the successful completion of a Phase 3 clinical program using an AMPAKINE® compound, and approval from the FDA of an AMPAKINE® compound. The Company may also owe certain development milestones and/or royalties on net sales to third parties of an AMPAKINE® compound.

This acquisition was accounted for as a purchase of IPR&D intangible assets with no alternative future use. Accordingly, the $9,000,000 upfront payment and the $1,000,000 accrued transition payment, together with $686,000 of acquisition costs, were charged to research and development expenses at the acquisition date.

Staccato® Loxapine

On February 9, 2010, the Company entered into a collaboration and license agreement with Alexza Pharmaceuticals, Inc. ("Alexza") to acquire the U.S. and Canadian development and commercialization rights to AZ-004 for the treatment of psychiatric and/or neurological indications and the symptoms associated with these indications, including the initial indication of treating agitation in schizophrenia and bipolar patients. AZ-004 combines Alexza's proprietary Staccato® drug-delivery system with the antipsychotic drug loxapine. In December 2009, Alexza submitted a New Drug Application ("NDA") to the FDA for Staccato® loxapine. The FDA has accepted the NDA for filing and has indicated a Prescription Drug User Fee Act goal date of October 11, 2010.

Under the terms of the agreement, the Company paid an upfront fee of $40,000,000, and could pay up to $90,000,000 in potential milestones in connection with the initial indication contingent on the successful approval of the first AZ-004 NDA, successful commercial manufacturing scale-up, and the first commercial sale on an inpatient and on an outpatient basis, which may require the successful completion of additional clinical trials, regulatory submissions, and/or approval of a supplemental NDA. The Company will also

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3. ASSET ACQUISITIONS (Continued)

make tiered royalty payments of 10% to 25% on net commercial sales of Staccato® loxapine. Alexza will supply Staccato® loxapine to the Company for commercialization and will receive a per-unit transfer price, based on annual product volume.

This acquisition was accounted for as a purchase of IPR&D intangible assets with no alternative future use. Accordingly, the $40,000,000 upfront payment, together with $317,000 of acquisition costs, was charged to research and development expenses at the acquisition date.

4. RESTRUCTURING

In May 2008, the Company initiated restructuring measures that were intended to rationalize its manufacturing operations, pharmaceutical sciences operations, and general and administrative expenses.

Manufacturing Operations

On January 15, 2010, the Company completed the sale of its Dorado, Puerto Rico manufacturing facility for net cash proceeds of $8,542,000. The related property, plant and equipment was classified as assets held for sale on the consolidated balance sheet at December 31, 2009. The Company occupied the Dorado facility until March 31, 2010, pursuant to a short-term lease agreement with the buyer. The Company is continuing to actively market its manufacturing facility located in Carolina, Puerto Rico.

The Company expects to incur employee termination costs of approximately $9,800,000 in total for severance and related benefits payable to the approximately 240 employees who have been, or will be, terminated as a result of the closure of the Dorado and Carolina facilities. As these employees are required to provide service during the shutdown period in order to be eligible for termination benefits, the Company is recognizing the cost of those termination benefits ratably over the estimated future service period. On a cumulative basis to June 30, 2010, the Company has recognized $9,292,000 of these costs, of which $5,564,000 have been paid.

Pharmaceutical Sciences Operations

On April 30, 2010, the Company entered into an asset purchase agreement to sell its contract research division ("CRD") to Lambda Therapeutic Research Inc. ("Lambda"). The Company no longer considered CRD a strategic fit as a result of the Company's transition from reformulation programs to the in-licensing, acquisition and development of specialty CNS products. CRD has not been treated as a discontinued operation for accounting purposes, on the basis that its operations were immaterial and incidental to the Company's core specialty pharmaceutical business.

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4. RESTRUCTURING (Continued)

The following assets and liabilities of CRD were reported as held for sale in the consolidated balance sheet at June 30, 2010:

	At June 30 2010
Accounts receivable	$ 1,800
Other current assets	566
Property, plant and equipment	4,751
Total assets held for sale	7,117
Accounts payable and accrued liabilities	870
Other current liabilities	213
Total liabilities held for sale	1,083
Net assets held for sale	$ 6,034

For the three-month and six-month periods ended June 30, 2010 and 2009, CRD reported the following revenue and expenses, which, as described above, have not been segregated from continuing operations in the consolidated statements of income:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Research and development revenue	$ 2,309	$ 2,953	$ 5,233	$ 6,255
Research and development expenses	3,372	3,563	6,679	6,984
Selling, general and administrative expenses	859	948	1,678	1,761
Total operating expenses	4,231	4,511	8,357	8,745
Operating loss	(1,922)	(1,558)	(3,124)	(2,490)
Foreign exchange gain (loss)	(25)	(32)	(108)	161
Net loss	$ (1,947)	$ (1,590)	$ (3,232)	$ (2,329)

In the three-month period ended June 30, 2010, the Company recognized employee termination costs of $1,924,000 for the approximately 70 CRD employees not expected to be offered employment by Lambda. On July 23, 2010, the Company completed the sale of CRD to Lambda for net cash proceeds of approximately $6,000,000.

Prior to December 31, 2009, the Company completed the closure of its research and development facilities in Dublin, Ireland and Mississauga, Ontario, and the consolidation of its research and development operations in Chantilly, Virginia.

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4. RESTRUCTURING (Continued)

The following table summarizes the major components of restructuring costs recognized through June 30, 2010:

	Asset Impairments		Employee Termination Benefits		Contract Termination and Other Costs	Total
	Manufacturing	Pharmaceutical Sciences	Manufacturing	Pharmaceutical Sciences		
Balance, January 1, 2008	$	$	$	$	$	$
Costs incurred and charged to expense	42,602	16,702	3,309	2,724	4,865	70,202
Cash payments				(2,724)	(333)	(3,057)
Non-cash adjustments	(42,602)	(16,702)			(1,186)	(60,490)
Balance, December 31, 2008			3,309		3,346	6,655
Costs incurred and charged to expense	7,591	2,784	4,942	1,441	2,307	19,065
Cash payments			(2,041)	(1,278)	(1,321)	(4,640)
Non-cash adjustments	(7,591)	(2,784)		71		(10,304)
Balance, December 31, 2009			6,210	234	4,332	10,776
Costs incurred and charged to expense			333		280	613
Cash payments			(2,703)	(195)	(429)	(3,327)
Non-cash adjustments				6		6
Balance, March 31, 2010			3,840	45	4,183	8,068
Costs incurred and charged to expense			708	1,924	249	2,881
Cash payments			(820)		(435)	(1,255)
Non-cash adjustments				(46)		(46)
Balance, June 30, 2010	$	$	$ 3,728	$ 1,923	$ 3,997	$ 9,648

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5. FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents the components and classification of the Company's financial assets measured at fair value:

	At June 30, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 7,672	$ 7,672	$	$
Available-for-sale debt securities:				
Corporate bonds	8,017		8,017	
Government-sponsored enterprise securities	1,865		1,865	
Auction rate securities	6,016			6,016
Total financial assets	$ 23,570	$ 7,672	$ 9,882	$ 6,016
Cash and cash equivalents	$ 7,672	$ 7,672	$	$
Marketable securities	15,898		9,882	6,016
Total financial assets	$ 23,570	$ 7,672	$ 9,882	$ 6,016

	At December 31, 2009			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 7,994	$ 7,994	$	$
Available-for-sale debt securities:				
Corporate bonds	10,880		10,880	
Government-sponsored enterprise securities	4,193		4,193	
Auction rate securities	6,009			6,009
Total financial assets	$ 29,076	$ 7,994	$ 15,073	$ 6,009
Cash and cash equivalents	$ 7,994	$ 7,994	$	$
Marketable securities	21,082		15,073	6,009
Total financial assets	$ 29,076	$ 7,994	$ 15,073	$ 6,009

Fair value measurements are estimated based on valuation techniques and inputs categorized as follows:

Level 1 Quoted prices (unadjusted) for identical securities in active markets.

Level 2 Quoted prices (unadjusted) for identical securities in markets that are not active.

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5. FAIR VALUE MEASUREMENTS (Continued)

Level 3 Discounted cash flow method (income approach) using significant inputs not observable in the market. These inputs include the estimated amount and timing of projected cash flows based on the underlying collateral coverage for each auction rate security, ranging from zero to 216%, after taking into account the priority sequence and liquidation preference of the tranches of the securities, and a weighted-average discount rate of 10.7%. These securities have a weighted-average coupon rate of 0.8% and a weighted-average maturity of 31 years. These securities represent interests in collateralized debt obligations supported by pools of residential and commercial mortgages or credit cards, insurance securitizations, and other structured credits, including corporate bonds, with a weighted-average maturity of 23 years. Some of the underlying collateral for these securities consists of sub-prime mortgages. All of these securities are currently rated below investment grade.

At June 30, 2010 and December 31, 2009, the Company did not have any financial liabilities that were subject to fair value measurements.

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following table presents a reconciliation of auction rate securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Balance, beginning of period	$ 6,036	$ 7,452	$ 6,009	$ 10,333
Total unrealized gains (losses):				
Included in net income[(1)]:				
Arising during period	(392)	(1,087)	(547)	(3,822)
Reclassification from other comprehensive income		(530)		(502)
Included in other comprehensive income:				
Arising during period	372	239	554	93
Reclassification to net income		530		502
Balance, end of period	$ 6,016	$ 6,604	$ 6,016	$ 6,604
Total amount of unrealized losses for the period included in net income relating to securities still held at end of period	$ (392)	$ (1,617)	$ (547)	$ (4,324)

(1) Included in impairment loss on debt securities in the consolidated statements of income.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company did not have any non-financial assets or non-financial liabilities that were measured at fair value on a recurring or non-recurring basis at June 30, 2010 or December 31, 2009.

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6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the estimated fair values of the Company's financial instruments:

	At June 30, 2010	
	Carrying Value	Fair Value
Cash equivalents	$ 7,672	$ 7,672
Marketable securities	15,898	15,898
Long-term obligations (as described in note 9)	(319,233)	(506,914)

	At December 31, 2009	
	Carrying Value	Fair Value
Cash equivalents	$ 7,994	$ 7,994
Marketable securities	21,082	21,082
Long-term obligations (as described in note 9)	(326,085)	(434,518)

The following table summarizes the Company's marketable securities by major security type:

	At June 30, 2010			
	Cost Basis	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Corporate bonds	$ 7,872	$ 8,017	$ 145	$
Government-sponsored enterprise securities	1,839	1,865	26	
Auction rate securities[1]	26,775	6,016		(20,759)
	$ 36,486	$ 15,898	$ 171	$ (20,759)

	At December 31, 2009			
	Cost Basis	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Corporate bonds	$ 10,626	$ 10,880	$ 254	$
Government-sponsored enterprise securities	4,100	4,193	93	
Auction rate securities[1]	26,775	6,009		(20,766)
	$ 41,501	$ 21,082	$ 347	$ (20,766)

(1) The auction rate securities have been in a continuous loss position for at least 12 months. In May 2009, the Company received $22,000,000 in a settlement with an investment bank in respect of these securities. The Company retained ownership of the securities under the terms of

the settlement.

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6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The contractual maturities of marketable securities held at June 30, 2010 were as follows:

	Carrying Value	Fair Value
Within one year	$ 6,238	$ 6,238
One to three years	3,644	3,644
After three years	6,016	6,016
	$ 15,898	$ 15,898

Gross gains and losses realized on the sale of marketable securities were not material in the three-month and six-month periods ended June 30, 2010 and 2009. The cost of securities sold, and the amount reclassified out of accumulated other comprehensive income into earnings, is calculated using the specific identification method, if determinable, otherwise the average cost method is applied.

7. INVENTORIES

	At June 30 2010	At December 31 2009
Raw materials	$ 17,452	$ 14,290
Work in process	31,649	25,012
Finished goods	39,033	43,471
	$ 88,134	$ 82,773

8. INTANGIBLE ASSETS

	At June 30, 2010		At December 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Trademarks	$ 1,084,226	$ 307,306	$ 1,084,226	$ 267,249
Product rights	693,067	233,994	693,126	202,881
IPR&D	28,000		28,000	
	1,805,293	$ 541,300	1,805,352	$ 470,130
Less accumulated amortization	541,300		470,130	
	$ 1,263,993		$ 1,335,222	

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8. INTANGIBLE ASSETS (Continued)

Amortization of Intangible Assets

Amortization expense related to intangible assets was recorded as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Royalty and other revenue	$ 268	$ 268	$ 536	$ 536
Cost of goods sold	2,025	2,025	4,051	4,051
Amortization expense	33,299	21,778	66,599	37,281
	$ 35,592	$ 24,071	$ 71,186	$ 41,868

9. LONG-TERM OBLIGATIONS

	At June 30 2010	At December 31 2009
Convertible Notes, net of unamortized debt discount (June 30, 2010 $47,061; December 31, 2009 $51,715)	$ 302,939	$ 298,285
Cambridge obligation, net of unamortized debt discount (June 30, 2010 $1,216; December 31, 2009 $2,200)	16,284	27,800
	319,223	326,085
Less current portion	16,284	12,110
	$ 302,939	$ 313,975

Convertible Notes

On June 10, 2009, the Company issued $350,000,000 principal amount of 5.375% Senior Convertible Notes due August 1, 2014 (the "Convertible Notes"). The Convertible Notes were issued at par and pay interest semi-annually on February 1 and August 1 of each year. The Convertible Notes may be converted based on a current conversion rate of 67.09145 common shares per $1,000 principal amount of Convertible Notes (which represents a conversion price of approximately $14.91 per share).

Upon conversion, the Convertible Notes may be settled in cash, common shares, or a combination of cash and common shares, at the Company's option. The Company's current intent and policy is to settle the Convertible Notes using a net share settlement approach, such that the principal amount of any Convertible Notes tendered for conversion would be settled in cash, and any excess conversion value settled in common shares.

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9. LONG-TERM OBLIGATIONS (Continued)

Interest expense was recognized based on an effective rate of interest of 9.5% on the liability component of the Convertible Notes as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Cash interest per contractual coupon rate	$ 4,703	$ 1,097	$ 9,406	$ 1,097
Non-cash amortization of debt discount	2,354	506	4,654	506
	$ 7,057	$ 1,603	$ 14,060	$ 1,603

In the three-month and six-month periods ended June 30, 2010, interest expense included the non-cash amortization of deferred financing costs associated with the Convertible Notes of $518,000 and $1,017,000, respectively, compared with $105,000 in each of the corresponding periods of 2009.

At June 30, 2010 and December 31, 2009, the estimated fair value of the Convertible Notes in the secondary market was determined to be approximately $490,630,000 and $406,718,000, respectively, based on changes in the underlying trading price of the Company's common shares and market interest rates.

Cambridge Obligation

In connection with the acquisition of the worldwide development and commercialization rights to tetrabenazine on June 19, 2009, the Company made a payment of $12,500,000 to Cambridge Laboratories (Ireland) Ltd. ("Cambridge") on June 21, 2010 and will make a payment of $17,500,000 to Cambridge on June 20, 2011. These payments were discounted based on imputed interest rates of 6.9% and 7.7%, respectively.

In the three-month and six-month periods ended June 30, 2010, interest expense included the non-cash amortization of the debt discount on the Cambridge obligation of $483,000 and $984,000, respectively, compared with $58,000 in each of the corresponding periods of 2009.

At June 30, 2010, the fair value of the Cambridge obligation approximated its carrying value based on current borrowing rates available to the Company.

Credit Facility

On June 9, 2009, the Company established a $410,000,000 senior secured revolving credit facility maturing on June 9, 2012. This facility contains an accordion feature that, subject to certain conditions, allows it to be increased to up to $550,000,000. Borrowings under the facility are guaranteed by the Company's material subsidiaries and are secured by charges over substantially all of the assets of the Company and the assets of its material subsidiaries.

At June 30, 2010 and December 31, 2009, the Company had no outstanding borrowings under this facility.

10. STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense related to stock options and restricted share units ("RSUs") on a straight-line basis over the requisite service period of the individual stock option or

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10. STOCK-BASED COMPENSATION (Continued)

RSU grant, which generally equals the vesting period. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from these estimates.

The following table summarizes the components and classification of stock-based compensation expense related to stock options and RSUs:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Stock options	$ 559	$ 592	$ 1,182	$ 1,620
RSUs	1,336	742	2,370	1,471
Stock-based compensation expense	$ 1,895	$ 1,334	$ 3,552	$ 3,091
Cost of goods sold	$ 123	$ 135	$ 261	$ 288
Research and development expenses	267	196	459	440
Selling, general and administrative expenses	1,505	1,003	2,832	2,363
Stock-based compensation expense	$ 1,895	$ 1,334	$ 3,552	$ 3,091

The Company did not recognize any tax benefits for stock-based compensation expense in the three-month or six-month periods ended June 30, 2010 and 2009.

Stock Options

The following table summarizes stock option activity during the six-month period ended June 30, 2010:

	Options (000s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2010	3,988	$ 17.02		
Granted	905	15.33		
Exercised	(255)	10.98		
Expired or forfeited	(756)	20.43		
Outstanding, June 30, 2010	3,882	$ 16.36	2.9	$ 16,682
Vested and exercisable, June 30, 2010	2,063	$ 19.29	1.8	$ 5,372

The weighted-average grant-date fair value of stock options granted in the six-month period ended June 30, 2010 was $4.59. The total intrinsic value of stock options exercised in the six-month period ended June 30, 2010 was $1,052,000. Proceeds received on the exercise of stock options in the six-month period ended June 30, 2010 amounted to $2,798,000. At June 30, 2010, the total remaining unrecognized compensation expense related to non-vested stock options amounted to $4,135,000, which will be amortized over the

weighted-average remaining requisite service period of approximately 20 months.

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10. STOCK-BASED COMPENSATION (Continued)

Time-Based RSUs

Each vested RSU without performance goals ("Time-Based RSU") represents the right of a holder to receive one of the Company's common shares. The following table summarizes non-vested Time-Based RSU activity during the six-month period ended June 30, 2010:

	Time-Based RSUs (000s)	Weighted-Average Grant-Date Fair Value
Non-vested, January 1, 2010	379	$ 11.71
Granted	209	14.95
Reinvested dividend equivalents	5	15.85
Vested	(18)	12.38
Forfeited	(24)	12.50
Non-vested, June 30, 2010	551	$ 12.92

At June 30, 2010, the total remaining unrecognized compensation expense related to non-vested Time-Based RSUs amounted to $3,821,000, which will be amortized over the weighted-average remaining requisite service period of approximately 18 months.

Performance-Based RSUs

Each vested RSU with performance goals ("Performance-Based RSU") represents the right of a holder to receive a number of the Company's common shares, up to 200% of the RSUs granted, based on the Company's total shareholder return relative to an industry comparator group. If the Company's total shareholder return is below a specified performance level, no common shares will be paid. The following table summarizes non-vested Performance-Based RSU activity during the six-month period ended June 30, 2010:

	Performance-Based RSUs (000s)	Weighted-Average Grant-Date Fair Value
Non-vested, January 1, 2010	676	$ 18.94
Granted	107	22.29
Reinvested dividend equivalents	8	19.31
Non-vested, June 30, 2010	791	$ 19.57

At June 30, 2010, the total remaining unrecognized compensation expense related to the non-vested Performance-Based RSUs amounted to $11,626,000, which will be amortized over the weighted-average remaining requisite service period of approximately 47 months. A maximum of 1,581,832 common shares could be issued upon vesting of the Performance-Based RSUs outstanding at June 30, 2010.

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10. STOCK-BASED COMPENSATION (Continued)

Deferred Share Units

The following table summarizes deferred share unit ("DSU") activity during the six-month period ended June 30, 2010:

	DSUs (000s)	Weighted-Average Grant-Date Fair Value
Outstanding, January 1, 2010	343	$ 12.82
Granted	101	15.82
Reinvested dividend equivalents	4	15.65
Outstanding, June 30, 2010	448	$ 13.52

The Company recorded compensation expense related to DSUs of $3,172,000 and $3,996,000 in the three-month and six-month periods ended June 30, 2010, respectively, compared with $2,215,000 and $2,730,000 in the corresponding periods of 2009. At June 30, 2010 and December 31, 2009, the Company had a liability related to its DSU plan of $8,625,000 and $4,796,000, respectively, based on the trading price of the Company's common shares at those dates.

11. INCOME TAXES

In the three-month period ended June 30, 2010, the Company's effective tax rate was impacted by the non-deductible portion of the IPR&D charge associated with the istradefylline acquisition and, in the six-month period ended June 30, 2010, the Company's effective tax rate was impacted by the non-deductible portion of the IPR&D charges associated with the istradefylline, AMPAKINE® and Staccato® loxapine acquisitions (as described in note 3). Similarly, in the three-month and six-month periods ended June 30, 2009, the Company's effective tax rate was impacted by the non-deductible portion of an IPR&D charge associated with the acquisition of the U.S. and Canadian rights to develop, manufacture and commercialize pimavanserin. These charges were recognized in a jurisdiction with lower statutory tax rates than those that apply in Canada.

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12. EARNINGS PER SHARE

Earnings per share were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income	$ 33,969	$ 24,090	$ 30,819	$ 63,093
Basic weighted-average number of common shares outstanding (000s)	158,510	158,224	158,449	158,222
Dilutive effect of stock options and RSUs	592	107	496	79
Dilutive effect of Convertible Notes	1,917		1,170	
Diluted weighted-average number of common shares outstanding (000s)	161,019	158,331	160,115	158,301
Basic and diluted earnings per share	$ 0.21	$ 0.15	$ 0.19	$ 0.40

In the three-month and six-month periods ended June 30, 2010, stock options to purchase approximately 2,165,000 and 2,183,000 common shares of the Company, respectively, had exercise prices greater than the average trading price of the Company's common shares, and were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive, compared with approximately 2,868,000 and 3,313,000 stock options in the corresponding periods of 2009.

13. COMPREHENSIVE INCOME

Comprehensive income comprised the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income	$ 33,969	$ 24,090	$ 30,819	$ 63,093
Comprehensive income				
Foreign currency translation adjustment	(5,965)	11,121	(1,924)	4,935
Unrealized holding gain on auction rate securities:				
Arising in period	372	239	554	93
Reclassification to net income[(1)]		530		502
Net unrealized holding gain (loss) on available-for-sale securities				
Arising in period	(78)	642	(167)	760
Reclassification to net income[(2)]		(383)		(381)
Other comprehensive income (loss)	(5,671)	12,149	(1,537)	5,909
Comprehensive income	$ 28,298	$ 36,239	$ 29,282	$ 69,002

(1) Included in impairment loss on debt securities in the consolidated statements of income.

(2) Included in gain on disposal of investments in the consolidated statements of income.

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13. COMPREHENSIVE INCOME (Continued)

The components of accumulated other comprehensive income were as follows:

	Foreign Currency Translation Adjustment	Unrealized Holding Loss on Auction Rate Securities	Net Unrealized Holding Gain on Available-For-Sale Securities	Total
Balance, January 1, 2010	$ 44,286	$ (943)	$ 231	$ 43,574
Foreign currency translation adjustment	(1,924)			(1,924)
Unrealized holding gain on auction rate securities		554		554
Net unrealized holding loss on available-for-sale securities			(167)	(167)
Balance, June 30, 2010	$ 42,362	$ (389)	$ 64	$ 42,037

14. LEGAL PROCEEDINGS

From time to time, the Company becomes involved in various legal and administrative proceedings, which include product liability, intellectual property, antitrust, governmental and regulatory investigations, and related private litigation. There are also ordinary course employment-related issues and other types of claims in which the Company routinely becomes involved, but which individually and collectively are not material.

Unless otherwise indicated, the Company cannot reasonably predict the outcome of these legal proceedings, nor can it estimate the amount of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings could have a material adverse effect on the Company's business, financial condition and results of operations, and could cause the market value of its common shares to decline.

From time to time, the Company also initiates actions or files counterclaims. The Company could be subject to counterclaims or other suits in response to actions it may initiate. The Company cannot reasonably predict the outcome of these proceedings, some of which may involve significant legal fees. The Company believes that the prosecution of these actions and counterclaims is important to preserve and protect the Company, its reputation and its assets.

Governmental and Regulatory Inquiries

In July 2003, the Company received a subpoena from the U.S. Attorney's Office ("USAO") for the District of Massachusetts requesting information related to the promotional and marketing activities surrounding the commercial launch of Cardizem® LA. In particular, the subpoena sought information relating to the Cardizem® LA Clinical Experience Program, titled P.L.A.C.E. (Proving L.A. Through Clinical Experience). In October 2007, the Company received an additional related subpoena.

On May 16, 2008, Biovail Pharmaceuticals, Inc., the Company's former subsidiary, entered into a related written plea agreement with the USAO whereby it agreed to plead guilty to violating the U.S. Anti-Kickback Statute and pay a fine of $22.2 million.

In addition, on May 16, 2008, Biovail Corporation entered into a non-prosecution agreement with the USAO whereby the USAO agreed to decline prosecution of Biovail Corporation in exchange for Biovail

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14. LEGAL PROCEEDINGS (Continued)

Corporation's continuing cooperation and in exchange for its agreement to finalize a civil settlement agreement and pay a civil penalty of $2.4 million. The civil settlement agreement has now been signed and the related fine has been paid. A hearing before the U.S. District Court in Boston took place on September 14, 2009 and the plea was approved.

In addition, as part of the overall settlement, the Company entered into a Corporate Integrity Agreement ("CIA") with the Office of the Inspector General and the Department of Health and Human Services on September 11, 2009. The CIA requires us to have a compliance program in place and to undertake a set of defined corporate integrity obligations for a five-year term. The CIA also includes requirements for an independent review of these obligations. Failure to comply with the obligations under the CIA could result in financial penalties.

Securities Litigation

On July 14, 2010, a stockholder of Valeant filed a purported class action complaint in Superior Court for Orange County, California captioned Haro v. Pearson, et al., on behalf of himself and all other stockholders of Valeant against Valeant, certain officers and directors of Valeant, Biovail, Biovail Americas Corp., a wholly owned subsidiary of Biovail ("BAC"), and Beach Merger Corp., a newly formed wholly owned subsidiary of BAC ("Merger Sub"). The complaint alleges that the individual defendants, aided and abetted by Valeant, Biovail, BAC and Merger Sub, breached their fiduciary duties of care, loyalty, good faith and independence to Valeant stockholders in connection with the proposed merger of Valeant with Biovail. Among other things, the complaint alleges that the merger agreement fixes a price per share that is inadequate and unfair, fails to guard against fluctuations in the price of Biovail stock that would negatively affect Valeant stockholders, and effectively caps the value of Valeant's stock and precludes competitive bidding through measures such as a voting agreement with a Valeant stockholder, a termination fee and a non-solicitation covenant. The complaint also alleges that the individual defendants are using the proposed merger to aggrandize their own financial position at the expense of Valeant stockholders and have ignored purported conflicts of interests. The complaint seeks various forms of relief, including a court order declaring that individual defendants have breached their fiduciary duties, enjoining or rescinding the merger to the extent already implemented and requiring the defendants to effect a transaction which is in the best interests of Valeant's stockholders.

On July 16, 2010, a stockholder of Valeant filed a purported class action complaint in the Court of Chancery for the State of Delaware captioned Porto v. Valeant Pharmaceuticals International, et al., on behalf of himself and all other stockholders of Valeant against Valeant, Valeant's directors, Biovail, BAC and Merger Sub. The complaint alleges that the individual defendants, aided and abetted by Valeant, Biovail, BAC and Beach Merger Corp., breached their fiduciary duties of care, loyalty, candor and good faith to shareholders in connection with the proposed merger of Valeant with Biovail. Among other things, the complaint alleges that the merger agreement fixes a price per share that is inadequate and unfair and precludes competing offers through measures such as a voting agreement with a Valeant stockholder, a termination fee and a non-solicitation covenant. The complaint also alleges that the individual defendants have conflicts of interests regarding the proposed merger because of arrangements for continued employment of certain individual defendants. On July 27, 2010, the plaintiff in the action filed an amended complaint that includes the additional allegations that the defendants failed to disclose adequate information to ensure an informed stockholder vote and disclosed materially misleading information. The amended complaint seeks various forms of relief, including a court order declaring that individual defendants have breached their fiduciary

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14. LEGAL PROCEEDINGS (Continued)

duties, enjoining or rescinding the merger to the extent already implemented, requiring the defendants to effect a transaction which is in the best interests of Valeant's stockholders and requiring the defendants to account to Plaintiff and the class for any damages suffered as a result of the defendants' alleged wrongdoing.

On July 22, 2010, a stockholder of Valeant filed a purported class action complaint in the Court of Chancery for the State of Delaware captioned Soukup v. Valeant Pharmaceuticals International, et al., on behalf of himself and all other stockholders of Valeant against Valeant, Valeant's directors, Biovail, BAC and Merger Sub. The complaint alleges that the individual defendants, aided and abetted by Valeant, Biovail, BAC and Merger Sub, breached their fiduciary duties of care, loyalty, candor, good faith and independence to stockholders in connection with the proposed merger of the Company with Biovail. Among other things, the complaint alleges that the merger agreement fixes a price per share that is inadequate and unfair, and effectively caps the value of Valeant's stock and precludes competitive bidding through measures such as a termination fee, a requirement that any prior or ongoing discussions with other potential suitors be discontinued, and non-solicitation and notification covenants, and granting Biovail the right to match any unsolicited proposal. The complaint also alleged that the individual defendants are using the proposed merger to aggrandize their own financial position at the expense of Valeant's stockholders and have ignored purported conflicts of interests. The amended complaint seeks various forms of relief, including a court order declaring that individual defendants have breached their fiduciary duties, enjoining or rescinding the merger to the extent already implemented, requiring the defendants to effect a transaction which is in the best interests of Valeant's stockholders and requiring the defendants to account to Plaintiff and the class for any damages suffered as a result of the defendants' alleged wrongdoing.

On July 28, 2010, the plaintiff in the Porto action filed a motion for a preliminary injunction and a motion to expedite the proceedings.

On August 2, 2010, the Court of Chancery granted an order consolidating the Porto and Soukup actions, along with another action in which Biovail is not a party, into a case captioned In re Valeant Pharmaceuticals International Shareholders Litigation (the "Consolidated Action").

On August 3, 2010, the Court of Chancery entered a stipulated case management and class certification order in the Consolidated Action that conditionally certified the Consolidated Action as a class action without opt-out rights. The Class consists of all persons who held shares of stock of Valeant (excluding defendants named in the lawsuit and their immediate families) at any time during the period from and including April 22, 2010, through the date of consummation of the merger. Further, the order set an expedited schedule for the Consolidated Action that anticipates a hearing on Plaintiffs' motion for a preliminary injunction on September 15, 2010.

On August 4, 2010, the plaintiffs in the Consolidated Action filed a Verified Consolidated Class Action Complaint (the "Consolidated Complaint") on behalf of the holders of the common stock of Valeant against Valeant, the directors of Valeant, BAC and Merger Sub. The Consolidated Complaint alleges that the directors of Valeant, aided and abetted by BAC and Merger Sub, breached their fiduciary duties of care, loyalty, candor and good faith to Valeant stockholders in connection with the proposed merger of Valeant with Biovail. Among other things, the complaint alleges that the Valeant directors failed to take steps to maximize the value of Valeant to its public shareholders, by, among other things, failing to adequately consider potential acquirers and instead favouring their own or their fellow directors or executive officers' interests rather than interests of Valeant's shareholders; failed to secure safeguards on behalf of Valeant shareholders against the decline in the value of the stock component of the consideration to be paid to

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14. LEGAL PROCEEDINGS (Continued)

Valeant's shareholders in the proposed merger; and failed to fully disclose all material information necessary to cast an informed shareholder vote on the proposed merger. The Consolidated Complaint seeks various forms of relief, including a court order declaring that the action is properly maintainable as a class action and certifying certain plaintiffs as class representatives; enjoining the Valeant directors and all persons acting in concert with them from consummating the proposed merger unless Valeant implements a procedure to obtain a merger agreement providing the best possible terms for shareholders; rescinding, to the extent already implemented, the proposed merger or any of the terms thereof; and directing the Valeant directors to account to the class for all damages suffered as a result of the Valeant directors' alleged wrongdoing.

Antitrust

Several class action and individual action complaints in multiple jurisdictions have been commenced jointly against the Company, Elan Corporation plc ("Elan") and Teva Pharmaceuticals Industries Ltd. ("Teva") relating to two agreements: one between the Company and Elan for the licensing of Adalat CC products from Elan, and the other between the Company and Teva for the distribution of those products in the U.S. These actions were transferred to the U.S. District Court for the District of Columbia. The agreements in question have since been resolved as a result of a consent decree between Elan and Biovail and the U.S. Federal Trade Commission.

The Company believes these suits are without merit because, among other reasons, the Company believes that any delay in the marketing or out-licensing of the Company's Adalat CC product was due to manufacturing difficulties the Company encountered and not because of any improper activity on its part.

On March 21, 2006, the Company was advised that an additional claim in respect of this fact situation was filed by Maxi Drug Inc. d/b/a Brooks Pharmacy in the U.S. District Court for the District of Columbia. The Company has accepted service of this complaint, and the case is proceeding on the merits according to the schedule set by the Court in the related federal cases pending in the District of Columbia.

The Company and the other defendants filed motions to dismiss, and the Court denied the Company's motion to dismiss the damage claims brought on behalf of both a purported class of so-called "direct purchasers", generally consisting of distributors and large chain drug stores, and certain "direct purchasers" who have opted out of the class and sued the Company individually, but dismissed the claims of a class of consumers and so-called "indirect purchasers". The remainder of the federal action is proceeding on the merits through the normal legal process. The Court granted plaintiffs' motion for class certification on November 21, 2007 and certified a class of alleged "direct purchasers".

In December 2007, the Company and the other defendants moved for the Court to reconsider that decision and the Court denied that motion on November 3, 2008. On November 18, 2008, the Company and the other defendants filed a petition in the U.S. Court of Appeals for the District of Columbia Circuit pursuant to Fed. R. Civ. P. 23(f), requesting leave to appeal from the District Court's grant of class certification. The D.C. Circuit denied the defendants leave to appeal on February 23, 2009. On March 25, 2009, the defendants filed a petition in the D.C. Circuit for rehearing of their petition requesting leave to appeal. This request was denied.

On December 23, 2008, the Company and the other defendants moved for summary judgment in the District Court to dismiss the entirety of the case. This motion was fully briefed in early June 2009 and a related hearing took place on October 7, 2009. A decision is pending. No trial date has been set.

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14. LEGAL PROCEEDINGS (Continued)

On February 17, 2010, the Company entered into a settlement with the non-class or individual plaintiffs (the "Opt-outs"). Pursuant to the terms of the settlement, the Company paid a settlement amount, which was accrued through a charge to legal settlements expense as at December 31, 2009, and made no admission of wrongdoing. The Opt-out actions were dismissed on February 22, 2010.

Teva and the class plaintiffs executed a settlement agreement, dated May 27, 2010, requiring Teva to pay the class $10,000,000 upon final approval of the settlement. Class plaintiffs moved the Court for an order preliminarily approving the settlement and scheduling the fairness hearing which is a prerequisite to final approval. The Court granted that motion on July 7, 2010, and scheduled the fairness hearing for December 7, 2010.

On April 4, 2008, a direct purchaser plaintiff filed a class action antitrust complaint in the U.S. District Court for the District of Massachusetts against the Company, GlaxoSmithKline plc, and SmithKline Beecham Inc. (the latter two of which are referred to here as "GSK") seeking damages and alleging that the Company and GSK took actions to improperly delay FDA approval for generic forms of Wellbutrin XL®. The direct purchaser plaintiff in the Massachusetts federal court lawsuit voluntarily dismissed its complaint on May 27, 2008, and shortly thereafter re-filed a virtually identical complaint in the U.S. District Court for the Eastern District of Pennsylvania. In late May and early June 2008, additional direct and indirect purchaser class actions were also filed against the Company and GSK in the Eastern District of Pennsylvania, all making similar allegations, and these complaints were subsequently consolidated into separate direct and indirect purchaser actions.

On September 10, 2008, the Company and GSK filed motions to dismiss both the direct and indirect purchaser actions. Those motions were heard on February 26, 2009. In the direct purchaser case, on March 13, 2009, the Court granted in part and denied in part the motions, dismissing the Sherman Act Section 2 monopolization claim that had been made by the direct purchasers against the Company. The Company and GSK answered the remaining claims in the direct purchaser case on April 16, 2009. On March 26, 2009, before an order issued on the motions to dismiss the indirect purchaser plaintiffs' claims, the indirect purchaser plaintiffs filed an amended complaint. The pending motions were therefore denied as moot, and new motions to dismiss the indirect purchaser plaintiffs' claims were filed on April 30, 2009. On July 30, 2009, the court dismissed all indirect purchaser claims except for the antitrust claims (limited as to Biovail's concerted actions) in California, Nevada, Tennessee and Wisconsin and the consumer protection claims of California and Florida.

Before April 8, 2010, discovery and briefing on class certification in this matter had commenced, and a case timetable had been set. On April 8, 2010, both the indirect and direct purchaser actions were temporarily stayed at the request of the direct purchaser plaintiffs. On May 13, 2010, Aetna, Inc. ("Aetna") filed a motion to intervene as an indirect purchaser. The Court denied Aetna's motion to intervene on July 21, 2010, and directed the parties to confer and reestablish a class certification and discovery schedule for these cases. The deadline for the parties to submit statements to the Court concerning a new schedule is August 6, 2010.

The Company believes that each of these complaints lacks merit and that the Company's challenged actions complied with all applicable laws and regulations, including federal and state antitrust laws, FDA regulations, U.S. patent law and the Hatch-Waxman Act.

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14. LEGAL PROCEEDINGS (Continued)

Intellectual Property

In August 2006, Sandoz Canada Inc. ("Sandoz") brought an action against the Company under section 8 of the Canadian Patented Medicines Notice of Compliance Regulations ("PMNOC Regulations") demanding damages for having been kept off the market with its generic version of Tiazac® due to prohibition proceedings taken against Sandoz's predecessor RhoxalPharma Inc. by the Company under the PMNOC Regulations. The prohibition proceedings were subsequently dismissed in November of 2005. The Company defended against the action and discovery has been underway. The action was stayed pending a decision by the Supreme Court of Canada on whether to grant leave to appeal a decision on the measure of section 8 damages in another unrelated action. The Supreme Court of Canada has now denied leave. A trial date has not been set as yet, but will likely be no earlier than October 2011.

On January 18, 2010, a Canadian Federal Court judge presiding over Biovail Corporation and Depomed, Inc. ("Depomed") v. Apotex Inc. ("Apotex") et al. issued a decision in a proceeding pursuant to the PMNOC Regulations in Canada to determine whether Apotex's allegations that a Depomed patent was invalid and/or not infringed was justified. This proceeding related to a Canadian application filed by Apotex to market a generic version of the 500mg formulation of Glumetza® (extended release metformin hydrochloride tablets) licensed in Canada by Depomed to Biovail Laboratories International SRL ("BLS"). Pursuant to the decision issued by the Court, Health Canada can authorize Apotex to market in Canada its generic version of the 500mg formulation of Glumetza®.

The decision, which was amended on January 20, 2010, found under Canadian law that Apotex's allegation was justified that the Depomed Canadian patent at issue in the matter (No. 2,290,624) (the "'624 Patent") is obvious. The judge found that the evidence presented by the parties was "evenly balanced" as to obviousness. The judge found in favour of Biovail and Depomed as to all other issues related to validity, enforceability and infringement of the '624 Patent under Canadian law. Apotex was authorized by Health Canada on February 4, 2010 to market its generic version of 500 mg Glumetza® in Canada. This decision, however, did not find the patent invalid and does not preclude the filing of a subsequent patent infringement suit against Apotex. The Company and Depomed commenced action for patent infringement against Apotex in Canadian Federal Court on February 8, 2010. Pleadings have now closed, but no further steps have yet been taken.

Par Pharmaceuticals Companies, Inc. ("Par") filed an Abbreviated New Drug Application ("ANDA") with the FDA seeking approval to market Tramadol Hydrochloride Extended Release Tablets, 200 mg. On May 9, 2007, BLS, along with Purdue Pharma Products L.P. ("Purdue"), Napp Pharmaceutical Group Ltd. ("Napp") and Ortho-McNeil, Inc. ("OMI") filed a complaint in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,254,887 by the filing of that ANDA, thereby triggering a 30-month stay of FDA's approval of that application. Par has answered the complaint and asserted counterclaims of non-infringement and patent invalidity. The plaintiffs have denied the counterclaims. On May 22, 2007, Par informed the Company that it had filed a supplemental ANDA seeking approval to market Tramadol Hydrochloride Extended Release Tablets, 100 mg. On June 28, 2007, the same plaintiffs filed another complaint in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,254,887 by the filing of that ANDA, thereby triggering a 30-month stay of FDA's approval of the 100 mg strength formulation.

On July 23, 2007, Par answered the second complaint and asserted counterclaims of non-infringement and patent invalidity. On September 24, 2007, Par informed the Company that it had filed another supplemental

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14. LEGAL PROCEEDINGS (Continued)

ANDA seeking approval to market Tramadol Hydrochloride Extended Release Tablets, 300 mg. On October 24, 2007, the same plaintiffs filed another complaint in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,254,887 by the filing of that ANDA, thereby triggering a 30-month stay of FDA's approval of the 300 mg strength formulation. A Markman hearing claims construction ruling was released on November 4, 2008.

BLS filed a motion for dismissal of BLS from the cases, which the Court granted. Subsequently, OMI has also been dismissed from the case. The matter continues between the plaintiff and Par. BLS's and OMI's dismissals from the case are not expected to substantively impact the proceedings.

The hearing in this matter commenced and concluded in April 2009. Closing submissions were completed on June 15, 2009. On August 14, 2009, the District Court found in favour of Par, holding that, while Par infringed the patent claims, the patent claims at issue were invalid (there cannot be infringement of invalid claims). Purdue filed an appeal of the decision with the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") on September 3, 2009. OMI also appealed its dismissal at the same time, but the appeal has been withdrawn. Briefing in the appeal was completed in February, with oral argument before the Federal Circuit held on May 7, 2010. On June 3, 2010, the Federal Circuit issued a decision affirming the District Court's ruling that the patents in suit were not unenforceable, but were invalid as obvious. On November 16, 2009, Par announced that it had received final approval for its 100 mg and 200 mg products and began marketing the drug. Concurrently, Patriot Pharmaceuticals LLC ("Patriot") (a wholly owned subsidiary of Ortho-McNeil-Janssen Pharmaceuticals, Inc.), launched the Company's authorized generic formulation of these two strengths of Ultram® ER.

On July 2, 2008, the Company received a Notice of Paragraph IV Certification for Tramadol Hydrochloride Extended release Tablets, 100 mg, a generic version of Ultram® ER, from Impax Laboratories, Inc ("Impax"). BLS filed suit along with Purdue, Napp and OMI in the U.S. District Court for the District of Delaware pursuant to the provisions of the Hatch-Waxman Act. As a result, FDA approval of Impax's generic product has been automatically stayed for 30 months until January 2, 2011. BLS filed a motion for dismissal from the case. OMI has also been dismissed from this case, which the Court granted. This matter is continuing between Par and Purdue and is currently in discovery.

On September 23, 2008, the Company received a Notice of Paragraph IV Certification for Tramadol Hydrochloride Extended release Tablets, 200 mg and 300 mg, generic versions of Ultram® ER, from Impax. Purdue, Napp and OMI filed a complaint in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent No. 6,254,887 by the filing of that ANDA, thereby triggering a 30-month stay of the FDA's approval of that application. OMI has been dismissed from this case. The matter is proceeding in the ordinary course between Impax and Purdue.

On or about July 22, 2009 the Company received a Notice of Paragraph IV Certification from Paddock Laboratories Inc. ("Paddock") for tramadol hydrochloride extended release tablets in 100 mg, 200 mg and 300 mg dosage strengths, a generic version of Ultram® ER. Purdue filed substantially similar suits against Paddock on September 4, 2009, in the U.S. District Court for the District of Minnesota and in the U.S. District Court for the District of Delaware, thereby triggering a 30-month stay against the approval of Paddock's ANDA. Purdue has requested the Court to stay the litigation, pending resolution of its appeal in the Par case. The Company is not a party to this litigation.

The Company has also received a Notice of Paragraph IV Certification dated and mailed on September 15, 2009, from Cipher Pharmaceuticals, Inc. ("Cipher"), which has filed an NDA pursuant to Section 505(b)(2)

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14. LEGAL PROCEEDINGS (Continued)

of the Federal Food, Drug and Cosmetic Act for tramadol hydrochloride extended release tablets in 100, 200 and 300 mg dosage strengths, a generic version of Ultram® ER. Purdue filed suit against Cipher in the U.S. District Court for the Eastern District of Virginia on October 30, 2009, thereby triggering a 30-month stay. Purdue has indicated that it will seek a stay of its case against Cipher, pending resolution of its appeal in the Par case. The Company is not a party to this litigation.

Purdue has also requested a stay of the actions pending a decision from the Panel on Multidistrict Litigation ("MDL") to create an MDL for the various Ultram® ER cases that have been filed. Purdue is seeking to consolidate the cases.

The Company received a further Notice of Paragraph IV Certification dated and mailed on December 8, 2009 from Lupin Ltd. ("Lupin") for Tramadol Hydrochloride Extended Release tablets in 100, 200 and 300mg dosages. Purdue filed suit against Lupin in the U.S. District Court for the District of Delaware on January 21, 2010. The Company is not a party to this litigation.

BLS filed an ANDA with the FDA seeking approval to market venlafaxine hydrochloride extended release capsules equivalent to the 37.5, 75 and 150 mg doses of Effexor® XR. On June 26, 2008, Wyeth Pharmaceuticals Inc. ("Wyeth") filed a complaint against the Company, Biovail Technologies Ltd. and BLS in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 6,274,171 B1, 6,403,120 and 6,419,958 B2 by the filing of the ANDA, thereby triggering a 30-month stay of the FDA's approval of that application. On September 25, 2008, the Company filed its Answer and Affirmative Defenses along with counterclaims of non-infringement and invalidity. The Company and Wyeth executed a Settlement and Release Agreement on November 12, 2009 and, subsequently, BLS and Wyeth executed a license agreement as of January 28, 2010, whereby BLS can manufacture, import and sell venlafaxine hydrochloride extended release capsules with an effective date expected to be on or about June 1, 2011, subject to earlier launch in limited circumstances, but in no event earlier than January 1, 2011. BLS will pay Wyeth a royalty fee on the sale of its venlafaxine hydrochloride extended release capsules under the license, computed as a percentage of net sales, as defined in the license agreement. The license royalty fee term begins with the license effective date and ends on the expiration of the Wyeth patents covered by the license agreement. BLS is solely responsible for manufacturing and marketing its venlafaxine hydrochloride extended release capsules. Through December 31, 2009, BLS has not commenced sales of its venlafaxine hydrochloride extended release capsules. The parties filed a Joint Motion to Enter Consent Judgment and to Enter Stipulated Order on March 9, 2010, which was entered by the Court on March 19, 2010.

On or about June 26, 2008, BLS received Notices of Paragraph IV Certification from Sun Pharmaceutical Industries, Ltd., India ("Sun") for diltiazem hydrochloride extended release capsules, 120 mg, 180 mg, 240 mg, 300 mg, and 360 mg strengths, a generic version of Cardizem® CD. On August 8, 2008, BLS filed suit against Sun in the U.S. District Court of New Jersey alleging patent infringement of U.S. Patent Nos. 5,470,584, 5,286,497 and 5,439,689 pursuant to the provisions of the Hatch-Waxman Act. BLS also sought declaratory judgment of infringement for all three patents. These suits are expected to result in a 30-month stay of the FDA approval of the 120 mg, 180 mg, 240 mg and 300 mg strengths. The patents-in-suit were listed in the FDA's Orange Book against the 360 mg strength after the filing of the complaint in this action. On September 30, 2008, Sun delivered its Answer and Counterclaim, which include declarations of non-infringement, invalidity and unenforceability as well as certain antitrust allegations. In resolving this dispute, the Company and Sun executed a Settlement Agreement and a License Agreement on March 9, 2010. The parties filed a Stipulation and Proposed Order of Dismissal on April 16, 2010, which was entered as an Order of Dismissal by the Court on April 19, 2010. Under the terms of the settlement and

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14. LEGAL PROCEEDINGS (Continued)

license agreements, which were submitted to the U.S. Federal Trade Commission and U.S. Department of Justice pursuant to Section 1112(a) of the Medicare Prescription Drug Improvement and Modernization Act of 2003, Biovail has granted Sun, and its subsidiary Sun Pharma Global FZE, a non-exclusive license (without right to sublicense) to distribute various dosage strengths of Sun's generic formulation of Cardizem® CD in the U.S., upon receipt of regulatory approval from the FDA, subject to certain limitations on the sales quantities of the 360mg dosage strength, with reference to IMS Health prescription data. Sun will pay Biovail a royalty based on net sales of the various dosage strengths of its generic formulation. The license term ends August 8, 2012 the date the last Cardizem® CD patent expires.

BLS filed an ANDA with the FDA seeking approval to market Fenofibrate Tablets in 48 mg and 145 mg dosage sizes. On November 3, 2008, Abbott and Laboratoires Fournier S.A. filed a complaint against Biovail Corporation and BLS in the U.S. District Court for the Northern District of Illinois alleging infringement of U.S. Patent Nos. 6,277,405, 7,037,529, and 7,041,319 by the filing of the ANDA, thereby triggering a 30-month stay of FDA's approval of that application. This matter has now been transferred to the U.S. District Court for the District of New Jersey. On November 3, 2008, Elan Pharma International Ltd. and Fournier Laboratories Ireland Ltd. also filed a complaint against Biovail Corporation and BLS in the U.S. District Court for the District of New Jersey alleging infringement of U.S. Patent Nos. 5,145,684, 7,276,249 and 7,320,802 by the filing of the ANDA. The Answers and Counterclaims of Biovail Corporation and BLS have been filed. These cases are proceeding in the ordinary course. The Markman hearing on claim construction will occur sometime between October 11 and 22, 2010, with a trial on the merits expected in early 2011. Since U.S. Patent No.5,184,684 expires before the case will be tried, Biovail will change to a Paragraph III Certification upon expiration of the '684 patent.

On or about December 1, 2008, the FDA accepted an ANDA filed by BLS seeking approval to market generic formulations of the 200 mg, 300 mg and 400 mg strengths of quetiapine fumarate extended release tablets (sold under the brand name Seroquel® XR by AstraZeneca Pharmaceuticals LP ("AstraZeneca")). On January 9, 2009, AstraZeneca and AstraZeneca UK Limited filed a complaint against Biovail Corporation, BLS, and BTA Pharmaceuticals, Inc. in the U.S. District Court for the District New Jersey alleging infringement of U.S. Patent Nos. 4,879,288 (the "'288 Patent") and 5,948,437 (the "'437 Patent") by the filing of that ANDA, thereby triggering a 30-month stay of the FDA's approval of that application. Answers and Counterclaims have been filed. Discovery relating to invalidity of the '288 Patent has been stayed pending a decision from the U.S. Court of Appeals for the Federal Circuit in a related case not involving the Company. That case has now been resolved and the Company is currently reviewing documents. The case, including discovery on the '437 Patent, is proceeding in the ordinary course. Claim construction briefing was completed in April 2010. A Markman (claim construction) hearing has been scheduled for November 22, 2010. Fact discovery remains ongoing.

On April 8, 2010, AstraZeneca filed suit against a fourth ANDA applicant, Anchen Pharmaceuticals ("Anchen"). According to the Complaint, Anchen's ANDA is for the 150, 200, 300 and 400 mg products, and Anchen filed Paragraph IV certifications against both the '288 and '437 patents. Anchen's Answer was due on May 10, 2010. It is unclear whether the Anchen case will be coordinated with the ongoing cases against Biovail and other unrelated parties.

On or about July 3, 2009, BLS received a Notice from Cary Pharmaceuticals Inc. ("Cary"), related to Cary's NDA pursuant to Section 505(B)(2) for bupropion hydrochloride 450 mg extended-release tablets. The Certification references U.S. Patent No. 6,096,341, which is listed in the FDA's Orange Book for the 150 mg and 300 mg dosage strength of Wellbutrin XL®, and No. 6,143,327, which is currently listed in the FDA's

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with United States Generally Accepted Accounting Principles
(All tabular dollar amounts expressed in thousands of U.S. dollars, except per share data)
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14. LEGAL PROCEEDINGS (Continued)

Orange Book for the 150 mg dosage strength of Wellbutrin XL®. On August 13, 2009, the Company filed suit in the U.S. District Court for the District of Delaware, thereby triggering a 30-month stay of the approval of Cary's NDA. The Complaint was served on Cary on August 24, 2009, and Cary served its Answer on September 24, 2009. Following a scheduling conference with the judge in mid-January 2010, a Markman (claim construction) hearing was held on June 29, 2010. The ruling on claim construction is pending. Fact and expert discovery on infringement and validity to follow. The case is proceeding in the ordinary course. No trial date has yet been set.

On or about January 5, 2010, BLS received a Notice of Paragraph IV Certification dated January 4, 2010 from Watson Laboratories, Inc. Florida ("Watson"), related to Watson's ANDA filing for Buproprion Hydrobromide Extended-release Tablets, 174 mg and 348 mg, which correspond to the Company's Aplenzin® Extended-release Tablets 174 mg and 348 mg products. Watson asserted that U.S. Patent Nos. 7,241,805, 7,569,610, 7,572,935 and 7,585,897 which are listed in the FDA's Orange Book for Aplenzin® are invalid or not infringed. BLS subsequently received from Watson a second Notice of Paragraph IV Certification for U.S. Patent Nos 7,645,802 and 7,649,019, which were listed in the FDA's Orange Book after Watson's initial certification. Watson has alleged these patents are not infringed or invalid. The Company filed suit pursuant to the Hatch-Waxman Act against Watson on February 18, 2010, in the U.S. District Court for the District of Delaware and on February 19, 2010, in the U.S. District Court for the Southern District of Florida, thereby triggering a 30-month stay of the approval of Watson's ANDA. The Delaware action has been dismissed without prejudice and the litigation will proceed in the Florida Court. The Company has received a third Notice of Paragraph IV Certification from Watson dated March 5, 2010, seeking to market its products prior to the expiration of U.S. Patent Nos. 7,662,407 and 7,671,094. The Company received a fourth Notice of Paragraph IV Certification from Watson on April 9, 2010. The Company filed a second Complaint against Watson in Florida Court on the third and fourth Notices on April 16, 2010. The two actions have been consolidated into the first-filed case before the same judge. A scheduling order has been issued on July 23, 2010. Mandatory mediation must be completed by December 17, 2010 and a trial is set to commence on January 31, 2011.

On or about January 27, 2010, BLS received a Notice of Paragraph IV Certification from Paddock dated January 22, 2010, relating to Paddock's ANDA filing for Buproprion Hydrobromide Extended-release Tablets, 174 mg and 522 mg, which correspond to the Company's Aplenzin® Extended-release Tablets 174 mg and 522 mg products. Paddock has certified that the six patents currently listed in the FDA's Orange Book for Aplenzin®, plus an additional unlisted BLS patent relating to buproprion hydrobromide, are not infringed and/or invalid. A Complaint was filed on March 9, 2010 against Paddock in the U.S. District Court for the District of Minnesota. A parallel suit in the U.S. District Court for the District of Delaware has been dismissed without prejudice. A second suit was filed in the U.S. District Court for the District of Minnesota on April 15, 2010 following a second Paragraph IV certification received from Paddock. Both cases, which are now consolidated before the same judge, are proceeding in the ordinary course.

On or about June 24, 2010, Biovail received a Notice of Allegation from Mylan Pharmaceuticals ULC ("Mylan") with respect to Bupropion Hydrochloride 150 mg and 300 mg tablets, marketed in Canada by Biovail as Wellbutrin® XL. The patents in issue are Canadian Patent Nos. 2,142,320, 2,168,364 and 2,524,300. Mylan alleges that its generic form of Wellbutrin® XL does not infringe the patents and, alternatively, that the patents are invalid. The Company is in the process of evaluating the allegations in the Notice of Allegation. Any application for an order prohibiting the Minister from issuing a Notice of Compliance to Mylan must be issued in the Federal Court on or before August 8, 2010.

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with United States Generally Accepted Accounting Principles
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14. LEGAL PROCEEDINGS (Continued)

Biovail Action Against S.A.C. and Others

On February 22, 2006, the Company filed a lawsuit in Superior Court, Essex County, New Jersey, seeking $4.6 billion in damages from 22 defendants (the "S.A.C. Complaint"). The S.A.C. Complaint alleges that the defendants participated in a stock market manipulation scheme that negatively affected the market price of the Company's common shares and alleges violations of various state laws, including the New Jersey Racketeer Influenced and Corrupt Organizations Act.

The original defendants included: S.A.C. Capital Management, LLC, S.A.C. Capital Advisors, LLC, S.A.C. Capital Associates, LLC, S.A.C. Healthco Funds, LLC, Sigma Capital Management, LLC, Steven A. Cohen, Arthur Cohen, Joseph Healey, Timothy McCarthy, David Maris, Gradient Analytics, Inc., Camelback Research Alliance, Inc., James Carr Bettis, Donn Vickrey, Pinnacle Investment Advisors, LLC, Helios Equity Fund, LLC, Hallmark Funds, Gerson Lehrman Group, Gerson Lehrman Group Brokerage Services, LLC, Thomas Lehrman, Patrick Duff and James Lyle. The defendant Hallmark Funds was voluntarily dismissed from the action by the Company.

The case was subsequently stayed by an order of the Trial Judge, dated March 16, 2007, pending disposition of certain issues in a factually similar shareholder class action that did not involve the Company (the "New Jersey shareholder class action").

The stay of this action imposed by the Court's March 16, 2007 Order was lifted on March 20, 2009. On April 17, 2009, the Company filed a motion for leave to file a Second Amended Complaint, amending the allegations to assert trade libel and conspiracy, and seeking damages in excess of $100.0 million. The proposed Second Amended Complaint names as defendants only the S.A.C. related entities, Timothy McCarthy and Gradient Analytics, LLC (formerly Camelback Research Alliance Inc.). All other remaining defendants were dismissed from the lawsuit.

The named defendants opposed the filing of the Second Amended Complaint and moved to dismiss it. The motion was heard on July 10, 2009. A decision was subsequently rendered in the defendants' favour on August 20, 2009. As a result, the matter was dismissed.

On February 17, 2010, S.A.C. Capital Advisors, LLC commenced an action against the Company in the United States District Court for the District of Connecticut. The complaint alleges malicious prosecution related to the Company's complaint against it. A factually similar complaint was filed the same day by Gradient Analytics, Inc., Donn Vickery and James Carleton Carr Bettis in the United States Court for the District of Arizona. The Company believes that these complaints are without merit and filed motions to dismiss.

The Gradient motion was briefed and has been decided. The motion to dismiss was denied. No case timetable has been set. A case conference will take place on August 9, 2010. The S.A.C. motion was heard on August 1, 2010; a decision is currently pending.

General Civil Actions

Complaints have been filed by the City of New York, the State of Alabama, the State of Mississippi and a number of counties within the State of New York, claiming that the Company, and numerous other pharmaceutical companies, made fraudulent misstatements concerning the "average wholesale price" of their prescription drugs, resulting in alleged overpayments by the plaintiffs for pharmaceutical products sold by the companies.

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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14. LEGAL PROCEEDINGS (Continued)

The City of New York and plaintiffs for all the counties in New York (other than Erie, Oswego and Schenectady) have voluntarily dismissed the Company and certain others of the named defendants on a without prejudice basis. Similarly, the State of Mississippi has voluntarily dismissed its claim against the Company and a number of defendants on a without prejudice basis.

In the case brought by the State of Alabama, the Company has answered the State's Amended Complaint and discovery is ongoing. On October 16, 2009, the Supreme Court of Alabama issued an opinion reversing judgments in favour of the State in the first three cases that were tried against co-defendant companies. The Alabama Supreme Court also rendered judgment in favour of those defendants, finding that the State's fraud-based theories failed as a matter of law. The Company's case is presently scheduled to proceed to trial in January 2011.

The cases brought by the New York State counties of Oswego, Schenectady and Erie, each of which was originally brought in New York State court, were removed by defendants to Federal Court on October 11, 2006. The Company answered the complaint in each case after the removal to Federal Court. The cases were subsequently remanded and, following the remand, the New York State Litigation Coordinating Panel granted the defendants' application to coordinate the three actions for pretrial purposes in Erie County. Discovery is ongoing with trial presently scheduled to commence in February 2011.

On December 15, 2009, Biovail was served with a Seventh Amended Complaint under the False Claims Act in an action captioned United States of America, ex rel. Constance A. Conrad v. Actavis Mid-Atlantic, LLC, et al., United States District Court, District of Massachusetts. This case was originally filed in 2002 and maintained under seal until shortly before Biovail was served. Twenty other companies are named as defendants. In the Seventh Amended Complaint, Conrad alleges that various formulations of Rondec, a product formerly owned by Biovail, were not properly approved by the FDA and therefore not a "Covered Outpatient Drug" within the meaning of the Medicaid Rebate Statute. As such, Conrad alleges that Rondec was not eligible for reimbursement by federal healthcare programs, including Medicaid. Conrad seeks treble damages and civil penalties under the False Claims Act. According to the briefing schedule set by the court, motions to dismiss are due 30 days after the Complaint is unsealed in respect of each defendant. The Company intends to file a motion to dismiss.

15. SEGMENT INFORMATION

The Company operates in one operating segment pharmaceutical products. Management assesses performance and makes resource decisions based on the consolidated results of operations of this operating segment.

16. PROPOSED MERGER WITH VALEANT

On June 20, 2010, the Biovail board of directors and the Valeant board of directors unanimously approved the merger agreement under which the companies would merge to create a combined company. The merger agreement provides for a business combination whereby a newly formed wholly-owned subsidiary of Biovail Americas Corp. (a wholly-owned subsidiary of Biovail) will merge with and into Valeant. As a result of this merger, the separate corporate existence of the newly formed subsidiary will cease and Valeant will continue as the surviving corporation. On the date of the closing of the merger, Biovail will change its name to "Valeant Pharmaceuticals International, Inc." (the "combined company").

BIOVAIL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with United States Generally Accepted Accounting Principles
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16. PROPOSED MERGER WITH VALEANT (Continued)

Under the terms of the merger agreement, each Valeant stockholder of record, as of the close of business on the business day immediately preceding the effective time of the merger, will receive a special dividend of $16.77 per share of Valeant common stock on such date. In the merger, Valeant stockholders will receive 1.7809 Biovail common shares in exchange for each share of Valeant common stock they own immediately prior to the merger, other than those shares in respect to which appraisal rights are properly exercised under Delaware laws and not withdrawn. The value of the merger consideration that Valeant stockholders will receive will depend on the price per share of Biovail's common shares at the time the merger is completed. Upon the completion of the merger, which is expected to occur before the end of 2010, Biovail shareholders will own approximately 50.5% and Valeant stockholders will own approximately 49.5% of the shares of the combined company each on a fully diluted basis. Biovail is both the legal and accounting acquirer in the merger.

On July 21, 2010, Biovail filed a draft Registration Statement on Form S-4 with the U.S. Securities and Exchange Commission to register 198,153,267 common shares, which represents the estimated maximum number of common shares to be issued in connection with the merger.

In connection with the transaction, Biovail and Valeant have entered into a commitment letter with certain financial institutions pursuant to which such institutions have committed to provide (i) $500,000,000 through a senior secured term loan A facility, (ii) up to $2,272,000,000 through a senior secured term loan B facility, and (iii) $250,000,000 through a senior secured revolving credit facility. A portion of the existing debt of Valeant will be repaid as part of the transaction and Biovail's existing credit facility (as described in note 9) will be terminated and any indebtedness thereunder repaid.

Contingent upon the closing of the merger and subject to the discretion of the Board of Directors of the combined company and to compliance with applicable law, it is anticipated that, on December 31, 2010, or such other date as the Board of Directors of the combined company may determine, the combined company will pay a post-merger special dividend of $1.00 per common share to shareholders of the combined company, after which the combined company does not intend to pay dividends. It is anticipated that $300,000,000 of the term loan B facility will be utilized to partially fund this post-merger special dividend.

Prior to the completion of the transaction, Biovail is restricted under the terms of the merger agreement from making acquisitions or entering into in-licensing arrangements that exceed $50,000,000, individually or in the aggregate, and from repurchasing any of its common shares, without Valeant's consent. In addition, without Valeant's consent, Biovail may not incur indebtedness in the ordinary course of business greater than $25,000,000 in the aggregate, or any indebtedness outside the ordinary course of business. Pursuant to the merger agreement, Valeant has made reciprocal commitments to Biovail.

Upon termination of the merger agreement under certain circumstances, Biovail may be obligated to pay Valeant a termination fee of $100,000,000 and, in other similar circumstances, Valeant may be obligated to pay Biovail a termination fee of $100,000,000.

The merger is subject to approval by Biovail shareholders and Valeant stockholders, consummation of the financing contemplated by the commitment letter described above or alternative financing, and the satisfaction of customary closing conditions and regulatory approvals, including anti-trust and competition law approvals in the U.S. and certain other foreign jurisdictions. On July 22, 2010, the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to the proposed merger contemplated by the merger agreement.

In the three-month period ended June 30, 2010, the Company incurred $7,577,000 of acquisition-related costs, including banking, legal, accounting and other transaction costs, directly related to the merger.

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

INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited consolidated financial statements, and notes thereto, prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for the interim period ended June 30, 2010 (our "Consolidated Financial Statements"). This MD&A should also be read in conjunction with the annual MD&A and audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on February 26, 2010 with the U.S. Securities and Exchange Commission (the "SEC") and the Canadian Securities Administrators (the "CSA") (the "2009 Form 10-K").

Additional information relating to our Company, including the 2009 Form 10-K, is available on SEDAR at www.sedar.com and on the SEC's website at www.sec.gov.

Unless otherwise indicated herein, the discussion and analysis contained in this MD&A is as of August 6, 2010.

All dollar amounts are expressed in U.S. dollars.

FORWARD-LOOKING STATEMENTS

Caution regarding forward-looking information and statements and "Safe-Harbor" statements under the U.S. Private Securities Litigation Reform Act of 1995:

To the extent any statements made in this MD&A contain information that is not historical, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and may be forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, our objectives, goals, strategies, beliefs, intentions, plans, estimates, and outlook, including, without limitation:

- the proposed merger between Biovail and Valeant Pharmaceuticals International ("Valeant"), including future financial and operating results and the combined company's plans, objectives, expectations and intentions and other statements that are not historical facts;

- closing of the proposed merger including, but not limited to our ability to satisfy the closing conditions and the timing thereof;

- the impact of healthcare reform in the U.S. and elsewhere, including the healthcare reform legislation enacted in the U.S. in March 2010, which may adversely affect the amount of reimbursement we receive for our products;

- our intent and ability to implement and effectively execute plans and initiatives associated with our strategic focus on products targeting specialty central nervous system ("CNS") disorders and the anticipated impact of such strategy including, but not limited to, the amount and timing of expected contribution(s), from our product development pipeline;

- our intent to complete in-license agreements and acquisitions and to successfully integrate such in-license agreements and acquisitions into our business and operations and to achieve the anticipated benefits of such in-license agreements and acquisitions;

- our intent to deploy a specialty U.S. sales force to support our specialty CNS strategy, including our intent to develop a sales force to commercialize AZ-004 (Staccato® loxapine) and BVF-007 (AMPAKINE®) in the U.S., and the timing and amount of costs associated with establishing such sales force;

the competitive landscape in the markets in which we compete, including, but not limited to, the prescription trends, pricing and the formulary or Medicare/Medicaid utilization and positioning for our products, the opportunities present in the market for therapies for specialty CNS disorders, the

anticipated level of demand for our products and the availability or introduction of generic formulations of our products;

our intent, timing and ability to close our Carolina, Puerto Rico manufacturing facility and operations and the anticipated impact of such closure;

the expected impact on revenues and expenses relating to the disposition of non-core assets;

anticipated level of demand for generic Tiazac® and generic Cardizem® CD products;

our intent and related success or failure regarding the defence of our intellectual property against infringement;

our views, beliefs and positions related to, results of, and costs associated with, certain litigation and regulatory proceedings and the timing, costs and expected impact of the resolution of certain litigation and regulatory proceedings;

the timing, results, and progress of research and development and regulatory approval efforts;

our intent and ability to make future dividend payments or to repurchase our common shares under our share repurchase program;

the sufficiency of cash resources, including those under the accordion feature of our senior secured revolving credit facility, to support future spending and business development requirements;

the impact of market conditions on our ability to access additional funding at reasonable rates;

our ability to manage exposure to foreign currency exchange rate changes and interest rate changes;

our intent and ability to use a net share settlement approach upon conversion of our 5.375% Senior Convertible Notes due August 1, 2014 (the "Convertible Notes");

additional expected charges and anticipated annual savings related to ongoing or planned efficiency initiatives;

our expected capital expenditures; and

expected impact of the adoption of new accounting guidance.

Forward-looking statements can generally be identified by the use of words such as "believe", "anticipate", "expect", "intend", "plan", "continue", "will", "may", "could", "would", "target", "potential" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements may not be appropriate for other purposes. Although we have indicated above certain of these statements set out herein, all of the statements in this MD&A that contain forward-looking statements are qualified by these cautionary statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, including, but not limited to, factors and assumptions regarding the items outlined above. Actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following:

the risk that the anticipated benefits and synergies from the proposed merger between Biovail and Valeant cannot be fully realized or may take longer to realize than expected, due to, among other things:

the failure to receive, on a timely basis or otherwise, the required approvals by Valeant stockholders, Biovail shareholders and government or regulatory agencies;

the risk that a condition to closing of the proposed merger may not be satisfied;

the risk that the businesses will not be integrated successfully, or that the integration will be more costly or more time consuming and complex than anticipated;

the risk that disruption from the merger will make maintaining business and operational relationships more difficult; and

the ability of the combined company to retain and hire key personnel and maintain relationships with customers, suppliers or other business partners;

the uncertainties associated with the specific determinations necessary to implement certain provisions under the healthcare reform legislation enacted in the U.S.;

the successful execution of our specialty CNS strategy, including our ability to successfully identify, evaluate, acquire, obtain regulatory approval for, develop, manufacture and commercialize pipeline products;

the success of pre-clinical and clinical trials for our drug development pipeline or delays in clinical trials which adversely impact the timely commercialization of our pipeline products;

the results of continuing safety and efficacy studies by industry and government agencies;

the uncertainties associated with the development, acquisition and launch of new products, including, but not limited to, the acceptance and demand for new pharmaceutical products, and the impact of competitive products and pricing;

our reliance on key strategic alliances, our ability to secure and maintain third-party research, development, manufacturing, marketing or distribution arrangements and securing other development partners for, and to share development costs associated with, certain product development programs;

the availability of capital and our ability to generate operating cash flows to support our growth strategy;

the continuation of the recent economic and market turmoil, which could result in fluctuations in currency exchange rates and interest rates;

our eligibility for benefits under tax treaties and the continued availability of low effective tax rates for the business profits of our principal operating subsidiary;

the difficulty of predicting the expense, timing and outcome within our legal and regulatory environment, including, but not limited to, U.S. Food and Drug Administration, Canadian Therapeutic Products Directorate and European regulatory approvals, legal and regulatory proceedings and settlements thereof, the protection afforded by our patents and other intellectual and proprietary property, successful challenges to our generic products, and infringement or alleged infringement of the intellectual property rights of others;

our ability to establish or acquire a specialty U.S. sales force to support our specialty CNS strategy;

our ability to attract and retain key personnel;

the reduction in the level of reimbursement for, or acceptance of, pharmaceutical products by governmental authorities, health maintenance organizations or other third-party payors;

our ability to satisfy the financial and non-financial covenants of our credit facility and Convertible Notes indenture;

our ability to repay or refinance the principal amount under the Convertible Notes indenture at maturity;

the disruption of delivery of our products and the routine flow of manufactured goods across the U.S. border; and

other risks detailed from time to time in our filings with the SEC and the CSA, as well as our ability to anticipate and manage the risks associated with the foregoing.

Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found in the body of this MD&A, as well as under Items 1A "Risk Factors" of this Quarterly Report on Form 10-Q and the 2009 Form 10-K, and in the section entitled "Risk Factors" of our draft Registration Statement on Form S-4 filed with the SEC on July 21, 2010 and with the CSA on July 23,

2010. We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to our Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We undertake no obligation to update or revise any forward-looking statement, except as may be required by law.

OVERVIEW

Company Profile

We are a specialty pharmaceutical company with a strategic focus on developing and commercializing products that address unmet medical needs in specialty CNS disorders. We have various research and development, manufacturing and commercial operations located in Barbados, Canada, the U.S., Ireland and Puerto Rico.

Proposed Merger with Valeant

On June 20, 2010, our Board of Directors and the Valeant Board of Directors unanimously approved an Agreement and Plan of Merger (the "merger agreement") under which the companies would merge to create a combined company. We are both the legal and accounting acquirer in the merger. The merger is subject to approval by our shareholders and Valeant stockholders, consummation of the financing contemplated by the commitment letter described below or alternative financing, and the satisfaction or waiver (if permissible under applicable law) of customary closing conditions and regulatory approvals. On the date of the closing of the merger, we will change our name to "Valeant Pharmaceuticals International, Inc." (the "combined company").

The results of operations of Valeant will not be included in our consolidated financial statements until the completion of the merger. In addition, our Consolidated Financial Statements and this MD&A do not reflect the effect of any potential changes to our existing operations or strategies contemplated by the merger.

Under the terms of the merger agreement, each Valeant stockholder of record, as of the close of business on the business day immediately preceding the effective time of the merger, will receive a special dividend of $16.77 per share of Valeant common stock on such date. In the merger, Valeant stockholders will receive 1.7809 of our common shares in exchange for each share of Valeant common stock they own immediately prior to the merger, other than those shares in respect to which appraisal rights are properly exercised under Delaware laws and not withdrawn. The value of the merger consideration that Valeant stockholders will receive will depend on the price per share of our common shares at the time the merger is completed. Upon the completion of the merger, which is expected to occur before the end of 2010, our shareholders will own approximately 50.5% and Valeant stockholders will own approximately 49.5% of the shares of the combined company each on a fully diluted basis.

On July 21, 2010, we filed a draft Registration Statement on Form S-4 with the SEC to register 198,153,267 common shares, which represents the estimated maximum number of common shares to be issued in connection with the merger.

In connection with the transaction, we and Valeant have entered into a commitment letter with certain financial institutions pursuant to which such institutions have committed to provide (i) $500.0 million through a senior secured term loan A facility, (ii) up to $2,272.0 million through a senior secured term loan B facility, and (iii) $250.0 million through a senior secured revolving credit facility. A portion of the existing debt of Valeant will be repaid as part of the transaction and our existing $410.0 million senior secured revolving credit facility will be terminated and any indebtedness thereunder repaid.

Contingent upon the closing of the merger and subject to the discretion of the Board of Directors of the combined company and to compliance with applicable law, it is anticipated that, on December 31, 2010, or such other date as the Board of Directors of the combined company may determine, the combined company will pay a post-merger special dividend of $1.00 per common share to shareholders of the combined company, after which the combined company does not intend to pay dividends. It is anticipated that $300.0 million of the term loan B facility will be utilized to partially fund this post-merger special dividend.

Prior to the completion of the transaction, we are restricted under the terms of the merger agreement from making acquisitions or entering into in-licensing arrangements that exceed $50.0 million, individually or in the aggregate, and from repurchasing any of our common shares, without Valeant's consent. In addition, without Valeant's consent, we may not incur indebtedness in the ordinary course of business greater than $25.0 million in the aggregate, or any indebtedness outside the ordinary course of business. Pursuant to the merger agreement, Valeant has made reciprocal commitments to us.

Upon termination of the merger agreement under certain circumstances, we may be obligated to pay Valeant a termination fee of $100.0 million and, in other similar circumstances, Valeant may be obligated to pay us a termination fee of $100.0 million.

The merger is subject to approval by our shareholders and Valeant stockholders, consummation of the financing contemplated by the commitment letter described above or alternative financing, and the satisfaction of customary closing conditions and regulatory approvals, including anti-trust and competition law approvals in the U.S. and certain other foreign jurisdictions. On July 22, 2010, the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to the proposed merger contemplated by the merger agreement.

We expect the combined company to achieve annual operational cost savings of at least $175 million by the second year of operations, and to incur acquisition-related restructuring charges and integration costs in the range of approximately $130 million to $150 million in connection with the merger on a pre-tax basis, which will be expensed as incurred.

For additional information regarding the potential risks and uncertainties associated with the proposed merger with Valeant, please see Item 1A "Risk Factors" of the Form 10-Q.

In the second quarter of 2010, we incurred $7.6 million of acquisition-related costs, including banking, legal, accounting and other transaction costs, directly related to the merger.

U.S. Healthcare Reform

In March 2010, healthcare reform legislation was enacted in the U.S. This legislation contains several provisions that may impact our business.

Although many provisions of the new legislation do not take effect immediately, several provisions became effective in the first half of 2010. These provisions include: (i) an increase in the minimum Medicaid rebate to states participating in the Medicaid program from 15.1% to 23.1% on branded prescription drugs; (ii) the extension of the Medicaid rebate to Managed Care Organizations that dispense drugs to Medicaid beneficiaries; and (iii) the expansion of the 340(B) Public Health Services drug pricing program, which provides outpatient drugs at reduced rates, to include additional hospitals, clinics, and healthcare centres.

Beginning in 2011, the new legislation requires that drug manufacturers provide a 50% discount to Medicare beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the "donut hole"). Also, beginning in 2011, a new fee will be assessed on prescription drug manufacturers and importers that sell branded prescription drugs to specified U.S. government programs (e.g., Medicare and Medicaid). This fee will be calculated based upon each entity's relative share of total applicable branded prescription drug sales to specified U.S. government programs for the preceding calendar year. The aggregate industry wide fee is expected to total $28 billion through 2019, ranging from $2.5 billion to $4.1 billion annually.

Presently, uncertainty exists as many of the specific determinations necessary to implement this new legislation have yet to be decided and communicated to industry participants. For example, we do not yet know when discounts will be provided to the additional hospitals eligible to participate under the 340(B) program. In addition, determinations as to how the Medicare Part D coverage gap will operate and how the annual fee on branded prescription drugs will be calculated and allocated remain to be clarified, though, as noted above, these programs will not be effective until 2011. We have made several estimates with regard to important assumptions relevant to determining the financial impact of this legislation on our business due to the lack of availability of both certain information and complete understanding of how the process of applying the legislation will be

implemented. Based on these estimates and assumptions, this new legislation did not have a material impact on our financial condition or results of operations in the second quarter or first half of 2010.

For additional information regarding the potential risks and uncertainties associated with the implementation of the U.S. healthcare reform legislation, please see Item 1A "Risk Factors" of the Form 10-Q.

Business Development

Istradefylline

On June 2, 2010, we entered into a license agreement with Kyowa Hakko Kirin Co., Ltd. ("Kyowa Hakko Kirin") to acquire the U.S. and Canadian rights to develop and commercialize products containing istradefylline a new chemical entity targeted for the treatment of Parkinson's disease. Istradefylline is directly aligned with our specialty CNS strategy. In April 2007, Kyowa Hakko Kirin filed a New Drug Application ("NDA") for istradefylline, which received a not approvable letter from the FDA in February 2008. We intend to seek a meeting with the FDA to discuss the regulatory approval process for istradefylline, including re-submission of the NDA.

Under the terms of the license agreement, we paid an upfront fee of $10.0 million, and could pay up to $20.0 million in potential development milestones through FDA approval and up to an additional $35.0 million if certain sales-based milestones are met. We will also make tiered royalty payments of up to 30% on net commercial sales of products containing istradefylline. In connection with this acquisition, we have also entered into an agreement with Kyowa Hakko Kirin for the supply of the istradefylline compound.

This acquisition was accounted for as a purchase of in-process research and development ("IPR&D") intangible assets with no alternative future use. Accordingly, the $10.0 million upfront payment, together with $0.2 million of acquisition costs, was charged to research and development expenses in the second quarter of 2010.

AMPAKINE®

On March 25, 2010, we acquired certain AMPAKINE® compounds, including associated intellectual property, from Cortex Pharmaceuticals, Inc. ("Cortex") for use in the field of respiratory depression, a brain-mediated breathing disorder. The acquired compounds include the Phase 2 compound CX717 in an oral formulation, the pre-clinical compounds CX1763 and CX1942, and the injectable dosage form of CX1739. These AMPAKINE® compounds are directly aligned with our specialty CNS strategy and have the potential to address a significant unmet medical need. In addition, the potential commercialization of the AMPAKINE® compounds aligns with the specialty sales force we intend to deploy in the U.S. for Staccato® loxapine (as described below under " Staccato® Loxapine").

Under the terms of the asset purchase agreement, we paid an upfront fee of $9.0 million and expect to pay an additional $1.0 million upon the completion of a six-month transition period. In addition, we could pay up to $15.0 million in potential milestones contingent on the successful demonstration of the utility of an intravenous formulation of CX717 in treating respiratory depression (BVF-007), the successful completion of a Phase 3 clinical program using an AMPAKINE® compound, and approval from the FDA of an AMPAKINE® compound. We may also owe certain development milestones and/or royalties on net sales to third parties of an AMPAKINE® compound.

This acquisition was accounted for as a purchase of IPR&D intangible assets with no alternative future use. Accordingly, the $9.0 million upfront payment and the $1.0 million accrued transition payment, together with $0.7 million of acquisition costs, were charged to research and development expenses in the first quarter of 2010.

Staccato® Loxapine

On February 9, 2010, we entered into a collaboration and license agreement with Alexza Pharmaceuticals, Inc. ("Alexza") to acquire the U.S. and Canadian development and commercialization rights to AZ-004 for the treatment of psychiatric and/or neurological indications and the symptoms associated with these indications, including the initial indication of treating agitation in schizophrenia and bipolar patients.

AZ-004 combines Alexza's proprietary Staccato® drug-delivery system with the antipsychotic drug loxapine. Staccato® loxapine for the treatment of agitation in schizophrenia and bipolar patients is directly aligned with our specialty CNS strategy.

In December 2009, Alexza submitted an NDA to the FDA for Staccato® loxapine. The FDA has accepted the NDA for filing and has indicated a Prescription Drug User Fee Act ("PDUFA") goal date of October 11, 2010.

Pursuant to the terms of the collaboration and license agreement, we paid an upfront fee of $40.0 million, and could pay up to $90.0 million in potential milestones in connection with the initial indication, contingent on the successful approval of the first AZ-004 NDA, successful commercial manufacturing scale-up, and the first commercial sale on an inpatient and on an outpatient basis, which may require the successful completion of additional clinical trials, regulatory submissions, and/or approval of a supplemental NDA. We will also make tiered royalty payments of 10% to 25% on net commercial sales of Staccato® loxapine. Alexza will supply the product to us for commercialization and will receive a per-unit transfer price, based on annual product volume.

We intend to deploy a specialty sales force to commercialize Staccato® loxapine in the U.S. We estimate the costs associated with establishing this sales force will amount to approximately $10 million in the second half of 2010, and between $40 million and $70 million in 2011, depending on the breadth of the Staccato® loxapine label approved by the FDA.

This acquisition was accounted for as a purchase of IPR&D intangible assets with no alternative future use. Accordingly, the $40.0 million upfront payment, together with $0.3 million of acquisition costs, was charged to research and development expenses in the first quarter of 2010.

Research and Development

The following table displays selected information regarding our specialty CNS drug-development programs:

PROGRAM	COMPOUND	INDICATION(S)	DEVELOPMENT STATUS
AZ-004	Staccato® loxapine	Agitation in schizophrenia and bipolar patients	NDA filed; PDUFA goal date October 11, 2010
BVF-021	Istradefylline	Parkinson's disease	Meeting with FDA being sought to discuss regulatory approval process, including re-submission of NDA
BVF-036	Pimavanserin	Parkinson's disease psychosis	Phase 3
BVF-048	Pimavanserin	Schizophrenia co-therapy	Phase 2
BVF-025	Fipamezole	Parkinson's disease dyskinesia	Phase 2
BVF-040	Pimavanserin	Alzheimer's disease psychosis	Pre-Phase 2
BVF-018	Tetrabenazine MR	Tourette's Syndrome	Phase 1
BVF-007	AMPAKINE®	Respiratory depression	Pre-clinical
BVF-014	GDNF	Parkinson's disease	Pre-Investigation New Drug

In the second quarter of 2010, we cancelled the Phase 3 clinical trials that were underway in Europe for BVF-324 (the use of non-commercially available doses of tramadol for the treatment of premature ejaculation), due to slower-than-anticipated enrolment in these studies and a lack of commercial interest in the product. In

the second quarter of 2010, we accrued $2.8 million for the estimated contractual obligations related to the termination of these studies.

Restructuring

In May 2008, we initiated restructuring measures that were intended to rationalize our manufacturing operations, pharmaceutical sciences operations, and general and administrative expenses.

Manufacturing Operations

On January 15, 2010, we completed the sale of our Dorado, Puerto Rico manufacturing facility for net cash proceeds of $8.5 million. We occupied the Dorado facility until March 31, 2010, pursuant to a short-term lease with the buyer, during which time remaining manufacturing and packaging processes were transferred to our Steinbach, Manitoba manufacturing facility. We expect to continue to operate our manufacturing facility located in Carolina, Puerto Rico until the fourth quarter of 2010 in order to meet higher than anticipated demand for our generic Tiazac® and generic Cardizem® CD products, which is attributable to manufacturing issues involving competitors' products after which time all manufacturing operations are expected to be consolidated at the Steinbach facility. We are continuing to actively market the Carolina facility.

We expect to incur employee termination costs of approximately $9.8 million in total for severance and related benefits payable to the approximately 240 employees who have been, or will be, terminated as a result of the closure of the Puerto Rico facilities. As these employees are required to provide service during the shutdown period in order to be eligible for termination benefits, we are recognizing the cost of those termination benefits ratably over the estimated future service period. On a cumulative basis to June 30, 2010, we have recognized $9.3 million of these costs, of which $5.6 million have been paid.

Pharmaceutical Sciences Operations

On April 30, 2010, we had entered into an asset purchase agreement to sell our contract research division ("CRD") to Lambda Therapeutic Research Inc. ("Lambda"). We no longer considered CRD a strategic fit as a result of our transition from reformulation programs to the in-licensing, acquisition and development of specialty CNS products. CRD has not been treated as a discontinued operation for accounting purposes, on the basis that its operations were immaterial and incidental to our core specialty pharmaceutical business.

The assets and liabilities of CRD reported as held for sale in the consolidated balance sheet at June 30, 2010, comprised net current assets and liabilities of $1.3 million and property, plant and equipment of $4.8 million.

For the three-month and six-month periods ended June 30, 2010 and 2009, CRD reported the following revenue and expenses, which, as described above, have not been segregated from continuing operations in the consolidated statements of income:

	Three Months Ended June 30		Six Months Ended June 30	
($ in 000s)	**2010**	**2009**	**2010**	**2009**
Research and development revenue	$ 2,309	$ 2,953	$ 5,233	$ 6,255
Research and development expenses	3,372	3,563	6,679	6,984
Selling, general and administrative expenses	859	948	1,678	1,761
Total operating expenses	4,231	4,511	8,357	8,745
Operating loss	(1,922)	(1,558)	(3,124)	(2,490)
Foreign exchange gain (loss)	(25)	(32)	(108)	161
Net loss	$ (1,947)	$ (1,590)	$ (3,232)	$ (2,329)

In the three-month period ended June 30, 2010, we recognized employee termination costs of $1.9 million for the approximately 70 CRD employees not expected to be offered employment by Lambda. On July 23, 2010, we completed the sale of CRD to Lambda for net cash proceeds of approximately $6.0 million.

Prior to December 31, 2009, we completed the closure of our research and development facilities in Dublin, Ireland and Mississauga, Ontario, and the consolidation of our research and development operations in Chantilly, Virginia.

The following table summarizes the major components of restructuring costs recognized through June 30, 2010:

	Asset Impairments		Employee Termination Benefits		Contract Termination and Other	
($ in 000s)	**Manufacturing**	**Pharmaceutical Sciences**	**Manufacturing**	**Pharmaceutical Sciences**	**Costs**	**Total**
Balance, January 1, 2008	$	$	$	$	$	$
Costs incurred and charged to expense	42,602	16,702	3,309	2,724	4,865	70,202
Cash payments				(2,724)	(333)	(3,057)
Non-cash adjustments	(42,602)	(16,702)			(1,186)	(60,490)
Balance, December 31, 2008			3,309		3,346	6,655
Costs incurred and charged to expense	7,591	2,784	4,942	1,441	2,307	19,065
Cash payments			(2,041)	(1,278)	(1,321)	(4,640)
Non-cash adjustments	(7,591)	(2,784)		71		(10,304)
Balance, December 31, 2009			6,210	234	4,332	10,776
Costs incurred and charged to expense			333		280	613
Cash payments			(2,703)	(195)	(429)	(3,327)
Non-cash adjustments				6		6
Balance, March 31, 2010			3,840	45	4,183	8,068
Costs incurred and charged to expense			708	1,924	249	2,881
Cash payments			(820)		(435)	(1,255)
Non-cash adjustments				(46)		(46)
Balance, June 30, 2010			3,728	1,923	3,997	9,648

Results of Efficiency Initiatives

Our ongoing and planned efficiency initiatives have resulted in cumulative charges to earnings of $102.3 million recorded through June 30, 2010. These charges are expected to be up to $120 million, of which the cash component is expected to be up to $40 million, including $25.4 million incurred through June 30, 2010. We expect that these initiatives, once fully implemented, may result in annual savings of $40 million to $60 million.

With the sale of CRD, we have now realized our target of $70 million in total gross proceeds from the divestiture and monetization of non-core assets.

Major Products

The following table displays selected information regarding our major brand name products by therapeutic area:

BRAND NAME(S)	INDICATION(S)	MARKET	COMMERCIALIZATION
		Specialty CNS	
Xenazine®	Huntington's chorea	U.S.	Supply and distribution agreement with Lundbeck Inc. (as subsidiary of H. Lundbeck A/S).
Nitoman®	Hyperkinetic movement disorders, including Huntington's chorea	Canada	Marketed and distributed by Biovail Pharmaceuticals Canada ("BPC").
Xenazine®, Xenazina®, Nitoman®	Hyperkinetic movement disorders	Territories other than the U.S. and Canada	Supply and distribution arrangements with various third-party distributors.
		Non-Specialty CNS	
Wellbutrin XL®	Major and seasonal depressive disorders	U.S.	Distributed by our subsidiary BTA Pharmaceuticals, Inc. ("BTA")[(1)].
Wellbutrin XL®	Major depressive disorder	Territories other than the U.S. and Canada	Supply and distribution agreement with affiliates of The GlaxoSmithKline Group of Companies ("GSK").
Ativan®	Anxiety	U.S.	Distributed by BTA.
Aplenzin®	Major depressive disorder	U.S.	Supply and distribution agreement with sanofi-aventis U.S. LLC ("sanofi-aventis").
Wellbutrin® XL	Major and seasonal depressive disorders	Canada	Marketed and distributed by BPC.
Wellbutrin® SR	Major depressive disorder	Canada	Distributed by BPC.
Zyban®	Smoking cessation	Canada	Distributed by BPC.

BRAND NAME	INDICATION(S)	MARKET	COMMERCIALIZATION
		Pain Management	
Ultram® ER	Moderate to moderately severe chronic pain	U.S.	Supply and distribution agreement with PriCara (a division of Ortho-McNeil-Janssen Pharmaceuticals, Inc.).
Ralivia®	Moderate to moderately severe chronic pain	Canada	Marketed and distributed by BPC.
		Antiviral	
Zovirax® Cream, Zovirax® Ointment	Herpes	U.S.	Distributed by BTA and promoted by Publicis Selling Solutions, Inc. ("Publicis"), a contract sales organization.
		Cardiovascular	
Cardizem® LA	Hypertension and angina	U.S.	Supply and distribution agreement with Kos Pharmaceuticals, Inc. ("Kos") (now known as Abbott Laboratories).
Cardizem® CD	Hypertension and angina	U.S.	Distributed by BTA.
Vasotec®, Vaseretic®	Hypertension and congestive heart failure	U.S.	Distributed by BTA.
Tiazac®	Hypertension and angina	U.S.	Supply and distribution agreement with Forest Laboratories, Inc. ("Forest").
Isordil®	Angina	U.S.	Distributed by BTA.
Glumetza®	Type 2 diabetes	U.S.	Supply agreement with Depomed, Inc.
Tiazac® XC, Tiazac®	Hypertension and angina	Canada	Marketed and/or distributed by BPC.
Glumetza®	Type 2 diabetes	Canada	Marketed and distributed by BPC.
Cardizem® CD	Hypertension and angina	Canada	Distributed by BPC.

(1) Prior to the acquisition of the full U.S. commercialization rights on May 14, 2009, Wellbutrin XL® was manufactured and supplied to affiliates of GSK for distribution in the U.S.

In addition to the brand name products noted above, the following table displays selected information regarding our generic product portfolio by therapeutic area:

BRAND NAME	INDICATION(S)	MARKET	COMMERCIALIZATION
		Authorized Generics	
Ultram® ER	Moderate to moderately severe chronic pain	U.S.	Supply and distribution agreement with Patriot Pharmaceuticals LLC ("Patriot") (an affiliate of PriCara).
Tiazac®	Hypertension and angina	U.S.	Supply and distribution agreement with Inwood Laboratories Incorporated (a subsidiary of Forest).
Tiazac®	Hypertension and angina	Canada	Supply and distribution agreement with Teva Novapharm, a subsidiary of Teva Pharmaceuticals Industries Ltd. ("Teva").
		ANDA Generics	
Adalat CC (nifedipine)	Hypertension and angina	U.S.	Supply and distribution agreement with affiliates of Teva.
Cardizem® CD (diltiazem)	Hypertension and angina	U.S.	Supply and distribution agreement with affiliates of Teva.
Cardizem® (diltiazem)	Hypertension and angina	Canada	Supply and distribution agreement with Teva Novapharm.
Procardia XL (nifedipine)	Hypertension and angina	U.S.	Supply and distribution agreement with affiliates of Teva.
Trental (pentoxifylline)	Peripheral vascular disease	U.S.	Supply and distribution arrangement with affiliates of Teva.
Voltaren XR (diclofenac)	Arthritis	U.S.	Supply and distribution agreement with affiliates of Teva.

Selected Financial Information

The following table provides selected financial information for the periods indicated:

	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change		2010	2009	Change	
($ in 000s, except per share data)	**$**	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Revenue	238,771	193,535	45,236	23	458,406	366,854	91,552	25
Operating expenses	189,959	182,988	6,971	4	393,227	302,692	90,535	30
Net income	33,969	24,090	9,879	41	30,819	63,093	(32,274)	(51)
Basic and diluted earnings per share	0.21	0.15	0.06	40	0.19	0.40	(0.21)	(53)
Cash dividends declared per share	0.095	0.090	0.005	6	0.185	0.465	(0.280)	(60)

	At June 30 2010	At December 31 2009	Change	
	$	**$**	**$**	**%**

Total assets	2,029,723	2,067,044	(37,321)	(2)
Long-term obligations, including current portion	319,223	326,085	(6,862)	(2)

General Economic Conditions

Beginning in late 2008 and continuing through the second quarter of 2010, foreign currency exchange rates between the U.S. dollar and the Canadian dollar have been experiencing significant volatility. Changes in foreign currency exchange rates increased total revenue by approximately $3.8 million, or 1.6%, and $8.4 million, or 1.8%, in the second quarter and first half of 2010, respectively, compared with the corresponding periods of 2009, due to a strengthening year-over-year of the Canadian dollar relative to the U.S. dollar on an average basis. A stronger Canadian dollar, while having a favourable impact on revenue, has a negative impact on our operating expenses. Where possible, we manage our exposure to foreign currency exchange rate changes through operational means, mainly by matching our cash flow exposures in foreign currencies. As a result, the positive impact of a stronger Canadian dollar on revenue generated in Canadian dollars, but reported in U.S. dollars, is largely counteracted by an opposing effect on operating expenses incurred in Canadian dollars. As our Canadian dollar-denominated expenses moderately exceeded our Canadian dollar-denominated revenues, the appreciation of the Canadian dollar in the second quarter and first half of 2010 had the overall effect of marginally decreasing our net income as reported in U.S. dollars.

Financial Performance

Changes in Revenue

Total revenue increased $45.2 million, or 23%, to $238.8 million in the second quarter of 2010, compared with $193.5 million in the second quarter of 2009, and increased $91.6 million, or 25%, to $458.4 million in the first half of 2010, compared with $366.9 million in the first half of 2009, primarily due to:

- incremental revenue from Wellbutrin XL®, following the acquisition of the full U.S. commercialization rights in May 2009;
- higher sales of Xenazine® in the U.S. and the addition of rest-of-world sales following the acquisition of the worldwide development and commercialization rights to tetrabenazine in June 2009;
- increased demand for our generic Tiazac® and generic Cardizem® CD products, which was attributable to competitors' manufacturing issues; and
- the favourable impact of foreign exchange rate changes on Canadian-dollar denominated revenue.

Those factors were partially offset by:

- a decline in Ultram® ER product sales, as a result of the introduction of generic competition to the 100mg and 200mg dosage strengths in the fourth quarter of 2009, partially offset by our supply of 100mg and 200mg authorized generic versions.

Changes in Net Income

Net income increased $9.9 million, or 41%, to $34.0 million (basic and diluted earnings per share ("EPS") of $0.21) in the second quarter of 2010, compared with $24.1 million (basic and diluted EPS of $0.15) in the second quarter of 2009, primarily due to:

- a $20.2 million decrease in acquired IPR&D, reflecting the $10.2 million charge in the second quarter of 2010 related to the istradefylline acquisition, compared with a $30.4 million charge in the second quarter of 2009 related to the acquisition of the U.S. and Canadian rights to develop, manufacture and commercialize pimavanserin; and
- an increased contribution from product sales of $29.7 million, mainly related to the incremental revenue from Wellbutrin XL®, following the May 2009 acquisition of the full U.S. commercialization rights, Xenazine®, generic Tiazac® and generic Cardizem® CD products (partially offset by lower Ultram® ER product sales), and reduced costs and improved capacity utilization of our manufacturing operations.

Those factors were partially offset by:

- a decrease of $22.0 million related to a settlement gain recognized in the second quarter of 2009 in respect of our investment in auction rate securities (as described below under "Results of Operations Non-Operating Income (Expense) Gain on Auction Rate Security Settlement");

- a $11.5 million increase in amortization expense due to the inclusion of amortization of the Wellbutrin XL® trademark intangible asset acquired in May 2009, and the product rights intangible asset arising from the tetrabenazine acquisition in June 2009; and

- a $5.9 million increase in interest expense, mainly related to the Convertible Notes issued in June 2009.

Net income declined $32.3 million, or 51%, to $30.8 million (basic and diluted EPS of $0.19) in the first half of 2010, compared with $63.1 million (basic and diluted EPS of $0.40) in the first half of 2009, primarily due to:

- a $30.8 million increase in acquired IPR&D, reflecting a $61.2 million charge in the first half of 2010 related to the istradefylline, AMPAKINE® and Staccato® loxapine acquisitions, compared with a $30.4 million charge in the first half of 2009 related to the pimavanserin acquisition;

- a $29.3 million increase in amortization expense, primarily related to the acquired Wellbutrin XL® and tetrabenazine intangible assets;

- a decrease of $22.0 million related to the auction rate security settlement in the second quarter of 2009; and

- a $15.4 million increase in interest expense, mainly related to the Convertible Notes.

Those factors were partially offset by:

- an increased contribution from product sales of $62.3 million, mainly related to the incremental revenue from Wellbutrin XL®, Xenazine®, generic Tiazac® and generic Cardizem® CD products (partially offset by lower Ultram® ER product sales), and reduced costs and improved capacity utilization of our manufacturing operations.

Specific Items Impacting Net Income

When assessing our financial performance, management utilizes an internal measure that excludes specific items from net income determined in accordance with U.S. GAAP. Management believes the identification of these items enhances an analysis of our financial performance when comparing our operating results between periods. These items consist of: acquisition-related costs (including IPR&D charges and transaction costs); restructuring costs; legal settlements; gains and losses on asset dispositions; investment gains and losses; and certain other unusual items that are evaluated on an individual basis based on their nature or size. The following are examples of how net income excluding specific items is utilized:

- executive management receives a monthly analysis of our operating results which includes a measure of net income and EPS excluding specific items;

- annual budgets are prepared on a specific item-adjusted basis; and

- executive management's annual compensation is determined, in part, by reference to net income excluding specific items.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items identified by management. However, any measure of net income excluding any or all of these items is not, and should not be viewed as, a substitute for net income prepared under U.S. GAAP. These items are presented solely to allow investors to more fully understand how management assesses our financial performance.

The following table displays the specific items identified by management that impacted net income in the second quarters and first halves of 2010 and 2009, and the impact of these items (individually and in the aggregate) on diluted EPS. EPS figures may not add due to rounding.

	Three Months Ended June 30				Six Months Ended June 30			
	2010		2009		2010		2009	
($ in 000s, except per share data; Income (Expense))	Amount	Diluted EPS Impact	Amount	Diluted EPS Impact	Amount	Diluted EPS Impact	Amount	Diluted EPS Impact
IPR&D[1]	$ (10,242)	$ (0.06)	$ (30,414)	$ (0.19)	$ (61,245)	$ (0.38)	$ (30,414)	$ (0.19)
Acquisition-related costs	(7,577)	(0.05)	(5,596)	(0.04)	(7,577)	(0.05)	(5,596)	(0.04)
Restructuring costs	(2,881)	(0.02)	(11,367)	(0.07)	(3,494)	(0.02)	(12,715)	(0.08)
SEC/OSC independent consultant and related costs[2]	(150)		(1,546)	(0.01)	(781)		(2,973)	(0.02)
Impairment losses on debt securities	(392)		(1,617)	(0.01)	(547)		(4,324)	(0.03)
Gain on auction rate security settlement			22,000	0.14			22,000	0.14
Proxy contest costs[2]			(629)				(629)	
Write-down of deferred financing costs[3]			(537)				(537)	
Legal settlements							(241)	
Gain on disposal of investments			344				338	
Total	$ (21,242)	$ (0.13)	$ (29,362)	$ (0.19)	$ (73,644)	$ (0.46)	$ (35,091)	$ (0.22)

(1) Included in research and development expenses.

(2) Included in selling, general and administrative expenses.

(3) Included in interest expense.

The net impact of the preceding specific items on our provision for income taxes in each of the periods presented was not material.

Cash Dividends

On May 5, 2010, our Board of Directors approved a modification of our dividend policy, which now contemplates the payment of a quarterly dividend of $0.095 per share, a 5.5% increase compared with $0.09 per share payable under the former policy in place since May 2009. Prior to May 2009, our dividend policy had contemplated the payment of a quarterly dividend of $0.375 per share.

Cash dividends declared per share were $0.095 and $0.185 in the second quarter and first half of 2010, respectively, compared with $0.09 and $0.465 in the corresponding periods of 2009. On August 4, 2010, our Board of Directors declared a quarterly cash dividend of $0.095 per share, payable on October 4, 2010.

The declaration of future dividends is always subject to the discretion of our Board of Directors, and is generally based on our business performance, operational results, future capital requirements, business development requirements and other requirements and applicable laws. In addition, as described above under "Overview Proposed Merger with Valeant", it is anticipated that, contingent upon the closing of the proposed merger with Valeant, the combined company will pay a post-merger special dividend of $1.00 per share, after which the combined company does not intend to pay dividends.

Changes in Financial Condition

At June 30, 2010, we had cash and cash equivalents of $176.6 million (compared with $114.5 million at December 31, 2009) and we had no borrowings outstanding under our $410.0 million credit facility. In June 2010, we made a payment of $12.5 million on account of the obligation to Cambridge Laboratories (Ireland) Limited ("Cambridge") in connection with the tetrabenazine acquisition in June 2009. At June 30, 2010, we had long-term obligations of $302.9 million in respect of the Convertible Notes and $16.3 million

remaining due on the Cambridge obligation, and we had dividends payable of $15.1 million in respect of our first quarter 2010 results, which dividend was paid on July 5, 2010.

In the first half of 2010, operating cash flows of $153.7 million were a significant source of liquidity. We paid total cash dividends of $28.5 million and we utilized a portion of our available cash resources to fund the following acquisition activities (exclusive of acquisition costs) in the first half of 2010:

$10.0 million upfront payment for the U.S. and Canadian rights to develop and commercialize products containing istradefylline;

$9.0 million upfront payment for certain AMPAKINE® compounds; and

$40.0 million upfront payment for the U.S. and Canadian development and commercialization rights to Staccato® loxapine.

RESULTS OF OPERATIONS

We operate our business on the basis of a single reportable segment pharmaceutical products. This basis reflects how management reviews the business, makes investing and resource allocation decisions, and assesses operating performance.

Revenue

The following table displays the dollar amounts of each source of revenue in the second quarters and first halves of 2010 and 2009; the percentage of each source of revenue compared with total revenue in the respective period; and the dollar and percentage change in the dollar amount of each source of revenue. Percentages may not add due to rounding.

	Three Months Ended June 30						Six Months Ended June 30					
	2010		2009		Change		2010		2009		Change	
($ in 000s)	$	%	$	%	$	%	$	%	$	%	$	%
Product sales	231,245	97	187,716	97	43,529	23	443,278	97	353,109	96	90,169	26
Research and development	2,717	1	3,255	2	(538)	(17)	5,641	1	6,970	2	(1,329)	(19)
Royalty and other	4,809	2	2,564	1	2,245	88	9,487	2	6,775	2	2,712	40
Total revenue	238,771	100	193,535	100	45,236	23	458,406	100	366,854	100	91,552	25

Product Sales

The following table displays the dollar amounts of product sales by internal reporting category in the second quarters and first halves of 2010 and 2009; the percentage of each category compared with total product sales in the respective period; and the dollar and percentage changes in the dollar amount of each category. Percentages may not add due to rounding.

	Three Months Ended June 30						Six Months Ended June 30					
	2010		2009		Change		2010		2009		Change	
($ in 000s)	$	%	$	%	$	%	$	%	$	%	$	%
Wellbutrin XL®	53,984	23	37,135	20	16,849	45	103,774	23	57,255	16	46,519	81
Aplenzin®	2,099	1	1,670	1	429	26	6,140	1	5,491	2	649	12
Xenazine®	20,216	9	11,048	6	9,168	83	36,326	8	17,731	5	18,595	105
Zovirax®	41,418	18	36,278	19	5,140	14	80,392	18	69,189	20	11,203	16
BPC	27,876	12	18,219	10	9,657	53	51,223	12	33,527	9	17,696	53
Ultram® ER	6,859	3	16,584	9	(9,725)	(59)	14,788	3	37,180	11	(22,392)	(60)
Cardizem® LA	5,388	2	8,875	5	(3,487)	(39)	13,037	3	17,062	5	(4,025)	(24)
Legacy	46,457	20	40,567	22	5,890	15	89,005	20	81,146	23	7,859	10
Generic	26,096	11	17,154	9	8,942	52	47,169	11	34,025	10	13,144	39
Glumetza® (U.S.)	852		186		666	358	1,424		503		921	183
Total product sales	231,245	100	187,716	100	43,529	23	443,278	100	353,109	100	90,169	26

Wholesaler Inventory Levels

Three drug wholesale customers account for the majority of our Zovirax®, off-patent branded pharmaceutical ("Legacy"), and, since May 14, 2009, Wellbutrin XL® product sales in the U.S. Our distribution agreements with these wholesalers limit the amount of inventory they can own to between 1/2 and 1 1/2 months of supply of our products. As indicated in the following table, at June 30, 2010 and December 31, 2009, these wholesalers owned overall 0.8 months and 1.0 months of supply of our products, respectively, of which only $0.3 million and $0.2 million of inventory had less than 12 months remaining shelf life as of those respective dates.

		At June 30, 2010			At December 31, 2009		
($ in 000s)	Original Shelf Life (In Months)	Total Inventory $	Months On Hand (In Months)	Inventory With Less Than 12 Months Remaining Shelf Life $	Total Inventory $	Months On Hand (In Months)	Inventory With Less Than 12 Months Remaining Shelf Life $
Zovirax®	36-48	10,465	0.9	127	14,689	1.1	93
Wellbutrin XL®	18	10,052	0.6	86	15,389	1.0	34
Cardizem®	36-48	6,576	1.0	28	8,380	1.1	21
Ativan®	24	1,712	0.9	7	2,300	1.1	77
Vasotec® and Vaseretic®	24	1,694	1.4	11	1,468	1.1	9
Isordil®	36-60	256	1.2	1	265	1.2	1
Total	18-60	30,755	0.8	260	42,491	1.0	235

Wellbutrin XL®

Wellbutrin XL® product sales increased $16.8 million, or 45%, to $54.0 million in the second quarter of 2010, compared with $37.1 million in the second quarter of 2009, and increased $46.5 million, or 81%, to $103.8 million in the first half of 2010, compared with $57.3 million in the first half of 2009, reflecting incremental revenue of approximately $15.0 million and $50.4 million earned in the second quarter and first half of 2010, respectively, as a result of the acquisition of the full U.S. commercialization rights in May 2009 and the

positive effect of subsequent price increases. Those factors were partially offset by declines in prescription volumes due to generic competition.

Aplenzin®

Aplenzin® product sales increased $0.4 million, or 26%, to $2.1 million in the second quarter of 2010, compared with $1.7 million in the second quarter of 2009, and increased $0.6 million, or 12%, to $6.1 million in the first half of 2010, compared with $5.5 million in the first half of 2009. Sanofi-aventis launched the 348mg and 522mg dosage strengths of Aplenzin® in the U.S. in April 2009 and the 174mg dosage strength in July 2009. In April 2010, sanofi-aventis advised us that it had engaged an independent contract sales organization to promote Aplenzin®.

Xenazine®

Xenazine® product sales increased $9.2 million, or 83%, to $20.2 million in the second quarter of 2010, compared with $11.0 million in the second quarter of 2009, and increased $18.6 million, or 105%, to $36.3 million in the first half of 2010, compared with $17.7 million in the first half of 2009, reflecting year-over-year increases in patient enrollment in the U.S., as well as the inclusion of sales of the product in other countries in Europe and around the world, following the acquisition of the worldwide development and commercialization rights to tetrabenazine in June 2009.

Zovirax®

Zovirax® product sales increased $5.1 million, or 14%, to $41.4 million in the second quarter of 2010, compared with $36.3 million in the second quarter of 2009, and increased $11.2 million, or 16%, to $80.4 million in the first half of 2010, compared with $69.2 million in the first half of 2009, reflecting price increases implemented for these products over the last 12 months, which more than offset lower prescription volumes.

BPC

Sales of BPC products increased $9.7 million, or 53%, to $27.9 million in the second quarter of 2010, compared with $18.2 million in the second quarter of 2009, and increased $17.7 million, or 53%, to $51.2 million in the first half of 2010, compared with $33.5 million in the first half of 2009. Excluding the positive effect on BPC Canadian dollar-denominated revenue of the strengthening of the Canadian dollar relative to the U.S. dollar, BPC product sales increased 30% and 29% in the second quarter and first half of 2010, respectively, compared with the corresponding periods of 2009. The increases in BPC revenue reflected increased prescription volumes for our promoted Wellbutrin® XL, Tiazac® XC and Ralivia® products, as well as increased demand for our genericized Tiazac® product, which was attributable to competitors' manufacturing issues. In addition, sales of Glumetza® in the second quarter and first half of 2010 benefited from a delay in the introduction of a competing generic version of the 500mg dosage strength.

Ultram® ER

Ultram® ER product sales declined $9.7 million, or 59%, to $6.9 million in the second quarter of 2010, compared with $16.6 million in the second quarter of 2009, and declined $22.4 million, or 60%, to $14.8 million in the first half of 2010, compared with $37.2 million in the first half of 2009, reflecting the impact on volumes of the introduction of generic competition to the 100mg and 200mg dosage strengths in November 2009 (which also had some negative impact on sales of the 300mg product). In addition, upon generic entry, our contractual supply price to PriCara for branded 100mg and 200mg product (which is determined based on a percentage of PriCara's net selling price) was reduced by 50%. As there is currently no generic equivalent to the 300mg product, our supply price to PriCara for that dosage strength remains unchanged. All of those factors were partially offset by revenue generated through our supply of 100mg and 200mg authorized generic versions of Ultram® ER to Patriot.

Cardizem® LA

Revenue from sales of Cardizem® LA declined $3.5 million, or 39%, to $5.4 million in the second quarter of 2010, compared with $8.9 million in the second quarter of 2009, and declined $4.0 million, or 24%, to $13.0 million in the first half of 2010, compared with $17.1 million in the first half of 2009, reflecting lower volumes as a result of the introduction of a generic version of Cardizem® LA (in all dosage strengths except 120mg) by a competitor in March 2010. We are entitled to a royalty based on net sales of the competitor's generic version.

Cardizem® LA product sales include the amortization of deferred revenue associated with the cash consideration received from the sale to Kos of the distribution rights to Cardizem® LA in May 2005, which is being amortized over seven years on a straight-line basis. This amortization amounted to $3.8 million and $7.5 million in each of the second quarters and first halves, respectively, of 2010 and 2009.

Legacy

Sales of our Legacy products increased $5.9 million, or 15%, to $46.5 million in the second quarter of 2010, compared with $40.6 million in the second quarter of 2009, and increased $7.9 million, or 10%, to $89.0 million in the first half of 2010, compared with $81.1 million in the first half of 2009, reflecting higher sales of generic Tiazac®, which was attributable to competitors' manufacturing issues. In addition, declining prescription volumes for our other Legacy brands were largely offset by price increases implemented over the last 12 months.

In March 2010, we reached a settlement with Sun Pharmaceutical Industries Ltd., India ("Sun"), with respect to patent litigation related to Sun's Abbreviated New Drug Application for a generic version of Cardizem® CD . Under the terms of the settlement and license agreements, which were submitted to the U.S. Federal Trade Commission and the U.S. Department of Justice pursuant to Section 1112(a) of the Medicare Prescription Drug Improvement and Modernization Act of 2003, we have granted Sun, and its subsidiary Sun Pharma Global FZE, a non-exclusive license (without right to sublicense) to distribute various dosage strengths of Sun's generic formulation of Cardizem® CD in the U.S., upon receipt of regulatory approval from the FDA, and subject to certain limitations on the sales quantities of the 360mg dosage strength. Nevertheless, the introduction of Sun's 360mg generic version (following FDA approval) could have a material adverse impact on our revenues and earnings. Sun will pay us a royalty based on net sales of the various dosage strengths of its generic formulation. The license term ends on August 8, 2012 the date the last Cardizem® CD patent expires. No amount was paid to Sun under the terms of this settlement.

Generic

Sales of our bioequivalent ("Generic") products increased $8.9 million, or 52%, to $26.1 million in the second quarter of 2010, compared with $17.2 million in the second quarter of 2009, and increased $13.1 million, or 39%, to $47.2 million in the first half of 2010, compared with $34.0 million in the first half of 2009, reflecting higher sales of generic Cardizem® CD, which was attributable to competitors' manufacturing issues, which more than offset lower overall prescription volumes and pricing for other Generic products.

Research and Development Revenue

Research and development revenue declined $0.5 million, or 17%, to $2.7 million in the second quarter of 2010, compared with $3.3 million in the second quarter of 2009, and declined $1.3 million, or 19%, to $5.6 million in the first half of 2010, compared with $7.0 million in the first half of 2009, as a result of a lower level of clinical research and laboratory testing services provided to external customers by CRD, partially offset by the positive impact of the strengthening of the Canadian dollar relative to the U.S. dollar. Following the sale of CRD (as described above under "Overview Restructuring Pharmaceutical Sciences Operations"), revenue generated from other research and development activities is expected to be inconsequential to our total revenues.

Royalty and Other Revenue

Royalties from third parties on sales of products we developed or acquired and other revenue increased $2.2 million, or 88%, to $4.8 million in the second quarter of 2010, compared with $2.6 million in the second quarter of 2009, and increased $2.7 million, or 40%, to $9.5 million in the first half of 2010, compared with $6.8 million in the first half of 2009, due mainly to royalties earned on sales of generic Tiazac® by Forest and generic Cardizem® CD by other third parties.

Operating Expenses

The following table displays the dollar amounts of each operating expense category in the second quarters and first halves of 2010 and 2009; the percentage of each category compared with total revenue in the respective period; and the dollar and percentage changes in the dollar amount of each category. Percentages may not add due to rounding.

	Three Months Ended June 30						Six Months Ended June 30					
	2010		2009		Change		2010		2009		Change	
($ in 000s)	$	%	$	%	$	%	$	%	$	%	$	%
Cost of goods sold (exclusive of amortization of intangible assets shown separately below)	63,850	27	50,057	26	13,793	28	122,805	27	94,897	26	27,908	29
Research and development	37,258	16	44,692	23	(7,434)	(17)	104,145	23	59,220	16	44,925	76
Selling, general and administrative	45,094	19	49,498	26	(4,404)	(9)	88,607	19	92,742	25	(4,135)	(4)
Amortization of intangible assets	33,299	14	21,778	11	11,521	53	66,599	15	37,281	10	29,318	79
Restructuring costs	2,881	1	11,367	6	(8,486)	(75)	3,494	1	12,715	3	(9,221)	(73)
Acquisition-related costs	7,577	3	5,596	3	1,981	35	7,577	2	5,596	2	1,981	35
Legal settlements									241		(241)	(100)
Total operating expenses	189,959	80	182,988	95	6,971	4	393,227	86	302,692	83	90,535	30

Cost of Goods Sold

Cost of goods sold, which excludes the amortization of intangible assets described separately below under " Amortization of Intangible Assets", increased $13.8 million, or 28%, to $63.9 million in the second quarter of 2010, compared with $50.1 million in the second quarter of 2009, and increased $27.9 million, or 29%, to $122.8 million in the first half of 2010, compared with $94.9 million in the first half of 2009. The percentage increases in cost of goods sold were higher than the corresponding 23% and 26% increases in total product sales in the second quarter and first half of 2010, respectively, primarily due to:

- an increased supply price for Zovirax® inventory purchased from GSK, as a result of the conclusion of a price allowance that had entitled us to purchase a pre-determined quantity of Zovirax® inventory from GSK at reduced prices;
- the increase in lower margin Xenazine® product sales;
- the negative impact on Ultram® ER product sales of the reduction in our contractual supply price for the 100mg and 200mg dosage strengths; and
- the negative impact on labour and overhead costs at our Steinbach, Manitoba manufacturing facility, as a result of the strengthening of the Canadian dollar relative to the U.S. dollar.

Those factors were partially offset by:

lower labour and overhead costs at our Puerto Rico manufacturing facilities and higher absorption at the Steinbach facility, each of which was a result of the transfer of certain manufacturing activities from the Puerto Rico facilities to the Steinbach facility;

an increased contribution from higher margin Wellbutrin XL® product sales following the acquisition of the full U.S. commercialization rights in May 2009;

a higher cost basis related to Wellbutrin XL® inventory reacquired from GSK in connection with the acquisition of the full U.S. commercialization rights, and sold to our wholesale customers in the second quarter of 2009; and

the positive impact of price increases implemented over the last 12 months.

Research and Development Expenses

The following table displays the dollar amounts of research and development expenses by internal reporting category in the second quarters and first halves of 2010 and 2009; the percentage of each category compared with total revenue in the respective period; and the dollar and percentage changes in the dollar amount of each category. Percentages may not add due to rounding.

	Three Months Ended June 30						Six Months Ended June 30					
	2010		2009		Change		2010		2009		Change	
($ in 000s)	$	%	$	%	$	%	$	%	$	%	$	%
IPR&D	10,242	4	30,414	16	(20,172)	(66)	61,245	13	30,414	8	30,831	101
Internal research and development programs	23,644	10	10,714	6	12,930	121	36,221	8	21,822	6	14,399	66
Contract research services provided to external customers	3,372	1	3,564	2	(192)	(5)	6,679	1	6,984	2	(305)	(4)
Total research and development expenses	37,258	16	44,692	23	(7,434)	(17)	104,145	23	59,220	16	44,925	76

As described above under "Overview Business Development", we recorded total IPR&D charges of $10.2 million and $61.2 million in the second quarter and first half of 2010, respectively, related to the istradefylline acquisition in the second quarter of 2010, and the AMPAKINE® and Staccato® loxapine acquisitions in the first quarter of 2010. In each of the second quarter and first half of 2009, we recorded an IPR&D charge of $30.4 million related to the pimavanserin acquisition.

Internal research and development expenses increased $12.9 million, or 121%, to $23.6 million in the second quarter of 2010, compared with $10.7 million in the second quarter of 2009, and increased $14.4 million, or 66%, to $36.2 million in the first half of 2010, compared with $21.8 million in the first half of 2009, reflecting higher direct project spending on our specialty CNS drug-development programs, partially offset by lower labour and overhead costs as a result of the closure of our Mississauga, Ontario research and development facility and consolidation of our research and development operations in Chantilly, Virginia. In addition, as described above under "Overview Research and Development", in the second quarter of 2010, we cancelled the BVF-324 program and accrued $2.8 million for the expected costs associated with the termination of the Phase 3 clinical trials that were underway. Exclusive of these costs, direct spending on the BVF-324 program amounted to $3.3 million and $4.8 million in the second quarter and first half of 2010, respectively. As a result of the cancellation of this program, direct project spending in the second half of 2010 will be lower than we originally anticipated.

Costs associated with providing contract research services to external customers declined $0.2 million, or 5%, to $3.4 million in the second quarter of 2010, compared with $3.6 million in the second quarter of 2009, and declined $0.3 million, or 4%, to $6.7 million in the first half of 2010, compared with $7.0 million in the first half of 2009, reflecting the decline in activity levels at CRD and lower labour costs as a result of headcount

reductions in the second quarter of 2009, partially offset by the negative impact on labour and overhead costs as a result of the strengthening of the Canadian dollar relative to the U.S. dollar. These costs will be eliminated following the sale of CRD (as described above under "Overview Restructuring Pharmaceutical Sciences Operations").

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $4.4 million, or 9%, to $45.1 million in the second quarter of 2010, compared with $49.5 million in the second quarter of 2009, and decreased $4.1 million, or 4%, to $88.6 million in the first half of 2010, compared with $92.7 million in the first half of 2009, primarily due to:

- decreases in legal costs of $9.0 million and $12.6 million in the second quarter and first half of 2010, respectively, primarily related to reduced indemnification obligations, and costs incurred by, to certain former officers and directors. Total legal costs amounted to $7.2 million and $16.6 million in the second quarter and first half of 2010, respectively, which included indemnification obligations of $0.5 million and $1.3 million, respectively, in those periods, compared with total legal costs of $16.2 million and $29.2 million in the second quarter and first half of 2009, respectively, including indemnification obligations of $7.6 million and $13.3 million, respectively, in those periods.

That factor was partially offset by:

- increases in the second quarter and first half of 2010 related to higher product promotional spending in support of key products (including pre-launch activities associated with Staccato® loxapine) and higher compensation expense related to deferred share units ("DSUs") granted to directors, which reflected the impact of year-over-year increases in the underlying trading price of our common shares; and

- the negative impact of the strengthening of the Canadian dollar relative to the U.S. dollar.

Amortization of Intangible Assets

Amortization expense increased $11.5 million, or 53%, to $33.3 million in the second quarter of 2010, compared with $21.8 million in the second quarter of 2009, and increased $29.3 million, or 79%, to $66.6 million in the first half of 2010, compared with $37.3 million in the first half of 2009, due to the inclusion of amortization of the Wellbutrin XL® trademark intangible asset acquired in May 2009, and the product rights intangible assets arising from the tetrabenazine acquisition in June 2009.

Restructuring Costs

As described above under "Overview Restructuring", we recorded restructuring charges of $2.9 million and $3.5 million in the second quarter and first half of 2010, respectively, compared with $11.4 million and $12.7 million in the corresponding periods of 2009.

Acquisition-Related Costs

As described above under "Overview Proposed Merger with Valeant", in the second quarter of 2010, we incurred $7.6 million of transaction costs related to the proposed merger. In the second quarter of 2009, we incurred transaction costs of $5.6 million in connection with the tetrabenazine acquisition.

Non-Operating Income (Expense)

The following table displays the dollar amounts of each non-operating income or expense category in the second quarters and first halves of 2010 and 2009; and the dollar and percentage changes in the dollar amount of each category.

	Three Months Ended June 30				Six Months Ended June 30			
	2010	2009	Change		2010	2009	Change	
($ in 000s; Income (Expense))	$	$	$	%	$	$	$	%
Interest income	234	251	(17)	(7)	422	585	(163)	(28)
Interest expense	(9,952)	(4,049)	(5,903)	146	(19,779)	(4,389)	(15,390)	351
Foreign exchange gain	667							