TETRA TECH INC
Form DEF 14A
January 24, 2018

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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o Preliminary Proxy Statement

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ý Definitive Proxy Statement

o Definitive Additional Materials

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Tetra Tech, Inc.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF ANNUAL MEETING

AND

2018 PROXY STATEMENT

Thursday, March 8, 2018 10:00 a.m. (PT)

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LETTER TO STOCKHOLDERS
FROM OUR BOARD OF DIRECTORS

January 24, 2018

Dear Fellow Stockholder:

We thank you for your investment in Tetra Tech, and for trusting us to represent you and oversee your interests in our Company.

The Board understands that we are elected by our stockholders to oversee the Company's long-term health and overall success. We are the Company's ultimate decision-making body, except for those matters reserved to or shared with stockholders, and we play a critical role in strategic planning.

We select, oversee and evaluate a very capable management team that conducts the day-to-day business of the Company and is optimistic about the future of this business. They have taken thoughtful and decisive steps to focus the business on "*Leading with Science*®," and providing high-end consulting and engineering solutions that are differentiated and of long-lasting sustainable value to clients. The Company remains committed to delivering long-term value for our stockholders. Management and your Board are pleased to report a 91% increase in our total shareholder return over the last three years, and we remain optimistic about the Company's future.

One of our priorities is listening to the views of our stockholders and considering them as we make decisions in the boardroom. Through management, we engage with stockholders during an annual outreach cycle and, based on this engagement, we made significant enhancements to the Company's governance and compensation programs over the last few years.

Executive Compensation

Our stockholders continue to tell us that a fundamental principle underlying any compensation program is that it should pay for performance. We agree, and our feedback from stockholders continues to contribute to our compensation decisions. Our Compensation Committee regularly assesses the Company's compensation programs, and the enhancements are designed to further align our business and talent strategies with the long-term interests of our stockholders.

Board Refreshment and Diversity

The issue of Board refreshment has emerged as an important area of focus for stockholders. We agree that new perspectives and new ideas are critical to a forward-looking and strategic Board. At the same time, it is also important to benefit from the valuable experience and insight that longer-serving Directors bring to the boardroom.

Ensuring diverse perspectives, including a mix of skills, experience and backgrounds, is key to effectively representing the long-term interests of our stockholders. Doing so is a top priority of the Board. In the last four years, three new Directors were elected and one long-term Director retired. As a result, the average tenure for our Directors has been reduced and our Board's gender diversity is currently one third women. Further, the Board determined that the role of Presiding Director would rotate to ensure independence,

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and the term of the Presiding Director would be limited to four years. We remain committed to ensuring that your Board is composed of a highly capable and diverse group of Directors, well-equipped to oversee the success of the business and effectively represent the interests of our stockholders.

Board Risk Oversight

The Board oversees the Company's risk profile and monitors the management of risks within the Company. The Strategic Planning and Enterprise Risk Committee has been tasked with coordinating the Board's risk oversight function. This Committee oversees our enterprise risk management policies and procedures, particularly in the areas of strategic, operational and compliance risk. Each of our other three Committees also oversees specific areas of risk management.

Cybersecurity is also a critical priority for the entire Company. The Strategic Planning and Enterprise Risk Committee receives reports from the Chief Information Officer regarding the Company's information technology systems, and dedicates time in its agenda for a discussion of cybersecurity and other important risk issues.

Board Accountability

As we conduct the activities of this Board, we consider accountability to stockholders as not only a mark of good governance, but a key to the long-term success of our Company. We remain accountable through a variety of governance practices, including:

- The annual election of all Directors;
- A majority vote bylaw in uncontested Director elections;
- An independent Presiding Director who presides over executive sessions of all independent directors;
- An annual Board evaluation process;
- The right of stockholders to call a special meeting;
- An annual advisory vote on executive compensation; and
- Proactive stockholder engagement.

Communicating with the Board

Finally, we value your input and encourage you to share your thoughts or concerns with us. To facilitate communication by stockholders, please address communications to the Tetra Tech Board of Directors in care of the Corporate Secretary, Tetra Tech, Inc., 3475 E. Foothill Boulevard, Pasadena, California 91107 or by email to *asktheboard@tetratech.com*.

As always, thank you for the trust you have placed in us.

Dan L. Batrack	Hugh M. Grant	Patrick C. Haden
J. Christopher Lewis	Joanne M. Maguire	Kimberly E. Ritrievi
Albert E. Smith	J. Kenneth Thompson	Kirsten M. Volpi

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January 24, 2018

Dear Tetra Tech Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Tetra Tech, Inc., which will be held at the Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California 91101, on Thursday, March 8, 2018, at 10:00 a.m. Pacific Time.

Details of the business to be conducted at the Annual Meeting are given in the Notice of Annual Meeting of Stockholders and the proxy statement.

We use the Internet as our primary means of furnishing proxy materials to our stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We will instead send these stockholders a notice with instructions for accessing the proxy materials and voting via the Internet. The notice also provides information on how stockholders may obtain paper copies of our proxy materials if they so choose. Internet transmission and voting are designed to be efficient, minimize cost and conserve natural resources.

Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. As an alternative to voting in person at the Annual Meeting, you may vote via the Internet, by telephone or, if you receive a paper proxy card in the mail, by mailing the completed proxy card. Voting by any of these methods will ensure your representation at the Annual Meeting.

Thank you for your continued support of Tetra Tech. We look forward to seeing you at the Annual Meeting.

Dan L. Batrack
Chairman and Chief Executive Officer

Pasadena, California

YOUR VOTE IS IMPORTANT

In order to ensure your representation at the Annual Meeting, you may submit your proxy and voting instructions via the Internet, by telephone or, if you receive a paper proxy card and voting instructions by mail, you may vote your shares by completing, signing and dating the proxy card as promptly as possible and returning it in the enclosed envelope. Please refer to the section entitled "Voting Your Shares" in the *Meeting and Voting Information* section of this proxy statement for a description of these voting methods. If your shares are held by a bank or brokerage firm (your record holder) and you have not given your record holder instructions to do so, your broker will NOT be able to vote your shares with respect to any matter other than ratification of the appointment of the independent registered public accounting firm. We strongly encourage you to vote.

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NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

To Our Stockholders:

You are cordially invited to attend our 2018 Annual Meeting of Stockholders to be held on Thursday, March 8, 2018, at 10:00 a.m. Pacific Time, at the Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California 91101. At the meeting, stockholders will vote on the following items of business:

1. To elect the nine directors nominated by our Board to serve a one-year term;
2. To approve, on an advisory basis, our executive compensation;
3. To approve our 2018 Equity Incentive Plan;
4. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2018; and
5. To transact any other business properly brought before the meeting or any adjournment or postponement thereof.

The record date for determining those stockholders who will be entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof is January 12, 2018. **Our Board recommends that stockholders vote FOR each of the director nominees nominated by our Board, and FOR Items 2, 3 and 4.** After considering these items of business at the meeting, Dan Batrack, our Chairman and Chief Executive Officer, will review our fiscal 2017 performance and answer your questions.

Even if you cannot attend the Annual Meeting, it is important that your shares be represented and voted. You may vote as follows:

By Telephone	On the Internet	By Mail	In Person
In the U.S. or Canada, you can vote your shares by calling 1.800.690.6903 before 11:59 p.m. Eastern Time on March 7, 2018.	You can vote your shares online at *www.proxyvote.com* before 11:59 p.m. Eastern Time on March 7, 2018.	You can vote by mail by completing, dating and signing your proxy card and returning it in the postage-paid envelope provided or sending it to Vote Processing c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.	You can vote in person at the Annual Meeting. Beneficial holders must contact their broker or other nominee if they wish to vote in person.

On behalf of the Board of Directors, management and employees of Tetra Tech, thank you for your continued support.

BY ORDER OF THE BOARD OF DIRECTORS

Preston Hopson
Senior Vice President, General Counsel and Secretary

Pasadena, California
January 24, 2018

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PROXY SUMMARY

This section contains summary information described in greater detail in other parts of this proxy statement and does not contain all the information you should consider before voting. Stockholders are urged to read the entire proxy statement before voting.

TETRA TECH

Tetra Tech is a leading provider of consulting and engineering services that focuses on water, environment, infrastructure, resource management, energy and international development. We are a global company that is renowned for our expertise in providing water-related solutions for public and private clients. *Engineering News-Record*, the leading trade journal for our industry, has ranked Tetra Tech as the number one water services firm for 14 consecutive years, most recently in its May 2017 "Top 500 Design Firms" issue. In 2017, we were also ranked number one in water treatment/desalination, water treatment and supply, environmental management, dams and reservoirs, solid waste, and wind power. We were ranked among the 10 largest firms in numerous other services lines, including engineering/design, environmental science, chemical and soil remediation, site assessment and compliance, and hazardous waste.

Our approach is to serve our clients by *Leading with Science®*, which differentiates us in the marketplace, and emphasizes innovation and investment in new and emerging technologies in growing our business. Our reputation for high-end consulting and engineering expertise, and our ability to apply our skills to develop innovative solutions for our clients, has supported our growth for over 50 years. By combining ingenuity and practical experience, we have helped to advance solutions for managing water, protecting the environment, providing energy, and engineering the infrastructure for our cities and communities. Today, we are working on projects worldwide, and currently have more than 16,000 staff, and over 400 offices.

ANNUAL MEETING INFORMATION

Time And Date	10:00 a.m. Pacific Time on Thursday, March 8, 2018
Place	Westin Pasadena, 191 N. Los Robles Avenue, Pasadena, California 91101
Record Date	Stockholders as of the close of business on January 12, 2018
Attending the Meeting	Please follow the instructions described under "Annual Meeting Procedures" in the *Meeting and Voting Information* section of this proxy statement

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ITEMS BEING VOTED ON AT ANNUAL MEETING

	Item	Board Recommendation	Vote Required	Discretionary Broker Voting
1.	Election of directors	**FOR each nominee**	Majority of votes cast	No
2.	Advisory vote to approve executive compensation	**FOR**	Majority of shares represented and entitled to vote	No
3.	Approval of the 2018 Equity Incentive Plan	**FOR**	Majority of shares represented and entitled to vote	No
4.	Ratification of appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for fiscal year 2018	**FOR**	Majority of shares represented and entitled to vote	Yes

FISCAL 2017 PERFORMANCE HIGHLIGHTS

Summary. Tetra Tech's fiscal 2017 operating results reflected a significant improvement compared to fiscal 2016, which was itself a year of strong operational and financial performance, and we achieved record-highs in revenue, operating income, and diluted earnings per share (EPS). Our focus on providing clients with high-end consulting and engineering services, primarily in the water, environment and infrastructure markets, has resulted in increased margins and reduced risk in our business.

Our fiscal 2017 revenue growth was generally consistent with our annual operating plan, and resulted from broad-based contract wins. The revenue growth was led by our U.S. federal government business, which increased 15% compared to fiscal 2016, and our U.S. state and local government business, which increased 14% compared to the prior year. We began fiscal 2018 with authorized and funded backlog that reached an all-time high in the fourth quarter of fiscal 2017.

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Highlights of our fiscal 2017 results of operations as reported in our fiscal year 2017 Annual Report on Form 10-K are noted below:

Fiscal 2017 Highlights

($ in millions, except EPS)

Strong Stock Price Performance. Our strong annual total stockholder return (TSR) of 32% in fiscal 2017 (September 30, 2016 to September 29, 2017) contributed to our cumulative TSR of 91% for the fiscal 2015 through fiscal 2017 period (September 26, 2014 to September 29, 2017). We compare our TSR to the S&P 1000 and our TSR peer group (listed on p. 52 of this proxy statement), and outperformed both in fiscal 2017 and over the cumulative three-year period. Our three-year percentile vs. our TSR peer group and the S&P 1000 was 89% and 82%, respectively. TSR measures the return that we have provided our stockholders, including stock price appreciation and dividends paid (assuming reinvestment thereof).

One- and Three-Year TSR

Disciplined Capital Allocation. Effectively deploying capital is one of our core strategies, and we have been consistently disciplined in our execution of that strategy by returning cash to our stockholders through dividends and stock repurchases, while being a strategic and financially disciplined investor with respect to acquisitions. Over the last three years, we have returned $360 million to stockholders.

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Return of Cash to Stockholders

CORPORATE GOVERNANCE HIGHLIGHTS

Our corporate governance policies and practices reflect our values, and allow our Board to effectively oversee our company in the interest of creating long-term value. The key elements of our program and the related benefits to our stockholders are set forth below:

Our Practice or Policy	Description and Benefit to Our Stockholders
	STOCKHOLDER RIGHTS
Annual Election of Directors	Our directors are elected annually, reinforcing their accountability to our stockholders.
Single Class of Outstanding Voting Stock	We have no class of preferred stock outstanding, which means that our common stockholders together control our company with equal voting rights.
Majority Voting for Director Elections	We have a majority vote standard for uncontested director elections, which increases Board accountability to stockholders.
Mandatory Director Resignation Policy	Incumbent directors who receive more "AGAINST" votes than "FOR" votes must tender their resignation to the Board for consideration.
No Poison Pill	We do not have a stockholder rights plan (commonly referred to as a "poison pill").
Stockholder Calls for Special Meetings	Our bylaws allow stockholders owning 20% or more of our outstanding shares to call a special meeting of stockholders.

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Our Practice or Policy	Description and Benefit to Our Stockholders
	BOARD STRUCTURE
Governance Policies	Our Corporate Governance Policies provide stockholders with information regarding the best practice principles of our corporate governance program and Board framework.
90% Independent	All of our current directors, except our Chairman/Chief Executive Officer (CEO), are independent, ensuring that our directors oversee our company without undue influence from management.
Robust Presiding Director Role	Our Presiding Director is selected by our independent directors for a four-year term to perform clearly delineated duties, such as presiding at executive sessions of our Board and serving as the principal liaison between the independent directors and the CEO.
Committee Governance	Our Board Committees have written charters that clearly establish their respective roles and responsibilities, and are comprised exclusively of independent directors. Committee composition and charters are reviewed annually by our Board.
Mandatory Retirement	We have adopted a mandatory director retirement age of 75, which helps ensure regular refreshment of our Board. However, Mr. Grant has been exempted because of his special qualifications and experience, and the Board has waived this mandatory retirement requirement solely for him.
Board Refreshment	Our Board's Nominating and Corporate Governance (NCG) Committee annually reviews our Board composition, which helps ensure we have the right balance between continuity and fresh perspectives. We added three new directors over the last four years and one long-serving director retired, thereby reducing the average tenure of the Board.
Annual Performance Evaluations	Our NCG Committee oversees an annual performance evaluation of our Board, and its Committees and leadership, to ensure they continue to serve the best interests of stockholders.
Access to Management and Experts	Our Board and Committees have complete access to all levels of management and can engage advisors at our expense, giving them access to employees with direct responsibility for managing our company and experts to help them fulfill their oversight responsibilities on behalf of our stockholders.
Succession Planning	Our Board's NCG Committee and/or our full Board reviews potential CEO and other senior executive successors annually to develop our future leaders and ensure we can sustain business continuity.
	EXECUTIVE COMPENSATION
At-Risk, Performance-Based Compensation	For fiscal 2017, 82% of our CEO's target total direct compensation (TDC), and an average of 64% of our other Named Executive Officers' (NEOs') target TDC, was at-risk (all compensation components other than base salary). Further, 67% of our CEO's target TDC, and an average of 54% of our other NEOs' target TDC, was performance-based (annual incentive plan (AIP) award, options and performance share units (PSUs)).
Annual Say-on-Pay Vote	Stockholders have the opportunity annually to cast an advisory vote on our executive compensation.
Executive and Director Stock Ownership Guidelines	All of our directors (other than Ms. Maguire who joined the Board in November 2016) and executive officers have met our stock ownership guidelines, helping ensure the alignment of their interests with those of our stockholders.

Best Practices	Our executive compensation program reflects a number of best practices that are summarized at the end of this proxy summary and in the executive summary of the *Compensation Discussion and Analysis* section of our proxy statement.

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2018 DIRECTOR NOMINEES

Our Board has overseen the continuing transformation of our company, including our strategic decision to focus on our high-end consulting and engineering business. Further, the Board has overseen the continuation of our capital allocation plan, which included share repurchases of $100 million and cash dividends of $22 million in fiscal 2017. Our Board members have demonstrated their commitment to diligently and effectively executing their fiduciary duties on behalf of our stockholders, and we recommend that each of the following currently serving directors be re-elected at the Annual Meeting.

Name	Age	Director Since	Principal Occupation	Independent	AC	CC	GC	SC
Dan L. Batrack	59	2005	Chairman and CEO, Tetra Tech, Inc.	No				
Hugh M. Grant	81	2003	Retired Vice Chair & Regional Managing Partner, Ernst & Young LLP	Yes	C		M	
Patrick C. Haden	64	1992	President, Wilson Avenue Consulting	Yes		M	M	
J. Christopher Lewis	61	1988	Managing Director, Riordan, Lewis & Haden	Yes	M	M		
Joanne M. Maguire	63	2016	Retired Executive Vice President, Lockheed Martin Space Systems Company	Yes			C	M
Kimberly E. Ritrievi	59	2013	President, The Ritrievi Group LLC	Yes	M			M
Albert E. Smith (PD)	68	2005	Retired Executive Vice President, Lockheed Martin	Yes			M	C
J. Kenneth Thompson	66	2007	President and CEO, Pacific Star Energy, LLC	Yes		C		M
Kirsten M. Volpi	53	2013	EVP for Finance and Administration, COO, CFO and Treasurer, Colorado School of Mines	Yes	M	M		

AC = Audit Committee CC = Compensation Committee GC = Nominating and Corporate Governance Committee
SC = Strategic Planning and Enterprise Risk Committee M = Member C = Chair PD = Presiding Director

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EXECUTIVE COMPENSATION HIGHLIGHTS

Our Board's Compensation Committee designs our executive compensation program to motivate our executives to execute our business strategies and deliver long-term stockholder value. We pay for performance, with compensation dependent on our achieving financial and business performance objectives that advance the interests of our stockholders.

We value our stockholders' opinions about our governance and compensation practices, and we actively solicit input through our stockholder outreach program. In advance of the 2018 Annual Meeting, we engaged in telephonic, email and/or in-person discussions with stockholders representing more than 50% of our outstanding shares.

The TDC paid to our executives is comprised of the following three components:

- Base salary;
- Performance-based cash incentive under our AIP; and
- Long-term incentives (LTIs) delivered in equity and consisting of:
  - 50% PSUs with cliff vesting after a three-year performance period, subject to achievement of the applicable performance goals, based 50% on EPS growth and 50% on relative TSR,
  - 25% stock options vesting over four years, subject to the holder's continuous employment by us through the applicable vesting date, and
  - 25% restricted stock units (RSUs) vesting over four years, subject to the holder's continuous employment by us through the applicable vesting date.

Fiscal 2017 Elements of Annual and Long-Term Compensation

We structure the TDC of our Named Executive Officers (NEOs) so that it results in payments that approximate the market median, giving consideration to various factors, including: responsibilities, individual performance, tenure, retention, company performance, succession planning and competitive market levels. The majority of this compensation is tied to financial, operational or stock price performance and is therefore "at risk", meaning that if we fail to achieve our financial objectives and create stockholder value, our executives may ultimately not realize some or all of the performance-based

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components of compensation and result in payments below the market median. In fiscal 2017, 82% of our CEO's target TDC, and an average of 64% of our other NEOs' target TDC, was at-risk (all compensation components other than base salary). Further, 67% of our CEO's target TDC, and an average of 54% of our other NEOs' target TDC, was performance-based (AIP award, options and PSUs).

Fiscal 2017 Target Total Direct Compensation Mix*

*

See the *Compensation Discussion and Analysis* section of this proxy statement for a description of the manner in which these amounts are determined.

Pay for Performance

Our Compensation Committee designed the executive compensation program to reflect its philosophy that a majority of compensation should be tied to our success in meeting predetermined performance objectives, the achievement of which should positively influence our stock price. The objective is to motivate the executives to achieve these annual and long-term financial goals in order to deliver a consistent and sustainable return to our stockholders. As indicated below, for the period from fiscal 2014 to 2017, our CEO reported compensation increased 20% and, on average, our other NEOs reported compensation increased 27%, compared to the 91% increase in our TSR performance over the same period. See the *Compensation Discussion and Analysis* and the S*ummary Compensation Table* in this proxy statement for additional information.

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Change in Reported Compensation Compared to Three-Year Cumulative TSR
Fiscal 2014 to Fiscal 2017

Compensation Best Practices

As summarized below and described in further detail in the *Compensation Discussion and Analysis* section of this proxy statement, our executive compensation program is aligned with our goals and strategies and reflects best practices.

What We Do

Pay for performance: in fiscal 2017, 82% of our CEO's target TDC, and an average of 64% of our other NEOs' target TDC, was at-risk; and 67% of our CEO's target TDC, and an average of 54% of our other NEOs' target TDC, was tied to company performance

Emphasize long-term performance: in fiscal 2017, 61% of our CEO's target TDC, and an average of 40% of our other NEOs' target TDC, was equity-based and thereby tied to creating stockholder value

Use double-trigger change in control vesting provisions: vesting of equity following a change in control requires a qualifying termination of employment within two years

Maintain stock ownership guidelines for both executives and the Board of Directors

Maintain a clawback policy

Use an independent compensation consultant retained directly by the Compensation Committee

Regularly assess potential risks relating to our compensation policies and practices

Annually review the Compensation Committee's charter and evaluate the Compensation Committee's performance

What We Don't Do

X	Have employment agreements with our NEOs
X	Excise tax gross up payments in connection with change in control severance benefits
X	Provide gross-ups to cover tax liabilities associated with executive perquisites
X	Permit directors or officers to hedge or pledge company stock
X	Grant stock options with an exercise price less than the fair market value on the date of grant
X	Re-price or exchange stock options without stockholder approval
X	Promise multi-year guarantees for bonus payouts or salary increases
X	Pay accrued dividend equivalents unless and until the underlying equity awards vest

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APPROVAL OF THE 2018 EQUITY INCENTIVE PLAN

We last sought shareholder approval of a new equity incentive plan in 2015. We are seeking approval and adoption of the Tetra Tech, Inc. 2018 Equity Incentive Plan (2018 Plan), which provides for the grant of stock options (including non-qualified and incentive stock options, SARs, restricted stock, restricted stock units (RSUs), stock bonus awards, dividend equivalents and performance compensation awards (including, but not limited to, performance stock units (PSUs)). The purpose of the 2018 Plan is to promote the interests of the company and our stockholders by enabling us to offer our employees, directors, consultants and advisors an opportunity to acquire an equity interest in the company so as to better attract, retain, and reward our service providers and, accordingly, to strengthen the mutuality of interests between participants in the 2018 Plan and our stockholders by providing such participants with a proprietary interest in pursuing our long-term growth and financial success. Our Board unanimously determined that the 2018 Plan is in the best interests of our company and its stockholders.

RATIFICATION OF APPOINTMENT OF PWC

Our Board's Audit Committee has appointed PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for the 2018 fiscal year, and our Board is seeking stockholder ratification of the appointment. PwC is knowledgeable about our operations and accounting practices, and is well qualified to act as our independent registered public accounting firm. The Audit Committee considered the qualifications, performance and independence of PwC, the quality of its discussions with PwC, and the fees charged by PwC for the level and quality of services provided during fiscal 2017, and has determined that the reappointment of PwC is in the best interest of our company and its stockholders.

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2018 ANNUAL MEETING OF STOCKHOLDERS

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CORPORATE GOVERNANCE, SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

Our mission is to be the premier worldwide consulting and engineering firm, focusing on water, environment, infrastructure, resource management, energy and international development services. We are renowned for our expertise in providing water-related solutions for public and private clients. We typically begin at the earliest stage of a project by identifying technical solutions and developing execution plans tailored to our clients' needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects.

Our reputation for high-end consulting and engineering expertise and our ability to apply our skills to develop innovative solutions for our clients has supported our growth over 50 years. By combining ingenuity and practical experience, we have helped to advance solutions for managing water, protecting the environment, providing energy, and engineering the infrastructure for our cities and communities.

CORPORATE GOVERNANCE

Under the oversight of our Board of Directors, we have designed our corporate governance program to ensure continued compliance with applicable laws and regulations, the rules of the Securities and Exchange Commission (SEC) and the listing standards of the Nasdaq Stock Market (Nasdaq), and to reflect best practices as informed by the recommendations of our outside advisors, the voting guidelines of our stockholders, the policies of proxy advisory firms, and the policies of other public companies.

We are committed to operating with honesty and integrity, and maintaining the highest level of ethical conduct. We encourage stockholders to visit the Corporate Governance section of our website, which includes the following corporate governance documents:

- Code of Business Conduct;
- Finance Code of Professional Conduct, which applies to our CEO and all members of our finance department, including our chief financial officer and principal accounting officer;
- Corporate Governance Policies;
- Charters for our Board's Audit Committee, Compensation Committee, NCG Committee, and Strategic Planning and Enterprise Risk Committee; and
- Stock Ownership Guidelines.

You can access these documents by going to our website at www.tetratech.com/en/corporate-governance, but should note that information on our website is not and should not be considered part of, nor is it incorporated by reference into, this proxy statement. You can also receive copies of these documents, without charge, by written request mailed to our Corporate Secretary at Tetra Tech, Inc., 3475 E. Foothill Boulevard, Pasadena, California 91107.

We maintain a hotline that is available to all employees for the anonymous submission of employee complaints. All complaints go directly to our General Counsel, and all complaints relating to accounting, internal controls or auditing matters also go directly to the Chairman of our Audit Committee. We also maintain an internal audit control function that provides critical oversight over the key areas of our business and financial processes and controls, and reports directly to the Audit Committee. Our Board

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has also adopted a written related person transactions policy. Under the policy, the Audit Committee (or other committee designated by the NCG Committee) reviews transactions between us and "related persons."

Our company conducts its business on the bases of the quality of its services and the integrity of its association with its clients and others. Our Code of Conduct demonstrates our commitment to ascribe to the highest standards of ethical conduct in the pursuit of our business, and applies to all of our directors, officers and employees. It has been translated into five languages, and our employees are trained on it and affirm their commitment to comply with it when they first join our company and periodically thereafter.

SUSTAINABILITY

Tetra Tech supports clients in more than 100 countries around the world, helping them to solve complex problems and achieve solutions that are technically, socially and economically sustainable. Our high-end consulting and engineering services focus on using innovative technologies and creative solutions to minimize environmental impacts. Our greatest contribution toward sustainability is through the projects we perform every day for our clients. Sustainability is embedded in our projects from recycling freshwater supplies to recycling water products, reducing energy consumption, and reducing greenhouse gas emissions in developing countries.

Our Sustainability Program focuses on supporting our mission to be a premier provider of consulting and engineering services focused on water, natural resources, environment, infrastructure, energy, and international development. We seek to achieve this mission by adopting a sustainability goal of "embracing sustainability in our business and operations while supporting the company in delivering excellent services to our clients, maintaining superior financial performance, and emphasizing safety in the execution of services."

Our Sustainability Program allows us to further expand our commitment to sustainability by encouraging, coordinating and reporting on actions to minimize our collective impacts on the environment. The Program has three primary pillars: Projects the solutions we provide for our clients; Procurement our procurement and subcontracting approaches; and Processes the internal policies and processes that promote sustainable practices, reduce costs and minimize environmental impacts. In addition, our program is based on the Global Reporting Initiative (GRI) Sustainability Report Framework, the internationally predominant sustainability reporting protocol for corporate sustainability plans. The GRI includes three fundamental impact areas: environmental, economic, and social sustainability.

Our Sustainability Program is led by our Chief Sustainability Officer, who has been appointed by executive management and is supported by other key corporate and operations representatives via our Sustainability Council. We have established specific metrics for the company and six corporate service departments. In addition to measuring our performance against these established metrics, we compile best practices from our operations and corporate service groups by means of a quarterly sustainability survey. This survey is used to identify sustainable practices that can be introduced across the company. We compile best practices from our operations and corporate service groups by means of a sustainability survey. This survey is used to identify sustainable practices that can be transferred enterprise-wide and used to assess participation in our Sustainability Program.

Our executive management team reviews and approves the Sustainability Program and evaluates our progress in achieving the goals and objectives outlined in our plan. Additional information on our Sustainability Program and our annual sustainability report that documents our progress may be found on our website at http://www.tetratech.com/en/sustainability.

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CORPORATE SOCIAL RESPONSIBILITY

Our company seeks clear, sustainable solutions that improve the quality of life. We take this responsibility seriously because our work often places us at the center of our clients' environmental, safety and sustainability challenges. These challenges often involve the opinions of public, industry and government stakeholders who seek our advice on complex issues. We have helped thousands of towns, cities, industries and governments find sustainable solutions to complex issues concerning resource management and infrastructure.

To provide solutions to these challenges, we believe in maintaining our technical objectivity. We have earned our reputation for technical objectivity over more than five decades. We have designed progressive, green buildings in New York City, helped the U.S. Department of Defense with pollution prevention and clean-up, and helped many Fortune 500 companies balance environmental needs with business goals. We are helping Vancouver achieve its goal of becoming the greenest city in the world. Tetra Tech companies hold memberships with the U.S. Green Building Council and the Chicago Climate Exchange.

We also encourage our professionals to participate in outreach programs to help improve the communities in which they live and work. Tetra Tech associates and offices around the globe participate in many financial, in-kind, volunteer, and pro bono activities each year. In 2016, we advanced our commitment to *Leading with Science*® by launching our Science, Technology, Engineering, and Mathematics (STEM) Program to help shape the next generation of innovators and problem solvers. As a sponsor of the nonprofit humanitarian organization Engineers Without Borders USA and Engineers Without Borders Canada, we are committed to helping communities in developing countries meet their basic human needs through lasting, scalable projects and technologies.

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OUR BOARD OF DIRECTORS

OVERVIEW

Our Board of Directors is responsible for overseeing, counseling and directing management in serving the long-term interests of our company and stockholders, with the goal of building long-term stockholder value and ensuring the strength of our company for our clients, employees and other stakeholders. In this capacity, the Board's primary responsibilities include establishing an effective corporate governance program, with a Board and Committee structure that ensures independent oversight; overseeing our business, strategies and risks; maintaining the integrity of our financial statements; evaluating the performance of our senior executives and determining their compensation; undertaking succession planning for our CEO and other senior executives; and reviewing our annual operating plan and significant strategic and operational objectives and actions.

BOARD COMPOSITION

Our bylaws provide that our Board consist of between five and ten directors, with the exact number fixed from time to time by Board resolution. The Board has fixed the number at nine. We believe a limited number of directors helps maintain personal and group accountability. Our Board is independent in composition and outlook, other than our CEO. All of our current directors have been nominated for election by the Board of Directors upon recommendation by the NCG Committee and have decided to stand for election.

Name	Director Since	Principal Occupation	Independent	AC	CC	GC	SC
Dan L. Batrack	2005	Chairman and CEO, Tetra Tech, Inc.	No				
Hugh M. Grant	2003	Retired Vice Chair & Regional Managing Partner, Ernst & Young LLP	Yes	C		M	
Patrick C. Haden	1992	President, Wilson Avenue Consulting	Yes		M	M	
J. Christopher Lewis	1988	Managing Director, Riordan, Lewis & Haden	Yes	M	M		
Joanne M. Maguire	2016	Retired Executive Vice President, Lockheed Martin Space Systems Company	Yes			C	M
Kimberly E. Ritrievi	2013	President, The Ritrievi Group LLC	Yes	M			M
Albert E. Smith (PD)	2005	Retired Executive Vice President, Lockheed Martin Corporation	Yes			M	C
J. Kenneth Thompson	2007	President and CEO, Pacific Star Energy, LLC	Yes		C		M

Kirsten M. Volpi	2013	Executive Vice President, Chief Operating Officer, and Chief Financial Officer and Treasurer, Colorado School of Mines	Yes	M	M

AC = Audit Committee CC = Compensation Committee GC = Nominating and Corporate Governance Committee
SC = Strategic Planning and Enterprise Risk Committee M = Member C = Chair PD = Presiding Director

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BOARD MEETINGS AND ATTENDANCE

During fiscal 2017, our Board of Directors held eight meetings. During this period, all of the incumbent directors attended or participated in 100% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which each such director served, during the period for which each such director served. Our directors are strongly encouraged to attend the annual meeting of stockholders, and all of our directors then in office attended last year's annual meeting.

CORPORATE GOVERNANCE POLICIES

Our Corporate Governance Policies, as updated in July 2017, provide the corporate governance framework for our company and reflect the beliefs of our Board with respect to the matters described below. They are reviewed at least annually and amended from time to time to reflect changes in regulatory requirements, evolving market practices, and recommendations from our stockholders and advisors.

Matter	Description of Policy
Board Composition	**Reasonable Size.** Our Board is between five and ten directors. **No Over-Boarded Directors.** Our directors sit on three or fewer other public company boards. **Mandatory Retirement.** Our Board has fixed the retirement age for directors at 75; however, Mr. Grant has been exempted because of his special qualifications and experience, and the Board has waived this mandatory retirement requirement solely for him. There are no established term limits on service.
Director Independence	**Majority Independent.** A majority of our directors satisfy the Nasdaq independence standards. **Regular Executive Sessions.** Our independent directors meet in executive session following each meeting of the Board, each meeting of the Audit Committee, and certain other Committee meetings.
Board Leadership Structure	**Robust Presiding Director Role.** Since our CEO is also Chairman, our independent directors selected one of themselves to serve as Presiding Director, with established roles and responsibilities. See "*Board Leadership Structure"* for further details. **Annual Review.** The Board appoints a Chair and determines whether the positions of Chair and CEO will be held by one individual or separated.
Board Committees	**Independence.** Board Committees are comprised only of independent directors. **Governance.** Board Committees act under charters setting forth their purposes and responsibilities, which charters are evaluated annually. The charters allow for the engagement, at our expense, of independent legal, financial or other advisors as the directors deem necessary or appropriate. **Attendance.** Directors prepare for and attend all meetings of our Board and its Committees on which they serve, and are strongly encouraged to attend all annual stockholder meetings.

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Matter	Description of Policy
Director Qualifications	**Diverse and Relevant Experience.** The NCG Committee works with the Board to determine the appropriate characteristics, skills and experiences for the directors. We are committed to selecting candidates regardless of gender, ethnicity and national origin.
	Management Succession Planning. Our Board conducts executive succession planning annually, including progress in current job position and career development in terms of strategy, leadership and execution.
Board Duties	**Financial Reporting, Legal Compliance and Ethical Conduct.** Our Board maintains governance and oversight functions, but our executive management maintains primary responsibility.
	Stock Ownership Guidelines. To align the interests of stockholders with the directors and executive officers, our Board has established stock ownership guidelines.
	New Director Orientation. All new directors participate in an orientation program to familiarize themselves with our company.
Continuous Board Improvement	**Continuing Education.** Directors continue their education through meetings with executive management and other managers to enhance the flow of meaningful financial and business information. They also receive presentations to assist with their continuing education.
	Annual Performance Evaluations. The NCG Committee oversees an annual self-assessment process to ensure our Board and each of the Committees are functioning effectively.

DIRECTOR INDEPENDENCE

Upon recommendation of the NCG Committee, our Board of Directors has determined that each member of the Board of Directors other than Mr. Batrack is independent under the criteria established by Nasdaq for director independence. Mr. Batrack is not independent because he is an employee.

In connection with the assessment of Mr. Thompson's independence, we reviewed the facts and circumstances of his role as an independent director of Coeur Mining, Inc. and Pioneer Natural Resources Company, two of our clients, and Alaska Air Group, Inc., one of our vendors. We concluded that Mr. Thompson is an independent director because his role at each of these companies is limited to that of an independent director, each of the companies is a large public company, and the amount of business done with each of the companies is immaterial to us (less than 1% of our fiscal 2017 net revenue) and each such company.

All members of each of our Audit, Compensation, NCG, and Strategic Planning and Enterprise Risk committees are independent directors. In addition, the members of the Audit Committee meet the additional independence criteria required for audit committee membership under applicable Nasdaq listing standards, and each has been determined by our Board to be an "audit committee financial expert" under SEC rules.

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There were no payments by third parties to any of our directors or director nominees in connection with their candidacy for, and/or service on, our Board of Directors.

BOARD LEADERSHIP STRUCTURE

We currently have a combined Chairman/CEO role, as well as an independent Presiding Director. We believe that the combined Chairman/CEO role is appropriate because it allows for one individual to lead our company with a cohesive vision, the ability to execute that vision, and the understanding of the significant enterprise risks that need to be mitigated or overcome to achieve that vision. It also fosters clear accountability, effective decision-making and alignment on corporate strategy. Combined leadership at the top also provides the necessary flexibility for us to rapidly address the changing needs of our business.

Balancing our combined Chairman/CEO is our Presiding Director, elected by and from the independent directors, who has critical duties in the boardroom to ensure effective and independent oversight of Board decision-making. In November 2015, the Board determined that the role of Presiding Director would rotate to ensure independence, and the term would be four years. At a meeting in January 2016, the independent directors elected Mr. Smith to serve as Presiding Director for a four-year term ending in January 2020.

Our Governance Policies describe the Presiding Director's duties, which delineate clear responsibilities to ensure independent stewardship of our Board, as summarized below.

Presiding Director Roles and Responsibilities:

- scheduling meetings of the independent directors;
- chairing the separate meetings of the independent directors;
- serving as principal liaison between the independent directors and the Chairman/CEO on sensitive issues;
- communicating with the Chairman/CEO, and disseminating information to the rest of the Board of Directors as appropriate;

providing leadership to the Board of Directors if circumstances arise in which the role of the Chairman may be, or may be perceived to be, in conflict; and

being available, as appropriate, for communication with stockholders.

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Supplementing the Presiding Director are our Committee Chairs and members, all of whom are independent. With the Compensation Committee conducting a rigorous annual evaluation of the CEO's performance that is discussed by all independent directors during executive sessions, we believe our Board leadership structure provides independent oversight of our company.

BOARD COMMITTEES

Each of our Board committees has a written charter that describes its purposes, membership, meeting structure, authority and responsibilities. These charters, which may be found in the Corporate Governance section of our website at *www.tetratech.com/en/corporate-governance*, are reviewed by the respective committee on an annual basis, with any recommended changes adopted upon approval by our Board. Updated charters are promptly posted on our website.

We have four standing committees consisting solely of independent directors, each with a different independent director serving as chairperson of the committee. Our Board committees are: the Audit Committee, the Compensation Committee, the NCG Committee, and the Strategic Planning and Enterprise Risk Committee. We hold our Board committee meetings sequentially (i.e., committee meetings do not overlap with one another). As a result of holding sequential meetings, each of our Board members is given the opportunity to attend each committee meeting. We believe this practice is highly beneficial to our Board as a whole and the company in general because each of our Board members is aware of the detailed work conducted by each Board committee. This practice also affords each of our Board members the opportunity to provide input to the committee members before any conclusions are reached.

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The primary responsibilities, membership and meeting information for our four standing committees are summarized below.

Audit Committee

Current Members:

Hugh M. Grant (Chair)
J. Christopher Lewis
Kimberly E. Ritrievi
Kirsten M. Volpi

Meetings in Fiscal 2017: 6

Average Attendance in Fiscal 2017: 100%

All members satisfy the audit committee experience and independence standards required by Nasdaq, and have been determined to be financially literate.

Each member of the Audit Committee has been determined to be an "audit committee financial expert" under applicable SEC regulations.

Responsibilities:

reviewing our significant accounting principles, policies and practices in reporting our financial results under generally accepted accounting principles;

reviewing our annual audited financial statements and related disclosures;

reviewing management letters or internal control reports, and reviewing our internal controls over financial reporting;

reviewing the effectiveness of the independent audit effort;

appointing, retaining and overseeing the work of the independent accountants;

pre-approving audit and permissible non-audit services provided by the independent registered public accounting firm;

reviewing our interim financial results for each of the first three fiscal quarters;

reviewing and discussing the reports of our internal Management Audit Department;

reviewing and discussing financial, liquidity, tax and treasury, litigation and Sarbanes-Oxley (SOX) compliance matters in accordance with our enterprise risk management (ERM) responsibility matrix;

reviewing and overseeing related party transactions;

reviewing complaints regarding accounting, internal controls or auditing matters; and

preparing the annual Audit Committee Report to be included in the proxy statement.

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Compensation Committee

Current Members:

J. Kenneth Thompson (Chair)
Patrick C. Haden
J. Christopher Lewis
Kirsten M. Volpi

Meetings in Fiscal 2017: 5

Average Attendance in Fiscal 2017: 100%

All members satisfy the independence standards required by Nasdaq.

All members qualify as "non-employee directors" under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and as "outside directors" under Section 162(m) of the Internal Revenue Code.

Responsibilities:

reviewing and approving the annual base salaries and annual incentive opportunities of the CEO and other executive officers, including an evaluation of the performance of the executive officers in light of our performance goals and objectives;

reviewing and approving, as they affect the executive officers, all other incentive awards and opportunities, any employment agreements and severance arrangements, any change-in-control agreements, and any special or supplemental compensation and benefits;

reviewing and discussing comments provided by stockholders and proxy advisory firms regarding our executive compensation;

overseeing our compliance with SEC rules and regulations regarding stockholder approval of certain executive compensation matters;

reviewing director and executive officer stock ownership under our Stock Ownership Guidelines;

reviewing and discussing incentives and rewards in accordance with our ERM responsibility matrix;

making recommendations to the Board with respect to incentive-based compensation plans, equity-based plans and executive benefits;

reviewing and approving all grants of equity awards;

reviewing and discussing the annual Compensation Discussion and Analysis and Compensation Committee Report to be included in the proxy statement; and

retaining and working with the independent compensation consultant.

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Nominating and Corporate Governance Committee

Current Members:

Joanne M. Maguire (Chair)
Hugh M. Grant
Patrick C. Haden
Albert E. Smith

Meetings in Fiscal 2017: 4

Average Attendance in Fiscal 2017: 100%

All members satisfy the independence standards required by Nasdaq.

Responsibilities:

developing criteria for nominating and appointing directors, including Board size and composition, corporate governance policies, and individual director expertise, attributes and skills;

recommending to the Board the individuals to be nominated as directors;

recommending to the Board the appointees to be selected for service on the Board committees;

overseeing an annual review of the performance of the Board and each committee;

reviewing annually the adequacy of the committee charters and recommending proposed changes to the Board;

making recommendations to the Board on changes in the compensation of non-employee directors;

reviewing the succession plans relating to the positions held by executive officers;

reviewing our Code of Conduct and anti-fraud policies in accordance with our ERM responsibility matrix; and

considering any conflict of interest issues between us and directors or executive officers.

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Strategic Planning and Enterprise Risk Committee

Current Members:

Albert E. Smith (Chair)
Joanne M. Maguire
Kimberly E. Ritrievi
J. Kenneth Thompson

Meetings in Fiscal 2017: 2

Average Attendance in Fiscal 2017: 100%

All members satisfy the independence standards required by Nasdaq.

Responsibilities:

overseeing our strategic planning process, and working with management to plan the annual offsite Strategic Planning and Enterprise Risk meeting;

reviewing and recommending to the Board certain strategic decisions regarding our exit from existing lines of business, entry into new lines of business, acquisitions, joint ventures, investments in or dispositions of businesses, and reviewing and approving our capital allocation strategy;

reviewing, as requested by management, our bid and proposal strategy for high risk contracts;

overseeing our ERM policies and procedures, and working with our Corporate Risk Management Officer on ERM reports to the Board; and

reviewing, as determined by management, any changes in technology and regulatory trends to assess the impact of technology and regulatory changes on business strategy and resource allocation.

EXECUTIVE SESSIONS

Our Board believes it is important to have executive sessions without our CEO being present, which are scheduled after every regular meeting of the Board. Our independent directors have robust and candid discussions at these executive sessions during which they can critically evaluate the performance of our company, CEO and management.

In addition, executive sessions of the Audit Committee are scheduled following each regular meeting of the Audit Committee (with our independent auditors, with the head of our Management Audit Department, and with executive management, if deemed necessary), and an executive session of the Compensation Committee is scheduled following the Compensation Committee meeting each November at which executive compensation determinations are made.

RISK OVERSIGHT

Enterprise Risk Management (ERM) and Strategic Risks

We believe that risk is inherent in the pursuit of long-term growth opportunities. Our management is responsible for day-to-day risk management activities. The Board of Directors, acting directly and through its committees, is responsible for the oversight of our risk management. With this oversight, we have implemented an ERM program with practices and policies designed to help manage the risks to which we are exposed in our business and to align risk-taking appropriately with our efforts to increase stockholder value.

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The Strategic Planning and Enterprise Risk Committee is responsible for the oversight of the ERM. Our Corporate Risk Management Officer reports the status of the ERM to this committee on a semi-annual basis. The reports address our risk management effectiveness, those projects that may significantly impact our financial condition, and any new risk issues and mitigation measures that have been implemented.

As part of the overall risk oversight framework, other committees of the Board also oversee certain categories of risk associated with their respective areas of responsibility to better coordinate with management and serve the long-term interests of our stockholders. Our Board receives reports from the committees regarding topics discussed at the committee meetings, which include the areas of risk overseen primarily by the committees.

In addition, the Board participates in regular discussions among the directors and with our senior management with respect to several core subjects in which risk oversight is an inherent element, including strategy, operations, finance, mergers and acquisitions, and legal matters. The Board believes that the leadership structure described above under "Board Leadership Structure" facilitates the Board's oversight of risk management because it allows the Board, with leadership from the Presiding Director and working through its committees, to participate actively in the oversight of management's actions.

OVERSIGHT OF RISK

Board or Committee	Major Areas of Responsibility
Board of Directors	Annual operating plan; Corporate governance; Major initiatives; Mergers and acquisitions; Business development; Project execution; and Major markets and clients
Audit Committee	Financial metrics and measures;

	Liquidity and cash flow;
	Tax and treasury strategy;
	Fiscal discipline;
	Litigation and claims; and
	Sarbanes-Oxley compliance
Compensation Committee	Management incentives and awards
Nominating and Corporate Governance Committee	Code of Conduct; and
	Anti-fraud policies
Strategic Planning and Enterprise Risk Committee	Business planning and performance;
	Risk appetite and tolerance;
	Bids and proposals;
	Capital structure;
	Technology risk; and

Corporate ERM

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Risks Associated with Compensation Policies and Practices

As described in the *Compensation Discussion and Analysis* section of this proxy statement, we maintain best practices in compensation and corporate governance that collectively encourage ongoing risk assessment and mitigation. The Compensation Committee periodically reviews our executive compensation program to ensure that it does not provide incentives that encourage our employees to take excessive risks in managing their respective businesses or functional areas. Our compensation program includes the following safeguards:

- the program balances executive retention with rewarding stockholder value creation;
- the majority of executive compensation is variable, with a mix that is consistent with market practices and primarily equity-based to promote long-term performance and sustainable growth;
- the incentive mix is balanced, with short- and long-term performance metrics that do not overlap, cover different time periods and are balanced among annual financial objectives and long-term economic and stockholder value creation;
- our AIP and LTIs appropriately balance profitable growth in the near term with sustainable long-term financial success, use multiple performance metrics, measure performance at multiple levels (corporate, business group and individual), and provide realized compensation based primarily on our performance;
- the Compensation Committee may exercise downward discretion to adjust the objective, formulaic AIP awards, based on individual performance;
- AIP awards are not guaranteed, with below threshold performance yielding zero payout, and payments subject to an overall cap of 200% of an executive's target AIP award;
- our incentive metrics and performance goals have multiple approval levels and oversight, including approval by members of the Compensation Committee;
- our PSU awards are performance-based, use multiple performance metrics, are subject to maximum payout opportunities to encourage appropriate performance focus and limit potential risk-taking, and cliff vest at the end of three years;
- our change of control plans are reasonable and appropriate, with change of control benefits provided on a double-trigger basis, and these benefits do not provide excessive incentive to seek a transaction and are not grossed up for excise taxes;
- our clawback policy and stock ownership guidelines are consistent with market practices; and
- our stock ownership guidelines, annual stock awards and vesting provisions create sustained and consistent ownership stakes.

Based on these and other factors, as well as the advice of its independent compensation consultant, the Compensation Committee has concluded that our compensation policies and practices strike an appropriate compensation-risk balance, do not encourage excessive risk-taking and do not as a whole create risks that are reasonably likely to have a material adverse effect on our company.

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SUCCESSION PLANNING

Our Board is involved in the identification and cultivation of our future leaders. We maintain an annual performance review process and leadership development program for our key employees. Management develops leadership at lower levels of our organization by identifying core talent, cultivating the skills and capabilities that will allow identified individuals to become our future leaders, assessing their development, and identifying gaps and developmental needs in skills and experience. At its meetings, the Board has the opportunity to meet with leaders of our company, including business group leaders and leaders in finance, law, information technology, risk management and human resources. In addition, Board members have freedom of access to key employees.

The NCG Committee conducts executive succession planning annually, including progress in current job position and career development in terms of strategy, leadership and execution. During this review, the CEO and the independent directors discuss future candidates for senior leadership positions, succession timing for those positions, and development plans for the highest-potential candidates. This process ensures continuity of leadership over the long term, and it forms the basis on which we make ongoing leadership assignments.

BOARD AND COMMITTEE EVALUATIONS

The NCG Committee oversees and conducts an annual evaluation of our Board and Board committees. For the Board, the comprehensive self-assessment covers areas such as effectiveness, composition, culture, resources and meetings. Each of the 35 topics within these areas is scored from 1 (Needs Improvement) to 5 (Role Model), with 3 being Acceptable. The Board then discusses each topic that has received a score from any director of 3 or less.

The directors also comment on the Board's most significant contribution to the company during the last 12 months, the most important issues the Board should address in the next 12 months, and the areas in which the company could improve its Board management practices. These comments result in action items that are placed on the agenda and addressed in subsequent Board meetings.

For each of the Committees, the self-assessment covers areas such as Committee composition, effectiveness, structure, information and resources, and meetings. As with the Board self-assessment, each of the topics within these areas is scored from 1 to 5. The members of the Committee also comment on the Committee's greatest contribution to the company during the last 12 months and the most important issues the Committee should address in the next 12 months. The Chair of each Committee then leads a discussion among the Committee members of each topic that has received a score from any Committee member of 3 or less, and of the general comments. The responses result in action items that are placed on the agenda and addressed in subsequent Committee meetings.

Many of the improvements in our corporate governance practices, and Board and Committee processes, have resulted from the annual evaluation process. Our Board views the annual evaluation process as an integral part of its commitment to cultivating excellence and best practices in its performance.

ACTIVE STOCKHOLDER ENGAGEMENT AND COMMUNICATIONS POLICY

Governance Engagement

We value our stockholders' opinions about our governance policies and practices, and we actively solicit input through our stockholder engagement program. In advance of the 2018 Annual

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Meeting, we proactively contacted our largest institutional stockholders, representing a majority of our then-outstanding shares, to solicit their views on our corporate governance and executive compensation programs. We welcome feedback on our corporate governance program that this active and ongoing engagement with stockholders provides.

Contacting the Board

Stockholders may contact our Board, Chairman, Presiding Director, any Committee or Committee Chair, or any other individual director concerning business-related matters by writing to: Board of Directors (or a particular subgroup or individual director), c/o Corporate Secretary, Tetra Tech, Inc., 3475 E. Foothill Boulevard, Pasadena, California 91107; or via email to asktheboard@tetratech.com.

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ITEM 1 ELECTION OF DIRECTORS

Our bylaws provide for a Board of between five and ten directors, with the exact number fixed from time to time by a resolution of our Board. The Board has fixed the number at nine, and there are currently nine directors on our Board. All of the incumbent directors are nominated for election at the Annual Meeting for a one-year term. Each of the nine nominees has consented to being named in this proxy statement and to continue serving if elected.

MAJORITY VOTING STANDARD

Our bylaws provide for the majority voting of directors in uncontested elections like this one. Consequently, in order to be elected, a nominee must receive more votes "for" than "against" and the number of votes "for" must be at least a majority of the required quorum. Should any of the nominees fail to receive the vote required to be elected in accordance with our bylaws, that director must promptly tender his or her resignation to the Board of Directors. In that event, the NCG Committee will make a recommendation to the Board as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board will then act on the tendered resignation, taking into account the NCG Committee's recommendation, and publicly disclose its decision regarding the tendered resignation and the rationale behind the decision within ninety (90) days from the date of the certification of the election results.

In voting for the election of directors, each share has one vote for each position to be filled and there is no cumulative voting.

RECOMMENDATION OF BOARD OF DIRECTORS

Our Board of Directors recommends that you vote FOR each of the director nominees. The persons named as proxies will vote for the election of each of the nine nominees unless you specify otherwise. If any director nominee were to become unavailable prior to the Annual Meeting, your proxy would be voted for a substitute nominee designated by our Board or we would reduce the size of the Board.

SELECTION OF DIRECTOR NOMINEES

Director nominees are generally recommended by the NCG Committee for nomination by our Board and subsequent election by our stockholders. Director nominees may also be recommended by the NCG Committee for appointment to our Board, with election by stockholders to follow at the next Annual Meeting. Our Board believes that the backgrounds and qualifications of our directors, considered as a group, provide a mix of complementary experience, knowledge and abilities that allows our directors to effectively fulfill their oversight responsibilities.

In considering whether to recommend a candidate as a director nominee, the NCG Committee applies the criteria described in our Governance Policies, including independence, integrity, unwavering personal and professional ethics, sound business judgment, integrity, and the ability and willingness to commit sufficient time to the Board. In evaluating the suitability of individual Board members, the NCG Committee takes into account many factors, including a general understanding of business development and strategy, risk management, finance, financial reporting, and other disciplines relevant to the success of a publicly-traded company in the then-current business environment; understanding of our business and the issues affecting that business; relevant education and professional background; personal

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accomplishment; and diversity. The NCG Committee does not assign specific weights to the criteria, and no particular criterion is necessarily applicable to all nominees.

In recommending candidates for election to the Board of Directors, the NCG Committee considers nominees recommended by directors, officers and others, using the same criteria to evaluate all candidates. The Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Upon selection of a qualified candidate, the NCG Committee recommends the candidate for consideration by the full Board. The Committee may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees.

STOCKHOLDER SUBMISSION OF DIRECTOR NOMINEES

Stockholders may recommend director candidates by submitting the candidate's name, together with his or her biographical information, professional experience and written consent to nomination, to NCG Committee Chair, c/o Corporate Secretary, Tetra Tech, Inc., 3475 E. Foothill Boulevard, Pasadena, California 91107. To be considered at the 2019 Annual Meeting, stockholder nominations must comply with the requirements described in the *Meeting and Voting Information* section of this proxy statement under "Submission of Stockholder Items for 2019 Annual Meeting." The NCG Committee considers stockholder nominees on the same basis as it considers all other nominees.

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DIRECTOR QUALIFICATIONS

The qualifications that are particularly desirable for our directors to possess to provide oversight and stewardship of our company include the following:

Qualification	Description	Value to Our Board and Stockholders
Senior Leadership Experience	Service in a senior executive position	Provides us valuable external perspectives with which to assess our operations, execute our strategies, mitigate related risks, and improve our policies and procedures.
Industry and Technical Expertise	Experience in consulting and engineering services that focus on water, the environment, infrastructure, resource management, energy and international development	Allows us to better understand the needs of our clients in developing our business strategies, as well as evaluate acquisition and divestiture opportunities.
Government Client Experience	Service in a position that requires interaction with government clients	Provides us experience and insight into working constructively with government agencies and administrators, and addressing significant public policy issues in areas related to our business and operations.
Business Development and Mergers and Acquisitions (M&A) Experience	Background in business development and in the analysis of proposed M&A transactions	Provides us insight into developing and implementing strategies for growing our business through combinations with other organizations, including analyses of the "fit" of a proposed acquisition with our company's strategy, the valuation of transaction, and the management plan for integration with existing operations.
Financial Sophistication	Understanding of accounting, auditing, tax, banking, insurance or investments	Helps us oversee our accounting, financial reporting and internal control processes, manage our capital structure, optimize capital allocation, and undertake significant transactions.
Public Board Experience	Prior or concurrent service on other SEC-reporting company boards	Demonstrates understanding of the extensive and complex oversight responsibilities of directors and helps reinforce management accountability for maximizing long-term stockholder value. Also provides insights into a variety of strategic planning, compensation, finance and governance practices.

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The graph below shows the qualifications of our director nominees:

BOARD REFRESHMENT

Our Governance Policies reflect our belief that directors should not be subject to term limits. While term limits could facilitate fresh ideas and viewpoints being consistently brought to the Board, we believe they are counter-balanced by the disadvantage of causing the loss of a director who over a period of time has developed insight into our strategies, operations and risks, and continues to provide valuable contributions to Board deliberations. We believe that our decision not to establish term limits is consistent with the prevailing practice among companies in the S&P 1000. We recognize that certain governance stakeholders have suggested that longer-serving directors may have decreased independence and objectivity; however, we believe that an arbitrary decision to remove knowledgeable directors and the consistent oversight they bring weighs against strict restrictions on director tenure. Ultimately, it is our Board's responsibility to establish board refreshment policies, using its discretion in the best interest of our company and stockholders.

We have adopted the policies shown below to facilitate refreshment of our Board and ensure that it continues to appropriately challenge our management.

POLICIES SUPPORTING BOARD REFRESHMENT

Policy	Description
Mandatory Resignation	Incumbent directors who are not elected by a majority vote of our stockholders must tender their resignation.
Retirement	The Board has fixed the retirement age for directors at 75 (determined as of the Annual Meeting following the director's birthday). However, Mr. Grant has been exempted because of his special qualifications and experience, and the Board has waived this mandatory retirement requirement solely for him.
Resignation Tendered Upon Retirement or Change in Principal Employment	A director who retires from or changes his/her principal occupation or business association must offer to tender his/her resignation so that there is an opportunity for the Board, through the NCG Committee, to review the continued appropriateness of Board membership under the new circumstances.
Over-Boarding	Without specific approval from the Board, no director may serve on more than three other public company boards.

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The graph below shows the tenure of our director nominees:

DIRECTOR DIVERSITY

As provided in our Governance Policies, we are committed to considering candidates for the Board regardless of gender, ethnicity and national origin. While diversity is a consideration, nominees are not chosen or excluded solely or primarily based on such basis. Rather, the NCG Committee focuses on skills, expertise and background to complement the existing Board in light of the diverse and global nature of our businesses and operations. The two independent directors appointed to our Board in 2013, and the independent director appointed in 2016, are women.

2018 DIRECTOR NOMINEES

The following pages provide information on each nominee for election at the Annual Meeting, including his or her age, board leadership roles held, and business experience during at least the past five years. We also indicate the name of any other public company for which each nominee currently serves as a director. For these purposes, "public company" means one that is required to file reports with the SEC.

Presented below is information regarding each nominee's experience and qualifications that led our Board to the conclusion that he or she should serve as a director. We believe that each of these nominees has integrity and adheres to our high ethical standards. In addition, each nominee has demonstrated the ability to exercise sound judgment, as well as a commitment to serving the long-term interests of our stockholders.

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DAN L. BATRACK

Age 59

Director since November 2005

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

Tetra Tech, Inc.

Chief Executive Officer and a director from November 2005 to present

Chairman from January 2008 to present

President from October 2008 to present

Joined Tetra Tech's predecessor in 1980; served in numerous roles of increasing responsibility at our company, including project scientist, project manager, operations manager, senior vice president, president of an operating unit and Chief Operating Officer

Managed complex programs for many small and Fortune 500 clients, both in the U.S. and internationally

Select Skills and Qualifications

Senior leadership experience; industry and technical experience; government client experience; business development and M&A experience; financial sophistication

Nine years leading our company as Chairman, 12 years as Chief Executive Officer and nine years as President

Primary responsibility for our M&A strategy

Served as project manager on numerous government client projects

Member of Visitors Committee, University of Washington College of Engineering

Bachelor's degree in Business Administration from the University of Washington

Current Board Leadership Role

Chairman of the Board

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HUGH M. GRANT

Age 81

Director since January 2003

Independent

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

38 years with Ernst & Young LLP (and its predecessor, Arthur Young & Company)

Vice Chairman and Regional Managing Partner of the Western United States

Served as the audit partner in charge of several large public companies, including those in the engineering and construction and defense industries

Served on Ernst & Young's 15-member Management Committee for ten years

Serves as the Vice Chairman and Chairman of the Audit Committee of Inglewood Park Cemetery since 1998

Select Skills and Qualifications

Senior leadership experience; financial sophistication

Served on the Management Committee of Ernst & Young, and as the Vice Chairman and Regional Managing Partner of the Western United States, which had 2,000 employees and 19 offices

38 years of financial and risk management expertise gained through auditing public companies

"Audit committee financial expert" under SEC rules

Certified Public Accountant

Bachelor of Science degree in Business, with distinction, from the University of Kansas

Current Board Leadership Roles

Chair, Audit Committee
Member, Nominating and Corporate Governance Committee

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PATRICK C. HADEN

Age 64

Director since December 1992

Independent

Other Public Company Board:
TCW Strategic Income Fund

Attendance at Fiscal 2017
Board Meetings: 100%

Select Business Experience

President, Wilson Avenue Consulting, since July 2017

Advisor to the President, University of Southern California (USC), from July 2016 to June 2017

Athletic Director, USC, from August 2010 to June 2016

Director of TCW Funds, TCW Strategic Income Fund (a closed end mutual fund listed on the NYSE), TCW Liquid Alternative Fund and Met West Funds, and serves on various Board committees of these companies

Director of Auto Club of Southern California, and on the Audit/Finance and Investment Committees, since 2016

General Partner of Riordan, Lewis & Haden (RLH), a Los Angeles-based private equity firm, from 1987 to August 2010

Director of several portfolio companies during his tenure at RLH

Serves on several foundation Boards: Rose Hills, Fletcher Jones, Unihealth and Mayr.

Select Skills and Qualifications

Senior leadership experience; business development and M&A experience; financial sophistication; public board experience

Multiple roles at a major university, which provides significant senior leadership and management experience

Leadership at a private equity firm, which provides significant experience in finance and investment, and in M&A transactions

Director roles at several TCW funds, one of which is publicly listed

Service on other boards

Rhodes Scholarship to Oxford University; degree in Economics

Practicing attorney from 1982 to 1987

Current Board Leadership Roles

Member, Nominating and Corporate Governance Committee
Member, Compensation Committee

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J. CHRISTOPHER LEWIS

Age 61

Director since February 1988

Independent

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

Managing Director (and co-founder) of RLH since 1982

Director of several privately-held companies: The Chartis Group, RGM Group, Bluewolf Group and Silverado Senior Living

Previously served as a director of two publicly-traded companies

Select Skills and Qualifications

Senior leadership experience; business development and M&A experience; financial sophistication

More than 35 years of leadership of a private equity firm and service as a director of several companies provides significant senior leadership, management, operational and financial experience

Private equity firm leadership provides significant experience in finance and investment, in evaluating new business opportunities, and in M&A transactions

"Audit committee financial expert" under SEC rules

Master's degree in Business Administration from the University of Southern California

Current Board Leadership Roles

Member, Audit Committee
Member, Compensation Committee

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JOANNE M. MAGUIRE

Age 63

Director since November 2016

Independent

Other Public Company Boards:

CommScope, Inc.
Visteon Corporation

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

Served as Executive Vice President of Lockheed Martin Space Systems Company (SSC), a provider of advanced-technology systems for national security, civil and commercial customers, from 2006 until retirement in 2013

Joined Lockheed Martin Corporation in 2003 and assumed leadership of SSC in 2006

Formerly with TRW's Space & Electronics sector (now part of Northrop Grumman), filling a range of progressively responsible positions from engineering analyst to Vice President and Deputy to the sector's CEO

Member of the Board of Directors of Draper Laboratory

Select Skills and Qualifications

Senior leadership experience; government client experience; industry and technical expertise; financial sophistication; public board experience

Held senior leadership positions within a publicly traded company in the technology sector, working with government clients

These positions provide valuable experience, including strategic planning, operations, risk management and corporate governance

Elected to the National Academy of Engineering in 2011

Bachelor's degree in Engineering from Michigan State University and Master's degree in Engineering from the University of California, Los Angeles

Concurrent service on two other public boards

Current Board Leadership Roles

Chair, Nominating and Corporate Governance Committee
Member, Strategic Planning and Enterprise Risk Committee

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KIMBERLY E. RITRIEVI

Age 59

Director since November 2013

Independent

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

President, The Ritrievi Group LLC, advising technology and chemical companies on financial strategies

Co-Director of Americas Investment Research at Goldman, Sachs & Co. from 2001 to 2004

Former Specialty Chemical Analyst at Goldman, Sachs & Co., Credit Suisse First Boston, Lehman Brothers and Paine Webber (now UBS Wealth Management)

Process development engineer at ARCO Chemical

Serves as Vice Chair of the Dean's Advisory Board of the Harvard School of Dental Medicine since 2015, served as Chair of the Dean's Advisory Board from 2011 to 2015 and member since 2001

Serves as Co-Chair of the Princeton University School of Engineering and Applied Science Leadership Council since 2016 and member since 2000

Select Skills and Qualifications

Senior leadership experience; business development and M&A experience; industry and technical expertise; financial sophistication

Over 20 years of executive, management, analytical and operational experience at The Ritrievi Group and major investment banks

Master's degree in Management from the Massachusetts Institute of Technology (MIT) Sloan School of Management

Doctorate in Chemical Engineering from MIT

"Audit committee financial expert" under SEC rules

Current Board Leadership Roles

Member, Audit Committee
Member, Strategic Planning and Enterprise Risk Committee

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ALBERT E. SMITH

Age 68

Director since May 2005

Independent

Other Public Company Board:
Curtiss-Wright Corporation

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

Chairman of the Board of Tetra Tech, Inc. from March 2006 to January 2008, and Vice Chairman from September 2005 to March 2006

Executive Vice President of Lockheed Martin Corporation and head of its Integrated Systems & Solutions business from 2003 to 2004

Executive Vice President of Lockheed Martin's Space Systems Company from 1999 to 2003

Member of the U.S. Secretary of Defense's Defense Science Board from 2002 to 2005

Served on the Board of Trustees of Aerospace Corporation from 2005 to 2007

Worked for the U.S. Central Intelligence Agency, and received the Intelligence Medal of Merit

Select Skills and Qualifications

Senior leadership experience; government client experience; industry and technical expertise; financial sophistication; public board experience

Over 20 years of executive, management and operational experience, including leadership roles with Tetra Tech and at Lockheed Martin

Experience with government clients and requirements

Engineering degree from Northeastern University

Concurrent service on another public board

Current Board Leadership Roles

Presiding Director
Chair, Strategic Planning and Enterprise Risk Committee
Member, Nominating and Corporate Governance Committee

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J. KENNETH THOMPSON

Age 66

Director since April 2007

Independent

Other Public Company Boards:
Alaska Air Group Inc.
Coeur Mining, Inc.
Pioneer Natural Resources Company

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

President/CEO and co-owner of Pacific Star Energy, LLC, a private energy investment firm in Alaska, since 2000

Managing Director of the Alaska Venture Capital Group LLC, a private oil and gas exploration firm, from 2004 to 2012

Executive Vice President of Atlantic Richfield Company's (ARCO) Asia-Pacific Region, leading the Asia-Pacific operating companies in Alaska, California, Indonesia, China and Singapore, from 1998 to 2000

Served in various technical and management roles at ARCO from 1974 to 2000, including head of ARCO's oil and gas research and technology center, and responsible for global technology strategy and energy technology transfer to more than 20 countries

Serves as Chairman of the Board of CDF Capital, a non-profit, since 2017

Select Skills and Qualifications

Senior leadership experience; industry and technical expertise; business development and M&A experience; financial sophistication; and public board experience

Various executive positions, including the role of CEO, provide leadership, risk management operations, strategic planning, engineering, environmental, safety and regulatory experience.

Expertise in mining and in oil and gas

Served on ARCO's team to assess and transition multi-billion dollar acquisitions

Served on ARCO's team to review monthly and quarterly financial statements before release to the Board and Audit Committee; also serves, or has served, on the audit committees of two public companies

Petroleum Engineering degree from Missouri University of Science & Technology

Concurrent service on three other public boards; Lead Director of Pioneer Natural Resources Company

Current Board Leadership Roles

Chair, Compensation Committee
Member, Strategic Planning and Enterprise Risk Committee

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KIRSTEN M. VOLPI

Age 53

Director since July 2013

Independent

Attendance at Fiscal 2017 Board Meetings: 100%

Select Business Experience

Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer, Colorado School of Mines from July 2013 to present, and Senior Vice President for Finance and Administration, Chief Financial Officer and Treasurer from August 2005 to August 2011

Chief Administrative Officer, U.S. Olympic Committee, from August 2011 to July 2013

Various financial management roles for Rensselaer Polytechnic Institute, the University of Colorado Foundation and the American Water Works Association

Select Skills and Qualifications

Senior leadership experience; financial expertise

Various executive positions provide leadership in financial and administrative matters

Extensive understanding of the preparation and analysis of financial statements

"Audit committee financial expert" under SEC rules

Certified Public Accountant

Bachelor's degree from University of Colorado Boulder

Current Board Leadership Roles

Member, Audit Committee
Member, Compensation Committee

Chairman Emeritus

Dr. Li-San Hwang has served as our Chairman Emeritus since March 2006. As Chairman Emeritus, Dr. Hwang is invited to attend Board and Board committee meetings, but he does not have voting rights. Chairman Emeritus is an unpaid position; however, we reimburse Dr. Hwang for his attendance-related expenses. Dr. Hwang joined our predecessor in 1967 and led our acquisition of the Water Management Group of Tetra Tech, Inc. from Honeywell Inc. in March 1988. He served as our Chief Executive Officer from our formation until November 2005. Dr. Hwang has served as an advisor to numerous government and professional society committees and has published extensively in the field of hydrodynamics. He is a graduate of the National Taiwan University, Michigan State University and the California Institute of Technology, holding B.S., M.S. and Ph.D. degrees, respectively, in Civil Engineering, specializing in water resources.

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DIRECTOR COMPENSATION

The NCG Committee works with the independent compensation consultant to target non-employee director compensation at the median of our peer companies to support the recruitment and retention of our non-employee directors. The majority of this compensation is delivered in equity to align director interests with those of our stockholders.

Fiscal 2017 Cash Compensation

During fiscal 2017, our non-employee director cash compensation program consisted of the following:

ANNUAL NON-EMPLOYEE DIRECTOR CASH COMPENSATION

Cash retainer	$65,000
Additional cash retainer for Presiding Director	$20,000
Additional cash retainer for Audit Committee Chair	$20,000
Additional cash retainer for Compensation Committee Chair	$15,000
Additional cash retainer for NCG Committee Chair	$10,000
Additional cash retainer for Strategic Planning and Enterprise Risk Committee Chair	$10,000
Additional fee per in-person or telephonic Board meeting attended	$ 2,000
Additional fee per in-person or telephonic Audit Committee meeting attended	$ 2,000
Additional fee per in-person or telephonic Compensation Committee, NCG Committee, or Strategic Planning and Enterprise Risk Committee meeting attended	$ 1,500

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Fiscal 2017 Equity Compensation

During fiscal 2017, our non-employee director equity compensation program consisted of the following. All awards were granted on November 18, 2016. In each case, the number of shares is fixed, and not related to our stock price.

Type of Award	Number of Shares Underlying Award	Description
Stock Option	4,200	Exercise price of $40.80 per share, the fair market value on the grant date; vests in full on the first anniversary if the director has not ceased to be a director prior to such date; and has a ten-year term. Vests immediately upon change in control and, upon the director's death, disability or retirement while a director, vests on the scheduled vesting date.
Performance Share Units (PSUs)	1,800	Eligible for cliff-vesting on the third anniversary of the award date on the same terms as the PSUs awarded to our executive officers, subject to the achievement of the applicable performance goals. For additional information concerning PSU vesting, refer to the *Compensation Discussion and Analysis* section of this proxy statement. Vests immediately upon change in control and, upon the director's death, disability or retirement while a director, vests on a pro rata basis on the scheduled vesting date.
Restricted Stock Units (RSUs)	900	Vests on the first anniversary of the award date if the director has not ceased to be a director prior to such date. Vests immediately upon change in control and, upon the director's death, disability or retirement while a director, vests on the scheduled vesting date.

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Director Compensation Table

The following table provides information concerning the compensation for services of our non-employee directors during fiscal 2017:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid In Cash ($)[1]	Option Awards ($)[2]	PSU Awards ($)[3]	RSU Awards ($)[4]	Total ($)
Hugh M. Grant	121,000	51,870	87,048	36,720	296,638
Patrick C. Haden	94,500	51,870	87,048	36,720	270,138
J. Christopher Lewis	102,500	51,870	87,048	36,720	278,138
Joanne M. Maguire	120,657	141,390	87,048	36,720	385,815
Kimberly E. Ritrievi	96,000	51,870	87,048	36,720	271,638
Albert E. Smith	122,500	51,870	87,048	36,720	298,138
J. Kenneth Thompson	106,500	51,870	87,048	36,720	282,138
Kirsten M. Volpi	100,500	51,870	87,048	36,720	276,138

(1) Mr. Batrack does not appear in the table because he received compensation as our CEO and does not receive any additional compensation as director.

(2) The amounts in the Option Awards column represent the aggregate grant date fair values, without adjustment for forfeitures, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718), of stock option awards. The grant date fair value of the stock option awards granted on November 18, 2016 to each non-employee director was $12.35 per share. The grant date fair value of the stock option award granted on November 6, 2016 to Ms. Maguire upon her election as a director was $11.19 per share. There can be no assurance that these grant date fair values will ever be realized by the non-employee directors. For information regarding the number of stock options held by each non-employee director as of October 1, 2017, see the column "Stock Options Outstanding" in the table below.

(3) The amounts in the PSU Awards column represent the aggregate grant date fair values, without adjustment for forfeitures, which are payable at the end of a three-year performance period provided that the performance objectives are achieved as of the end of the period. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant. The performance objectives that determine the number of shares that may be earned for the PSUs were (i) as to 50% of the award, growth in earnings per share, which is a performance condition under FASB ASC Topic 718, and (ii) as to 50% of the award, total shareholder return (TSR), which is a market condition under FASB ASC Topic 718, relative to the TSR of (A) 17 companies objectively determined based on GICS code and revenue size (25% of award) and (B) the S&P 1000 (25% of award), in each case computed over the three-year performance period. The performance condition component of the fair value of PSUs was determined based on the fair market value of our common stock on the date of grant. The market condition component of the fair value of the PSUs was determined as of the date of grant using the Monte-Carlo simulation method, which utilizes multiple input variables to estimate the probability of meeting the performance objectives established for the award, including the expected volatility of our stock price and other assumptions appropriate for determining fair value. Based on these computations, the grant date fair values of the performance condition-based PSU awards and the market condition-based PSU awards granted on November 18, 2016 to each non-employee director on that date were $40.80 and $55.92 per share, respectively. There can be no assurance that these grant date fair values will ever be realized by the non-employee directors. For information regarding the number of unvested performance shares and PSUs held by each non-employee director as of October 1, 2017, see the column "Unvested Performance Shares and PSUs Outstanding" in the table below.

(4) The amounts in the RSU Awards column represent the aggregate grant date fair values, computed in accordance with FASB ASC Topic 718, of RSU awards. The grant date fair value of these awards is calculated using the closing price of our common stock on the grant date as if these awards were vested and issued on the grant date. The grant date fair value of the RSU awards granted on November 18, 2016 to each non-employee director was $40.80 per share. There can be no assurance that these grant date fair values will ever be realized by the non-employee directors. For information regarding the number of unvested RSUs held by each

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non-employee director as of October 1, 2017, see the column "Unvested RSUs Outstanding" in the following table.

Each of the non-employee directors owned the following number of stock options, unvested performance shares and PSUs, and unvested RSUs as of October 1, 2017.

Name	Stock Options Outstanding (#)	Unvested Performance Shares and PSUs Outstanding (#)	Unvested RSUs Outstanding (#)
Mr. Grant	61,000	5,400	900
Mr. Haden	29,000	5,400	900
Mr. Lewis	61,000	5,400	900
Ms. Maguire	12,200	1,800	900
Dr. Ritrievi	24,800	5,400	900
Mr. Smith	29,000	5,400	900
Mr. Thompson	53,000	5,400	900
Ms. Volpi	24,800	5,400	900

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ITEM 2 ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Our Board has determined to hold annual say-on-pay votes, and our stockholders voted in favor of annual say-on-pay votes at our 2017 Annual Meeting. Our stockholders are being asked to vote on the following resolution:

> RESOLVED, that our stockholders approve, on an advisory basis, the compensation of our Named Executive Officers, as described in the *Compensation Discussion and Analysis* and *Executive Compensation Tables* sections of our 2018 proxy statement.

RECOMMENDATION OF BOARD OF DIRECTORS

The Compensation Committee considered feedback from stockholders regarding our executive compensation program and has previously made significant changes to our program to both address suggestions made by our stockholders and more closely align our compensation program with our current financial position and business strategies. Your Board of Directors recommends that you vote FOR approval, on an advisory basis, of our executive compensation. Properly dated and signed proxies will be so voted unless stockholders specify otherwise.

MEANING OF ADVISORY VOTE

The advisory vote is a vote to approve the compensation of our Named Executive Officers (NEOs), as described in the *Compensation Discussion and Analysis* and *Executive Compensation Tables* sections of this proxy statement. It is not a vote on our general compensation policies or any specific element thereof, the compensation of our non-employee directors, or our program features designed to prevent excessive risk-taking as described in *Risks Associated with Compensation Policies and Practices.*

The results of the advisory vote are not binding on our Board. However, in accordance with SEC regulations, the Compensation Committee will disclose the extent to which it takes into account the results of the vote in the *Compensation Discussion and Analysis* section of our 2019 proxy statement. We remain committed to continued engagement with our stockholders to solicit and consider their viewpoints, and discuss why we believe our executive compensation program properly aligns with our strategies and incents our executives to achieve strong long-term operating and financial performance for our stockholders.

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COMPENSATION DISCUSSION AND ANALYSIS[1]

This Compensation Discussion and Analysis (CD&A) provides an overview and analysis of the principles and practices underlying our executive compensation program and the decisions made by the Compensation Committee related to fiscal 2017 compensation.

In this CD&A and the *Executive Compensation Tables* section of this proxy statement, we provide compensation information for our NEOs for fiscal 2017, who are identified below:

FISCAL 2017 NAMED EXECUTIVE OFFICERS

Name	Title	Years in Position at Fiscal 2017 Year-End	Years at Tetra Tech at Fiscal 2017 Year-End
Dan L. Batrack	Chairman, Chief Executive Officer and President	12	37
Steven M. Burdick	Executive Vice President and Chief Financial Officer	6	14
Ronald J. Chu*	Executive Vice President and President of Resource Management and Energy (RME)	8	19
Leslie L. Shoemaker	Executive Vice President and President of Water, Environment and Infrastructure (WEI)	2	26
Janis B. Salin**	Senior Vice President, General Counsel and Secretary	15	15

* Retired from his role as an executive officer effective November 6, 2017 and retired from the company on December 15, 2017.

** Retired effective January 22, 2018.

EXECUTIVE SUMMARY

Fiscal 2017 Performance Highlights[2]

Summary. Tetra Tech's fiscal 2017 operating results reflected a significant improvement compared to fiscal 2016, and we achieved record-highs in revenue, operating income and EPS. Our focus on providing clients with high-end consulting and engineering services, primarily in the water, environment and infrastructure markets, has resulted in increased margins and reduced risk in our business.

1

This CD&A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from the results, performance or achievements expressed or implied thereby. For a detailed discussion of these risks, see Part I, Item 1A. "Risk Factors" and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our fiscal year 2017 Annual Report on Form 10-K, filed on November 20, 2017 with the SEC (2017 Annual Report). Stockholders should note that statements contained in this CD&A regarding our company and business group performance targets and goals should not be interpreted as management's expectations, estimates of results, or other guidance.

2

For complete information regarding our fiscal 2017 performance, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and notes thereto contained in our 2017 Annual Report.

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Our fiscal 2017 revenue growth was generally consistent with our annual operating plan, and resulted from broad-based contract wins. The revenue growth was led by our U.S. federal government business, which increased 15% compared to fiscal 2016, and our U.S. state and local government business, which increased 14% compared to fiscal 2016. We began fiscal 2018 with authorized and funded backlog that reached an all-time high in the fourth quarter of fiscal 2017.

The following table presents highlights of our fiscal 2017 results of operations compared to fiscal 2016, as reported in our Annual Report on Form 10-K for fiscal year 2017 and fiscal year 2016, respectively:

Results of Operations
($ in millions, except EPS)

	Fiscal 2017	Fiscal 2016	Fiscal 2017 vs. Fiscal 2016
Revenue	**$2,753**	$2,583	**+7%**
Operating Income	**$183**	$136	**+35%**
EPS	**$2.04**	$1.42	**+44%**
Cash Flow	**$138**	$142	**3%**
Backlog	**$2,541**	$2,379	**+7%**

Disciplined Capital Allocation

We achieved these results while maintaining a healthy balance sheet and continuing the disciplined execution of our capital allocation strategy. Over the last three years, we have returned $360 million to our stockholders, as shown below, which represents an annual stockholder return of one-third of our free cash flow. In fiscal 2017, we returned $122 million to our stockholders by

repurchasing approximately 2.3 million shares at an aggregate cost of $100 million, and

paying an aggregate dividend of $.38 per share at an aggregate cost of $22 million.

We have paid quarterly dividends since April 2014, and increased our dividend from $.07 at inception to $.10 per share in April 2017. Our goal for the dividend program is to provide an annual return of approximately 1% to our stockholders.

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Strong Stock Price Performance

Our strong annual total stockholder return (TSR) of 32% in fiscal 2017 contributed to our cumulative TSR of 91% for the fiscal 2015 through fiscal 2017 period. We compare our TSR to the S&P 1000 and our TSR peer group (listed on p. 52 of this proxy statement), and outperformed both in fiscal 2017 and over the cumulative three-year period. TSR measures the return that we have provided our stockholders, including stock price appreciation and dividends paid (assuming reinvestment thereof).

One- and Three-Year TSR

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STRONG COMPENSATION GOVERNANCE PRACTICES

Our executive compensation program incorporates the following best practices, which we believe ensure that the program serves the long-term interests of our stockholders.

Policy or Best Practice	Description and Benefit to Our Stockholders
	PAY FOR PERFORMANCE
Majority of Compensation Performance-Based	For fiscal 2017, 82% of our CEO's target TDC, and an average of 64% of our NEOs' target TDC, was at-risk (all compensation components other than base salary). Further, 67% of our CEO's target TDC, and an average of 54% of our other NEOs' target TDC, was performance-based (AIP award, options and PSUs).
Median Targeting	TDC (base salary + annual cash incentive opportunity + long-term equity incentive opportunity) and the components thereof are targeted at the median of companies similar in size, scope and complexity, giving consideration to responsibilities, individual performance, tenure, retention, succession and market factors.
Capped Annual Incentive	Annual cash incentive compensation is based primarily on our achievement of performance objectives in the categories of revenue, operating income, cash flow from operating activities and backlog, with awards capped at 200% of target.
Majority Long-Term Equity Incentive Compensation	The majority of our equity-based incentive awards emphasize our long-term performance, with PSUs cliff-vesting at the end of three years, subject to achievement of the applicable performance goals. Equity compensation aligns NEO interests with stockholder interests by delivering compensation dependent on our long-term performance and stockholder value creation.
Rigorous Goal-Setting Process	Annual review and approval by the Compensation Committee of the performance goals for company (Corporate) and for the RME and WEI business groups. The performance factor used to determine AIP awards is increased or decreased based upon the growth level of the targets from the prior fiscal year.

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Policy or Best Practice	Description and Benefit to Our Stockholders
	BEST PRACTICES
No Employment Agreements	Our NEOs are employed at will, and they have no special severance benefits in the absence of a change in control.
Stock Ownership Guidelines	Our NEOs are required to obtain and maintain shares having a value equal to the lesser of (i) at least 2x to 6x base salary (based on position) or (ii) a fixed number of shares based on position. All of our NEOs are in compliance with our stock ownership guidelines.
No Hedging or Pledging	Our insider trading policy prohibits our directors and officers from hedging or pledging our common stock and all of our NEOs are in compliance with the policy.
Clawback Policy	Incentive compensation is subject to clawback if we are required to prepare an accounting restatement due to material noncompliance with any financial reporting requirements under the securities laws.
No Excise Tax Gross Ups	We do not gross-up payments received in connection with a change in control for excise taxes.
Double Trigger Equity Vesting	No equity awards will be accelerated in connection with a change in control unless the NEO's employment is terminated without cause or the NEO terminates employment for good reason within two years thereof.
No Repricing/Exchange of Underwater Stock Options	Our equity incentive plan prohibits the repricing/exchange of underwater options without stockholder approval.
Limited Perquisites	Our NEOs receive limited capped reimbursements for vehicle use, financial planning, tax planning, memberships and annual physical examinations. These reimbursements are not subject to any tax gross-up.
	STRONG GOVERNANCE
Independent Oversight	The Compensation Committee is comprised solely of independent directors.
Independent Expert Advice	Meridian Compensation Partners (Meridian), which has been determined by the Compensation Committee to be independent and free of conflicts of interest, provides the Committee with expert executive compensation advice. Meridian was selected to act as the independent advisor in January 2016.

2017 SAY ON PAY VOTE AND EXECUTIVE COMPENSATION PROGRAM

At the 2017 Annual Meeting, approximately 90% of our stockholders approved our fiscal 2016 executive compensation. In recent years, we have taken stockholder feedback into consideration as we have discussed and implemented our compensation design changes. During fiscal 2017, the Compensation Committee reviewed best practices for executive compensation, and evaluated the vote results at the 2017 Annual Meeting and the results of our ongoing stockholder outreach program. Telephone conferences with our investors were attended by members of management in our law, investor relations and executive compensation functions. The feedback was subsequently reported to the Compensation Committee, and the Committee was able to develop a clear understanding of stockholder views. As a result, the Compensation Committee determined that no additional changes to our executive compensation program were warranted in fiscal 2017. The Compensation Committee remains committed to the ongoing evaluation of our executive compensation program and adjustments to this program to reflect feedback received from stockholders.

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Stockholder Engagement

Our ongoing engagement program begins in February of each year, following the filing of our proxy statement in late January. After we file our proxy statement with the SEC, we reach out to our largest investors (generally representing 50 - 70% of our shares outstanding as of the record date), sharing these materials and offering a conversation to discuss our executive compensation and answer questions. On the day of the Annual Meeting, we discuss preliminary vote results with our Board, and follow up with Board committees in the spring with a more detailed analysis of actual results, including feedback from investors and views of proxy advisory firms. In the fall, we again reach out to our largest investors to discuss executive compensation to hear what issues are important to our stockholders. In the winter, as we prepare for the following proxy season, we review the feedback from our fall outreach effort with management and our Board, and consider whether any changes to our executive compensation program are advisable. We also keep investor feedback in mind as we prepare our next proxy statement by enhancing or clarifying our disclosure as appropriate.

Following the 2017 say-on-pay vote, as part of our stockholder outreach program, we proactively contacted our largest institutional stockholders, representing approximately 60% of our outstanding shares as of the record date for the 2017 meeting, to solicit their views on our executive compensation program and make directors and management available to answer questions or address concerns. As a result of this effort, we engaged in telephonic discussions with stockholders representing approximately 50% of our then-outstanding shares. Additionally, our senior management team, including our CEO and CFO, regularly engage in meaningful dialogue with our stockholders through our quarterly earnings calls and other channels for communication.

Stockholder Outreach Cycle

OVERVIEW OF PAY PHILOSOPHY AND EXECUTIVE COMPENSATION COMPONENTS

We believe in a "pay for performance" compensation program in which a majority of compensation is tied to our success in meeting both predetermined performance objectives and creating

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long-term stockholder value. The objective of this strategy is to motivate our executives to achieve our annual and long-term financial goals, align with stockholders, and recognize the executives' contributions in delivering strong corporate and/or business group performance. The Committee implements this philosophy and provides incentives to our executives by following three key principles:

- Positioning target TDC and each component thereof at approximately market median, and the failure to achieve financial objectives and create stockholder value should directly impact TDC relative to market median compensation;

- Aligning our annual incentive awards with our annual operating plan and key financial and strategic objectives that are predetermined and objectively measurable; and

- Rewarding long-term performance using metrics such as EPS growth and relative TSR, which focus executives on consistent and sustainable stockholder value creation.

The Compensation Committee targets TDC for NEOs at the median of companies similar in size, scope and complexity with which we compete for executive talent, giving consideration to responsibilities, individual performance, tenure, retention, company performance, succession planning and market factors. The Committee believes this positioning is appropriate given our business portfolio mix, the diversity of our services and the global nature of our operations, which require our executives to have a wide range of business leadership experience and skills.

Our incentive compensation for fiscal 2017 consisted of a target award under our AIP and LTI awards. The AIP award payouts were based on our performance against performance goals established by the Committee in November 2016 for gross revenue, operating income, cash flow and backlog. The AIP rewards NEOs based on corporate and/or business group performance, as well as individual contributions, to motivate the NEOs and align their compensation with stockholder interests. Both our AIP and our PSU awards under LTI provide upside opportunity for exceeding performance targets and downside risk, including forfeiture of PSUs, for failing to achieve predetermined performance targets. Our compensation is aligned with performance, and our ability to exceed or failure to achieve our performance targets would directly impact payments to our NEOs and their compensation relative to the market median.

Elements of Annual and Long-term Compensation

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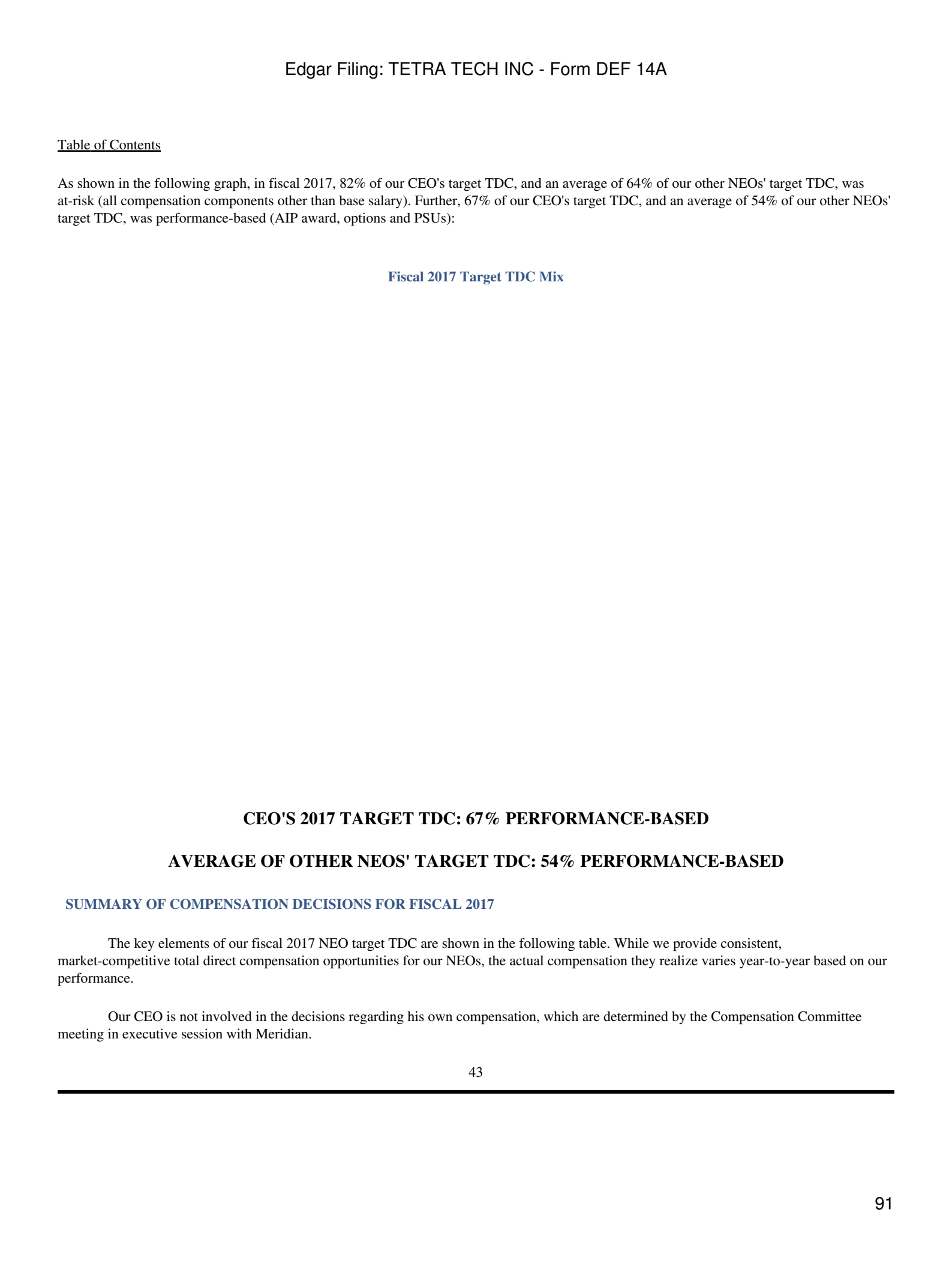
As shown in the following graph, in fiscal 2017, 82% of our CEO's target TDC, and an average of 64% of our other NEOs' target TDC, was at-risk (all compensation components other than base salary). Further, 67% of our CEO's target TDC, and an average of 54% of our other NEOs' target TDC, was performance-based (AIP award, options and PSUs):

Fiscal 2017 Target TDC Mix



SUMMARY OF COMPENSATION DECISIONS FOR FISCAL 2017

The key elements of our fiscal 2017 NEO target TDC are shown in the following table. While we provide consistent, market-competitive total direct compensation opportunities for our NEOs, the actual compensation they realize varies year-to-year based on our performance.

Our CEO is not involved in the decisions regarding his own compensation, which are determined by the Compensation Committee meeting in executive session with Meridian.

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FISCAL 2017 TDC

Component	Description	Decisions Impacting Fiscal 2017 Executive Compensation
	FIXED	
Base Salary	Provides fixed, market competitive monthly income for performing daily responsibilities	The Committee increased the CEO's base salary by 3% in fiscal 2017 to reflect prior year performance and the market median. He had not received a base salary increase since fiscal 2014. The Committee adjusted certain NEO base salaries to reflect prior-year performance or position their salary at or around the market median, with increases ranging from 3% to 8%.
	PERFORMANCE-BASED CASH	
AIP Award	Provides variable, cash-based incentive to motivate our executives annually to grow revenue, increase profitability, deliver strong cash flow and replenish backlog, consistent with our annual operating plan (AOP) financial objectives AIP opportunity is based on market survey data and independent consultant advice; financial modifier based on corporate or business group performance; and individual modifier based on defined objectives	Maximum bonus opportunity, as a percentage of base salary was 240% for the CEO, 150% for Executive Vice Presidents, and 100% for Senior Vice Presidents, which represents 200% of each executive's target bonus opportunity. The corporate and business group performance factor (CPF) has a range of 0 to 2.0 with a target of 1.0 based on achievement of four AOP targets (gross revenue, operating income, cash flow and backlog). The Committee may make limited adjustments to AIP payments for individual performance factors (IPFs). No adjustment was made for fiscal 2017. Minimum (threshold), target and maximum performance criteria and payouts established for each metric, with payout at 0% of target below threshold performance, 50% of target at

threshold, 100% of target at target, and 200% of target at maximum.

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LONG-TERM INCENTIVES

	Provides variable equity-based incentive compensation to enhance the alignment of our executives' interests with stockholder interests and drive long-term value creation LTI opportunity, including award vehicles, performance criteria and weightings based on market survey data and independent consultant recommendations	For fiscal 2017, there was no change to the value of the target LTI opportunities for the CEO and one NEO. The value of other NEOs' target LTI opportunities was adjusted to target the market median.
PSUs **RSUs** **Stock Options**		PSUs have a three-year performance period with cliff vesting, subject to achievement of the applicable performance goals; vesting is determined 50% by EPS growth and 50% by relative TSR: EPS vesting ranges from 0% for less than 5% average annual EPS growth to 200% for greater than average annual 35% EPS growth. TSR vesting ranges from 0% if our TSR is less than the 30th percentile of the TSR peer group to 200% if our TSR is at the 90th or greater percentile of the TSR peer group. Target LTI opportunity set at market median, with TSR performance at 50th percentile of the TSR peer group. TSR vesting at 100% would only result in payment at market median. If TSR performance is less than 50th percentile, vesting would be appropriately below market median. RSUs have time-based vesting at the rate of 25% per year, subject to the holder's continuous employment by us through the applicable vesting date. Stock options have time-based vesting at the rate of 25% per year, subject to the holder's continuous employment by us through the applicable vesting date.

In addition to these primary elements of our executive compensation program, we also provide our NEOs with limited perquisites and benefits.

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ASSESSMENT OF PAY FOR PERFORMANCE

Our Compensation Committee designed the executive compensation program to reflect its philosophy that a majority of compensation should be tied to our success in meeting predetermined performance objectives, the achievement of which should positively influence our stock price. The objective is to motivate the executives to achieve these annual and long-term financial goals in order to deliver consistent and sustainable return to our stockholders. As indicated below, for the period fiscal 2015 through fiscal 2017, our CEO reported compensation increased 20% and, on average, our other NEOs reported compensation increased 27%, compared to the 91% increase in our TSR performance over the same period.

Change in Reported Compensation Compared to Three-Year Cumulative TSR
Fiscal 2015 through Fiscal 2017

DISCUSSION OF COMPENSATION COMPONENTS AND DECISIONS IMPACTING FISCAL 2017 COMPENSATION

The Compensation Committee aims to have base salaries at or around the market median, with the majority of NEO compensation consisting of incentive compensation to advance the Committee's pay-for-performance philosophy. This methodology drives higher realized compensation when our financial performance is stronger and lower realized compensation when our financial performance is weaker. It provides the Committee with the flexibility to respond to changing business conditions, manage compensation in accordance with career progression, and adjust compensation to reflect differences in executive experience and performance.

Fiscal 2017 Base Salary

In November 2016, the Compensation Committee approved the base salary adjustments, if any, shown in the following table for our NEOs, and the adjustments were not retroactive to the beginning of fiscal 2017. Accordingly, these amounts do not necessarily conform to the amounts contained in the *Summary Compensation Table,* which reflect the salary actually earned during fiscal 2017. Increases are generally driven by industry and peer benchmark data, subject to increase or decrease based on the NEO's performance and the market median for positions with similar scope and responsibility.

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The rationale for each increase was our fiscal 2016 performance, and the intent to position base salary around the market median.

FISCAL 2017 NEO BASE SALARIES

Name	Fiscal 2016 Base Salary ($)	% Increase	Fiscal 2017 Base Salary ($)
Mr. Batrack	900,000	3.0	927,000
Mr. Burdick	462,000	3.0	476,000
Mr. Chu	472,000	3.0	486,000
Dr. Shoemaker	430,000	8.0	465,000
Ms. Salin	380,000	8.0	410,000

Fiscal 2017 AIP Award Program

The Compensation Committee grants AIP awards under our Executive Compensation Plan that was approved by our stockholders in 2014. No amounts are paid under the Executive Compensation Plan unless we have positive net income (as defined under the Executive Compensation Plan). The AIP awards are used to motivate NEOs to meet and exceed annual company objectives. These incentives are paid to reward the achievement of specified operating, financial, strategic and individual measures, and goals that are expected to contribute to stockholder value creation.

AIP Performance Measures and Targets

The AIP utilizes four financial metrics and one metric based on individual performance when determining payments under the Executive Compensation Plan. Each November, a target level is established for each of the four financial metrics based on the annual operating plan (AOP) for each of the RME and WEI business groups, as well as Tetra Tech as a whole. In setting the targets, the Board and Compensation Committee aim to align our long-term financial goals and the drivers of our long-term stockholder value.

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The four financial metrics, including rationale for their inclusion in the AIP and the results of the fiscal 2017 AIP are illustrated in the table below:

Metric	FY17 Weighting	What it Measures and How It Aligns	Threshold/ Maximum as a % of Target	FY 2017 Target[1] ($ in thousands)	FY 2017 Actual[2] ($ in thousands)	FY 2016 Actual[3] ($ in thousands)
Gross Revenue	20%	Measures the growth of our business and is a leading driver of stockholder value creation Aligns with our growth and durable competitive advantage drivers	85% / 115%	**Corporate**: $2,850,000 **RME**: $1,597,075 **WEI**: $1,100,098	**Corporate**: $2,753,360 **RME**: $1,659,952 **WEI**: $1,146,366	**Corporate**: $2,583,469 **RME**: $1,569,702 **WEI**: $1,028,281
Operating Income	40%	Primary measure used by stockholders and analysts to evaluate our profitability Aligns with our margin, durable competitive advantage and enterprise risk management drivers	75% / 125%	**Corporate**: $187,885 **RME**: $122,440 **WEI**: $102,883	**Corporate**: $176,419 **RME**: $110,460 **WEI**: $117,894	**Corporate**: $158,226 **RME**: $112,201 **WEI**: $95,996
Cash Flow	20%	Demonstrates our ability to collect on receivables billed to clients, and allows us to invest in our business and return funds to stockholders through dividends and share repurchases Aligns with our capital allocation driver	75% / 125%	**Corporate**: $190,000 **RME**: $122,000 **WEI**: $105,000	**Corporate**: $159,521 **RME**: $71,551 **WEI**: $118,003	**Corporate**: $170,568 **RME**: $119,010 **WEI**: $97,648
Backlog	20%		85% / 115%	**Corporate**: $2,650,000	**Corporate**: $2,541,105	**Corporate**: $2,378,894

Positions us for growth going forward based upon authorized and funded projects	**RME**: $1,650,000	**RME**: $1,570,362	**RME**: $1,466,096
	WEI: $990,000	**WEI**: $1,005,333	**WEI**: $936,865
Aligns with our growth and durable competitive advantage drivers			

(1) Corporate AOP is based on business group AOPs, augmented by planned acquisitions, which are aligned with our business and stockholder interests. The AOPs for business groups include no acquisitions, since capital allocation strategy is implemented at Corporate.

(2) With respect to Corporate, results exclude the impact of purchase price accounting and a tax settlement in fiscal 2017. With respect to RME, results include only 50% of the impact of an acquisition in fiscal 2017. This inclusion reflects the group president's responsibility to oversee the performance of, and successfully integrate acquisitions.

(3) With respect to Corporate, results exclude the impact of purchase price accounting, acquisition and integration expenses.

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Each NEO's AIP award is based on the level of achievement of corporate (for Mr. Batrack, Mr. Burdick and Ms. Salin) or business group (for Mr. Chu and Dr. Shoemaker) performance for each of these targets. Minimum (threshold), target and maximum performance criteria and payouts were established for each metric as indicated above. The payout is 50% of target at threshold, 100% of target at target, and 200% of target at maximum, with a straight line interpolation from minimum to target, and from target to maximum. Accordingly, no bonus is earned with respect to a metric if performance is below threshold, and no additional bonus is earned for performance above maximum.

Further, a financial modifier or "growth factor" is applied to adjust the payout, either upward or downward, based on whether the AOP target is aggressive as compared to the prior year. This growth factor assists in validating the rigor of our AOP goals. Additional details on both the financial and individual performance elements of our AIP are provided below.

AIP Award Formula

NEO AIP awards are determined using the following formula:

*

IPF may modify Preliminary AIP Award by no more than 20%

Fiscal 2017 Target AIP Opportunities

The following table sets forth the target award and the maximum award possible as a percentage of fiscal 2017 base salary for each NEO. No bonus is paid if performance is below the threshold performance goals.

Name	Target Award (%)	Maximum Award as a % of Base Salary (%)
Mr. Batrack	120	240
Mr. Burdick	75	150
Mr. Chu	75	150
Dr. Shoemaker	75	150
Ms. Salin	50	100

These targets are derived in part from peer group and competitive survey analysis data, and in part by the Compensation Committee's judgment on the internal equity of the positions and scope of job responsibilities.

CPF Range. The CPF has a range of 0 to 2.0 with a target of 1.0 based on achievement of the AOP performance targets established in the AOP. Specifically, for each of the four metrics, the

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Compensation Committee reviewed fiscal 2017 performance as a percentage of the target and determined an award percentage. The results were then averaged to determine the **preliminary CPF**.

Growth Factor. The Compensation Committee believes in setting aggressive targets. Accordingly, the preliminary CPF was increased or decreased based upon the growth level of the AOP targets from the prior fiscal year. This rewards demanding targets and penalizes less strenuous targets. The growth factors indicated below, were applied to each metric and the results were averaged to determine the **final CPF**.

Growth % of AOP Target from Prior Fiscal Year	Growth Factor Applied to Preliminary CPF
Less than 5%	0.9
5% to 10%	1.0
10% to 15%	1.1
Greater than 15%	1.2

Fiscal 2017 CPF Modifiers

The following tables show the AIP financial modifiers for our NEOs for fiscal 2017. Our performance resulted in modifiers of **0.956** for Mr. Batrack, Mr. Burdick and Ms. Salin based on Corporate results, **0.734** for Mr. Chu based on RME results, and **1.409** for Dr. Shoemaker based on WEI results. The weighting of the gross revenue, operating income, cash flow and backlog factors was 20%, 40%, 20% and 20%, respectively.

CORPORATE PERFORMANCE
($ in thousands)

Objective	Actual FY 2016(1)	Actual FY 2017(2)	Target FY 2017	Actual FY 2017 as a % of Target FY 2017	Preliminary CPF (0-2.0)	Growth % / Growth Factor	Weight	Final CPF (0-2.0)
Gross Revenue	2,583,469	2,753,360	2,850,000	96.61	0.887	10/1.1	0.2	0.976
Operating Income	158,226	176,419	187,885	93.90	0.878	19/1.2	0.4	1.054
Cash Flow	170,568	159,521	190,000	83.96	0.679	11/1.1	0.2	0.747
Backlog	2,378,894	2,541,105	2,650,000	95.89	0.863	11/1.1	0.2	0.949

(1) Our auction-rate securities maintain split ratings. For purposes of this table, securities are categorized according to their lowest rating.

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The following table sets forth the fair value of our long-term auction-rate securities by type of security and underlying credit rating as of December 31, 2008 (in thousands):

	Underlying Credit Rating(1)			
	AAA	AA	A	Total
Underlying security:				
Student loans	$ 166,885	$ 35,302	$ 31,818	$ 234,005
Total auction-rate securities included in long-term marketable securities	$ 166,885	$ 35,302	$ 31,818	$ 234,005

(1) Our auction-rate securities maintain split ratings. For purposes of this table, securities are categorized according to their lowest rating.

As of December 31, 2009, the yields on our long-term auction-rate securities ranged from 0.42% to 0.88%. These yields represent the predetermined maximum reset rates that occur upon auction failures according to the specific terms within each security s prospectus. As of December 31, 2009, the weighted average yield for our long-term auction-rate securities was 0.73%. Total interest recognized on our auction-rate securities and variable rate demand obligations during the year ended December 31, 2009, 2008 and 2007 was $2.4 million, $15.5 million, and $11.6 million respectively. Further, the issuers have been making interest payments promptly.

The amortized cost and estimated fair value of available-for-sale debt and equity securities by contractual maturities are shown below (in thousands). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale debt securities:				
Due in less than 1 year	$	$	$	$
Due in 1 to 5 years				
Due in 5 to 10 years				
Due after 10 years	18,800	17,704	18,800	17,071
Equity securities	5,564	4,458	5,000	5,199
Total	$ 24,364	$ 22,162	$ 23,800	$ 22,270

The Company s financial assets measured at fair value on a nonrecurring basis at December 31, 2009, were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Assets:				
Aveed indefinite-lived intangible asset	$	$	$ 35,000	$ (65,000)
Total	$	$	$ 35,000	$ (65,000)

As a result of the FDA s Complete Response letter related to our NDA for Aveed , the Company performed an impairment review for the Aveed intangible asset and concluded that it is required, under generally accepted accounting principles, to record a pre-tax, non-cash impairment charge to write-down the asset to its estimated fair value. In the complete response letter, the FDA requested information to address the

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agency s concerns regarding rare but serious adverse events, including post-injection anaphylactic reaction and pulmonary oil microembolism. The letter also specified that our proposed Risk Evaluation and Mitigation Strategy with respect to the product is not sufficient. We believe that significant regulatory uncertainty currently exists with respect to the timing, label and regulatory path forward for Aveed™, and accordingly determined that a review for asset impairment was appropriate. Although the Company is continuing to evaluate the FDA s findings to better understand the agency s concerns, we were required to estimate the fair value of our Aveed™ indefinite-lived intangible asset as of the date we received the Complete Response letter. To estimate fair value we assessed the possible changes to the product s indication and targeted population of eligible recipients, the future probability of regulatory approval, relative timing of commercialization, and estimates of the amount and timing of future cash flows. In January 2010, the Company was notified that the U.S. patent office had issued a Notice of Allowance on a patent covering the Aveed™ formulation. Therefore, management considered the likely benefit of patent exclusivity when estimating these future cash flows. To calculate the fair value of the Aveed intangible asset, the Company used an income approach using a discounted cash flow model considering management s current evaluation of the above mentioned factors. The Company utilized probability-weighted cash flow models using a present value discount factor of 15% which we believe to be commensurate with the overall risk associated with this particular product. The cash-flow models included our best estimates of future FDA approval associated with each potential indication and population of eligible recipients. The Company believes that the level and timing of cash flows assumed, discount rate, and probabilities of success appropriately reflect market participant assumptions.

The fair value of the Aveed intangible asset was determined to be $35 million. Accordingly, the Company recorded a pre-tax non-cash impairment charge of $65 million for the year ended December 31, 2009, representing the difference between the carrying value of the intangible asset and its estimated fair value. The impairment charge has been recognized in earnings and included the Impairment of other intangible assets line item in the Consolidated Statements of Operations. Changes in any of these assumptions may result in a further reduction to the estimated fair value of the Aveed™ intangible asset resulting in additional and potentially full future impairment charges. Such additional impairment charges could materially impact our results of operations in future periods.

As required, we also performed an impairment analysis on all other indefinite-lived intangible assets as of January 1, 2010. None of our other indefinite-lived intangible assets are impaired.

NOTE 4. INVENTORIES

Inventories are comprised of the following for the years ended December 31 (in thousands):

	2009	2008
Raw materials	$ 8,510	$ 7,157
Work-in-process	25,799	10,131
Finished goods	50,584	63,368
Total	$ 84,893	$ 80,656

NOTE 5. ACQUISITIONS

Indevus Pharmaceuticals, Inc.

On February 23, 2009 (referred to as the Acquisition Date), the Company completed its initial tender offer (referred to as the Offer) for all outstanding shares of common stock, par value $0.001 per share (referred to as the Indevus Shares), of Indevus, a Delaware corporation. On that day, the Company accepted for payment in accordance with the terms of the Offer, approximately 60.3 million Indevus Shares representing approximately 76% of the total outstanding Indevus Shares. Through purchases in subsequent offering periods, the exercise of a top-up option and a subsequent merger (referred to as the Merger), the Company completed its acquisition of

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Indevus on March 23, 2009, at which time Indevus became a wholly-owned subsidiary of the Company. The Indevus Shares were purchased at a price of $4.50 per Indevus Share, net to the seller in cash, plus contractual rights to receive up to an additional $3.00 per Indevus Share in contingent cash consideration payments (referred to as the Offer Price), pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2009. Accordingly, the Company paid approximately $368 million in aggregate initial cash consideration for the Indevus Shares and entered into the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement (each as defined in the Merger Agreement), providing for the payment of up to an additional $3.00 per Indevus Share in contingent cash consideration payments, in accordance with the terms of the Offer. The total cost to acquire all outstanding Indevus Shares pursuant to the Offer and the Merger could be up to an additional approximately $267 million, if Endo is obligated to pay the maximum amounts under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. The fair value of those potential obligations is $58.5 million at December 31, 2009.

Indevus was a specialty pharmaceutical company engaged in the acquisition, development, and commercialization of products to treat conditions in urology, endocrinology and oncology. Following the completion of the Merger, Indevus was renamed Endo Pharmaceuticals Solutions Inc.

Approved products include the following:

Sanctura® (trospium chloride) was launched in August 2004. Sanctura® is indicated for the treatment of overactive bladder (referred to as OAB) with symptoms of urge urinary incontinence, urgency and urinary frequency. Sanctura® is currently promoted in the U.S. by Allergan Inc.

Sanctura XR® (trospium chloride extended release capsules) is a 60 mg, once-daily formulation of Sanctura®, the only approved quaternary amine compound clinically proven to effectively treat OAB symptoms in as early as one week, with a low incidence of side effects. Sanctura XR® is currently promoted in the U.S. by Allergan Inc. and by Madaus AG in Europe.

Supprelin® LA (histrelin acetate) was launched in June 2007. Supprelin® LA is a 12-month hydrogel implant for treating central precocious puberty (referred to as CPP) or the early onset of puberty in children. Supprelin® LA utilizes our patented Hydron® Polymer Technology, designed to provide the continuous 12-month administration of a controlled dose of histrelin, a GnRH agonist.

Vantas® (histrelin) was launched in the U.S. in November 2004. Vantas® is a soft and flexible 12-month hydrogel implant currently marketed in the U.S. that provides histrelin, a luteinizing hormone releasing hormone (referred to as LHRH) agonist, for the palliative treatment of advanced prostate cancer. The product utilizes our patented Hydron® Polymer Technology that allows for a controlled delivery of medicine over a 12-month period. In November 2005, Vantas® was approved in Denmark, and in March 2006, received approval for marketing in Canada from Health Canada. Regulatory approval was granted in May 2007 in Germany, Ireland, Italy, Spain and the United Kingdom. As of August 2007, Vantas® was approved in Thailand, Singapore, and Malaysia and approval is pending in Taiwan, Korea, Hong Kong and China. Additionally, Vantas® received approval in Argentina in January 2007 and is currently being marketed in that country.

Delatestryl® (testosterone enanthate) is a marketed injectable testosterone preparation for the treatment of male hypogonadism. Delatestryl® provides testosterone enanthate, a derivative of the primary endogenous androgen testosterone, for intramuscular injection.

Hydron® Implant is a subcutaneous, retrievable, non-biodegradable, hydrogel reservoir drug delivery device. The Hydron® Implant is designed to provide sustained release of a broad spectrum of drugs continuously, at constant, predetermined rates. The Hydron® Implant is the only soft, flexible, reservoir-based drug delivery system available for parenteral administration. The hydrogel polymer compositions possess flexible, tissue-like characteristics providing excellent biocompatibility and patient comfort. This technology serves as the basis for two of our currently marketed products including Vantas® and Supprelin® LA.

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Valstar® (valrubicin) is a sterile solution of valrubicin for intravesical instillation and is the only product approved by the FDA for therapy of bacillus Calmette-Guerin (referred to as BCG)-refractory carcinoma *in situ* (referred to as CIS) of the bladder. Valstar®, originally approved by the FDA in 1998, was withdrawn from the market due to a manufacturing problem involving impurity issues in the original formulation and was placed on the FDA Drug Shortages List. In April 2007, the Company submitted a supplemental New Drug Application (referred to as sNDA) to the FDA seeking approval to reintroduce Valstar® and in February 2009 obtained FDA approval of its sNDA for Valstar®. In September 2009, we launched Valstar® for the treatment of patients with BCG-refractory CIS of the bladder. We continue to work closely with the manufacturer to build quantities of the product to support our newly launched product.

Primary development products include the following:

Aveed™ (testosterone undecanoate) is expected to be the first long-acting injectable testosterone preparation available in the U.S. for the treatment of male hypogonadism in the growing market for testosterone replacement therapies. Aveed™ had historically been referred to as Nebido® which the Company acquired the U.S. rights to from Schering AG, Germany, in July 2005. On May 6, 2009, we received notice from the FDA that Nebido® was unacceptable as a proprietary name for testosterone undecanoate. In August 2009, we received approval from FDA to use the name Aveed™. The contingent cash consideration agreement relating to the product, which we have historically referred to as the Nebido® Contingent Cash Consideration Agreement, will now be referred to as the Aveed™ Contingent Cash Consideration Agreement throughout this Report. On December 2, 2009, we received a complete response letter from the FDA regarding Aveed™ in response to our March 2009 complete response submission. In the complete response letter, the FDA has requested information from Endo to address the agency s concerns regarding very rare but serious adverse events, including post-injection anaphylactic reaction and pulmonary oil microembolism. The letter also specified that the proposed REMS is not sufficient. The Company is continuing to evaluate how best to address the concerns of the FDA and intends to have future dialogue with the agency regarding a possible regulatory pathway. The outcome of future communications with the FDA could have a material impact on (1) management s assessment of the overall probability of approval, (2) the timing of such approval, (3) the targeted indication or patient population and (4) the likelihood of additional clinical trials.

Octreotide implant, currently in Phase III clinical trials for the treatment of acromegaly, utilizes our patented Hydron® Polymer Technology to deliver six months of octreotide, a long-acting octapeptide that mimics the natural hormone somatostatin to block production of growth hormone (referred to as GH). Octreotide implant is also approved to treat symptoms associated with metastatic carcinoid tumors and vasoactive intestinal peptide secreting adenomas, which are gastrointestinal tumors. The octreotide implant is also currently in Phase II trials for the treatment of carcinoid syndrome.

Management believes the Company s acquisition of Indevus is particularly significant because it reflects our commitment to expand our business beyond pain management into complementary medical areas where we believe we can be innovative and competitive. The combined company markets products through four field sales forces and has the capability to develop innovative new therapies using a novel drug delivery technology.

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The operating results of Indevus from February 23, 2009 to December 31, 2009 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheet as of December 31, 2009 reflects the acquisition of Indevus, effective February 23, 2009, the date the Company obtained control of Indevus. The acquisition date fair value of the total consideration transferred was $540.9 million, which consisted of the following (in thousands):

	Fair Value of Consideration Transferred
Cash	$ 368,034
Contingent consideration	172,860
Total	$ 540,894

The contingent consideration relates to the amounts payable under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. In the event that the Company receives an approval letter from the FDA with respect to the Aveed™ NDA on or before the third anniversary of the time at which we purchased the Indevus Shares in the Offer, then the Company will, subject to the terms described below, (i) pay an additional $2.00 per Indevus Share to the former stockholders of Indevus, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed™ that does not contain a boxed warning (referred to as Aveed™ With Label) or alternatively, (ii) pay an additional $1.00 per Indevus Share, if such approval letter grants the right to market and sell Aveed™ immediately and provides labeling for Aveed™ that contains a boxed warning (Aveed™ Without Label). In the event that either an Aveed™ With Label approval or an Aveed™ Without Label approval has not been obtained prior to the third anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders will not receive, any payments under the Aveed™ Contingent Cash Consideration Agreement.

Further, in the event that the Aveed™ Without Label approval is received and subsequently, Endo and its subsidiaries publicly report audited financial statements which reflect cumulative net sales of Aveed™ of at least $125.0 million for four consecutive calendar quarters on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ (referred to as Aveed™ Net Sales Event), then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus. In the event that the Aveed™ Net Sales Event does not occur prior to the fifth anniversary of the date of the first commercial sale of Aveed™ then the Company will not pay, and former Indevus stockholders will not receive, any additional amounts under the Aveed™ Contingent Cash Consideration Agreement.

The range of the undiscounted amounts the Company could pay under the Aveed™ Contingent Cash Consideration Agreement is between $0 and approximately $175 million. The fair value of the contractual obligation to pay the Aveed™ contingent consideration recognized on the Acquisition Date was $133.1 million. We determined the fair value of the obligation to pay the Aveed™ contingent consideration based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Aveed™ Contingent Cash Consideration Agreement, there are three scenarios that could potentially lead to amounts being paid to the former stockholders of Indevus. These scenarios are (1) obtaining an Aveed™ With Label approval, (2) obtaining an Aveed™ Without Label approval and (3) achieving the $125.0 million sales milestone on or prior to the fifth anniversary of the date of the first commercial sale of Aveed™ should the Aveed™ Without Label approval be obtained. The fourth scenario is Aveed™ not receiving approval within three years of the closing of the Offer, which would result in no payment to the former stockholders of Indevus. Each scenario was assigned a probability based on the current regulatory status of Aveed™. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

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Similarly, in the event that an approval letter from the FDA is received with respect to an octreotide NDA (such approval letter, the Octreotide Approval) on or before the fourth anniversary of the closing of the Offer, then the Company will, subject to the terms described below, pay an additional $1.00 per Indevus Share to the former stockholders of Indevus (such payment, the Octreotide Contingent Cash Consideration Payment). In the event that an Octreotide Approval has not been obtained prior to the fourth anniversary of the closing of the Offer, then the Company will not pay, and the former Indevus stockholders shall not receive, the Octreotide Contingent Cash Consideration Payment.

The range of the undiscounted amounts the Company could pay under the Octreotide Contingent Cash Consideration Agreement is between $0 and approximately $91 million. The fair value of the octreotide contractual obligation to pay the contingent consideration recognized on the Acquisition Date was $39.8 million. We determined the fair value of the contractual obligation to pay the Octreotide Contingent Consideration Payment based on a probability-weighted income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Under the Octreotide Contingent Cash Consideration Agreement, the two scenarios that require consideration are (1) Octreotide Approval on or before the fourth anniversary of the closing of the Offer or (2) no Octreotide Approval on or before the fourth anniversary of the closing of the Offer. Each scenario was assigned a probability based on the current development stage of octreotide. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points, which the Company believes is appropriate and is representative of a market participant assumption.

In addition to the potential contingent payments under the Aveed™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement, the Company has assumed a pre-existing contingent consideration obligation relating to Indevus s acquisition of Valera Pharmaceuticals, Inc. (referred to as the Valera Contingent Consideration), which was consummated on April 18, 2007. The Valera Contingent Consideration entitles former Valera shareholders to receive additional Indevus Shares based on an agreed upon conversion factor if FDA approval of the octreotide implant for the treatment for acromegaly is achieved on or before April 18, 2012. Upon Endo s acquisition of Indevus, each Valera shareholder s right to receive additional Indevus Shares was converted into the right to receive $4.50 per Indevus Share that such former Valera shareholder would have received plus contractual rights to receive up to an additional $3.00 per Indevus Share that such former Valera shareholder would have received in contingent cash consideration payments under the Aveed ™ Contingent Cash Consideration Agreement and the Octreotide Contingent Cash Consideration Agreement. These amounts would only be payable to former Valera shareholders if there were Octreotide Approval. The range of the undiscounted amounts the Company could pay with respect to the Valera Contingent Consideration is between $0 and approximately $33 million.

The Company is accounting for the Valera Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Indevus. Accordingly, the fair value of the Valera Contingent Consideration recognized on the Acquisition Date was $13.7 million. Fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the Valera Contingent Consideration is estimated using the same assumptions used for the Aveed™ Contingent Cash Consideration Agreement and Octreotide Contingent Cash Consideration Agreement, except that the probabilities associated with the Valera Contingent Consideration take into account the probability of obtaining the Octreotide Approval on or before the fourth anniversary of the closing of the Offer. This is due to the fact that the Valera Contingent Consideration will not be paid unless Octreotide for the treatment of acromegaly is approved prior to April 18, 2012.

As of December 31, 2009, the fair value of the acquisition-related contingent consideration decreased by approximately $128.1 million from the acquisition date primarily reflecting management s current assessment of the decreased probability that we will be obligated to make contingent consideration payments under the Aveed™ Contingent Cash Consideration Agreement within the specified contractual timeframe, as well as the

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anticipated timeline for the NDA filing and FDA approval of octreotide. The decrease in the liability was recorded as a gain and is included in the Acquisition-related items line item in the accompanying Consolidated Statements of Operations. Changes in any of our assumptions may result in a further volatility to the estimated fair value of the acquisition-related contingent consideration. Such additional changes to fair value could materially impact our results of operations in future periods.

As of December 31, 2009, there were no changes to the range of the undiscounted amounts the Company may be required to pay under the Aveed ™ Contingent Cash Consideration Agreement and the Octreotide Contingent Consideration Agreement or related to the Valera Contingent Consideration.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

	February 23, 2009 (As initially reported)	Measurement Period Adjustments	February 23, 2009 (As adjusted)
Cash and cash equivalents	$ 117,675	$	$ 117,675
Accounts receivable	13,725	866	14,591
Inventories	15,808	1,349	17,157
Prepaid and other current assets	8,327	(5)	8,322
Property, plant and equipment	8,266	590	8,856
Other intangible assets	586,900	(54,000)	532,900
Deferred tax assets	159,769	7,980	167,749
Other non-current assets	764	567	1,331
Total identifiable assets	$ 911,234	$ (42,653)	$ 868,581
Accounts payable	$ (5,081)	$ (35)	$ (5,116)
Accrued expenses	(27,357)	632	(26,725)
Convertible notes	(71,682)	(830)	(72,512)
Non-recourse notes	(115,235)		(115,235)
Deferred tax liabilities	(234,599)	23,952	(210,647)
Other non-current liabilities	(18,199)	(708)	(18,907)
Total liabilities assumed	(472,153)	23,011	(449,142)
Net identifiable assets acquired	$ 439,081	$ (19,642)	$ 419,439
Goodwill	$ 102,490	$ 18,965	$ 121,455
Net assets acquired	$ 541,571	$ (677)	$ 540,894

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. As of December 31, 2009, our measurement period adjustments are complete.

Of the $532.9 million of acquired intangible assets, $255.9 million was assigned to in-process research and development. The remaining $277.0 million has been assigned to license rights and is subject to a weighted average useful life of approximately 11 years.

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The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
In Process Research & Development:		
Valstar®(1)	$ 88.0	n/a
Aveed™	100.0	n/a
Octreotide	31.0	n/a
Pagoclone	21.0	n/a
Pro2000	4.0	n/a
Other	11.9	n/a
Total	$ 255.9	n/a
License Rights:		
Hydron® Polymer	$ 22.0	10
Vantas®	36.0	10
Sanctura® Franchise	94.0	12
Supprelin® LA	124.0	10
Other	1.0	4
Total	$ 277.0	11
Total other intangible assets	$ 532.9	

(1) The FDA approved the sNDA for Valstar® subsequent to the Acquisition Date. Therefore, Valstar® was initially classified as in-process research and development and subsequently transferred to License Rights upon obtaining FDA approval.

The fair value of the in-process research and development assets and License Rights assets, with the exception of the Hydron® Polymer Technology, were estimated using an income approach. Under this method, an intangible asset s fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were generally assumed to extend either through or beyond the patent life of each product, depending on the circumstances particular to each product.

The fair value of the Hydron® Polymer Technology was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to out-license the technology. The Hydron® Polymer Technology is currently used in the following products: Vantas®, Supprelin® LA and octreotide. Thus, we derived the hypothetical royalty income from the projected revenues of those drugs. The fair value of the Hydron® Polymer Technology also includes an existing royalty payable by the Company to certain third party partners based on the net sales derived from drugs that use the Hydron® Polymer Technology. Discount rates applied to the estimated cash flows for all intangible assets acquired ranged from 13% to 20%, depending on the current stage of development, the overall risk associated with the particular project or product and other market factors. We believe the discount rates used are consistent with those that a market participant would use.

The $121.5 million of goodwill was assigned to our pharmaceutical products segment, which is our only reportable segment as of December 31, 2009. The goodwill recognized is attributable primarily to the potential additional applications for the Hydron® Polymer Technology, expected corporate synergies, the assembled workforce of Indevus and other factors. None of the goodwill is expected to be deductible for income tax purposes.

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The deferred tax assets of $167.7 million are related primarily to federal net operating loss and credit carryforwards of Indevus and its subsidiaries. The deferred tax liabilities of $210.6 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

During the year ended December 31, 2009, we recorded a net gain of $93.1 million of acquisition-related items. These amounts are included Acquisition-related items in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	Acquisition-related Items February 23, 2009 to December 31, 2009
Investment bank fees, includes Endo and Indevus	$ 13,030
Accounting and legal	7,851
Separation and other costs	14,128
	35,009
Changes in fair value of acquisition-related contingent consideration	(128,090)
Total	$ (93,081)

The amounts of revenue and net loss of Indevus included in the Company s Consolidated Statements of Operations for the year ended December 31, 2009 are as follows (dollars in thousands, except per share data):

	Revenue and Losses included in the Consolidated Statements of Operations February 23, 2009 to December 31, 2009
Revenue	$ 66,719
Net loss	$ (107,779)
Basic and diluted loss per share	$ (0.92)

The following supplemental pro forma information presents the financial results as if the acquisition of Indevus had occurred January 1, 2009 for the year ended December 31, 2009 and on January 1, 2008 for the year ended December 31, 2008. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition of Indevus been completed on January 1, 2008 or January 1, 2009, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2009	2008
Pro forma consolidated results (in thousands, except per share data):		
Revenue	$ 1,471,141	$ 1,326,717
Net income	$ 243,336	$ 192,826
Basic net income per share	$ 2.08	$ 1.56
Diluted net income per share	$ 2.07	$ 1.56

These amounts have been calculated after applying the Company s accounting policies and adjusting the results of Indevus to reflect a different revenue recognition model, the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, intangible assets, unfavorable leases and current and long-term debt, had been applied on January 1, 2009 or 2008, as applicable, together with the consequential tax effects.

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RxKinetix, Inc.

On October 12, 2006, the Company acquired all of the outstanding common stock of privately held RxKinetix, Inc. RxKinetix specialized in developing new therapeutics focused on improving the quality of life for patients being treated for cancer. RxKinetix s most advanced product, now named EN3285, was, as of the acquisition date, in clinical Phase II for the prevention of oral mucositis, a painful, debilitating and often dose-limiting side effect that afflicts many patients being treated for cancer with radiation and/or chemotherapy. All of the purchased in-process research and development value from this transaction was assigned to EN3285 since the other products, as of the acquisition date, were very early stage and did not meet the criteria to be recognized as assets.

In December 2007, the Company initiated the first of two phase III clinical trials of EN3285 for the prevention or delay of oral mucositis (OM). Endo had agreed to the trial design with the FDA under the Special Protocol Assessment (referred to as SPA) process. In March 2008, the first dosage of EN 3285 was administered to a patient enrolled in the clinical phase III trial, triggering a contingent purchase consideration payment to former shareholders of RxKinetix in the amount of $15 million that was made in March 2008. In April 2008, the FDA notified us that they were placing our studies on clinical hold pending the submission to the FDA of additional pre-clinical data. In February 2009, the Company decided to discontinue all development activities related to EN3285.

NOTE 6. LICENSE AND COLLABORATION AGREEMENTS

Commercial Products

Novartis AG and Novartis Consumer Health, Inc.

On March 4, 2008, we entered into a License and Supply Agreement (referred to as the Voltaren® Gel Agreement) with and among Novartis AG and Novartis Consumer Health, Inc. (referred to as Novartis) to obtain the exclusive U.S. marketing rights for the prescription medicine Voltaren® Gel (referred to as Voltaren® Gel or Licensed Product). Voltaren® Gel received regulatory approval in October 2007 from the U.S. Food and Drug Administration (referred to as the FDA), becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren® Gel has been granted marketing exclusivity in the U.S. as a prescription medicine until at least October 2010.

Under the terms of the five-year Voltaren® Gel Agreement, Endo made an upfront cash payment of $85 million. Endo has agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds as defined in the Voltaren® Gel Agreement. In addition, Endo has agreed to make certain guaranteed minimum annual royalty payments of $30 million per year payable in the fourth and fifth year of the Voltaren® Gel Agreement, subject to certain limitations. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that Endo s obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren® Gel Agreement year. No royalty payments were payable to Novartis during 2009 and 2008. Novartis is also eligible to receive a one-time milestone payment of $25 million if annual net sales of Voltaren® Gel exceed $300 million in the U.S. The $85 million upfront payment and the present value of the guaranteed minimum royalties have been capitalized as an intangible asset in the amount of $129 million, representing the fair value of the exclusive license to market Voltaren® Gel. We are amortizing this intangible asset into cost of revenues over its estimated five-year useful life.

Endo shall be solely responsible to commercialize the Licensed Product during the term of the Voltaren® Gel Agreement. With respect to each year during the term of the Voltaren® Gel Agreement, Endo is required to incur a minimum amount of annual advertising and promotional expenses on the commercialization of the Licensed Product, subject to certain limitations. In addition, Endo will be required to perform a minimum

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number of face-to-face one-on-one discussions with physicians and other healthcare practitioners (referred to as details) for the purpose of promoting the Licensed Product within its approved indication during each year of the Voltaren® Gel Agreement Further, during the term of the Voltaren® Gel Agreement, Endo will share in the costs of certain clinical studies and development activities initiated at the request of the FDA or as considered appropriate by Novartis and Endo.

During the term of the Voltaren® Gel Agreement, Endo has agreed to purchase all of its requirements for the Licensed Product from Novartis. The price is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials.

Novartis has the exclusive right, at its sole discretion, to effect a switch of the Licensed Product from a prescription product to an over-the-counter (referred to as OTC) product in the United States, referred to as an OTC Switch, by filing an amendment or supplement to the Licensed Product New Drug Application or taking any other action necessary or advisable in connection therewith to effect the OTC Switch, and thereafter to commercialize such OTC product. Notwithstanding the foregoing, Novartis shall not launch an OTC equivalent product prior to a time specified in the Voltaren® Gel Agreement, and Novartis shall not take any action that results in the loss of the prescription product status for the Licensed Product prior to such time. Novartis will notify Endo if it submits a filing to the FDA in respect of an OTC equivalent product. In the event that Novartis gains approval of an OTC equivalent product that results in the Licensed Product being declassified as a prescription product, then Novartis will make certain royalty payments to Endo on net sales of such OTC equivalent product in the United States by Novartis, its affiliates and their respective licensees or sublicensees as set forth in the Voltaren® Gel Agreement As a condition to the payment of any and all such royalties, net sales of the Licensed Product in the United States must have exceeded a certain threshold prior to the launch of the OTC equivalent product by Novartis or its affiliates.

The initial term of the Voltaren® Gel Agreement will expire on June 30, 2013. Endo has the option to extend the Voltaren® Gel Agreement for two successive one year terms. The Voltaren® Gel Agreement will remain in place after the first two renewal terms unless either party provides written notice of non-renewal to the other party at least six months prior to the expiration of any renewal term after the first renewal term or the Voltaren® Gel Agreement is otherwise terminated in accordance with its terms. Among other standard and customary termination rights granted under the Voltaren® Gel Agreement, the Voltaren® Gel Agreement can be terminated by either party upon reasonable written notice, if either party has committed a material breach that has not been remedied within ninety (90) days from the giving of written notice. Endo may terminate the Voltaren® Gel Agreement by written notice upon the occurrence of several events, including the launch in the United States of a generic to the Licensed Product. Novartis may terminate the Voltaren® Gel Agreement upon reasonable written notice (1) if Endo fails to deliver a set percentage of the minimum details in any given six-month period under the Voltaren® Gel Agreement; or (2) on or after the launch in the United States of an OTC equivalent product by Novartis, its affiliates or any third party that does not result in the declassification of the Licensed Product as a prescription product, following which net sales in any six-month period under the Voltaren® Gel Agreement are less than a certain defined dollar amount.

Hind Healthcare Inc.

In November 1998, Endo entered into a license agreement (referred to as the Hind License Agreement) with Hind Healthcare Inc., (referred to as Hind), for the sole and exclusive right to develop, use, market, promote and sell Lidoderm® in the United States. Under the terms of the Hind License Agreement, Endo paid Hind approximately $10 million based upon the achievement of certain milestones and capitalized this amount as an intangible asset representing the fair value of these exclusive rights. In addition, Endo pays Hind nonrefundable royalties based on net sales of Lidoderm®. Royalties are recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm®. The royalty rate is 10% of net sales through the shorter of (1) the expiration of the last licensed patent or (2) November 20, 2011, including a minimum royalty of at least $500,000 per year. During 2009, 2008 and 2007, we recorded $84.9

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million, $84.8 million and $78.2 million for these royalties to Hind, respectively. At December 31, 2009 and 2008, $22.8 million and $22.8 million, respectively, is recorded as a royalty payable and included in accounts payable in the accompanying balance sheet. In March 2002, we extended this license with Hind to cover Lidoderm® in Canada and Mexico.

Penwest Pharmaceuticals Co.

In September 1997, we entered into a collaboration agreement with Penwest Pharmaceuticals Co. (referred to as Penwest) to exclusively co-develop opioid analgesic products for pain management, using Penwest s patent-protected proprietary technology, for commercial sale worldwide. On April 2, 2002, we amended and restated this agreement between the parties (referred to as the 2002 Agreement) to provide, among other things, that this collaboration would cover only the opioid analgesic product, oxymorphone ER, now known as Opana® ER. We had historically shared, on an equal basis, the costs of products developed under this agreement. On March 18, 2003, we received notice from Penwest that it was exercising its right under the agreement to cease funding its share of the development and pre-launch marketing costs of Opana® ER. Accordingly, we were responsible for funding 100% of these remaining costs until June 22, 2006, the date on which Opana® ER received FDA approval. In January 2007, the Company and Penwest entered into an amendment (referred to as the 2007 Amendment) to the 2002 Agreement. Under the terms of the 2007 Amendment, Endo and Penwest agreed to restructure the 2002 Agreement to provide that royalties payable to Penwest for U.S. sales of Opana® ER will be calculated based on net sales of the product rather than on operating profit, and to change certain other provisions of the 2002 Agreement. The 2007 Amendment also resolved the parties ongoing disagreement with regard to sharing of marketing expenses during the period prior to when Opana® ER reached profitability. The key financial terms of the 2007 Amendment are summarized as follows:

- With respect to U.S. sales of Opana® ER, Endo s royalty payments to Penwest will be calculated starting at 22% of annual net sales of the product, and, based on agreed-upon levels of annual net sales achieved, the royalty rate can increase to a maximum of 30%.

- No royalty payments will be due to Penwest for the first $41 million of royalties that would otherwise have been payable beginning from the time of the product launch in July 2006.

- Penwest is entitled to receive milestone payments of up to $90 million based upon the achievement of certain agreed-upon annual sales thresholds.

- In 2003, Penwest opted out of funding development costs for Opana® ER. Under the 2007 Amendment, the parties have agreed that Penwest s share of these unfunded development costs will be fixed at $28 million and will be recouped by Endo through a temporary 50% reduction in royalties payable to Penwest. As of December 31, 2009, Endo has recouped approximately $24.3 million of these unfunded development costs.

Royalties will be reduced by fifty percent (50%) until we recoup our previously recognized unfunded development costs, after which time royalties will be payable on annual net sales based on the royalty rates described above. In September 2008, the $41 million royalty threshold was met. As a result, we began incurring royalties on the net sales of Opana® ER. Such royalties will be reduced by fifty percent (50%) until we recoup Penwest s share of the unfunded development costs of $28 million, after which time royalties will be payable on annual net sales based on the royalty rates described above. During the year ended December 31, 2009, we recorded, in costs of sales, royalties on the net sales of Opana® ER of approximately $19.3 million. Royalties of $5.0 million were payable during the year ended December 31, 2008.

Valeant Canada Ltd

In June 2009, the Company entered into a License Agreement with Valeant Canada Ltd (referred to as Valeant) granting Valeant a license to market Opana® and Opana® ER in Canada, Australia and New Zealand. Opana® ER, the extended release formulation of oxymorphone, was jointly developed by Penwest and Endo. Under the terms of the collaboration agreement between Penwest and Endo, the two companies have agreed to

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share equally in the proceeds received from Valeant for Opana® ER. The license agreement with Valeant also includes rights to Opana®, the immediate release formulation of oxymorphone developed by Endo. Under the terms of the licensing agreement Valeant made an upfront payment to Endo and will make future payments if certain sales milestones are reached. In addition, Valeant has agreed to pay royalties on net sales of Opana® ER and Opana® in each of the three countries, subject to royalty reductions upon patent expiry or generic entry.

Vernalis Development Limited

In July 2004, we entered into a License Agreement and a Loan Agreement with Vernalis Development Limited (referred to as Vernalis), under which Vernalis agreed to license, exclusively to us, rights to market frovatriptan succinate (referred to as Frova®) in North America (referred to as the Vernalis License Agreement). Frova® was launched in June 2002 in the U.S. and is indicated for the acute treatment of migraine headaches in adults. Under the terms of the Vernalis License Agreement, we paid Vernalis an upfront fee of $30 million and annual $15 million payments each in 2005 and 2006. Under the loan agreement, we provided Vernalis with a loan of $50 million in August 2004. We capitalized the $30 million up-front payment, the present value of the two $15 million anniversary payments and the difference of $6.2 million between the face amount of the loan and its present value at inception as an intangible asset representing the fair value of the exclusive license to market Frova®. We are amortizing this intangible asset into cost of revenues on a straight-line basis over its estimated useful life of twelve and one-half years.

Under the terms of the License Agreement, we would have been required to make a $40 million milestone payment upon FDA approval for the short-term prevention of menstrual migraine indication. In September 2007, the FDA issued to the Company and our development partner Vernalis, a not approvable letter pertaining to our supplemental new drug application (sNDA) for Frova® for the additional indication of short-term prevention of menstrual migraine. In April 2008, Endo notified the FDA of the withdrawal of the sNDA without prejudice to refiling as afforded under 21 CFR 314.65 for Frova® 2.5 mg tablets. Frova® is approved and marketed for the acute treatment of migraine with or without aura in adults.

In addition, Vernalis could receive one-time milestone payments for the achievement of defined annual net sales targets. These sales milestone payments increase based on increasing net sales targets ranging from a milestone of $10 million on $200 million in net sales to a milestone of $75 million on $1.2 billion in net sales. These sales milestones could total up to $255 million if all of the defined net sales targets are achieved. Beginning on January 1, 2007, we began paying royalties to Vernalis based on the net sales of Frova®. We withheld 50% of those royalties and used the withholding to offset a portion of the unpaid accrued interest on the note receivable. The term of the license agreement is for the shorter of the time (i) that there are valid claims on the Vernalis patents covering Frova® or there is market exclusivity granted by a regulatory authority, whichever is longer, or (ii) until the date on which a generic version of Frova® is first offered, but in no event longer than 20 years. We can terminate the license agreement under certain circumstances, including upon one years written notice. In July 2007, Vernalis and Endo entered into an Amendment (referred to as Amendment No. 3) to the License Agreement dated July 14, 2004. Under Amendment No. 3, Vernalis granted an exclusive license to Endo to make, have made, use, commercialize and have commercialized the product Frova® in Canada, under the Canadian Trademark.

On July 1, 2005, we entered into a co-promotion agreement, as amended on December 22, 2005, with Vernalis. The co-promotion agreement, as amended, was related to the above described license agreement under which Vernalis agreed to exclusively license to us rights to market the product Frova® in North America. Pursuant to the license agreement, Vernalis had retained rights to co-promote Frova® in the United States and exercised its co-promotion option effective January 2006. Concurrent with the execution of Amendment No. 4 to the License Agreement (see below), the co-promotion agreement was terminated.

In February 2008, we entered into a termination agreement with Vernalis to terminate the existing loan agreement between the parties and to settle the outstanding note receivable. Concurrent with the termination agreement, we entered into Amendment No. 4 to the 2004 License Agreement between Vernalis and the

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Company (referred to as Amendment No. 4). In addition to amending certain specific terms and conditions of the License Agreement, Amendment No. 4 sets forth an annual minimum net sales threshold such that no royalties will be due on annual U.S. net sales of Frova® less than $85 million. Prior to this amendment, royalties were payable by us to Vernalis on all net sales of Frova® in the United States. Now, once the annual minimum net sales amount is reached, royalty payments will be due only on the portion of annual net sales that exceed the $85 million threshold. We received a cash payment from Vernalis of $7 million and acquired an intangible asset representing a future royalty stream on the net sales of Frova® as consideration for the full settlement of the note receivable.

The fair value of the royalty stream that we acquired as a result of the settlement of the note receivable was calculated using the present value of expected future cash flows using a discount rate that we considered to be appropriate given the inherent risk in the timing and the amount of estimated cash flows. Our estimate of expected future cash flows was based on the royalty savings that we expect to realize as a result of Amendment No. 4 described above. Based upon our analysis, the fair value of the royalties that we would have otherwise been required to pay plus the $7 million cash payment made by Vernalis to us in February 2008 was sufficient to recover the amounts owed to us.

Accordingly, we recorded the intangible asset on our books in an amount equal to the book value of the note receivable surrendered, after applying the $7 million payment received from Vernalis, or $46.7 million. We are amortizing this acquired intangible asset into cost of revenues on a straight-line basis over its estimated useful life of nine years. The nine-year estimated useful life is consistent with the period of time we currently expect to maximize use of the asset without the significant risk of generic competition for Frova®.

Allergan/Esprit

In September 2007, Indevus entered into an Amended and Restated License, Commercialization and Supply Agreement with Esprit Pharma, Inc (referred to as Esprit), which re-defined the obligations of each party and superseded all previous agreements (referred to as the Allergan Agreement). On October 16, 2007, the effective date of the Allergan Agreement, Allergan, Inc. (referred to as Allergan) acquired Esprit resulting in Esprit being a wholly-owned subsidiary of Allergan. Upon effectiveness of the Allergan Agreement, we received the right to receive a fixed percentage of net sales for the term of the Allergan Agreement, subject to increasing annual minimum royalties. Aggregate minimum royalties for the remainder of the Allergan Agreement amount to approximately $112 million, provided there is no product adverse event, as defined in the Allergan Agreement. Commencing January 1, 2010, or earlier in the case of generic competition, Allergan has the right to reduce, subject to quarterly and annual restrictions, royalty payments by $20 million in the aggregate. The Company may also receive a payment of $20 million related to a long-term commercialization milestone related to generic competition. Lastly, all third-party royalties paid by the Company as a result of existing licensing, manufacturing and supply agreements associated with sales of Sanctura® and Sanctura XR® will be reimbursed to the Company by Allergan up to six percent (6%) of net sales. Pursuant to the Allergan Agreement, on August 13, 2008, Allergan assumed responsibility to manufacture Sanctura XR® for its use. The Allergan Agreement expires on the later of the twelfth annual anniversary of the launch of Sanctura XR® or the last to expire patent covering Sanctura XR® in the United States. Either party may also terminate the Allergan Agreement in the event of a material breach by the other party. In August 2008, Indevus assigned its rights to receive a fixed percentage of net sales and $20 million related to a long-term commercialization milestone related to generic competition to the holders of the Non-recourse Notes (see Note 17).

In May 2008, together with Madaus AG, Indevus licensed to Allergan the exclusive right to develop, manufacture, and commercialize Sanctura XR® in Canada. As a result, the Company could receive milestone payments upon achievement of certain sales thresholds. In addition, third-party royalties owed by the Company on net sales in Canada will be reimbursed by Allergan. This agreement will expire after the later of the expiration of the last applicable patent or our third party royalty obligation, after which Allergan will have a fully-paid license.

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Madaus

In November 1999, Indevus entered into an agreement with Madaus to license the exclusive rights to develop and market certain products, including Sanctura® in the United States. In exchange for these rights, Indevus agreed to pay Madaus potential regulatory and sales milestone payments and royalties on net sales of the licensed products or, if sublicensed by Indevus, a portion of royalties received from its sublicensee on net sales of the licensed product by the sublicensee, in lieu of royalty payments. The agreement expires on the tenth annual anniversary of the 2004 launch of Sanctura XR® provided either party may also terminate this agreement in the event of a material breach by the other party. The term of the agreement continues for ten years from the first commercial sale of each licensed product, after which the license is fully paid for that licensed product.

In November 2006, Indevus entered into (i) a License and Supply Agreement and (ii) an amendment to its original license agreement with Madaus (collectively referred to as the Madaus Agreements). Under the Madaus Agreements, Indevus agreed to (a) purchase from Madaus all required trospium active pharmaceutical ingredient for production of Sanctura XR® through November 2007, (b) license to Madaus the rights to sell Sanctura XR® in all countries outside of the U.S. (referred to as the Madaus Territory) except Canada, Japan, Korea and China (referred to as the Joint Territory), (c) pay to Madaus a fee based on the number of capsules of Sanctura XR® sold in the U.S. through the earlier of August 23, 2014 or upon generic formulations achieving a predetermined market share, (d) supply Sanctura XR® to Madaus for a specified period of time, (e) provide development committee support for a defined period, and (f) provide future know-how to Madaus. In exchange, Madaus (a) waived all rights to manufacture Sanctura XR® , (b) agreed to purchase Sanctura XR® from Indevus at cost plus a fee based on the number of Sanctura XR® capsules sold in the Madaus Territory, and (c) agreed to make payments upon the achievement of certain commercial milestones and royalties based on future sales of Sanctura XR® in the Madaus Territory. The Company and Madaus will share the economics of development and commercialization in the countries in the Joint Territory. If either party decides not to pursue development and commercialization of Sanctura XR® in any country in the Joint Territory, the other party has the right to develop and commercialize Sanctura XR® in that country. The Company will also pay Madaus a portion of royalties the Company receives for Sanctura® and Sanctura XR® subject to a minimum of 4% of net sales, which is offsetable against any third party royalties owed by the Company. The term of the Madaus Agreements for Sanctura XR® extends until the expiration, on a country-by-country basis, of all royalty obligations owed to the Company from Madaus which ceases upon the last to expire applicable patent in the Madaus Territory. Either party may also terminate this agreement in the event of a material breach by the other party.

Supernus

In March 2003, Indevus entered into a Development and License Agreement (referred to as the Supernus Agreement) with Supernus Pharmaceuticals, Inc. (referred to as Supernus) pursuant to which Supernus agreed to develop Sanctura XR® and granted exclusive, worldwide rights under certain Supernus patents and know-how to Indevus. The Supernus agreement includes potential future development and commercialization milestone payments from the Company to Supernus, including royalties based on sales of Sanctura XR®, and potential future development and commercialization milestone payments for up to an aggregate of $2.4 million upon the launch of Sanctura XR® in certain geographic areas. In addition, the Supernus agreement includes potential future development and commercialization milestone payments for up to an aggregate of $4.5 million upon the launch of new formulations and over-the-counter products. The Company is responsible for all development costs and the commercialization of Sanctura XR® under the Supernus agreement. The Supernus agreement continues until the earlier of, in any particular country, (i) the last date on which the manufacture, use or sale of licensed product in such country would infringe a valid claim of a licensed patent in such country but for the license granted by the agreement; or (ii) twelve years from the date of first commercial sale of licensed product in such country. Either party may also terminate this agreement in the event of a material breach by the other party or by mutual consent.

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The Population Council

The Company markets its products utilizing the Hydron® Polymer Technology pursuant to an agreement between Indevus and the Population Council. Unless earlier terminated by either party in the event of a material breach by the other party, the term of the agreement is the shorter of twenty-five years from October 1997 or until the date on which The Population Council receives approximately $40 million in payments from the Company. The Company is required to pay to The Population Council 3% of its net sales of Vantas® and any polymer implant containing an LHRH analog. We are also obligated to pay royalties to the Population Council ranging from 0.5% of net sales to 4% of net sales under certain conditions. We are also obligated to pay the Population Council 30% of certain profits and payments in certain territories received by the Company from the licensing of Vantas® or any other polymer implant containing an LHRH analog and 5% for other implants.

Orion Corporation

In April 2008, Indevus entered into a License, Supply and Distribution Agreement (referred to as the Orion Agreement) with Orion Corporation (referred to as Orion) granting Orion the rights to market Vantas® in Europe and in certain other countries outside of Europe. Vantas® is currently approved for the treatment of advanced prostate cancer in Denmark, the United Kingdom and other European countries, and the Company is seeking additional European approval through the mutual recognition procedure. The Company could receive certain contingent payments from Orion based on approvals and sales thresholds. Additionally, the Company will supply Vantas® to Orion at a pre-determined transfer price subject to annual minimum purchase requirements. The Orion Agreement expires in April 2023, unless earlier terminated by either party in the event of a material breach by the other party. The Orion Agreement will automatically renew for one-year periods, subject to the right of either party to terminate the agreement at any time effective at the end of the initial fifteen-year term or any subsequent one-year renewal period thereafter with at least six months prior written notice to the other party.

Products in Development

Grünenthal GMBH

In February 2009, we entered into a Development, License and Supply Agreement (referred to as the Grünenthal Agreement) with Grünenthal GMBH (referred to as Grünenthal), granting us the exclusive right in North America to develop and market Grünenthal s investigational drug, axomadol. Currently in Phase II trials, axomadol is a patented new chemical entity being developed for the treatment of moderate to moderately-severe chronic pain and diabetic peripheral neuropathic pain. Under the terms of the Grünenthal Agreement, Endo paid Grünenthal approximately $9.4 million upfront and an additional $25.2 million in 2009 upon the achievement of certain milestones. We could be obligated to pay additional clinical, regulatory and approval milestone payments of up to approximately 19 million euros (approximately $27 million at December 31, 2009) and possibly development and commerce milestone payments of up to an additional $68 million. In addition, Grünenthal will receive payments from Endo based on a percentage of Endo s annual net sales of the product in the United States and Canada. The Grünenthal Agreement will expire in its entirety on the date of (i) the 15th anniversary of the first commercial sale of the product; or (ii) the expiration of the last issued patent claiming or covering the product, or (iii) the expiration of exclusivity granted by the FDA for the product, whichever occurs later. Among other standard and customary termination rights granted under the Grünenthal Agreement, we may terminate the Grünenthal Agreement at our sole discretion at any time upon ninety (90) days written prior notice to Grünenthal and payment of certain penalties.

Bioniche Life Sciences Inc.

In July 2009, the Company entered into a License, Development and Supply Agreement (referred to as the Bioniche Agreement) with Bioniche Life Sciences Inc. and Bioniche Urology Inc. (collectively referred to as Bioniche), whereby the Company licensed from Bioniche the exclusive rights to develop and market Bioniche s proprietary formulation of Mycobacterial Cell Wall-DNA Complex (MCC), known as Urocidin , in the U.S. with an option for global rights. We exercised our option for global rights in the first quarter of 2010. Urocidin

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is a patented formulation of MCC developed by Bioniche for the treatment of non-muscle-invasive bladder cancer that is currently undergoing Phase III clinical testing. Under the terms of the Bioniche Agreement, Endo paid Bioniche an up-front cash payment of $20.0 million in July 2009, which was recorded as research and development expense. In addition, Bioniche could potentially receive up to approximately $110 million in additional payments linked to the achievement of future clinical, regulatory, and commercial milestones related to Urocidin . Bioniche will manufacture Urocidin and receive a transfer price for supply based on a percentage of Endo s annual net sales of Urocidin . Endo may terminate the Bioniche Agreement upon 180 days prior written notice.

Strakan International Limited

In August 2009, we entered into a License and Supply Agreement with Strakan International Limited, a subsidiary of ProStrakan Group plc (referred to as ProStrakan), for the exclusive right to commercialize Fortesta in the U.S. (referred to as the ProStrakan Agreement). Fortesta , a patented two percent (2%) testosterone transdermal gel for testosterone replacement therapy in male hypogonadism, utilizes a metered dose delivery system designed to permit accurate dose adjustment to individual patient requirements. Under the terms of the ProStrakan Agreement, Endo paid ProStrakan an up-front cash payment of $10 million, which was recorded as research and development expense. In addition, ProStrakan could potentially receive up to approximately $200 million in additional payments linked to the achievement of future regulatory and commercial milestones related to Fortesta . ProStrakan will exclusively supply Fortesta to Endo at a supply price based on a percentage of annual net sales subject to a minimum floor price as defined in the ProStrakan Agreement. Endo may terminate the ProStrakan Agreement upon six months, prior written notice at no cost to the Company.

In October 2009, we received a Complete Response letter from the FDA regarding the NDA for Fortesta . The FDA issues Complete Response letters to communicate that their initial review of an NDA or abbreviated new drug application (referred to as ANDA) is complete and that the application cannot be approved in its present form. A Complete Response also informs applicants of changes that must be made before an application can be approved, with no implication regarding the ultimate approvability of the application. The Company will continue to work closely with the FDA to address their questions and we expect to file a complete response, mid-2010. The milestone payment to ProStrakan related to FDA approval of Fortesta is reduced the longer such approval takes, subject to certain limits.

BayerSchering

In July 2005, Indevus licensed exclusive U.S. rights from Schering AG, Germany, now BayerSchering Pharma AG (referred to as BayerSchering) to market a long-acting injectable testosterone preparation for the treatment of male hypogonadism that we refer to as Aveed™ (referred to as the BayerSchering Agreement). The Company is responsible for the development and commercialization of Aveed™ in the United States. BayerSchering is responsible for manufacturing and supplying the Company with finished product. As part of the BayerSchering Agreement, Indevus agreed to pay to BayerSchering up to $30 million in up-front, regulatory milestone, and commercialization milestone payments, including a $5.0 million payment due upon approval by the FDA to market Aveed™. Indevus also agreed to pay to BayerSchering 25% of net sales of Aveed™ to cover both the cost of finished product and royalties. The BayerSchering Agreement expires ten years from the first commercial sale of Aveed™. Either party may also terminate the BayerSchering Agreement in the event of a material breach by the other party.

In October 2006, Indevus entered into a supply agreement with BayerSchering pursuant to which BayerSchering agreed to manufacture and supply Indevus with all of its requirements for Aveed™ for a supply price based on net sales of Aveed™. The supply price is applied against the 25% of net sales owed to BayerSchering pursuant to the BayerSchering Agreement. The BayerSchering Agreement expires ten years after the first commercial sale of Aveed™.

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Sanofi-Aventis

In February 1994, Indevus licensed from Rhone-Poulenc Rorer, S.A., now Aventis Pharma S.A. (referred to as Sanofi-Aventis), exclusive, worldwide rights for the manufacture, use and sale of pagoclone under patent rights and know-how related to the drug, except that Indevus granted Sanofi-Aventis an option to sublicense, under certain conditions, rights to market pagoclone in France. Indevus paid Sanofi-Aventis a license fee and agreed to make milestone payments based on clinical and regulatory developments, and to pay royalties based on net sales through the expiration of the composition of matter patent. If sublicensed, the Company would pay to Sanofi-Aventis a portion of receipts from the sublicensee in lieu of payments. Under the terms of the agreement with Sanofi-Aventis, the Company is responsible for all costs of developing, manufacturing, and marketing pagoclone. This agreement expires with respect to each country upon the last to expire applicable patent. Additionally either party may also terminate this agreement in the event of a material breach by the other party. The Company could owe an additional $5.5 million if certain clinical and regulatory development milestones are achieved, as well as royalties on net sales or a percentage of royalties it receives if the product is sublicensed.

Teva Pharmaceutical Industries Ltd.

In September 2008, Indevus entered into a Development, License and Commercialization Agreement with Teva Pharmaceutical Industries Ltd. (referred to as Teva) for the exclusive, worldwide rights to pagoclone (referred to as the Teva Agreement). Under the terms of the Teva Agreement, the Company will conduct, and Teva will reimburse expenses for, a Phase IIb study for stuttering. Teva will be responsible for the conduct of all remaining development and commercialization, including the Phase III program.

In March 2009, Teva converted the Teva Agreement from an equal cost sharing arrangement to a royalty structure whereby Teva will be responsible for all development and commercial costs in the U.S. and the Company will receive royalties on net sales, in addition to milestone payments.

Under the Teva Agreement, the Company could receive up to $142.5 million in development and sales threshold milestone payments, including an estimated $11.0 million of contractual payments to be received during the Phase IIb study, of which the Company has received $10.0 million as of December 31, 2009. The term will extend on a country-by-country basis from the effective date to the later of twelve years from first commercial sale or the last valid claim in a country in the territory. Teva may terminate the Teva Agreement (i) by giving notice within a certain time frame from the completion of the Phase IIb study, and (ii) anytime with a specified advance notice, except no such termination will be effective until the completion of any ongoing Phase IIb study. If Teva terminates the Teva Agreement after a product is approved, the Company will pay Teva royalties on its revenues up to an aggregate of certain amounts expended by Teva on development and commercialization. Either party may terminate the Teva Agreement in the event of a material breach by the other party.

Hydron Technologies, Inc.

In November 1989, GP Strategies Corporation (referred to as GP Strategies), then known as National Patent Development Corporation, entered into an agreement (referred to as the Hydron Agreement) with Dento-Med Industries, Inc., now known as Hydron Technologies, Inc. In June 2000, Valera Pharmaceuticals, Inc. (referred to as Valera, now a wholly-owned subsidiary of the Company known as Endo Pharmaceuticals Valera Inc.) entered into a contribution agreement with GP Strategies, pursuant to which Valera acquired the assets of GP Strategies drug delivery business, including all intellectual property, and all of Valera s rights under the Hydron Agreement, and certain other agreements with The Population Council and Shire US, Inc.

Pursuant to the Hydron Agreement, the Company has the exclusive right to manufacture, sell and distribute any prescription drug or medical device and certain other products made with the Hydron® Polymer Technology. Hydron Technologies retained an exclusive, worldwide license to manufacture, market or use products composed of, or produced with the use of, the Hydron® Polymer Technology in certain consumer and oral health fields.

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Neither party is prohibited from manufacturing, exploiting, using or transferring the rights to any new non-prescription drug product containing the Hydron® Polymer Technology, subject to certain exceptions, for limited exclusivity periods. Subject to certain conditions and exceptions, the Company is obligated to supply certain types of Hydron® Polymer Technology if Hydron Technologies elects to purchase them from the Company. In the event the Company withdraws from the business of manufacturing the Hydron® Polymer Technology, the Company will assign all of its right and interest in the Hydron trademark to Hydron Technologies. The agreement continues indefinitely, unless terminated earlier by the parties. Each party may owe royalties up to 5% to the other party on certain products under certain conditions.

Orexo AB

In August 2004, we entered into an agreement with Orexo AB (referred to as the Orexo), granting us the exclusive rights to develop and market Orexo AB s patented sublingual muco-adhesive fentanyl product (referred to as Rapinyl) in North America (referred to as the Orexo Agreement). Rapinyl is a sub-lingual, fast-dissolving tablet of fentanyl intended for the treatment of breakthrough cancer pain. Rapinyl is based on Orexo s unique patented technology for sublingual administration. The Orexo Agreement provided for us to make an up-front license fee payment of $10 million, which we capitalized as an intangible asset representing the fair value of the exclusive right to market products utilizing Orexo s unique patented technology for sublingual administration. We were amortizing this intangible asset over its estimated useful life of twenty (20) years.

During the second quarter of 2008, the Company completed an in-depth review of its research and development (referred to as R&D) activities. The review included an analysis of the Company s R&D priorities, focus and available resources for current and future projects as well as the commercial potential for each product. As a result of this review, in July 2008 the Company decided to discontinue development of Rapinyl and terminate the Orexo Agreement in accordance with its terms. As a result of this decision, the Company recorded a pre-tax impairment of other intangible assets in the amount of $8.1 million in the second quarter of 2008 to reduce the remaining balance of our Rapinyl intangible asset to zero and also recorded an impairment charge of approximately $3.1 million related to the impairment of property and equipment that has been included in research and development expenses.

Pursuant to the terms the Orexo Agreement, we are required to pay a $0.8 million termination fee to Orexo. In addition, we were required to continue all ongoing clinical trials related to Rapinyl for a maximum of six months from the date of our termination of the Orexo Agreement. On October 30, 2008, Endo entered into an early termination agreement effective October 31, 2008 pursuant to which we agreed to cease all involvement in the ongoing clinical trials of Rapinyl and paid Orexo a lump sum fee equal to $2.3 million, including the termination fee of $0.8 million. In exchange, Orexo has released Endo from certain claims under the Orexo Agreement. We are also required to transition the manufacturing process to Orexo or an agreed-upon third party, and supply manufactured product to Orexo or the agreed-upon third party during the transition period for up to a maximum of two years from the date of termination of the agreement. Orexo will pay us 125% of the cost for all manufactured product we provide during the transition period.

EpiCept Corp.

In December 2003, we entered into a license granting us exclusive, worldwide rights to certain patents of EpiCept Corp. (referred to as EpiCept) as well as exclusive, worldwide commercialization rights to EpiCept s LidoPAIN® BP product (referred to as EpiCept Agreement). The EpiCept Agreement provides for Endo to pay EpiCept milestones as well as royalties on the net sales of EpiCept s LidoPAIN® BP product. Under this Agreement, we made an upfront payment to EpiCept of $7.5 million which we capitalized as an intangible asset representing the fair value of the exclusive right and the patents. We are amortizing this intangible asset over its useful life of thirteen (13) years. EpiCept has also retained an option to co-promote the LidoPAIN® BP product. Milestone payments made by Endo under this agreement, including regulatory milestones and sales thresholds, could total up to $82.5 million. In addition, the EpiCept Agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. The

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EpiCept Agreement generally lasts until the underlying patents expire. In January 2009, EpiCept announced that it was discontinuing all drug discovery activities including the development of LidoPAIN® BP. However, the Company intends to maintain its patent rights conveyed by the EpiCept Agreement.

Other

In December 2007, we entered into a license, development and supply agreement with an undisclosed third party collaborative partner for the exclusive clinical development and commercialization rights in Canada and the United States for a certain technology to be utilized in our various product development activities. Under the terms of this agreement the collaborative partner will be responsible for development efforts to conduct pharmaceutical formulation development and will manufacture any such product or products which obtain FDA approval. Endo will be responsible for conducting clinical development activities and for all development costs incurred to obtain regulatory approval. Pursuant to this agreement, we expensed upfront fees of $18.9 million as research and development during the year ended December 31, 2007. During the year ended December 31, 2008, we expensed $6.9 million of milestone payments. During the year ended December 31, 2009, we had no expenses for milestone payments pursuant to this agreement. Additional payments of approximately 71.0 million euros (approximately $102 million at December 31, 2009) may become due upon achievement of predetermined regulatory and commercial milestones. Endo will also make payments to the collaboration partner based on net sales of any such product or products commercialized under this agreement.

We have also entered into certain other collaboration and discovery agreements with third parties for the development of pain management and other products. These agreements require us to share in the development costs of such products and grant marketing rights to us for such products.

We have also licensed from universities and other similar firms rights to certain technologies or intellectual property generally in the field of pain management. We are generally required to make upfront payments as well as other payments upon successful completion of regulatory or sales milestones. In addition, these agreements generally require us to pay royalties on sales of the products arising from these agreements. These agreements generally permit Endo to terminate the agreement with no significant continuing obligation.

In July 2008, the Company made a $20 million investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer. In exchange for our $20 million payment, we received an equity interest in the privately-held company and the rights to negotiate an exclusive worldwide development and commercialization arrangement with respect to a certain technology for use in a specified indication. The Company s $20 million payment resulted in an ownership interest of less than 20% of the outstanding voting stock of the privately-held company. In addition, Endo and other equity holders have provided a line of credit totaling $25 million, of which Endo is committed to fund $3 million. No amounts have been funded under the line-of credit as of December 31, 2009. Based on the equity ownership structure, Endo does not have the ability to exert significant influence over the privately-held company. Pursuant to authoritative accounting guidance, our investment constitutes a variable interest in this privately-held company. We have determined that Endo is not the primary beneficiary and therefore have not consolidated the assets, liabilities, and results of operations of the privately-held company into our Consolidated Financial Statements. Accordingly, Endo is accounting for this investment under the cost method. As of December 31, 2009, our investment in the privately-held company was $20 million, representing our maximum exposure to loss.

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NOTE 7. Property and Equipment

Property and equipment is comprised of the following for the years ended December 31 (in thousands):

	2009	2008
Machinery and equipment	$ 17,331	$ 14,421
Leasehold improvements	22,567	17,459
Computer equipment and software	40,681	35,983
Assets under capital leases	1,222	1,542
Furniture and fixtures	8,094	7,824
Assets under construction	7,758	5,300
	97,653	82,529
Less accumulated depreciation	(50,124)	(38,151)
Total	$ 47,529	$ 44,378

Depreciation expense was $16.9 million, $13.0 million and $11.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 8. Goodwill and Other Intangibles

For the years ended December 31, changes in the carrying amount of Goodwill consisted of the following (in thousands):

	Carrying Amount
Balance at December 31, 2008	$ 181,079
Acquisition of Indevus (Note 5)	121,455
Balance at December 31, 2009	$ 302,534

As of December 31, 2009, $204 million and $98 million was allocated to the Pain & Specialty Generics and UEO reporting units, respectively. As a result of the Indevus acquisition, Endo recorded goodwill of approximately $121.5 million, portions which were allocated to each reporting unit. In allocating the goodwill from the acquisition, Endo determined that the goodwill derived from the transaction was assignable to the Pain & Specialty Generics reporting unit due to the value associated with the forecasted synergies related to the acquisition.

On December 2 2009, the Company received a complete response letter from the FDA regarding its NDA for Aveed™ and determined this to be a triggering event requiring us to perform an interim goodwill impairment test on our UEO reporting unit. Therefore, we performed a goodwill impairment test on our UEO reporting unit as of December 2, 2009 after giving effect to the Aveed™ indefinite-lived intangible asset impairment. Our UEO reporting unit was also tested for impairment again as of January 1, 2010, our annual assessment date, along with our Pain & Specialty Generics reporting unit. The results of our analyses showed that the fair value of both of our reporting units substantially exceeded their respective carrying values and thus no goodwill impairment exists.

Based upon recent market conditions, and a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting units fair value. The income approach converts future amounts to a single present value amount (discounted cash flow model). Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flow (including long-term growth rates), discount rate, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in determining the fair value of our reporting units at the measurement date.

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Our other intangible assets consisted of the following at December 31, 2009 and December 31, 2008, respectively (in thousands):

	December 31, 2009	December 31, 2008
Indefinite-lived intangibles:		
In process research and development	$ 100,900	$
Definite-lived intangibles:		
Licenses	$ 625,242	$ 257,757
Less accumulated amortization	(116,233)	(52,702)
Patents		3,200
Less accumulated amortization		(3,200)
	509,009	205,055
Other intangibles, net	$ 609,909	$ 205,055

Changes in the gross carrying amount of our other intangible assets for the year ended December 31, 2009, are as follows:

(in thousands)	Gross carrying amount
Balance at December 31, 2008	$ 260,957
Acquisition of Indevus (Note 5)	532,900
LecTec license	4,485
Aveed™ impairment	(65,000)
Pro2000 impairment	(4,000)
Disposal of patents	(3,200)
Balance at December 31, 2009	$ 726,142

On November 11, 2009, we reached a settlement with LecTec Corporation on outstanding patent litigation. Endo made a one-time, $23 million payment for the exclusive license to two patents for use in the field of prescription pain medicines and treatment. As part of this settlement, both Hind Healthcare Inc. and Teikoku Seiyaku Co., Ltd.were each contractually required to fund their share of this settlement. Accordingly, we recorded an intangible asset representing the portion of our net payment attributable to the license. The remaining $1.3 million was charged to expense, representing our estimate of the portion of our net payment attributable to the settlement.

In December of 2009, the Company s Phase III clinical trials for Pro2000 provided conclusive results that the drug was not effective. In December 2009, the Company concluded there was no further value or alternative future uses associated with this indefinite-lived asset. Accordingly, we recorded a $4 million impairment charge to write-off the Pro2000 intangible asset in its entirety. Additionally, as a result of the FDA s Complete Response letter related to our NDA for Aveed , the Company performed an impairment review for the Aveed intangible asset as of December 31, 2009 which resulted in an impairment of $65 million. See Note 3 for further details.

Amortization expense was $63.5 million, $33.5 million and $6.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, estimated amortization of intangibles for the five fiscal years subsequent to December 31, 2009 is as follows (in thousands):

2010	$ 69,141
2011	69,141
2012	69,141
2013	58,836
2014	43,944

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NOTE 9. Accrued Expenses

Accrued expenses are comprised of the following for each of the years ended December 31 (in thousands):

	2009	2008
Chargebacks	$ 51,904	$ 35,982
Returns and allowances	48,274	38,982
Rebates	124,443	104,667
Other sales deductions	6,060	5,142
Other	55,925	41,232
Total	$ 286,606	$ 226,005

NOTE 10. Other (Income) Expense, net

The components of other (income) expense, net for each of the years ended December 31 are as follows (in thousands):

	2009	2008	2007
Other-than-temporary impairment of auction-rate securities		26,417	
Unrealized (gain) loss on trading securities	(15,222)	4,225	
Loss (gain) on Auction-Rate Securities Rights	11,662	(27,321)	
Other	231	(1,568)	(598)
Other (income) expense, net	$ (3,329)	$ 1,753	$ (598)

NOTE 11. Income Taxes

Income tax consists of the following for each of the years ended December 31 (in thousands):

	2009	2008	2007
Current:			
Federal	$ 116,372	$ 124,862	$ 100,542
State	17,036	8,639	23,439
	133,408	133,501	123,981
Deferred:			
Federal	(18,621)	2,582	(1,553)
State	(5,884)	(743)	(17)
	(24,505)	1,839	(1,570)
Excess tax benefits of stock options exercised	(3,689)	(92)	3,453
Valuation allowance	(11,890)	1,244	(54)
Total income tax	$ 93,324	$ 136,492	$ 125,810

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A reconciliation of income tax at the federal statutory income tax rate to the total income tax provision for each of the years ended December 31 (in thousands):

	2009	2008	2007
Federal income tax at the statutory rate	$ 125,881	$ 137,144	$ 123,637
State income tax net of federal benefit	4,383	8,965	11,493
Research and development credit	(3,428)	(2,124)	(2,704)
Uncertain tax positions	6,810	(2,898)	5,055
Effect of permanent items:			
Changes in contingent consideration	(42,819)		
Transaction-related expenses	3,447		
Tax exempt interest income	(905)	(6,631)	(9,447)
Other	(45)	2,036	(2,224)
Total income tax	$ 93,324	$ 136,492	$ 125,810

The tax effects of temporary differences that comprise the current and non-current deferred income tax amounts shown on the balance sheets for the years ended December 31 are as follows (in thousands):

	2009	2008
Deferred tax assets:		
Accrued expenses	$ 67,953	$ 44,056
Compensation related to stock options	15,693	14,631
Purchased in-process research and development	2,943	4,203
Net operating loss carryforward	122,558	10,598
Capital loss carryforward	11,235	10,729
Research and development credit carryforward	11,604	
Depreciation and amortization	23,767	
Uncertain tax positions	17,795	15,858
Other-than-temporary impairment of auction-rate securities	6,135	11,721
Interest expense original issuers discount		1,119
Prepaid royalties	12,354	16,557
Other	11,722	5,620
Total gross deferred income tax assets	303,759	135,092
Deferred tax liabilities:		
Depreciation and amortization	(223,379)	(49,032)
Convertible debt non cash interest expense	(10,469)	(12,467)
Auction-rate securities rights	(5,817)	(10,451)
Other	(5,601)	(1,941)
Total gross deferred income tax liabilities	(245,266)	(73,891)
Valuation allowance	(17,240)	(14,067)
Net deferred income tax asset	$ 41,253	$ 47,134

As of December 31, 2009, the Company recorded a valuation allowance of $0.4 million related to the unrealized holding loss on available-for-sale auction-rate securities, the offset of which was recorded in accumulated other comprehensive loss, a component of shareholder s equity.

The Company had $33.2 million of capital losses that expired at December 31, 2009. Accordingly, the deferred tax asset and related valuation allowance were eliminated. The Company recorded an additional valuation allowance of $14.0 in 2009 primarily related to the uncertainty of our ability to utilize the capital loss carryforwards acquired from Indevus which $26.7 million will expire December 31, 2011.

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On January 1, 2007, the Company adopted the provisions for accounting for uncertain tax positions, which became effective for fiscal years beginning after December 15, 2006. The new standard created a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The provisions apply to all material tax positions in all taxing jurisdictions for all open tax years. The standard establishes a two-step process for evaluating tax positions. Step 1 Recognition, requires the Company to determine whether a tax position, based solely on its technical merits, has a likelihood of more than 50 percent (more-likely-than-not) that the tax position taken will be sustained upon examination. Step 2 Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2009 and 2008, interest and penalties included in income tax expense totaled $2.1 million and $1.3 million, respectively.

A reconciliation of the change in the uncertain tax benefits balance from January 1, 2007 to December 31, 2009 is as follow (in thousands):

	Unrecognized Tax Benefit Federal, State, and Foreign Tax
Balance at January 1, 2007	$ 5,461
Gross additions for current year positions	4,363
Gross additions for prior period positions	1,220
Gross reductions for prior period positions	(64)
Balance at December 31, 2007	$ 10,980
Gross additions for current year positions	5,200
Gross additions for prior period positions	17,091
Gross reductions for prior period positions	(11,758)
Decrease due to settlements	(559)
Decrease due to lapse of statute of limitations	(1,650)
Balance at December 31, 2008	19,304
Gross additions for current year positions	7,609
Gross additions for prior period positions	217
Gross reductions for prior period positions	(27)
Decrease due to settlements	
Decrease due to lapse of statute of limitations	
Balance at December 31, 2009	$ 27,103
Accrued interest and penalties	7,197
Total uncertain tax liability	$ 34,300
Current portion (included in accrued expenses)	$ 587
Non-current portion (included in other liabilities)	$ 33,713

The Company and its subsidiaries are routinely examined by various taxing authorities, which have proposed adjustments to tax for issues such as certain tax credits and the deductibility of certain expenses. While it is possible that one or more of these examinations may be resolved within the next twelve months, it is not anticipated that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months. In addition, the expiration of statutes of limitations for various jurisdictions is expected to reduce the unrecognized tax benefits balance by an insignificant amount.

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The Company files income tax returns in the U.S. Federal jurisdiction, and various state and foreign jurisdictions. The Company is subject to U.S. Federal, state and local, and non-U.S. income tax examinations by tax authorities. The Company s U.S. federal income tax returns for tax years 2003 through 2006 are currently under routine examination by the IRS. In general, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2003. The Company believes that it has adequately provided for uncertain tax positions relating to all open tax years by tax jurisdiction.

The total amount of gross unrecognized tax benefits as of December 31, 2009 is $34.3 million, including interest and penalties, of which $16.1 million, if recognized, would affect the Company s effective tax rate. The change in the total amount of unrecognized tax benefits did not have a material impact on the Company s results of operations for the year ended December 31, 2009 or our financial position as of December 31, 2009. Any future adjustments to our uncertain tax position liability will result in an impact to our income tax provision and effective tax rate.

It is expected that the amount of unrecognized tax benefits will change during the next twelve months; however, the Company does not anticipate any adjustments that would lead to a material impact on our results of operations or our financial position.

NOTE 12. STOCKHOLDERS EQUITY

Common Stock

At our 2008 Annual Meeting held on June 26, 2008, our stockholders approved an amendment to the Company s Amended and Restated Certificate of Incorporation which increased the total number of shares of common stock, $0.01 par value, that the Company is authorized to issue from 175,000,000 to 350,000,000.

Subject to certain limitations, we are permitted to pay dividends under the Credit Facility. See Note 17 for further details.

Preferred Stock

The Board of Directors may, without further action by the stockholders, issue a series of Preferred Stock and fix the rights and preferences of those shares, including the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption price or prices, liquidation preferences, the number of shares constituting any series and the designation of such series. As of December 31, 2009, no shares of Preferred Stock have been issued.

Stock-Based Compensation

Endo Pharmaceuticals Holdings Inc. 2000, 2004 and 2007 Stock Incentive Plans

On August 11, 2000, we established the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan reserves an aggregate of 4,000,000 shares of common stock of the Company for issuance to employees, officers, directors and consultants. The 2000 Stock Incentive Plan provides for the issuance of stock options, restricted stock, stock bonus awards, stock appreciation rights or performance awards. In May 2004, our stockholders approved the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2004 Stock Incentive Plan is 4,000,000 shares. The 2004 Plan provides for the grant of stock options, stock appreciation rights, shares of restricted stock, performance shares, performance units or other share-based awards that may be granted to executive officers and other employees of the Company, including officers and directors who are employees, to non-employee directors and to consultants to the Company. In May 2007, our stockholders approved the Endo Pharmaceuticals Holdings Inc. 2007 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2007 Stock Incentive Plan is seven million (7,000,000) shares (subject to

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adjustment for certain transactions), but in no event may the total number of shares of Company stock subject to awards awarded to any one participant during any tax year of the Company exceed seven hundred fifty thousand (750,000) shares (subject to adjustment for certain transactions). During 2009, 43,500 restricted stock units and 66,503 non-qualified stock options were granted to an executive officer of the Company as an inducement to commence employment with the Company. The restricted stock units and non-qualified stock options were granted outside of the 2007 Stock Incentive Plan but are subject to the terms and conditions of the 2007 Stock Incentive Plan and the applicable award agreements. Approximately 11.9 million shares were reserved for future issuance upon exercise of options granted or to be granted under the 2000, 2004 and 2007 Stock Incentive Plans. As of December 31, 2009, stock options, restricted stock awards and restricted stock units have been granted under the Stock Incentive Plans.

Endo Pharma LLC 1997 Executive and Employee Stock Option Plans and Endo Pharma LLC 2000 Supplemental Executive and Employee Stock Option Plans

On November 25, 1997, the Company established the 1997 Employee Stock Option Plan and the 1997 Executive Stock Option Plan (collectively referred to as the 1997 Stock Option Plans). On July 17, 2000, the 1997 Stock Option Plans were amended and restated. The Endo Pharma LLC 1997 Stock Option Plans are these amended and restated 1997 Stock Options Plans and reserved an aggregate of 25,615,339 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 1997 Stock Option Plans expired on August 26, 2007. Upon exercise of these stock options, only currently outstanding shares of common stock of the Company held by Endo Pharma LLC were issued. Endo Pharma LLC is a limited liability company that is no longer affiliated with the Company and in which affiliates of Kelso & Company have a controlling interest. Exercise of these stock options did not result in the issuance of additional shares in the Company and did not dilute the ownership interests of our public stockholders.

Pursuant to the Company s merger with Algos Pharmaceutical Corporation (referred to as Algos) and related recapitalization of the Company on July 17, 2000, the Endo Pharma LLC 2000 Supplemental Stock Option Plans were established. The Endo Pharma LLC 2000 Supplemental Stock Option Plans reserved an aggregate of 10,672,314 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 2000 Supplemental Stock Option Plans expired on August 26, 2007. The Endo Pharma LLC 2000 Supplemental Stock Option Plans became effective on January 1, 2003, resulting in the issuance of 10,672,314 stock options to certain employees and members of management. No additional shares of Company common stock were issued as a result of the exercise of these stock options, because these stock options were exercisable only into shares of Company common stock that were held by Endo Pharma LLC. Accordingly, exercise of these stock options did not result in the issuance of additional shares in the Company and did not dilute the ownership interests of our public stockholders.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with the guidance for Share-Based Payments. Accordingly, all stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the income statement over the requisite service period.

Presented below is the allocation of stock-based compensation as recorded in our Consolidated Statements of Operations for the years ended December 31 (in thousands).

	2009	2008	2007
Selling, general and administrative expenses	$ 17,211	$ 15,492	$ 12,397
Research and development expenses	2,382	1,442	1,531
Total stock-based compensation expense	$ 19,593	$ 16,934	$ 13,928

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Stock Options

For all of the Company s stock-based compensation plans, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company s stock price over a period commensurate with the expected life of the share option as well as other factors. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected term of options granted based on our historical experience with our employees exercise of stock options and other factors.

A summary of the activity under 2000, 2004 and 2007 Stock Incentive Plans for the three-year period ended December 31, 2009 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2007	3,910,768	$ 21.19		
Granted	1,201,663	$ 30.59		
Exercised	(530,462)	$ 14.57		
Forfeited	(222,743)	$ 27.55		
Expired	(23,174)	$ 28.24		
Outstanding, December 31, 2007	4,336,052	$ 24.24		
Granted	1,371,253	$ 24.78		
Exercised	(150,191)	$ 14.88		
Forfeited	(834,753)	$ 28.10		
Expired	(62,979)	$ 29.11		
Outstanding, December 31, 2008	4,659,382	$ 23.95		
Granted	2,216,544	$ 19.30		
Exercised	(554,827)	$ 14.48		
Forfeited	(300,864)	$ 24.11		
Expired	(861,694)	$ 24.67		
Outstanding, December 31, 2009	5,158,541	$ 22.84	7.17	$ 5,839,126
Vested and expected to vest, December 31, 2009	4,826,935	$ 23.01	7.05	$ 5,491,748
Exercisable, December 31, 2009	2,003,703	$ 23.98	4.95	$ 3,410,090

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $3.6 million, $1.4 million, and $9.4 million, respectively. The weighted-average grant date fair value of the stock options granted during the years ended December 31, 2009, 2008 and 2007 was $7.47, $9.48 and $15.11 per option, respectively, determined using the following assumptions:

	2009	2008	2007
Average expected term (years)	5.22	4.92	5.50
Risk-free interest rate	2.04%	2.8%	4.6%
Dividend yield	0.00	0.00	0.00
Expected volatility	40%	39%	48%

The weighted average remaining requisite service period of the non-vested stock options is 2.54 years. As of December 31, 2009, the total remaining unrecognized compensation cost related to non-vested stock options amounted to $24.2 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

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The following table summarizes information about stock options outstanding under our 2000, 2004 and 2007 Stock Incentive Plans at December 31, 2009:

2000, 2004 and 2007 Stock Incentive Plans Options Outstanding

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Exercisable Weighted Average Exercise Price	Range of Exercise Prices
5,158,541	7.17	$ 22.84	2,003,703	$ 23.98	$ 6.88-32.99

A summary of the activity under the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans for the three-year period ended December 31, 2009 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2007	75,259	$ 2.42		
Granted		$		
Exercised	(75,259)	$ 2.42		
Forfeited		$		
Outstanding, December 31, 2007		$		
Granted		$		
Exercised		$		
Forfeited		$		
Outstanding, December 31, 2008		$		
Granted		$		
Exercised		$		
Forfeited		$		
Outstanding, vested and exercisable, December 31, 2009		$		

The total intrinsic value of options exercised during the year ended December 31, 2007 was $2.3 million.

As of December 31, 2008, there was no remaining unrecognized compensation cost related to non-vested stock options granted pursuant to the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans. Additionally, no options were available for grant under the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans at December 31, 2009.

Restricted Stock Awards

During the year ended December 31, 2007, the Company granted restricted stock awards to non-employee directors of the Company. We recognize expense for our restricted stock using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock is equal to the closing price of Endo shares on the date of grant.

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A summary of our restricted stock activity during the years ended December 31, 2009, 2008 and 2007 is presented below:

	Number of Shares	Weighted Average Fair Value Per Share	Aggregate Intrinsic Value
Non-vested, January 1, 2007		$	
Granted	13,572	$ 29.84	
Forfeited		$	
Vested		$	$
Non-vested, December 31, 2007	13,572	$ 29.84	
Granted		$	
Forfeited	(1,131)	$ 29.84	
Vested	(6,786)	$ 29.84	$ 175,622
Non-vested, December 31, 2008	5,655	$ 29.84	
Granted		$	
Forfeited	(1,131)	$ 29.84	
Vested	(4,524)	$ 29.84	$ 92,832
Non-vested, December 31, 2009		$	

As of December 31, 2009, there was no unrecognized compensation cost related to non-vested restricted stock awards.

Restricted Stock Units

During the years ended December 31, 2009 and 2008, the Company granted restricted stock units to employees and non-employee directors of the Company as part of their annual stock compensation award. We recognize expense for our restricted stock units using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock units is equal to the closing price of Endo shares on the date of grant.

A summary of our restricted stock units activity during the years ended December 31, 2009 and 2008 are presented below:

	Number of Shares	Aggregate Intrinsic Value
Outstanding, January 1, 2008		
Granted	639,396	
Forfeited	(91,043)	
Vested		
Outstanding, December 31, 2008	548,353	
Granted	1,133,186	
Forfeited	(86,286)	
Vested	(118,012)	
Outstanding, December 31, 2009	1,477,241	$ 30,312,985

The weighted average remaining requisite service period of the non-vested restricted stock units is 2.79 years. The weighted-average grant date fair value of the restricted stock units granted during the year ended December 31, 2009 and 2008 was $19.43 and $25.09 per unit, respectively. As of December 31, 2009, the total remaining unrecognized compensation cost related to non-vested restricted stock units amounted to $24.7 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

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Share Repurchase Program

In April 2008, our Board of Directors approved a share repurchase program, authorizing the Company to repurchase in the aggregate up to $750 million of shares of its outstanding common stock. Purchases under this program may be made from time to time in open market purchases, privately-negotiated transactions, and accelerated stock repurchase transactions or otherwise, as determined by Endo.

This program does not obligate Endo to acquire any particular amount of common stock. The pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investment in the Company s business, repayment of future debt, if any, current stock price, market conditions and other factors. The share repurchase program may be suspended, modified or discontinued at any time. As a result of a two-year extension approved by the Board of Directors in February 2010, the share repurchase plan is set to expire in April 2012.

As described in Note 17, we entered into a privately-negotiated $325.0 million accelerated share repurchase agreement as part of our broader share repurchase program described above. Pursuant to the accelerated share repurchase agreement, we purchased approximately 11.9 million shares of our common stock on April 15, 2008. On August 14, 2008, Endo received approximately 1.4 million additional shares of our common stock based on the volume-weighted average price of our common stock during a specified averaging period set forth by the accelerated share repurchase agreement. In addition to the accelerated share repurchase, beginning in April 2008, we made open market purchases of our common stock as part of our broader share repurchase program. As of December 31, 2008, we purchased approximately 4.5 million shares of our common stock on the open market for a total purchase price of approximately $99.8 million. We did not purchase any shares of our common stock during the year ended December 31, 2009.

NOTE 13. RELATED PARTY TRANSACTIONS

Tax Sharing Agreement. On July 14, 2000, Endo Pharma LLC was formed in connection with our acquisition of Algos Pharmaceutical Corporation (referred to as Algos) to ensure that the stock options granted pursuant to the Endo Pharma LLC Stock Option Plans diluted only the Endo common stock held by persons and entities that held such shares prior to our merger with Algos. Endo Pharma LLC is a limited liability company that is no longer affiliated with the Company but had historically held significant portions of our common stock, in which affiliates of Kelso & Company and certain former members of management have an interest. Upon the exercise of these stock options, only currently outstanding shares of our common stock held by Endo Pharma LLC were delivered. Because Endo Pharma LLC, and not us, had provided the shares upon the exercise of these options, we entered into a tax sharing agreement (as amended) with Endo Pharma LLC under which we were required to pay to Endo Pharma LLC the amount of the tax benefits usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC.

During the year ended December 31, 2007, the final 75,259 shares underlying stock options granted under the Endo Pharma LLC stock option plans were exercised. We were obligated, under our amended tax sharing agreement, to pay to Endo Pharma LLC an additional tax benefit amount of approximately $0.7 million. The estimated tax benefit amount attributable to these exercises and any additional tax benefits attributable to the exercise of stock options granted under the Endo Pharma LLC stock option plans in 2007 were paid during the twelve months ended December 31, 2008. This represented the final tax sharing payment due to Endo Pharma LLC.

NOTE 14. COMMITMENTS and CONTINGENCIES

Manufacturing, Supply and Other Service Agreements

We contract with various third party manufacturers and suppliers to provide us with raw materials used in our products and finished goods. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively referred to as Novartis), Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Almac Pharma

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Services, Sharp Corporation, and Ventiv Commercial Services, LLC. If for any reason we are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Novartis Consumer Health, Inc.

On May 3, 2001, we entered into a long-term manufacturing and development agreement with Novartis Consumer Health, Inc. whereby Novartis Consumer Health, Inc. has agreed to manufacture certain of our commercial products and products in development. We are required to purchase, on an annual basis, a minimum amount of product from Novartis Consumer Health, Inc. The purchase price per product is equal to a predetermined amount per unit, subject to periodic adjustments. This agreement had a five-year term, with automatic five-year renewals thereafter. In August 2005, we extended this agreement until 2011. We are required to purchase a minimum of approximately $20 million per year in 2010 and approximately $21 million in 2011. Either party may terminate this agreement on three-years notice, effective at any time after the initial five-year term. Either party may also terminate this agreement on account of a material breach by the other. Amounts purchased pursuant to this agreement were $64.7 million, $55.4 million and $30.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Pursuant to the March 2008 Voltaren® Gel License and Supply Agreement (referred to as the Voltaren® Gel Agreement) with Novartis AG and Novartis Consumer Health, Inc. Endo has agreed to purchase from Novartis all of its requirements for Voltaren® Gel during the entire term of the Voltaren® Gel Agreement. The price of product purchased under the Voltaren® Gel Agreement is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials. Amounts purchased pursuant to the Voltaren® Gel Agreement were $13.1 million and $23.4 million for the years ended December 31, 2009 and 2008, respectively.

As part of the Voltaren® Gel Agreement, we also agreed to undertake advertising and promotion of Voltaren® Gel (referred to as A&P Expenditures), subject to certain thresholds set forth in the Voltaren® Gel Agreement. We agreed to spend a minimum of $15.0 million on A&P Expenditures during the first Voltaren® Gel Agreement Year which ended on June 30, 2009. During the second Voltaren® Gel Agreement Year beginning on July 1, 2009 and extending through June 30, 2010, we agreed to spend a minimum of $20 million on A&P Expenditures. In subsequent Agreement Years, the minimum A&P Expenditures set forth in the Voltaren® Gel Agreement are determined based on a percentage of net sales of Voltaren® Gel.

Amounts incurred by Endo for such A&P Expenditures were $15.6 million and $9.4 million for the years ended December 31, 2009 and 2008, respectively.

Teikoku Seiyaku Co., Ltd.

Under the terms of our agreement (referred to as the Teikoku Agreement) with Teikoku Seiyaku Co. Ltd. (referred to as Teikoku), a Japanese manufacturer, Teikoku manufactures Lidoderm® at its Japanese facility for commercial sale by us in the United States. We also have an option to extend the supply area to other territories. The agreement contains certain provisions requiring Teikoku to qualify an additional manufacturing site, at our request, should we meet certain defined purchasing levels for a defined period of time. On April 24, 2007, we amended the Teikoku agreement (referred to as the Amended Agreement). The material components of the Amended Agreement are as follows:

We agreed to purchase a minimum number of patches per year through 2012, representing the noncancelable portion of the Amended Agreement.

Teikoku agreed to fix the supply price of Lidoderm® for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the Amended Agreement. Since future price changes are unknown, we have used prices currently existing under the Amended Agreement, and

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estimated our minimum purchase requirement to be approximately $32 million per year through 2012. The minimum purchase requirement shall remain in effect subsequent to 2012, except that Endo has the right to terminate the Amended Agreement after 2012, if we fail to meet the annual minimum requirement.

Following cessation of our obligation to pay royalties to Hind Healthcare Inc. (referred to as Hind) under the Sole and Exclusive License Agreement dated as of November 23, 1998, as amended, between Hind and Endo, we will pay to Teikoku annual royalties based on our annual net sales of Lidoderm®.

The Amended Agreement will expire on December 31, 2021, unless terminated in accordance with its terms. Either party may terminate this Agreement, upon thirty (30) days written notice, in the event that Endo fails to purchase the annual minimum quantity for each year after 2012 (e.g., 2013 through 2021) upon thirty (30) days written notice. Notwithstanding the foregoing, after December 31, 2021, the Amended Agreement shall be automatically renewed on the first day of January each year unless (i) we and Teikoku agree to terminate the Amended Agreement upon mutual written agreement or (ii) either we or Teikoku terminates the Amended Agreement with 180-day written notice to the other party, which notice shall not in any event be effective prior to July 1, 2022.

Amounts purchased pursuant to this agreement were $142.3 million, $152.2 million, and $152.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Mallinckrodt Inc.

Under the terms of our agreement with Mallinckrodt Inc. (referred to as Mallinckrodt), (referred to as the Mallinckrodt Agreement) Mallinckrodt manufactures and supplies to us narcotic active drug substances, in bulk form, and raw materials for inclusion in our controlled substance pharmaceutical products. There is no minimum annual purchase commitment under the Mallinckrodt agreement. However, we are required to purchase a fixed percentage of our annual requirements of each narcotic active drug substance from Mallinckrodt. The purchase price for these substances is equal to a fixed amount, adjusted on an annual basis. The initial term of this agreement is July 1, 1998 until June 30, 2013, with an automatic renewal provision for unlimited successive one-year periods. Either party may terminate the Mallinckrodt agreement in the event of a material breach by the other party. Amounts purchased pursuant to this agreement were $20.7 million, $15.8 million, and $16.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Almac Pharma Services

Under the terms of our agreement (referred to as the Almac Agreement) with Almac Pharma Services (referred to as Almac), a European manufacturer, Almac manufactures Frova® at its Ireland facility for commercial sale by us in the United States. The Almac agreement with Almac will expire on January 1, 2011, unless terminated sooner in accordance with its terms and can be extended beyond January 1, 2011 upon mutual agreement by both parties. If no agreement as to any extension or termination is reached six months prior to the end of the term, then the agreement will automatically renew for a period of twelve months. Almac has agreed to fix the supply price of Frova® for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the agreement, subject to an annual maximum increase. Amounts purchased pursuant to the Almac Agreement were $0.9 million and $0.9 million for the years ended December 31, 2009 and 2008, respectively.

Sharp Corporation

Under the terms of our agreement (referred to as the Sharp Agreement) with Sharp Corporation (referred to as Sharp), a U.S. manufacturer, Sharp performs certain services for Endo including the packaging and labeling of Lidoderm® at its facility in Allentown, Pennsylvania, for commercial sale by us in the United States. The Sharp Agreement will expire on March 1, 2011, subject to renewal for additional one-year periods upon mutual

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agreement by both parties. Endo has the right to terminate the Sharp Agreement at any time upon ninety (90) days written notice. Amounts purchased pursuant to the Sharp agreement were $6.3 million, $5.3 million and $5.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Ventiv Commercial Services, LLC

On May 15, 2008, we entered into a services agreement (referred to as the Ventiv Agreement) with Ventiv Commercial Services, LLC (referred to as Ventiv). Under the terms of the Ventiv Agreement, Ventiv will provide to Endo certain sales and marketing services through a contracted field force and other sales management positions, collectively referred to as the Ventiv Field Force. The Ventiv Field Force will promote primarily Voltaren® Gel and will be required to perform a minimum number of face-to-face one-on-one discussions with physicians and other healthcare practitioners for the purpose of promoting Voltaren® Gel and other Endo products within their respective approved indications during each year of the Ventiv Agreement, subject to certain provisions.

Under the terms of the Ventiv Agreement, we incurred a one-time implementation fee that we recognized in selling, general, and administrative expense in the second quarter of 2008. In addition, each month we are required to pay Ventiv a monthly fixed fee during the term of the Ventiv Agreement based on a pre-approved budget. Included in the fixed monthly fee are certain costs such as the Ventiv sales representative and district manager salaries, Ventiv field force travel, and office and other expenses captured on routine expense reports, as well as a fixed management fee. Ventiv will also be eligible to earn a performance-based bonus equal to the fixed management fee during each year of the Ventiv Agreement. This performance-based bonus is payable upon the achievement of certain conditions, including the number of Voltaren® Gel tubes sold and the number of Details achieved.

The Ventiv Agreement will expire on June 30, 2010. Among other standard and customary termination rights granted under the Ventiv Agreement, we may terminate the Ventiv Agreement at our sole discretion at any time upon 120 days written prior notice to Ventiv, at which time we may be required to pay Ventiv a termination fee of up to $1 million. In January 2009, we agreed to certain changes to the Ventiv Agreement allowing for modifications to certain provisions, including the modification to the termination rights such that Endo is now permitted to terminate the Ventiv Agreement at our sole discretion at any time upon 60 days written prior notice. The Ventiv Agreement can also be terminated by either party upon reasonable written notice, if either party has committed a material breach that has not been remedied within thirty (30) days from the giving of written notice.

In May 2009, we amended the Ventiv Agreement to change certain provisions including a reduction in the Ventiv Field Force from 275 to 80 sales representatives effective June 1, 2009.

General

In addition to the manufacturing and supply agreements described above, we have agreements with (1) UPS Supply Chain Solutions, Inc. for customer service support, warehouse and distribution services and certain financial functions that expires in 2010 and (2) various companies for clinical development services. Although we have no reason to believe that the parties to these agreements will not meet their obligations, failure by any of these third parties to honor their contractual obligations may have a materially adverse effect on our business, financial condition, results of operations and cash flows.

Milestones and Royalties

See Note 6 for a complete description of future milestone and royalty commitments pursuant to our acquisitions, license and collaboration agreements.

Employment Agreements

We have entered into employment agreements with certain members of management.

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Research Contracts

We routinely contract with universities, medical centers, contract research organizations and other institutions for the conduct of research and clinical studies on our behalf. These agreements are generally for the duration of the contracted study and contain provisions that allow us to terminate prior to completion.

Legal Proceedings

While we cannot predict the outcome of our ongoing legal proceedings, we believe that the claims against us are without merit, and we intend to vigorously defend our position. An adverse outcome in any of these proceedings could have a material adverse effect on our current and future financial position, results of operations and cash flows.

Withdrawal of Redux, Legal Proceedings, Insurance Claims, and Related Contingencies

In September 1997, Indevus announced a market withdrawal of its first commercial prescription product, the anti-obesity medication Redux (dexfenfluramine hydrochloride capsules C-IV), which had been launched in June 1996 by its licensee, American Home Products Corporation, which became Wyeth, and was later acquired by Pfizer. The withdrawal of Redux was based on a preliminary analysis by the FDA of potential abnormal echocardiogram findings associated with certain patients taking Redux or the combination of fenfluramine with phentermine. Following the withdrawal of Redux, the Company was named, together with other pharmaceutical companies, as a defendant in several thousand product liability legal actions in federal and state courts relating to the use of Redux and other weight loss drugs. Less than 100 lawsuits are still pending against the Company. In May 2001, Indevus entered into the AHP Indemnity and Release Agreement with Wyeth pursuant to which Wyeth agreed to indemnify Indevus against certain classes of product liability cases filed against Indevus related to Redux and Indevus agreed to dismiss Redux related claims against Wyeth. Under the terms of the AHP Indemnity and Release Agreement, Wyeth has agreed to indemnify Indevus for claims brought by plaintiffs who initially opted out of Wyeth s national class action settlement of diet drug claims and claimants alleging primary pulmonary hypertension. In addition, Wyeth has agreed to fund all future legal costs of Indevus related to the defense of Redux-related product liability cases. Also, pursuant to the AHP Indemnity and Release Agreement, Wyeth agreed to fund additional insurance coverage to supplement the Company s existing product liability insurance. The Company believes its total insurance coverage, including the additional insurance coverage funded by Wyeth, is sufficient to address the potential remaining Redux product liability exposure. However, there can be no assurance Redux claims will not exceed the amount of insurance coverage available to the Company and Wyeth s indemnification obligations under the AHP Indemnity and Release Agreement. If such insurance coverage and Wyeth indemnification is not sufficient to satisfy Redux-related claims, the payment of amounts to satisfy such claims may have a material adverse effect on the Company s business, results of operations or financial condition. Prior to the effectiveness of the AHP Indemnity and Release Agreement, Redux-related defense costs of Indevus were paid by, or subject to reimbursement from, Indevus s product liability insurers. To date, there have been no Redux-related product liability settlements or judgments paid by Indevus or their insurers.

As of December 31, 2009, the Company had an outstanding insurance claim of approximately $3.0 million, relating to payments made by the Company to the group of law firms defending the Company in the Redux-related product liability litigation, for services rendered by such law firms through May 30, 2001. The full amount of the Company s current outstanding insurance claim is made pursuant to the Company s product liability policy issued to Indevus by Reliance Insurance Company (Reliance). In October 2001, the Commonwealth Court of Pennsylvania granted an Order of Liquidation to the Insurance Commissioner of Pennsylvania to begin liquidation proceedings against Reliance. It is uncertain when, if ever, the Company will collect any of its remaining $3.0 million of claims. If the Company incurs additional product liability defense and other costs subject to claims on the Reliance product liability policy up to the $5.0 million limit of the policy, the Company will have to pay such costs without expectation of reimbursement and will incur charges to operations for all or a portion of such payments.

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Indevus Tender Offer

During January 2009, multiple lawsuits (the Actions) were brought against Endo, Indevus, Endo s wholly-owned merger subsidiary, BTB Purchaser Inc. (the Purchaser) and members of the Indevus board of directors arising out of the transaction between Endo and Indevus (the Transaction). Three of those suits, respectively docketed as: (i) *Gober v. Endo Pharmaceuticals, et al*., C.A. No. 4276 (Del. Ch.) (the Gober Action); (ii) *Mishket v. Cooper, et al*., C.A. No. 4299 (the Mishket Action); and (iii) *Hell v. Indevus Pharmaceuticals, et al*., C.A. No. 4327 (the Hell Action) were filed in the Delaware Court of Chancery. Two others, respectively docketed as *Schroeder v. Endo Pharmaceuticals, et al*., 09-0126 (the Schroeder Action) and *Wexler v. Indevus Pharmaceuticals, et al*., 09-0166 (the Wexler Action) were filed in the Superior Court of the Commonwealth of Massachusetts.

Each of the suits was purportedly brought individually and on behalf of all public stockholders of Indevus. The suits generally alleged similar claims, including claims that alleges that Indevus s director defendants breached their fiduciary duties to Indevus s stockholders in connection with the Offer and that each of the defendants aided and abetted such alleged breach of Indevus s director defendants fiduciary duties. In addition, the Hell Action also alleged that the Indevus Schedule 14D-9 Solicitation Statement failed to disclose material information about the Offer, that the defendant directors did not protect against purported conflicts of interest and that the terms of the Merger Agreement prevented stockholders of Indevus from receiving appropriate consideration for their Indevus shares. Based on the allegations, each of the plaintiffs sought similar relief in the Actions including declaration of their respective Action as a class action, injunctive relief enjoining preliminarily and permanently the Offer, rescinding, to the extent already implemented, the Offer or any of the terms thereof or awarding rescissory damages, directing that the defendants account to plaintiff and other members of the purported class for all damages caused by them and account for all profits and any special benefits obtained as a result of breaches of their fiduciary duties to the purported stockholder and other members of the purported class, awarding plaintiff the costs of their respective Action including a reasonable allowance for the expenses of plaintiffs attorneys and experts and granting plaintiff and other members of the purported class such further relief as the court deemed just and proper.

On February 4, 2009, the parties to the Gober Action, Mishket Action, Wexler Action, and Schroeder Action executed a Memorandum of Understanding (the Memorandum of Understanding), which set forth the terms and conditions for settlement of each of those Actions. The Memorandum of Understanding did not include the plaintiff in the Hell Action. The parties agreed that, after arm s length discussions between and among the parties, Indevus would provide additional supplemental disclosures to its Schedule 14D-9 and that the Company Termination Fee, as defined in the Merger Agreement, would be reduced by 10% (from $20,000,000 to $18,000,000). In exchange, following confirmatory discovery, the parties would attempt in good faith to agree to a stipulation of settlement and, upon court approval in the Gober Action of that stipulation, the Plaintiffs would dismiss each of the other above-referenced actions with prejudice, and the Defendants would be released from any claims arising out of the Transaction. The Defendants agreed not to oppose any fee application by Plaintiffs counsel that did not exceed $700,000 in the aggregate. The Company paid this $700,000 in 2009.

On July 2, 2009, the Schroeder Action was voluntarily dismissed with prejudice as to Plaintiff Schroeder. On August 26, 2009, after a period of confirmatory discovery, a Stipulation of Settlement (the Stipulation) was filed with the Court of Chancery in the Gober Action. On August 28, 2009, the Court approved a proposed Scheduling Order for the settlement of the Gober Action, setting a hearing on the fairness of the proposed settlement on November 23, 2009. In accordance with the terms of the Scheduling Order, notice of the proposed settlement was mailed to shareholders on or before September 28, 2009.

On November 23, 2009, the Court certified the Gober Action as a class action and approved the settlement under the terms described in the Stipulation. There were no objections filed with the Court or communicated to any parties with respect to the settlement. Although the certification of the class and settlement of the Gober Action legally terminated the claims brought by the other plaintiffs in the Actions, as required under the terms of

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the Stipulation, plaintiffs in the Mishket and Wexler Actions dismissed their Actions with prejudice with respect to all defendants. On December 11, 2009, plaintiff in the Hell Action voluntarily dismissed his Action with prejudice with respect to all defendants.

Throughout the course of the Actions, Endo and Purchaser denied and continue to deny, that either of them committed or aided and abetted in the commission of any violation of law of any kind or engaged in any of the wrongful acts alleged in the above-referenced actions. Endo and Purchaser each expressly maintain that it diligently and scrupulously complied with its legal duties, and executed the Memorandum of Understanding and Stipulation of Settlement solely to eliminate the burden and expense of further litigation.

Department of Health and Human Services Subpoena

In January 2007, the Company received a subpoena issued by the United States Department of Health and Human Services, Office of Inspector General (referred to as OIG). The subpoena requests documents relating to Lidoderm® (lidocaine patch 5%), focused primarily on the sale, marketing and promotion of Lidoderm® . The Company is cooperating with the government. At this time, the Company cannot predict or determine the outcome of the above matter or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome.

Pricing Litigation

A number of cases brought by local and state government entities are pending that allege generally that our wholly-owned subsidiary, Endo Pharmaceuticals Inc. (referred to as EPI) and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. These cases generally seek damages, treble damages, disgorgement of profits, restitution and attorneys fees.

The federal court cases have been consolidated in the United States District Court for the District of Massachusetts under the Multidistrict Litigation Rules as In re: *Pharmaceutical Industry Average Wholesale Price Litigation, MDL 1456*. The following previously reported cases are pending in MDL 1456 and have been consolidated into one consolidated complaint: *City of New York v. Abbott Laboratories, Inc., et al.*; *County of Albany v. Abbott Laboratories, Inc., et al.*; *County of Allegany v. Abbott Laboratories, Inc., et al.*; *County of Broome v. Abbott Laboratories, Inc., et al.*; *County of Cattaraugus v. Abbott Laboratories, Inc., et al*; *County of Cayuga v. Abbott Laboratories, Inc., et al.*; *County of Chautauqua v. Abbott Laboratories, Inc., et al.*; *County of Chemung v. Abbott Laboratories, Inc., et al.*; *County of Chenango v. Abbott Laboratories, Inc., et al.*; *County of Columbia v. Abbott Laboratories, Inc., et al.*; *County of Cortland v. Abbott Laboratories, Inc., et al.*; *County of Dutchess v. Abbott Laboratories, Inc., et al.*; *County of Essex v. Abbott Laboratories, Inc., et al.*; *County of Fulton v. Abbott Laboratories, Inc., et al.*; *County of Genesee v. Abbott Laboratories, Inc., et al.*; *County of Greene v. Abbott Laboratories, Inc., et al.*; *County of Herkimer v. Abbott Laboratories, Inc., et al.*; *County of Jefferson v. Abbott Laboratories, Inc., et al.*; *County of Lewis v. Abbott Laboratories, Inc., et al.*; *County of Madison v. Abbott Laboratories, Inc., et al.*; *County of Monroe v. Abbott Laboratories, Inc., et al.*; *County of Niagara v. Abbott Laboratories, Inc., et al.*; *County of Oneida v. Abbott Laboratories, Inc., et al.*; *County of Onondaga v. Abbott Laboratories, Inc., et al.*; *County of Ontario v. Abbott Laboratories, Inc., et al.*; *County of Orleans v. Abbott Laboratories, Inc., et al.*; *County of Putnam v. Abbott Laboratories, Inc., et al.*; *County of Rensselaer v. Abbott Laboratories, Inc., et al.*; *County of Rockland v. Abbott Laboratories, Inc., et al.*; *County of St. Lawrence v. Abbott Laboratories, Inc., et al.*; *County of Saratoga v. Abbott Laboratories, Inc., et al.*; *County of Schuyler v. Abbott Laboratories, Inc., et al.*; *County of Seneca v. Abbott Laboratories, Inc., et al.*; *County of Steuben v. Abbott Laboratories, Inc., et al.*; *County of Suffolk v. Abbott Laboratories, Inc., et al.*; *County of Tompkins v. Abbott Laboratories, Inc., et al.*; *County of Ulster v. Abbott Laboratories, Inc., et al.*; *County of Warren v. Abbott Laboratories, Inc., et al.*; *County of Washington v. Abbott Laboratories, Inc., et al.*; *County of Wayne v. Abbott Laboratories, Inc., et al.*; *County of Westchester v. Abbott Laboratories, Inc., et al*; *County of Wyoming v. Abbott Laboratories, Inc., et al.*; and *County of Yates v. Abbott Laboratories, Inc., et al.*

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In addition, a previously reported case originally filed in the Southern District of New York, *County of Orange v. Abbott Laboratories, Inc., et al.*, has been transferred to the MDL and consolidated with the cases listed above.

On January 22, 2010, without admitting any liability or wrongdoing, EPI and the plaintiffs reached an agreement in principle to resolve the foregoing federal cases brought by New York City and the New York counties on terms that are not material to the company s financial condition.

Three previously reported cases, *County of Erie v. Abbott Laboratories, Inc., et al*., originally filed in the Supreme Court of the State of New York, Erie County, *County of Oswego v. Abbott Laboratories, Inc., et al.,* originally filed in the Supreme Court of the State of New York, Oswego County, and *County of Schenectady v. Abbott Laboratories, Inc., et al.*, originally filed in the Supreme Court of the State of New York, Schenectady County, have been coordinated by the New York Litigation Coordinating Panel in the Supreme Court of the State of New York, Erie County.

There is a previously reported case pending in the Circuit Court of Montgomery County, Alabama against EPI and numerous other pharmaceutical companies: *State of Alabama v. Abbott Laboratories, Inc., et al*.

There is a previously reported case pending in the Third Judicial District Court of Salt Lake County, Utah against EPI and numerous other pharmaceutical companies: *State of Utah v. Actavis US, Inc., et al.*, Civ. Action No. 070913719.

There is a previously reported case pending in the MDL against EPI and numerous other pharmaceutical companies: *State of Iowa v. Abbott Laboratories, Inc., et al.*, Civ. Action No. 4:07-cv-00461.

There is a previously reported case against EPI and numerous other pharmaceutical companies, *State of Mississippi v. Abbott Laboratories, Inc., et al.*, originally filed in the Chancery Court of Hinds County, Mississippi. The State of Mississippi offered to enter an agreed order of dismissal with respect to EPI, and EPI filed a notice of acceptance of that offer in Hinds County Chancery Court.

The Company intends to contest all of the above cases vigorously and to explore other options as appropriate in the best interests of the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company.

Paragraph IV Certifications on Lidoderm®

On January 15, 2010, the Company and the holders of the Lidoderm® NDA and relevant patent, Teikoku Seiyaku Co., Ltd., and Teikoku Pharma USA, Inc. received a Paragraph IV Certification Notice under 21 U.S.C. 355(j) from Watson Laboratories, Inc. advising of the filing of an Abbreviated New Drug Application (ANDA) for a generic version Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Certification Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm®, a topical patch to relieve the pain of post herpetic neuralgia launched in 1999. This patent is listed in the FDA s Orange Book and expires in October 2015. As a result of this Notice, on February 19, 2010, the Company, Teikoku Seiyaku Co., Ltd. and Teikoku Pharma USA, Inc. filed a lawsuit against Watson Laboratories, Inc, in the United States District Court of the District of Delaware. Because the suit was filed within the 45-day period under the FDC Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. Endo intends, and has been advised by Teikoku that they too intend, to vigorously defend Lidoderm s intellectual property rights and to pursue all available legal and regulatory avenues in defense of Lidoderm, including enforcement of the product s intellectual property rights and approved labeling. We cannot, however, predict or determine the timing or outcome of any of these litigations but will explore all options as appropriate in the best interests of the Company.

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Paragraph IV Certifications on Opana® ER

On December 14, 2007, the Company received a notice from IMPAX Laboratories , Inc. (referred to as IMPAX) advising of the FDA s apparent acceptance for substantive review, as of November 23, 2007, of IMPAX s amended ANDA for a generic version of Opana® ER (oxymorphone hydrochloride extended-release tablets CII). IMPAX stated in its letter that the FDA requested IMPAX to provide notification to us and Penwest of any Paragraph IV certifications submitted with its ANDA, as required under section 355(j) of the Federal Food, Drug and Cosmetics Act, or the FDC Act. Accordingly, IMPAX s letter included notification that it had filed Paragraph IV certifications with respect to Penwest s U.S. Patent Nos. 7,276,250, 5,958,456 and 5,662,933, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2022, 2013 and 2013, respectively. The Company s Opana® ER product had new dosage form exclusivity that prevented final approval of any ANDA by the FDA until the exclusivity expired on June 22, 2009. In addition, because IMPAX s application referred to patents owned by Penwest and contained a Paragraph IV certification under section 355(j) of the FDC Act, we believe IMPAX s notice triggered the 45-day period under the FDC Act in which we and Penwest could file a patent infringement action and trigger the automatic 30-month stay of approval. Subsequently, on January 25, 2008, the Company and Penwest filed a lawsuit against IMPAX in the United States District Court for the District of Delaware in connection with IMPAX s ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, IMPAX filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Additionally, the lawsuit previously filed by the Company and Penwest on November 15, 2007 against IMPAX remains pending.

On June 16, 2008, the Company received a notice from IMPAX that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg, 15 mg and 30 mg strengths of oxymorphone hydrochloride extended release tablets. The notice covers Penwest s U.S. Patent Nos. 7,276,250, 5,958,456 and 5,662,933. Subsequently, on July 25, 2008, the Company and Penwest filed a lawsuit against IMPAX in the United States District Court for the District of Delaware in connection with IMPAX s amended ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, IMPAX filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Additionally, the lawsuits previously filed by the Company and Penwest against IMPAX remain pending. All three of these pending suits against IMPAX were transferred to the United States District Court for the District of New Jersey.

In February 2008, we along with Penwest, received a notice from Actavis South Atlantic LLC (Actavis), advising of the filing by Actavis of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) for a generic version of Opana® ER (oxymorphone hydrochloride extended-release tablets CII). The Actavis Paragraph IV certification notice refers to Penwest s U.S. Patent Nos. 5,128,143, 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire or expired in 2008, 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER has a new dosage form (referred to as NDA) exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on June 22, 2009. Subsequently, on March 28, 2008, we and Penwest filed a lawsuit against Actavis in the U.S. District Court for the District of New Jersey in connection with Actavis s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. On May 5, 2008, Actavis filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable, as well as a claim of unfair competition against Endo and Penwest.

On or around June 2, 2008, the Company received a notice from Actavis that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg and 15 mg dosage strengths of oxymorphone hydrochloride extended release tablets. On or around July 2, 2008, the Company received a notice from Actavis that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 30 mg dosage strength. Both notices cover Penwest s U.S. Patent Nos. 5,128,143, 7,276,250, 5,958,456 and 5,662,933. On July 11, 2008, the Company and Penwest, filed suit against Actavis in the United States District Court for the District of New

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Jersey. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. On August 14, 2008, Actavis filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable, as well as a claim of unfair competition against Endo and Penwest.

On February 20, 2009, Endo and Penwest settled all of the Actavis litigation. Both sides dismissed their respective claims and counterclaim with prejudice. Under the terms of the settlement, Actavis agreed not to challenge the validity or enforceability of Penwest s patents relating to Opana® ER. Endo and Penwest agreed to grant Actavis a license permitting the production and sale of generic Opana® ER 7.5 and 15 mg tablets by the earlier of July 15, 2011, the last day Actavis would forfeit its 180-day exclusivity, and the date on which any third party commences commercial sales of a generic oxymorphone hydrochloride extended-release tablets, but not before November 28, 2010. Endo and Penwest also granted Actavis a license to produce and market other strengths of Opana® ER generic on the earlier of July 15, 2011 and the date on which any third party commences commercial sales of a generic form of the drug.

On July 14, 2008, the Company received a notice from Sandoz, Inc. (Sandoz), advising of the filing by Sandoz of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 5 mg, 10 mg, 20 mg and 40 mg dosage strengths. The Sandoz Paragraph IV certification notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER has a new dosage form (NDA) exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on June 22, 2009. Subsequently, on August 22, 2008, the Company and Penwest filed a lawsuit against Sandoz in the United States District Court for the District of Delaware in connection with Sandoz s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. In response, Sandoz filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable.

On November 20, 2008, the Company received a notice from Sandoz that it had filed an amendment to its ANDA containing Paragraph IV certifications for the 7.5 mg, 15 mg and 30 mg dosage strengths of oxymorphone hydrochloride extended release tablets. The notice covers Penwest s U.S. Patent Nos. 5,128,143, 7,276,250, 5,958,456 and 5,662,933. On December 30, 2008, the Company and Penwest, filed suit against Sandoz in the United States District Court for the District of New Jersey. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation. In response, Sandoz filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. Both of these pending suits against Sandoz were transferred to the United States District Court for the District of New Jersey.

On September 12, 2008, the Company received a notice from Barr Laboratories, Inc. (referred to as Barr), advising of the filing by Barr of an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. On September 15, 2008, the Company received a notice from Barr that it had filed an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 5 mg, 10 mg, and 20 mg dosage strengths. Both notices refer to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013 and 2023, respectively. In addition to these patents, Opana® ER had a new dosage form exclusivity that prevented final approval of any ANDA by the FDA until the exclusivity expired on June 22, 2009. Subsequently, on October 20, 2008, the Company and Penwest filed a lawsuit against Barr in the United States District Court for the District of Delaware in connection with Barr s ANDA. The lawsuit alleges infringement of certain Orange Book-listed U.S. patents that cover the Opana® ER formulation. In response, Barr filed an answer and counterclaims, asserting claims for declaratory judgment that the patents listed in the Orange Book are invalid, not infringed and/or unenforceable. This suit was transferred to the United States District Court for the District of New Jersey. On June 2, 2009, the Company received a notice

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from Barr that it had filed an ANDA containing a Paragraph IV certification under 21 U.S.C. Section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in 7.5 mg, 15 mg, and 30 mg dosage strengths. This notice also refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. On July 2, 2009, the Company and Penwest filed a lawsuit against Barr in the United States District Court for the District of New Jersey in connection with Barr s ANDA.

On December 29, 2009, the Company received a notice from Roxane Laboratories, Inc. (Roxane) advising of the filing by Roxane of an ANDA containing a Paragraph IV certification under 21 U.S.C. section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. The notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013, and 2023, respectively. Subsequently, on January 29, 2010, the Company and Penwest filed a lawsuit against Roxane in the U.S. District Court for the District of New Jersey in connection with Roxane s ANDA. The lawsuit alleges infringement of an Orange Book-listed U.S. patent that covers the Opana® ER formulation.

On January 20, 2010, the Company received a notice from Watson Laboratories, Inc. (Watson) advising of the filing by Watson of an ANDA containing a Paragraph IV certification under 21 U.S.C. section 355(j) with respect to oxymorphone hydrochloride extended-release oral tablets in a 40 mg dosage strength. The notice refers to Penwest s U.S. Patent Nos. 5,662,933, 5,958,456 and 7,276,250, which cover the formulation of Opana® ER. These patents are listed in the FDA s Orange Book and expire in 2013, 2013, and 2023, respectively.

We intend, and we have been advised by Penwest that they too intend, to pursue all available legal and regulatory avenues in defense of Opana® ER, including enforcement of our intellectual property rights and approved labeling. We cannot, however, predict or determine the timing or outcome of any of these litigations but will explore all options as appropriate in the best interests of the Company.

Paragraph IV Certifications on Sanctura XR®

On June 2, 2009, the Company s subsidiary, Endo Pharmaceuticals Solutions, Inc. (referred to as Endo Solutions), received a notice from Watson Laboratories, Inc. (referred to as Watson) advising that Watson had filed a certification with the FDA under 21 C.F.R. § 314.95(c)(1) in conjunction with ANDA 91-289 for approval to commercially manufacture and sell generic versions of Sanctura XR® trospium chloride extended release capsules. The Paragraph IV letter alleged that U.S. Patent No. 7,410,978, listed in the Orange Book for Sanctura XR is invalid, unenforceable, and/or will not be infringed by the commercial manufacture, use, or sale of Watson s generic product. This patent expires February 1, 2025 and is owned by Supernus Pharmaceuticals, Inc. and licensed to Endo Solutions. The Sanctura XR® product has new dosage form exclusivity that prevents final approval of any ANDA by the FDA until the exclusivity expires on August 3, 2010.

In response to Watson s notice letter, on July 13, 2009, Supernus Pharmaceuticals, Inc., Endo Solutions and Allergan filed a lawsuit against Watson in the United States District Court for the District of Delaware alleging infringement of U.S. Patent No. 7,410,978 by Watson s ANDA 91-289. Because the suit was filed within the 45-day period under the FDC Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. We intend, and have been advised by Supernus and Allergan that they too intend, to contest this case vigorously. We cannot, however, predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company.

LecTec Corporation v Chattem, Inc., et al.

On July 25, 2008, the LecTec Corporation filed a complaint in the United States District Court for the Eastern District of Texas against the Company s subsidiary, Endo Pharmaceuticals Inc. (referred to as EPI) and several other pharmaceutical companies alleging that each of the defendants sells products that infringe one or more claims of patents owned by LecTec. The Company s product Lidoderm® is identified in the complaint. The

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complaint alleges that Lidoderm® infringes U.S. Patents 5,536,263 and 5,741,510. On September 30, 2008, the Company filed an answer denying infringement and alleging that the patents are invalid. On February 10, 2009, the plaintiff filed a motion for preliminary injunction against EPI.

On November 11, 2009, we reached a settlement with LecTec Corporation pursuant to which EPI agreed to make a one-time, $23 million payment for the exclusive license to these two patents for use in the field of prescription pain medicines and treatment and LecTec agreed to dismiss this suit against EPI with prejudice. Pursuant to the Company s license and manufacturing agreements with Hind Healthcare Inc. and Teikoku Seiyaku Co., Ltd., Hind and Teikoku were each contractually obligated to and did fund their share of the settlement.

Other Legal Proceedings

In addition to the above proceedings, we are involved in, or have been involved in, arbitrations or various other legal proceedings that arise from the normal course of our business. We cannot predict the timing or outcome of these claims and other proceedings. Currently, we are not involved in any arbitration and/or other legal proceeding that we expect to have a material effect on our business, financial condition, results of operations and cash flows.

Leases

We lease automobiles and office and laboratory facilities under certain noncancelable operating leases that expire through 2018. These leases are renewable at our option. A summary of minimum future rental payments required under operating leases as of December 31, 2009 are as follows (in thousands):

	Operating Leases
2010	$ 9,725
2011	6,245
2012	4,584
2013	4,700
2014	4,635
Thereafter	4,608
Total minimum lease payments	$ 34,497

Expense incurred under operating leases was $12.2 million, $8.7 million and $6.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 15. Savings and Investment Plan and Deferred Compensation Plans

On September 1, 1997, we established a defined contribution Savings and Investment Plan covering all employees. Employee contributions are made on a pre-tax basis under section 401(k) of the Internal Revenue Code (referred to as the Code). We match up to six percent of the participants contributions subject to limitations under section 401(k) of the Code. Participants are fully vested with respect to their own contributions. Participants are fully vested with respect to our contributions after one year of continuous service. Contributions by us amounted to $8.3 million, $7.2 million and $5.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In December 2007, the Board of Directors (referred to as the Board) of Endo Pharmaceuticals Holdings Inc. adopted the Endo Pharmaceuticals Holdings Inc. Executive Deferred Compensation Plan (referred to as the Deferred Compensation Plan) and the Endo Pharmaceuticals Holdings Inc. 401(k) Restoration Plan (referred to as the 401(k) Restoration Plan) both effective as of January 1, 2008. Both plans cover employees earning over

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the Internal Revenue Code plan compensation limit, which would include the chief executive officer, chief financial officer and other named executive officers. The Deferred Compensation Plan allows for deferral of up to 50% of the bonus and up to 100% of restricted stock units granted, with payout to occur as elected either in lump sum or installments. Under the 401(k) Restoration Plan the participant may defer the amount of base salary and bonus that would have been deferrable under the Company s Savings and Investment Plan (up to 50% of salary and bonus) if not for the qualified plan statutory limits on deferrals and contributions, and also provides for a company match on the first six percent of deferrals to the extent not provided for under the Savings and Investment Plan. Payment occurs after separation from service either in lump sum or installments as elected by the participant.

Also in December 2007, the Board adopted the Endo Pharmaceuticals Holdings Inc. Directors Deferred Compensation Plan, effective January 1, 2008. The purpose of the Plan is to promote the interests of the Company and the stockholders of the Company by providing non-employee Directors the opportunity to defer up to 100% of meeting fees, retainer fees, and restricted stock units, with payout to occur as elected either in lump sum or installments. Payment occurs after separation from service either in lump sum or installments as elected by the participant.

NOTE 16. Net Income Per Share

The following is a reconciliation of the numerator and denominator of basic and diluted net income per share for the years ended December 31 (in thousands, except per share data):

	2009	2008	2007
Numerator:			
Net income available to common stockholders	$ 266,336	$ 255,336	$ 227,440
Denominator:			
For basic per share data weighted average shares	117,112	123,248	133,903
Effect of dilutive securities	403	472	622
For diluted per share data weighted average shares	117,515	123,720	134,525
Basic net income per share	$ 2.27	$ 2.07	$ 1.70
Diluted net income per share	$ 2.27	$ 2.06	$ 1.69

Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted income per common share is computed based on the weighted average number of common shares outstanding and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period. Common stock equivalents are measured under the treasury stock method.

The Convertible Notes are considered to be Instrument X securities as defined by ASC topic 815; therefore, these notes would only be included in the dilutive earnings per share calculation using the treasury stock method when the average market price of our common stock is above the applicable conversion price of the Convertible Notes, or $29.20 per share. Under the treasury stock method, we would calculate the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and include that number in the total diluted shares figure for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and warrant agreements on diluted weighted average shares. As a result, the purchases of the convertible note hedge and warrant agreement are excluded because their impact would be anti-dilutive. The treasury stock method will be applied when the warrant is in-the-money with the proceeds from the

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exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included under the warrants is 1.3 million.

The following reconciliation shows the shares excluded from the calculation of diluted net income per share as the inclusion of such shares would be anti-dilutive for the years ended December 31 (in thousands):

	2009	2008	2007
Weighted average shares excluded:			
1.75% Convertible senior subordinated notes due 2015 and warrants(1)	14,294	14,294	
Employee stock-based awards	4,681	3,596	2,423
	18,975	17,890	2,423

(1) Amount represents the potential total dilution that could occur if our Convertible Notes and warrants were converted to shares of our common stock.

NOTE 17. DEBT

Convertible Senior Subordinated Notes Due 2015

In April 2008, we issued $379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (referred to as the Convertible Notes) in a private offering for resale to qualified institutional buyers.

We received proceeds of approximately $370.7 million from the issuance, net of the initial purchaser s discount and certain other costs of the offering. Interest is payable semi-annually in arrears on each April 15 and October 15 with the first interest payment being made on October 15, 2008. The Convertible Notes will mature on April 15, 2015, unless earlier converted or repurchased by us.

Holders of the Convertible Notes may convert their notes based on a conversion rate of 34.2466 shares of our common stock per $1,000 principal amount of notes (the equivalent of $29.20 per share), subject to adjustment upon certain events, only under the following circumstances as described in the Indenture for the Convertible Notes (referred to as the Indenture): (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of the Convertible Notes is below a specified threshold; (3) at any time after October 15, 2014; or (4) upon the occurrence of certain corporate transactions. We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash.

Concurrently with the issuance of the Convertible Notes, we entered into a privately-negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Notes to $40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of $24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of $29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately $107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of $40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately $50.4 million in cash proceeds from the sale of these warrants.

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As part of our broader share repurchase program described in Note 12, we also entered into a privately-negotiated accelerated share repurchase agreement with the same counterparty. We used approximately $314 million of the net proceeds from the Convertible Notes, together with approximately $11 million of cash on hand, to repurchase a variable number of shares of our common stock pursuant to the accelerated share repurchase agreement entered into as part of our broader share repurchase program. Pursuant to the accelerated share repurchase agreement, the counterparty delivered 11.9 million shares of our common stock to the Company on the day that the Convertible Note offering closed, April 15, 2008. On August 14, 2008, Endo received approximately 1.4 million additional shares of our common stock based on the volume-weighted average price of our common stock during a specified averaging period set forth by the accelerated share repurchase agreement.

The Company has reserved previously authorized shares of common stock for issuance pursuant to the aforementioned Convertible Notes transaction, the convertible note hedge transaction, and the warrant.

We accounted for the call options, warrants, and accelerated share repurchase agreement in accordance with the guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion. The call options, warrants, and accelerated share repurchase agreement meet the requirements to be accounted for as equity instruments. The cost of the call options and the proceeds related to the sale of the warrants are included in additional paid-in capital in our consolidated balance sheet as of December 31, 2008 and 2009. The common stock acquired through the accelerated share repurchase agreement has been included in treasury stock in our Consolidated Balance Sheets as of December 31, 2008 and 2009.

As discussed in Note 2, on January 1, 2009 the Company retrospectively adopted the provisions of the authoritative guidance regarding the accounting for convertible debt instruments. The guidance requires that issuers of convertible debt instruments that may be settled in cash or other assets on conversion to separately account for the liability and equity components of the instrument in a manner that will reflect the entity s nonconvertible debt borrowing rate on the instrument s issuance date when interest cost is recognized in subsequent periods.

As a result of our adoption, we separated the debt portion of our Convertible Notes from the equity portion at their fair value retrospective to the date of issuance and we are amortizing the resulting discount into interest expense over the life of the Convertible Notes.

In order to determine the fair value of the debt portion and equity portion of our Convertible Notes, we first attempted to use a market approach by identifying prices and other relevant information generated by market transactions at or near the issuance date of our Convertible Notes, that involved comparable companies issuing nonconvertible debt with similar embedded features (other than the conversion feature). We were unable to identify any such transactions. As a result, the Company determined that an expected present value technique, or income approach that maximizes the use of observable market inputs is the preferred approach to measure the fair value of the debt and equity components of our Convertible Notes. Specifically, the Company used an income approach known as the binomial lattice model.

To calculate the fair value of the debt and equity components of our Convertible Notes, the Company constructed a binomial lattice to model future changes in the equity value of the Company, and a convertible bond lattice for the Convertible Notes, which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and a stock price volatility of 36% that was based on historic volatility of the Company s common stock and other factors.

An implied credit spread of 6.12% was calculated based on the results of the convertible bond lattice described above. The fair value of the debt component was then calculated by discounting the coupon and principal payments of the Convertible Notes with a risk free interest rate of 2.97% and the implied credit spread of 6.12%, which collectively represent the Company s estimated nonconvertible debt borrowing rate of 9.09%. As a result of this analysis, the fair value of the debt component of our Convertible Notes was determined to be $237.3 million on the date of issuance.

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As a result of the retrospective adoption, we recorded an adjustment to our Consolidated Balance Sheet as of April 15, 2008 to separate the debt and equity components of our Convertible Notes. This adjustment resulted in a reclassification out of Convertible Senior Subordinated Notes Due 2015 into Additional Paid-In Capital of $142.2 million, which represents the fair value of the equity component of our Convertible Notes on the date of issuance.

In addition, we were required to reclassify the portion of the initial purchaser s discount and certain other costs of the offering that were attributable to the equity component of our Convertible Notes. The initial purchaser s discount and certain other costs of the offering were originally recorded as a contra-liability account applied to the face amount of the Convertible Notes and were being amortized to interest expense utilizing the effective interest method. Upon adoption, we recorded an adjustment out of the contra-liability account and into Additional Paid-In Capital of $3.3 million, which represents the portion of the original purchaser s discount and certain other costs of the offering that are relate to the equity component of our Convertible Notes.

The adoption resulted in the recognition of an additional $10.4 million of interest expense and a reduction to our income tax expense of $4.0 million for the year ended December 31, 2008. Accordingly, we recorded a $6.4 million adjustment to beginning retained earnings in our December 31, 2009 Consolidated Balance Sheet.

The carrying values of the debt and equity components of our Convertible Notes at December 31, 2009 are as follows (in thousands):

	December 31, 2009
Principal amount of Convertible Notes	$ 379,500
Unamortized discount related to the debt component(1)	(119,221)
Net carrying amount of the debt component	$ 260,279
Carrying amount of the equity component	$ 142,199

(1) Represents the unamortized portion of the original purchaser s discount and certain other costs of the offering as well as the unamortized portion of the discount created from the separation of the debt portion of our Convertible Notes from the equity portion. This discount will be amortized to interest expense over the term of the Convertible Notes.

We recognized $23.8 million of interest expense related to our Convertible Notes for the year ended December 31, 2009, $6.6 million of which related to the contractual interest payments and $17.2 million of which related to the amortization of the debt discount and certain other costs of the offering. During the year ended December 31, 2008, we recognized $16.0 million of interest expense related to our Convertible Notes, $4.7 million of which related to the contractual interest payments and $11.3 million of which related to the amortization of the debt discount and certain other costs of the offering.

As a result of applying the guidance retrospectively to all periods presented, we recognized the following incremental effects on individual line items on the Consolidated Balance Sheet (in thousands):

	Before the Impact of Adoption	December 31, 2008 Incremental Impact of Adoption	As Adjusted
Deferred income taxes asset/(liability) (non-current)	$ 47,898	$ (49,168)	$ (1,270)
Convertible senior subordinated notes due 2015	371,695	(128,545)	243,150
Additional paid-in capital	707,503	85,782	793,285
Retained earnings	$ 845,360	$ (6,405)	$ 838,955

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Convertible Notes Due July 2009

As a result of our acquisition of Indevus, the Company assumed Indevus s 6.25% Convertible Senior Notes due July 2009 (the Notes). Pursuant to the Indenture governing the Notes, within 30 days of the effective date of the Merger, holders of the Notes had the right to tender their Notes for the principal amount of the Notes plus any accrued and unpaid interest. During this 30-day period, approximately $3.6 million in aggregate principal amount of Notes were tendered and the Company paid this amount in April 2009.

The Notes matured on July 15, 2009. Accordingly, the Company paid the remaining $68.3 million in outstanding principal to satisfy the Notes in their entirety.

Non-recourse Notes

On August 26, 2008, Indevus closed a private placement to institutional investors of $105.0 million in aggregate principal amount of 16% non-convertible, non-recourse, secured promissory notes due 2024 (referred to as Non-recourse Notes). The Non-recourse Notes were issued by Ledgemont Royalty Sub LLC (referred to as Royalty Sub), which was a wholly-owned subsidiary of Indevus at the time of the Non-recourse Note issuance and subsequently became a wholly-owned subsidiary of the Company upon our acquisition of Indevus. As of the Acquisition Date, the Company recorded these notes at their fair value of approximately $115.2 million and began amortizing these notes to their face value of $105.0 million at maturity in 2024.

In connection with the issuance of the Non-recourse Notes, Indevus and Royalty Sub entered into a Purchase and Sale Agreement pursuant to which Indevus sold to Royalty Sub its rights to receive royalty payments from Allergan arising under the Allergan Agreement (as described in Note 6) for sales in the U.S. of Sanctura® and Sanctura XR® . To secure repayment of the Non-recourse Notes, Royalty Sub granted a continuing security interest to the trustee for the benefit of the noteholders in, among other things, the royalty payments made by Allergan under the Allergan Agreement discussed above, all of its rights under the Purchase and Sale Agreement and any accounts established in accordance with the Indenture (and all amounts from time to time credited to such accounts). The Non-recourse Notes have not been guaranteed by Indevus or the Company. Principal on the Non-recourse Notes is required to be paid in full by the final legal maturity date of November 5, 2024, unless repaid or redeemed earlier. In the event the Non-recourse Notes are repaid or redeemed prior to November 5, 2024, the noteholders will be entitled to a redemption premium (as described below). The interest rate applicable to the Non-recourse Notes is 16% per year and is payable quarterly in arrears and commenced on November 5, 2008.

Principal and interest on the Non-recourse Notes will be paid from the royalties from Allergan. Payments may also be made from the interest reserve account (described below) and certain other accounts established in accordance with the Indenture. In connection with the issuance of the Non-recourse Notes, a $10 million interest reserve account was established to fund potential interest payment shortfalls. Approximately $2 million of the interest reserve account remains and is classified as restricted cash in the Company s consolidated balance sheet as of December 31, 2009. Royalty Sub will receive directly all royalties payable to the Company until the Non-recourse Notes have been repaid in full.

In August 2009, the Company commenced a cash tender offer for any and all outstanding Non-recourse notes. The purpose of the tender offer was to acquire any and all Notes to reduce our consolidated interest expense. The tender offer included an early tender deadline, whereby holders of the Non-recourse notes could early tender and receive the total early consideration of $1,000 per $1,000 principal amount of the Non-recourse notes. Holders who tendered their Non-recourse notes after such time and at or prior to the expiration of the tender offer period were eligible to receive the tender offer consideration of $950 per $1,000 principal amount of Non-recourse notes, which was the total early consideration less the early tender payment. The tender offer expired on September 24, 2009, at 5:00 p.m., New York City time (referred to as the Expiration Time). As of the Expiration Time, $48 million Non-recourse notes had been validly tendered and not withdrawn. The Company accepted for payment and purchased Non-recourse notes at a purchase price of $1,000 per $1,000 principal

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amount, for a total amount of approximately $48 million (excluding accrued and unpaid interest up to, but not including, the payment date for the Notes, fees and other expenses in connection with the tender offer). The aggregate principal amount of Non-recourse notes purchased represents approximately 46% of the $105 million aggregate principal amount of Non-recourse notes that were outstanding prior to the Expiration Time. Accordingly, the Company recorded a $4.0 million gain on the extinguishment of debt, net of transaction costs. The gain was calculated as the difference between the aggregate amount paid to purchase the Non-recourse notes and their carrying amount.

If the royalty payments from Allergan and amounts in the interest reserve account are insufficient to pay all of the interest and principal, if any, due on a payment date, the shortfall will accrue interest at the interest rate applicable to the Non-recourse Notes (16%) compounded quarterly. If any interest payment shortfall is not paid in full by the succeeding payment date, an Event of Default under the Indenture will occur, unless the Company contributes cash to a capital account of Royalty Sub in an amount sufficient to satisfy any such shortfall. Pursuant to the Indenture, the Company has the right, but not the obligation, to contribute cash in an amount equal to the shortfall to the capital account for distribution by the trustee to the noteholders. The Company has the right to satisfy such an interest payment shortfall no more than six times over the life of the Non-recourse Notes and no more than three consecutive times. In the event that the Company is no longer permitted to fund the capital account to satisfy an interest payment shortfall, and the Company does not redeem the Non-recourse Notes (as described below), an Event of Default will occur and the noteholders may accelerate the obligations of Royalty Sub under the Non-recourse Notes and exercise their remedies thereunder, including assuming all rights to future royalty payments from Allergan. Based on current expectations, it is reasonably possible that we may exceed the maximum number of times we can fund the capital account to satisfy an interest payment shortfall as early as November 2010.

The Non-recourse Notes will be subject to redemption at the option of Royalty Sub. If the applicable redemption of the Non-recourse Notes occurs on or prior to August 5, 2010, the redemption price will be equal to the greater of (x) the outstanding principal balance of the Non-recourse Notes being redeemed or (y) the present value, discounted at the rate on U.S. Treasury obligations with a comparable maturity to the remaining weighted average life of the Non-recourse Notes plus 1.00%, of the principal payment amounts and interest at the rate applicable to the Non-recourse Notes on the outstanding principal balance of the Non-recourse Notes. If the applicable redemption of the Non-recourse Notes occurs after August 5, 2010, the redemption price will be equal to the percentage of the outstanding principal balance of the Non-recourse Notes being redeemed specified below for the period in which the redemption occurs:

Payment Dates (between indicated dates)	Redemption Percentage
From November 5, 2010 to and including August 5, 2011	108%
From November 5, 2011 to and including August 5, 2012	104%
From November 5, 2012 and thereafter	100%

Credit Facility

In October 2009, we established a $300 million, three-year senior secured revolving credit facility (referred to as the Credit Facility) with JP Morgan Chase Bank, Barclay s Capital and certain other lenders. The Credit Facility will be available for letters of credit, working capital and general corporate purposes. The Credit Facility also permits up to $100 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders.

The obligations of the Company under the Credit Facility are guaranteed by certain of the Company s domestic subsidiaries and are secured by substantially all of the assets of the Company. The Credit Facility contains certain usual and customary covenants, including, but not limited to covenants to maintain a maximum leverage ratio and minimum interest coverage ratio as well as limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company s

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affiliates. Borrowings under the Credit Facility will be pegged to either (1) the London Interbank Offered Rate (referred to as LIBOR) or (2) an alternate base rate, plus a specified margin depending on the Company s leverage ratio from time to time. The alternate base rate is the greater of the prime rate, the federal funds rate plus 0.5%, or an adjusted LIBOR rate plus 1%. The Company will also pay a commitment fee of between 62.5 to 100 basis points, depending on the Company s leverage ratio, payable quarterly, on the average daily unused amount of the Credit Facility. As of the date of this filing, the Company has not drawn any amounts under the Credit Facility. Financing costs of $5.2 million paid to establish the credit facility have been deferred and are being amortized to interest expense over the life of the credit facility.

NOTE 18. Subsequent Events

Long-Term Incentive Compensation

In early 2010, long-term incentive compensation in the form of approximately 1.5 million stock options, 1.1 million restricted stock units and 0.2 million performance shares were granted to employees. Stock options will generally vest over four years and expire ten years from the date of the grant. Restricted stock units will vest over four years and the performance shares will vest at the end of the cumulative 3-year performance period. The exercise price of the options granted was equal to the closing price on the dates of grant. The grant date fair value of the stock options, restricted stock units, and performance shares granted was approximately $36 million.

NOTE 19. Quarterly Financial Data (Unaudited)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share data)			
2009(1)				
Total Revenues	$ 335,300	$ 373,108	$ 361,027	$ 391,406
Gross profit	$ 252,291	$ 278,039	$ 263,720	$ 291,733
Operating income	$ 77,466	$ 64,916	$ 84,314	$ 163,328
Net income	$ 39,037	$ 30,029	$ 49,422	$ 147,848
Net income per share (basic)	$ 0.33	$ 0.26	$ 0.42	$ 1.26
Net income per share (diluted)	$ 0.33	$ 0.26	$ 0.42	$ 1.25
Weighted average shares (basic)	116,822	117,158	117,207	117,261
Weighted average shares (diluted)	117,209	117,350	117,643	117,859
2008(2)				
Total Revenues	$ 290,271	$ 306,161	$ 316,768	$ 347,336
Gross profit	$ 233,737	$ 243,168	$ 245,741	$ 270,655
Operating income	$ 85,153	$ 82,064	$ 107,327	$ 112,930
Net income	$ 59,528	$ 57,128	$ 65,994	$ 72,686
Net income per share (basic)	$ 0.44	$ 0.46	$ 0.55	$ 0.62
Net income per share (diluted)	$ 0.44	$ 0.46	$ 0.55	$ 0.62
Weighted average shares (basic)	134,141	122,985	119,439	116,544
Weighted average shares (diluted)	134,652	123,531	119,954	116,894

Quarterly and year to date computations of per share amounts are made independently; therefore, the sum of the per share amounts for the quarters may not equal the per share amounts for the year.

(1) Operating income for the year ended December 31, 2009 was impacted by milestone payments to collaborative partners of $9.4 million, $21.0 million, $30.7 million and $16.0 million in the first, second, third and fourth quarters, respectively. Operating income for the year ended December 31, 2009 was also impacted by (1) the Indevus acquisition-related costs (income) of $26.4 million, $35.0 million, ($20.2) million and ($134.3) million during the first, second, third and fourth quarters, respectively (2) impairment

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charges of $69.0 million relating to Pro2000 and Aveed during the fourth quarter (3) inventory step-up of $1.6 million, $3.6 million, $5.9 million and $0.2 million during the first, second, third and fourth quarters, respectively (4) amortization expense relating to developed technology assets of $11.4 million, $15.6 million, $16.7 million and $19.2 million during the first, second, third and fourth quarters, respectively and (5) interest expense relating to our 1.75% Convertible Notes of $3.8 million, $3.2 million, $3.7 million, and $4.0 million during the first, second, third and fourth quarters, respectively.

(2) Operating income for the year ended December 31, 2008 was impacted by milestone payments to collaborative partners of $6.5 million in the first quarter, milestone reversals of $4.5 million in the second quarter and $6.9 million in the fourth quarter. Operating income for the year ended December 31, 2008 was also impacted by (1) the impairment of long-lived assets of $11.2 million in the second quarter and $1.5 million in the third quarter; (2) separation benefits of $3.3 million in the first quarter, $6.4 million in the second quarter, and $1.6 million in the third quarter; (3) contract termination costs of $5.1 million in the third quarter and (4) changes in the fair value of financial instruments recorded as a net charge to earnings of $3.3 million in the fourth quarter

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Exhibit No.	Title
3.1	Amended and Restated Certificate of Incorporation of Endo Pharmaceuticals Holdings Inc. (Endo) (incorporated herein by reference to Exhibit 10.32 of the Form 10-Q for the Quarter ended June 30, 2008 filed with the Commission on August 1, 2008)
3.2	Amended and Restated By-laws of Endo
4.1	Amended and Restated Executive Stockholders Agreement, dated as of July 7, 2003, by and among Endo, Endo Pharma LLC (Endo LLC), Kelso Investment Associates V, L.P. (KIA V), Kelso Equity Partners V, L.P. (KEP V) and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended June 30, 2003 filed with the Commission on August 14, 2003)
4.1.2	Amendment to Amended and Restated Executive Stockholders Agreement, dated as of June 28, 2004, by and among Endo, Endo LLC, KIA V, KEP V and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended September 30, 2004 filed with the Commission on November 5, 2004) the Commission on July 1, 2003)
4.1.3	Amendment 2 to the Amended and Restated Stockholders Agreement, dated September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Amending Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005)
4.2	Amended and Restated Employee Stockholders Agreement, dated as of June 5, 2003, by and among Endo, Endo LLC, KIA V, KEP V and the Employee Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.2 of Amendment No. 2 to the Form S-3 Registration Statement (Registration No. 333-105338) filed with the Commission on July 1, 2003)
4.2.2	Amendment to Amended and Restated Employee Stockholders Agreement, dated as of June 28, 2004, by and among Endo, Endo LLC, KIA V, KEP V and the Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Form 10-Q for the Quarter ended September 30, 2004 filed with the Commission on November 5, 2004)
4.2.3	Amendment 2 to the Amended and Restated Employee Stockholders Agreement, dated September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Amending Stockholders (as defined therein) (incorporated herein by reference to Exhibit 4.2.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005)
4.3	Employee Stockholders Consent and Release, effective September 20, 2005, by and among the Company, Endo LLC, Kelso and certain Employee Stockholders (as defined therein) signatory thereto (incorporated herein by reference to Exhibit 4.3 of the Current Report on Form 8-K filed with the Commission on September 22, 2005)
4.4	Registration Rights Agreement, dated as of July 17, 2000, by and between Endo and Endo LLC (incorporated herein by reference to Exhibit 4.4 of the Form 10-Q for the Quarter ended June 30, 2000 filed with the Commission on August 15, 2000)
4.5	Amendment to Registration Rights Agreement, dated as of June 30, 2003, by and between Endo and Endo LLC (incorporated herein by reference to Exhibit 10.1 of Amendment No. 2 to the Form S-3 Registration Statement (Registration No. 333-105338) filed with the Commission on July 1, 2003)
4.8	Indenture dated as of August 6, 2007 between Indevus and The Bank of New York Trust Company, N.A, as trustee (incorporated herein by reference to Exhibit 4.1 of the Indevus Current Report on Form 8-K filed with the Commission on August 7, 2007)

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Exhibit No.	Title
4.8.1	Supplemental Indenture, dated as of March 23, 2009, by and between Indevus and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.) (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K, dated March 23, 2009)
10.1	Shelf Registration Agreement, dated September 21, 2005, by and between Endo, Endo LLC and certain Management Stockholders (as defined therein) (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on September 22, 2005)
10.2	Shelf Registration Agreement, dated April 30, 2004, between Endo and Endo Pharma LLC (incorporated herein by reference to Exhibit 10.2 of Amendment No. 1 to the Form S-3 Registration Statement (Registration No. 333-115032) filed with the Commission on June 10, 2004)
10.3	Amendment to Shelf Registration Agreement, dated June 10, 2004 between Endo and Endo LLC (incorporated herein by reference to Exhibit 10.3 of Amendment No. 1 to the Form S-3 Registration Statement (Registration No. 333-115032) filed with the Commission on June 10, 2004)
10.4	Agreement dated April 29, 2008 between Endo and D. E. Shaw Valence Portfolios, L.L.C. (on behalf of itself and its affiliates that are members of the 13D Group with respect to the Endo common stock) (incorporated herein by reference to Exhibit 99.1 of the Current Report on Form 8-K/A dated May 1, 2008)
10.5	[Intentionally Omitted.]
10.6	Amended and Restated Tax Sharing Agreement, dated as of April 30, 2004 by and among Endo, Endo Inc. and Endo LLC (incorporated herein by reference to Exhibit 10.6 of the Form 10-Q for the Quarter ended March 31, 2004 filed with the Commission on May 10, 2004)
10.7	Convertible Bond Hedge Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.7 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.8	Issuer Warrant Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.8 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.9	Issuer Share Repurchase Transaction Confirmation entered into by and between Endo and Deutsche Bank AG, London Branch, dated April 9, 2008 (incorporated herein by reference to Exhibit 10.9 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.10	Sole and Exclusive License Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals Inc. (Endo Pharmaceuticals) and Hind HealthCare, Inc. (incorporated herein by reference to Exhibit 10.10 of the Registration Statement filed with the Commission on June 9, 2000)
10.11	Endo Pharmaceuticals Holdings Inc. Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated December 19, 2007)
10.12	Endo Pharmaceuticals Holdings Inc. 401(k) Restoration Plan (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated December 19, 2007)
10.13	[Intentionally Omitted]
10.14	Supply and Manufacturing Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals and Teikoku Seiyaku Co., Ltd (incorporated herein by reference to Exhibit 10.14 of the Registration Statement filed with the Commission on June 9, 2000)
10.14.1	First Amendment, dated April 24, 2007, to the Supply and Manufacturing Agreement, dated as of November 23, 1998, by and between Endo Pharmaceuticals and Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (incorporated herein by reference to Exhibit 10.14.1 of the Current Report on Form 8-K dated April 30, 2007)

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Exhibit No.	Title
10.14.2*	Second Amendment, effective December 16, 2009, to the Supply and Manufacturing Agreement, dated as of November 23, 1998 and as amended as of April 24, 2007, by and between Endo Pharmaceuticals Inc. and Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (incorporated herein by reference to Exhibit 10.14.2 of the Current Report on Form 8-K dated January 11, 2010)
10.15	Supply Agreement, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt Inc. (Mallinckrodt) (incorporated herein by reference to Exhibit 10.15 of the Registration Statement filed with the Commission on June 9, 2000)
10.16	Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16 of the Registration Statement filed with the Commission on June 9, 2000)
10.16.1	First Amendment, effective July 1, 2000, to the Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16.1 of the Current Report on Form 8-K dated April 14, 2006)
10.16.2	Second Amendment, dated April 10, 2006, to the Supply Agreement for Bulk Narcotics Raw Materials, dated as of July 1, 1998, by and between Endo Pharmaceuticals and Mallinckrodt (incorporated herein by reference to Exhibit 10.16.2 of the Current Report on Form 8-K dated April 14, 2006)
10.17	[Intentionally Omitted.]
10.18	Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18 of the Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2002 filed with the Commission on May 14, 2002)
10.18.1	Amendment, dated January 7, 2007, to the Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18.1 of the Current report on Form 8-K dated January 11, 2007)
10.18.2	Amendment, dated July 14, 2008, to the Amended and Restated Strategic Alliance Agreement, dated as of April 2, 2002, by and between Endo Pharmaceuticals and Penwest Pharmaceuticals Co. (incorporated herein by reference to Exhibit 10.18.2 of the Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2008 filed with the Commission on August 1, 2008)
10.18.3	Third Amendment to the Amended and Restated Strategic Alliance Agreement by and between Penwest Pharmaceuticals Co. and Endo Pharmaceuticals, dated as of March 31, 2009 (incorporated herein by reference to Exhibit 10.18.3 of the Current report on Form 8-K dated April 6, 2009)
10.19	Agreement, dated as of February 1, 2000, by and between Endo Pharmaceuticals and UPS Supply Chain Solutions, Inc. (f/d/b/a Livingston Healthcare Services Inc.) (incorporated herein by reference to Exhibit 10.19 of the Registration Statement filed with the Commission on June 9, 2000)
10.20	Medical Affairs Support Services Agreement, dated as of June 1, 1999, by and between Endo Pharmaceuticals and Kunitz and Associates, Inc. (incorporated herein by reference to Exhibit 10.20 of the Registration Statement filed with the Commission on June 9, 2000)
10.21	Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.21 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000)
10.22	Endo LLC Amended and Restated 1997 Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.22 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000)

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Exhibit No.	Title
10.23	Endo LLC Amended and Restated 1997 Executive Stock Option Plan (incorporated herein by reference to Exhibit 10.23 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000)
10.24	Endo LLC 2000 Amended and Restated Supplemental Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.24 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000)
10.25	Endo LLC 2000 Amended and Restated Supplemental Executive Stock Option Plan (incorporated herein by reference to Exhibit 10.25 of the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000 filed with the Commission on November 13, 2000)
10.26	Separation Agreement, dated as of September 8, 2008, between the Endo and Charles A. Rowland, Jr. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated September 8, 2008)
10.27	Executive Employment Agreement between Endo and Ivan Gergel, M.D., dated as of April 29, 2008 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated March 25, 2009)
10.28	Amended and Restated Employment Agreement, dated as of December 19, 2007, by and between Endo and Nancy J. Wysenski (incorporated herein by reference to Exhibit 10.29 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008)
10.28.1	Separation Agreement, dated as of August 25, 2009, by and between Endo and Nancy J. Wysenski (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated August 31, 2009)
10.29	Auction-Rate Securities Rights Agreement, dated November 10, 2008, by and between Endo Pharmaceuticals and UBS AG (incorporated herein by reference to Exhibit 10.29 to the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.30	Employment Agreement, dated as of April 1, 2008, by and between Endo and David P. Holveck (incorporated herein by reference to Exhibit 10.30 of the Current Report on Form 8-K dated March 12, 2008)
10.31	License and Supply Agreement by and by and among Novartis, AG, Novartis Consumer Health, Inc. and Endo Pharmaceuticals dated as of March 4, 2008 (incorporated herein by reference to Exhibit 10.31 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.31.1	Amendment No. 1 to the License and Supply Agreement by and by and among Novartis, AG, Novartis Consumer Health, Inc. and Endo Pharmaceuticals Inc. dated as of March 28, 2008 (incorporated herein by reference to Exhibit 10.31.1 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.32	Sales and Marketing Services Agreement, dated as of May 15, 2008 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32 of the Form 10-Q for the Quarter ended June 30, 2008 filed with the Commission on August 1, 2008)
10.32.1*	Amendment to the Sales and Marketing Services Agreement, dated as of January 29, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.1 to the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.32.2	Amendment to the Sales Representative Service Agreement, dated as of April 1, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.2 of the Current Report on Form 8-K dated April 7, 2009)

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Exhibit No.	Title
10.32.3	Amendment to the Sales Representative Services Agreement, dated as of May 11, 2009 between Endo Pharmaceuticals and Ventiv Commercial Services, LLC (incorporated herein by reference to Exhibit 10.32.2 of the Current Report on Form 8-K dated May April 7, 2009)
10.33	[Intentionally Omitted]
10.34	Lease Agreement, dated as of May 5, 2000, by and between Endo Pharmaceuticals and Painters Crossing One Associates, L.P. (incorporated herein by reference to Exhibit 10.34 of the Registration Statement filed with the Commission on June 9, 2000)
10.34.1	Amendment to Lease Agreement, dated as of November 6, 2006, by and between Endo Pharmaceuticals and Painters Crossing One Associates, L.P. (incorporated herein by reference to Exhibit 10.34.1 of the Form 10-Q for the quarter ended September 30, 2006 filed with the Commission on November 9, 2006)
10.35	Amended and Restated Employment Agreement, dated as of December 19, 2007, by and between Endo and Caroline B. Manogue (incorporated herein by reference to Exhibit 10.29 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008)
10.36	[Intentionally Omitted]
10.36.1	Separation Agreement, dated as of January 28, 2008, Endo Pharmaceuticals Holdings Inc. and Peter A. Lankau (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 30, 2008)
10.37	Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.37 of the Form 10-Q for the Quarter ended June 30, 2004 filed with the Commission on August 9, 2004)
10.38	Endo Pharmaceuticals Holdings Inc. Amended and Restated 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit B of the Definitive Proxy Statement on Schedule 14A filed with the Commission on April 29, 2009)
10.39	Master Development and Toll Manufacturing Agreement, dated as of May 3, 2001, by and between Novartis Consumer Health, Inc. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.39 of the Form 10-Q for the Quarter Ended June 30, 2001 filed with the Commission on August 14, 2001)
10.39.1	First Amendment, effective February 1, 2003, to the Master Development and Toll Manufacturing Agreement between Endo Pharmaceuticals and Novartis Consumer Health, Inc. (incorporated herein by reference to Exhibit 10.39.1 of the Form 10-Q for the Quarter Ended June 30, 2005 filed with the Commission on August 8, 2005)
10.39.2	Second Amendment, effective as of December 1, 2004, to the Master Development and Toll Manufacturing Agreement between Endo Pharmaceuticals and Novartis Consumer Health, Inc. (incorporated herein by reference to Exhibit 10.39.2 of the Form 10-Q for the Quarter Ended June 30, 2005 filed with the Commission on August 8, 2005)
10.40	Lease Agreement between Painters Crossing Three Associates, L.P. and Endo Pharmaceuticals dated January 19, 2007 (incorporated herein by reference to Exhibit 10.40 of the Annual Report on Form 10-K for the Year Ended December 31, 2006 filed with the Commission on March 1, 2007)
10.40.1	First Amendment to Lease Agreement, dated as of March 3, 2008 by and between Partners Crossing Three Associates, L.P. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.40.1 of the Form 10-Q for the Quarter ended March 31, 2008 filed with the Commission on May 2, 2008)
10.41	Policy of Endo Pharmaceuticals Holdings Inc. Relating to Insider Trading in Company Securities and Confidentiality of Information (incorporated herein by reference to Exhibit 10.41 of the Form 10-Q for the Quarter ended March 31, 2005 filed with the Commission on May 10, 2005)

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Exhibit No.	Title
10.42	Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K, dated May 8, 2009).
10.43	Employment Agreement between Endo and Alan G. Levin (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K, dated May 8, 2009).
10.44	Lease Agreement, dated as of January 6, 2003, by and between Endo Pharmaceuticals and Dawson Holding Company (incorporated by reference to Exhibit 10.44 of the Annual Report on Form 10-K for the Year Ended December 31, 2002 filed with the Commission on March 27, 2003)
10.45	Lease Agreement, dated as of November 13, 2003, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.45 of the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on March 15, 2004)
10.45.1	Amendment to Lease Agreement, dated as of February 16, 2005, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.45.1 of the Current Report on Form 8-K dated February 18, 2005)
10.45.2	Amendment to Lease Agreement, dated as of November 6, 2006, by and between Endo Pharmaceuticals and Painters Crossing Two Associates, L.P. (incorporated herein by reference to Exhibit 10.34.1 of the Form 10-Q for the quarter ended September 30, 2006 filed with the Commission on November 9, 2006)
10.46	License Agreement, dated as of February 25, 2004, by and between Endo Pharmaceuticals and Noven Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.46 of Amendment No. 2 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on June 25, 2004)
10.46.1	Termination Agreement, dated as of February 24, 2006, by and between Noven Pharmaceuticals, Inc. and Endo Pharmaceuticals (incorporated herein by reference to Exhibit 10.46.1 of the Annual Report on Form 10-K for the Year Ended December 31, 2005 filed with the Commission on March 8, 2006)
10.47	Supply Agreement, dated as of February 25, 2004, by and between Endo Pharmaceuticals and Noven Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.47 of Amendment No. 2 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 filed with the Commission on June 25, 2004)
10.48	License and Co-Promotion Rights Agreement, dated as of July 14, 2004, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.48 of the Current Report on Form 8-K dated July 19, 2004)
10.48.1	Co-Promotion Agreement, dated as of July 1, 2005, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.1 of the Current Report on Form 8-K dated July 8, 2005)
10.48.2	Second Amendment, dated as of December 12, 2005, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.2 of the Current Report on Form 8-K dated December 29, 2005)
10.48.3	First Amendment, dated as of December 12, 2005, to the Co-Promotion Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.3 of the Current Report on Form 8-K dated December 29, 2005)
10.48.4	Third Amendment, dated as of July 23, 2007, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated by reference to Exhibit 10.48.4 of the Current Report on Form 8-K dated July 27, 2007)
10.48.5	Fourth Amendment, dated as of February 19, 2008, to the License Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.48.5 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008)

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Exhibit No.	Title
10.48.6	Agreement to Terminate the Co-Promotion Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited, effective February 19, 2008 (incorporated herein by reference to Exhibit 10.48.6 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008)
10.49	Loan Agreement, dated as of July 14, 2004, by and between Endo Pharmaceuticals and Vernalis Development Limited (incorporated herein by reference to Exhibit 10.49 of the Current Report on Form 8-K dated July 19, 2004)
10.49.1	Agreement to Terminate the Loan Agreement by and between Endo Pharmaceuticals and Vernalis Development Limited, effective February 19, 2008 (incorporated herein by reference to Exhibit 10.49.1 of the Form 10-K for the year ended December 31, 2007 filed with the Commission on February 26, 2008)
10.50	Form of Stock Option Grant Agreement under the 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.50 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.51	Form of Restricted Stock Unit Grant Agreement under the 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.51 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.52	Agreement and Plan of Merger dated January 5, 2009, by and between Endo, BTB Purchaser, and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 5, 2009)
10.52.1	Amendment, dated January 7, 2009 to the Agreement and Plan of Merger, by and between Endo, BTB Purchaser, and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated January 7, 2009)
10.52.2	Amendment No. 2, dated February 4, 2009, to the Agreement and Plan of Merger, by and among Endo, BTB Purchaser Inc. and Indevus Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 of the Current Report on Form 8-K dated February 6, 2009)
10.53	Form of Stockholder Tender Agreement (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated January 5, 2009)
10.54	Nebido® (n/k/a Aveed™) Contingent Cash Consideration Agreement, dated February 23, 2009, by and between Endo and American Stock Transfer and Trust Company (incorporated herein by reference to Exhibit 10.54 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.55	Octreotide Contingent Cash Consideration Agreement, dated February 23, 2009, by and between Endo and American Stock Transfer and Trust Company (incorporated herein by reference to Exhibit 10.55 of the Form 10-K for the year ended December 31, 2008 filed with the Commission on March 2, 2009)
10.56	Memorandum of Understanding, dated February 4, 2009, by and among (i) Wolf Popper LLP, counsel for Plaintiff Arthur Gober, CBM IRA Beneficiary Custodian, Beneficiary of Jerome Gober, (ii) Skadden, Arps, Slate, Meagher & Flom LLP, counsel for Defendants Endo and BTB Purchaser Inc., (iii) The Weiser Law Firm, P.C., counsel for Plaintiff Martin Wexler, (iv) Young Conaway Stargatt & Taylor, LLP, counsel for Defendants Indevus Pharmaceuticals, Inc., Glenn L. Cooper, Andrew Ferrara, James C. Gale, Michael E. Hanson, Stephen C. McCluski, Cheryl P. Morley and Malcolm Morville, (v) Levi & Korsinsky LLP, counsel for Plaintiff Malena C. Schroeder and (vi) Johnson Bottini LLP, counsel for Plaintiff H. Steven Mishket (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated February 6, 2009)
10.57	Amended and Restated License, Commercialization and Supply Agreement executed September 18, 2007 between Indevus and Esprit Pharma, Inc. (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated September 21, 2007)

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Exhibit No.	Title
10.58	Lease Agreement between National Patent Development Corporation and Cedar Brook Corporate Center, L.P. dated October 6, 1997 (incorporated herein by reference to Exhibit 10.9 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.59	Amendment to Lease between Valera Pharmaceuticals, Inc. and Cedar Brook Corporate Center, L.P. dated January 7, 2004 (incorporated herein by reference to Exhibit 10.10 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.60	Lease Agreement between Valera Pharmaceuticals, Inc. and Cedar Brook 7 Corporate Center, L.P. dated March 8, 2005 (incorporated herein by reference to Exhibit 10.11 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.61	Agreement and Plan of merger, dated as of December 11, 2006, by and among Indevus, Hayden Merger Sub, Inc. and Valera Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 to the Indevus Current Report on Form 8-K, dated December 12, 2006)
10.62	License Agreement dated February 18, 1994 between Indevus and Rhone-Poulenc Rorer, S.A. (incorporated herein by reference to the Indevus Registration Statement on Form S-3 or Amendment I (File no. 33-75826))
10.63	Lease dated February 5, 1997 between Indevus and Ledgemont Realty Trust (incorporated herein by reference to Exhibit 10.87 to the Indevus Form 10-Q for the period ended December 31, 1996 filed with the Commission on February 14, 1997)
10.64	License Agreement effective as of November 26, 1999 between Madaus AG and Indevus (incorporated herein by reference to Exhibit 10.113 to the Indevus Form 10-K for the fiscal year ended September 30, 1999, filed with the Commission on December 28, 1999)
10.65	Indemnity and Release Agreement between American Home Products Corporation and Indevus dated as of May 30, 2001 (incorporated herein by reference to Exhibit 1.120 to the Indevus Form 10-Q for the period ended June 30, 2001, filed with the Commission on August 14, 2001)
10.66	Supply Agreement between Indevus and Madaus AG dated December 16, 2003 (incorporated herein by reference to Exhibit 10.129 to the Indevus Form 10-Q for the period ended December 31, 2002, filed with the Commission on February 14, 2003)
10.67	Development and License Agreement between Indevus and Shire Laboratories Inc. dated March 11, 2003 (incorporated herein by reference to Exhibit 10.130 to the Indevus Form 10-Q for the period ended March 31, 2003, filed with the Commission on April 13, 2003)
10.68	License, Commercialization and Supply Agreement dated April 6, 2004 between Indevus and Odyssey Pharmaceuticals Inc. (incorporated herein by reference to Exhibit 99.2 to the Indevus Current Report on Form 8-K dated April 19, 2004)
10.68.1	Amendment No. 1 to License, Commercialization and Supply Agreement dated April 30, 2005 between Indevus and Odyssey Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.143 to the Indevus Form 10-Q for the period ended March 31, 2005, filed with the Commission on May 10, 2005)
10.69	Indenture of Lease dated December 20, 2004 between Indevus and Mortimer B. Zuckerman and Edward H. Linde, Trustees of Hayden Office Trust (incorporated herein by reference to Exhibit 10.142 to the Indevus Form 10-Q for the period ended December 31, 2004, filed with the Commission on February 9, 2005)
10.70	Amendment and Consent Agreement dated May 14, 2005 between Indevus, Odyssey Pharmaceuticals, Inc., and Saturn Pharmaceuticals, Inc (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated May 17, 2005)
10.71	License Agreement dated July 28, 2005 between Indevus and Schering Aktiengesellschaft (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated August 2, 2005)

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Exhibit No.	Title
10.72	Manufacturing and Supply Agreement by and between Indevus and Schering AG, Germany dated on or about October 20, 2006 (incorporated herein by reference to Exhibit 10.158 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006)
10.73	License and Supply Agreement by and between Indevus and Madaus GmbH dated on or about November 3, 2006 (incorporated herein by reference to Exhibit 10.159 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006)
10.73.1	Amendment and Agreement by and between Indevus and Madaus GmbH dated on or about November 3, 2006 (incorporated herein by reference to Exhibit 10.160 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006)
10.74	API Supply Agreement by and between Indevus and Helsinn Chemicals SA and Helsinn Advanced Synthesis SA dated on or about November 22, 2006 (incorporated herein by reference to Exhibit 10.162 to the Indevus Form 10-K for the fiscal year ended September 30, 2006, filed with the Commission on December 7, 2006)
10.75	Supprelin Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K dated April 17, 2007)
10.75.1	Supplemental Supprelin CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K dated March 23, 2009)
10.76	Stent Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.2 to the Indevus Current Report on Form 8-K dated April 17, 2007)
10.76.1	Supplemental Stent CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K dated March 23, 2009)
10.77	Octreotide Contingent Stock Rights Agreement, dated as of April 17, 2007, between Indevus and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 10.3 to the Indevus Current Report on Form 8-K dated April 17, 2007)
10.77.1	Supplemental Octreotide CSR Agreement, dated as of March 23, 2009, by and between Endo American Stock Transfer & Trust (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated March 23, 2009)
10.78	Supply Agreement by and between Valera Pharmaceuticals, Inc. and Plantex USA Inc. (incorporated herein by reference to Exhibit 10.1 to the Valera Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 9, 2006)
10.79	Form of License, Supply and Distribution Agreement by and between Indevus Pharmaceuticals, Inc. and Orion Corporation dated April 2, 2008 (incorporated herein by reference to Exhibit 10.208 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)
10.80	Form of Purchase and Sale Agreement by and between Ledgemont Royalty Sub LLC and Indevus dated August 26, 2008 (incorporated herein by reference to Exhibit 10.215 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)
10.81	Form of Note Purchase Agreement by and among Ledgemont Royalty Sub LLC, Indevus and the purchasers named therein dated August 26, 2008 (incorporated herein by reference to Exhibit 10.216 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)

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Exhibit No.	Title
10.82	Form of Indenture by and between Ledgemont Royalty Sub LLC and U.S. Bank National Association dated August 26, 2008 (incorporated herein by reference to Exhibit 10.217 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)
10.83	Form of Pledge and Security Agreement made by Indevus to U.S. Bank National Association, as Trustee, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.218 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)
10.84	Form of Development, License and Commercialization Agreement made by and between Indevus and Teva Pharmaceutical Industries Ltd., dated September 25, 2008 (incorporated herein by reference to Exhibit 10.219 to the Indevus Form 10-K for the fiscal year ending September 30, 2008, filed with the Commission on December 11, 2008)
10.85	First Amendment to Amended and Restated License, Commercialization and Supply Agreement between Indevus Pharmaceuticals, Inc. and Allergan USA, Inc. dated as of January 9, 2009 (incorporated herein by reference to Exhibit 10.1 to the Indevus Current Report on Form 8-K, dated January 15, 2009)
10.86	Agreement between National Patent Development Corporation and Dento-Med Industries, Inc. dated November 30, 1989 (incorporated herein by reference to Exhibit 10.17 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.87	Contribution Agreement between Hydro Med Sciences, Inc. and GP Strategies Corporation dated June 30, 2000 (incorporated herein by reference to Exhibit 10.12 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.88	Termination of Agreement dated September 12, 1990 between National Patent Development Corporation and The Population Council, Inc. dated October 1, 1997 (incorporated herein by reference to Exhibit 10.6 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005).
10.88.1	Amendment to the Termination of the Joint Development Agreement between GP Strategies Corporation and The Population Council, Inc. dated November 29, 2001 (incorporated herein by reference to Exhibit 10.7 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005).
10.88.2	Amendment No. 2 to Termination Agreement between Valera Pharmaceuticals, Inc. and The Population Council, Inc. dated August 31, 2004 (incorporated herein by reference to Exhibit 10.8 to the Valera Registration Statement on Form S-1 (File No. 333-123288) filed with the Commission on December 9, 2005)
10.89	Credit Agreement dated as of October 16, 2009 among Endo Pharmaceuticals Holdings Inc., the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, Barclays Capital as syndication agent, and J.P. Morgan Securities Inc. and Barclays Capital as Joint Bookrunners and Joint Lead Arrangers (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated October 22, 2009)
10.90	Pledge and Security Agreement dated as of October 16, 2009 by and among Endo Pharmaceuticals Holdings Inc., the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K dated October 22, 2009)
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney

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Exhibit No.	Title
31.1	Certification of the President and Chief Executive Officer of Endo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer of Endo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the President and Chief Executive Officer of Endo pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of Endo pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Confidential portions of this exhibit (indicated by asterisks) have been redacted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities Exchange Act of 1934, as amended.