

**ONTARIO
SUPERIOR COURT OF JUSTICE**

THE HONOURABLE)
JUSTICE PERELL) THURSDAY, THE 5TH DAY OF
)
) DECEMBER, 2019

B E T W E E N:

JOYCE KOWALYSHYN, ROBERT MORTON, SEB INVESTMENT MANAGEMENT AB,
SEB ASSET MANAGEMENT S.A., and LORRAINE O'BRIEN
- and -

VALEANT PHARMACEUTICALS INTERNATIONAL, INC.,
J. MICHAEL PEARSON, ROBERT L. ROSIELLO, HOWARD B. SCHILLER, LAIZER D.
KORNWASSER, KATE STEVENSON, NORMA PROVENCIO, THEO MELAS-KYRIAZI,
ROBERT A. INGRAM, RONALD H. FARMER, G. MASON MORFIT, LAURENCE PAUL,
ROBERT B. POWER, LLOYD M. SEGAL, FRED HASSAN, COLLEEN GOGGINS,
ANDERS O. LONNER, JEFFREY W. UBBEN and PRICEWATERHOUSECOOPERS LLP

Proceeding under the Class Proceedings Act, 1992

**ORDER
(Dismissal, Amendment and Discontinuance)**

THIS MOTION made by the plaintiffs for an order granting leave to amend the Statements of Claim in Court File No. CV-15-541082-00CP and CV-15-540567-00CP dismissing this action against PricewaterhouseCoopers LLP and discontinuing this action against Valeant Pharmaceuticals International, Inc., J. Michael Pearson, Robert L. Rosiello, Howard B. Schiller, Laizer D. Kornwasser, Kate Stevenson, Norma Provencio, Theo Melas-Kyriazi, Robert A. Ingram, Ronald H. Farmer, G. Mason Morfit, Laurence Paul, Robert B. Power, Lloyd M. Segal, Fred Hassan, Colleen Goggins, Anders O. Lonner, and Jeffrey W. Ubben was heard on December 5, 2019 at Osgoode Hall, 130 Queen Street West, Toronto, Ontario.

1. **THIS COURT ORDERS** that this action be and hereby is dismissed, with prejudice and without costs, against PricewaterhouseCoopers LLP.

2. **THIS COURT ORDERS** that leave is granted to file the attached amended Statement of Claim.

3. **THIS COURT ORDERS** that this action be and hereby is discontinued, without prejudice and without costs, against Valeant Pharmaceuticals International, Inc., J. Michael Pearson, Robert L. Rosiello, Howard B. Schiller, Laizer D. Kornwasser, Kate Stevenson, Norma Provencio, Theo Melas-Kyriazi, Robert A. Ingram, Ronald H. Farmer, G. Mason Morfit, Laurence Paul, Robert B. Power, Lloyd M. Segal, Fred Hassan, Colleen Goggins, Anders O. Lonner, and Jeffrey W. Ubben.

Perell J.

The Honourable Justice Paul Perell

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

**JOYCE KOWALYSHYN, ROBERT MORTON, SEB INVESTMENT
MANAGEMENT AB, SEB ASSET MANAGEMENT S.A., and LORRAINE
O'BRIEN**

Plaintiffs

- and -

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.,
J. MICHAEL PEARSON, ROBERT L. ROSIELLO, HOWARD B. SCHILLER,
LAIZER D. KORNWASSER, KATE STEVENSON, NORMA PROVENCIO,
THEO MELAS-KYRIAZI, ROBERT A. INGRAM, RONALD H. FARMER, G.
MASON MORFIT, LAURENCE PAUL, ROBERT N. POWER, LLOYD M.
SEGAL, FRED HASSAN, COLLEEN GOGGINS, ANDERS O. LONNER and
JEFFREY W. UBBEN and PRICEWATERHOUSECOOPERS LLP**

Defendants

Proceeding under the *Class Proceedings Act, 1992*

**AMENDED FRESH AS AMENDED STATEMENT OF CLAIM
(Notice of Action dated November 23, 2015)**

I. DEFINED TERMS

1. In this Statement of Claim the capitalized terms have the following meanings:
 - (a) "AIF" means Annual Information Form. Here, the term "AIF" refers to **Valeant's** Annual Reports on Form 10-K issued during the **Class Period**;
 - (b) "**Alternative Fulfillment Program**" means a **Valeant** program providing for an alternative sales channel for its products through **Specialty Pharmacies**, including **Philidor**, which was developed and implemented in order to improve **Valeant's** financial performance by improving both sales volumes and profitability of **Valeant's** products;

- (c) "**Auditors' Professional Standards**" means the standards of the Public Company Accounting Oversight Board (United States) applicable to ~~PwC~~ in performing its engagements with ~~Valeant~~;
- (d) "**CJA**" means the *Courts of Justice Act*, R.S.O 1990, c. C.43, as amended;
- (e) "**Class**" and "**Class Members**" are comprised of the following, other than the **Excluded Persons**:
 - (i) **Primary Market Class**: All persons and entities, wherever they may reside or may be domiciled, who acquired **Valeant's Securities** in an **Offering**; and
 - (ii) **Secondary Market Class**: All persons and entities who, during the **Class Period**, acquired Valeant's Securities in the secondary market, and
 1. are resident or domiciled in Canada or were resident or domiciled in Canada at the time of such acquisitions, regardless of the location of the exchange on which they acquired their **Valeant Securities**; or
 2. wherever they reside or are domiciled, acquired **Valeant's Securities** in the secondary market in Canada or elsewhere, other than in the United States;
- (f) "**Class Period**" means the period from February 28, 2013 to November 12, 2015;
- (g) "**CPA**" means the *Class Proceedings Act, 1992*, S.O. 1992, c. 6;
- (h) "**Defendants**" means Valeant; and the Individual Defendants, ~~and~~ ~~PwC~~;
- (i) "**EDGAR**" means the Electronic Data Gathering, Analysis, and Retrieval system;
- (j) "**Excluded Persons**" means Valeant or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the **Individual Defendants** and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest;

- (k) **"GAAP"** means United States Generally Accepted Accounting Principles;
- (l) **"IFS"** means Interim Financial Statements;
- (m) **"Impugned Documents"** means Valeant's:
 - (i) **"Press Release dated February 28, 2013"** means the press release titled "Valeant Pharmaceuticals Reports 2012 Fourth Quarter Financial Results," filed on SEDAR and EDGAR on February 28, 2013;
 - (ii) **"2012 Annual Report"** means the 2012 Annual Report on Form 10-K filed on SEDAR and EDGAR on February 28, 2013;
 - (iii) **"2012 Audited Annual Financial Statements"** means the audited annual financial statements for the three month period and year ended December 31, 2012, filed on SEDAR and EDGAR on February 28, 2013;
 - (iv) **"2012 Annual MD&A"** means the **MD&A** for the three month period and year ended December 31, 2012, filed on SEDAR and EDGAR on February 28, 2013;
 - (v) **"2013 Management Information Circular"** means the management information circular dated April 11, 2013, filed on SEDAR and EDGAR on April 11, 2013;
 - (vi) **"Press Release dated May 2, 2013"** means the press release titled "Valeant Pharmaceuticals Reports 2013 First Quarter Financial Results," filed on SEDAR and EDGAR on May 2, 2013;
 - (vii) **"Q1 2013 IFS"** means the IFS for the three month period ended March 31, 2013, filed on SEDAR and EDGAR on May 3, 2013;
 - (viii) **"Q1 2013 MD&A"** means the **MD&A** for the three month period ended March 31, 2013 filed on SEDAR and EDGAR on May 3, 2013;
 - (ix) **"Press Release dated August 7, 2013"** means the press release titled "Valeant Pharmaceuticals Reports 2013 Second Quarter Financial Results," filed on SEDAR and EDGAR on August 7, 2013;

- (x) "**Q2 2013 IFS**" means the IFS for the three and six month periods ended June 30, 2013, filed on SEDAR and EDGAR on August 7, 2013;
- (xi) "**Q2 2013 MD&A**" means the MD&A for the three and six month periods ended June 30, 2013, filed on SEDAR and EDGAR on August 7, 2013;
- (xii) "**Press Release dated October 21, 2013**" means the press release titled "Valeant Reports 2013 Third Quarter Financial Results," filed on SEDAR and EDGAR on October 31, 2013;
- (xiii) "**Q3 2013 IFS**" means the IFS for the three and nine month periods ended September 30, 2013, filed on SEDAR and EDGAR on November 1, 2013;
- (xiv) "**Q3 2013 MD&A**" means the MD&A for the three and nine month periods ended September 30, 2013, filed on SEDAR and EDGAR on November 1, 2013;
- (xv) "**Press Release dated February 27, 2014**" means the press release titled "Valeant Pharmaceuticals Reports Fourth Quarter And Full Year 2013 Financial Results," filed on EDGAR on February 27, 2014;
- (xvi) "**2013 Annual Report**" means the annual report on Form 10-K for the three month period and year ended December 31, 2013, filed on SEDAR and EDGAR on February 28, 2014;
- (xvii) "**2013 Annual Financial Statements**" means the audited annual financial statements for the three month period and year ended December 31, 2013, filed on SEDAR and EDGAR on February 28, 2014;
- (xviii) "**2013 Annual MD&A**" means the MD&A for the three month period and year ended December 31, 2013, filed on SEDAR and EDGAR on February 28, 2014;
- (xix) "**2014 Management Information Circular** " means the Management Information Circular dated April 21, 2014, filed on SEDAR and EDGAR on April 22, 2014;
- (xx) "**Press Release dated May 8, 2014**" means the press release titled "Valeant Pharmaceuticals Reports First Quarter 2014 Financial Results," filed on SEDAR and EDGAR on May 8, 2014;

- (xxi) "**Q1 2014 IFS**" means the IFS for the three month period ended March 31, 2014, filed on SEDAR and EDGAR on May 9, 2014;
- (xxii) "**Q1 2014 MD&A**" means the MD&A for the three month period ended March 31, 2014, filed on SEDAR and EDGAR on May 9, 2014;
- (xxiii) "**Press Release dated July 31, 2014**" means the press release titled "Valeant Pharmaceuticals Reports Second Quarter Financial Results," filed on SEDAR and EDGAR on July 31, 2014;
- (xxiv) "**Q2 2014 IFS**" means the IFS for the three and six month periods ended June 30, 2014, filed on SEDAR on July 31, 2014 and on EDGAR on August 1, 2014;
- (xxv) "**Q2 2014 MD&A**" means the MD&A for the three and six month periods ended June 30, 2014, filed on SEDAR on July 31, 2014 and on EDGAR on August 1, 2014;
- (xxvi) "**Press Release dated October 30, 2014**" means the press release titled "Valeant Pharmaceuticals Reports Second Quarter 2014 Financial Results, filed on SEDAR and EDGAR on October 20, 2014;
- (xxvii) "**Q3 2014 IFS**" means the IFS for the three and nine month periods ended September 30, 2014, filed on SEDAR and EDGAR on October 24, 2014;
- (xxviii) "**Q3 2014 MD&A**" means the MD&A for the three and nine month periods ended September 30, 2014, filed on SEDAR and EDGAR on October 24, 2014;
- (xxix) "**Press Release dated February 23, 2015**" means the press release titled "Valeant Pharmaceuticals Reports Fourth Quarter And Full Year 2014 Financial Results," filed on SEDAR and EDGAR on February 23, 2015;
- (xxx) "**2014 Annual Report**" means the annual report on Form 10-K for the three month period and year ended December 31, 2014, filed on SEDAR and EDGAR on February 25, 2015;
- (xxxi) "**2014 Annual Financial Statements**" means the audited annual financial statements for the three month period and year ended December 31, 2014, filed on SEDAR and EDGAR on February 25, 2015;

- (xxxii) "**2014 Annual MD&A**" means the MD&A for the three month period and year ended December 31, 2014, filed on SEDAR and EDGAR on February 25, 2015;
- (xxxiii) "**2015 Management Information Circular**" means the management information circular dated April 9, 2015, filed on SEDAR and EDGAR on April 9, 2015;
- (xxxiv) "**Press Release dated April 29, 2015**" means the press release titled "Valeant Pharmaceuticals Reports First Quarter 2015 Financial Results," filed on SEDAR and EDGAR on April 29, 2015;
- (xxxv) "**Q1 2015 IFS**" means the IFS for the three month period ended March 31, 2015, filed on SEDAR and EDGAR on April 30, 2015;
- (xxxvi) "**Q1 2015 MD&A**" means the MD&A for the three month period ended March 31, 2015, filed on SEDAR and EDGAR on April 30, 2015;
- (xxxvii) "**Press Release dated July 23, 2015**" means the press release titled "Valeant Pharmaceuticals Reports Second Quarter 2015 Financial Results," filed on SEDAR and EDGAR on July 23, 2015;
- (xxxviii) "**Q2 2015 IFS**" means the IFS for the three and six month periods ended June 30, 2015, filed on SEDAR on July 27, 2015 and on EDGAR on July 28, 2015;
- (xxxix) "**Q2 2015 MD&A**" means the MD&A for the three and six month periods ended June 30, 2015, filed on SEDAR on July 27, 2015 and on EDGAR on July 28, 2015;
- (xli) "**Press Release dated October 19, 2015**" means the press release titled "Valeant Pharmaceuticals Reports Third Quarter 2015 Financial Results," filed on SEDAR and EDGAR on October 19, 2015;
- (xli) "**Q3 2015 IFS**" means the IFS for the three and nine month periods ended September 30, 2015 filed on SEDAR and EDGAR on October 26, 2015;
- (xlii) "**Q3 2015 MD&A**" means the MD&A for the three and nine month periods ended September 30, 2015 filed on SEDAR and EDGAR on October 26, 2015;
- (xliii) the **Prospectuses**; and

- (xliv) the **Offering Memoranda**;
 - in each case, where applicable, including all documents incorporated by reference therein;
- (n) **"Individual Defendants"** (each being an **"Individual Defendant"**) means J. Michael Pearson, Howard B. Schiller, Robert L. Rosiello, Laizer Kornwasser, Robert A. Ingram, Ronald H. Farmer, Theo Melas-Kyriazi, G. Mason Morfit, Dr. Laurence Paul, Robert N. Power, Norma A. Provencio, Lloyd M. Segal, Katharine B. Stevenson, Fred Hassan, Colleen Goggins, Anders O. Lonner and Jeffrey W. Ubben;
- (o) **"MD&A"** means Management's Discussion and Analysis;
- (p) **"Notes"** means **Valeant's**:
 - (i) 6.75% senior notes due 2018;
 - (ii) 7.50% senior notes due 2021;
 - (iii) 5.625% senior notes due 2021;
 - (iv) 5.50% senior unsecured notes due 2023;
 - (v) 5.375% senior unsecured notes due 2020;
 - (vi) 5.875% senior unsecured notes due 2023;
 - (vii) 4.50% senior unsecured notes due 2023; and
 - (viii) 6.125% senior unsecured notes due 2025;
- (q) **"Offering Memoranda"** means **Valeant's**:
 - (i) Offering Circular dated June 27, 2013;
 - (ii) Offering Circular dated November 15, 2013;
 - (iii) Offering Memorandum dated January 15, 2015
 - (iv) Offering Memorandum dated March 13, 2015;
- (r) **"Offerings"** (each being an **"Offering"**) means the offerings of **Valeant's Securities** during the **Class Period** by way of the **Offering Memoranda** and the **Prospectuses**, as particularized herein;
- (s) **"OSA"** means the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended;

- (t) "**Philidor**" means Philidor Rx Services LLC, a specialty pharmacy based in Pennsylvania and, as the context may require, includes Philidor Rx Services' subsidiaries and its affiliates as well as the specialty pharmacies included in the extended network of **Specialty Pharmacies** including, but not limited to, the pharmacies in which Philidor Rx Services had, directly or indirectly, equity, ownership or other financial interests including, but not limited to, R&O Pharmacy, a pharmacy located in Camarillo, California;
- (u) "**Prospectuses**" means **Valeant's**:
 - (i) Short Form Base Shelf Prospectus dated and filed on SEDAR on June 14, 2013;
 - (ii) Prospectus Supplement dated and filed on SEDAR on June 18, 2013;
 - (iii) Prospectus dated June 10, 2013, filed on EDGAR on June 19, 2013;
 - (iv) Prospectus Supplement dated June 18, 2013, filed on EDGAR on June 19, 2013;
 - (v) Prospectus dated June 10, 2013 filed on EDGAR on March 18, 2015;
 - (vi) Prospectus Supplement dated March 17, 2015, filed on EDGAR on March 18, 2015;
- (v) "**PwC**" means PricewaterhouseCoopers LLP;
- (w) "**Securities**" means **Valeant's** common shares and Notes;
- (x) "**Securities Legislation**" means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

- (y) "**SEDAR**" means the System for Electronic Document Analysis and Retrieval which is a filing system developed for the Canadian Securities Administration;
- (z) "**Specialty Pharmacies**" means **Valeant's** network of mail-order or other specialty pharmacies including, but not limited to, **Philidor**, with which **Valeant** had undisclosed relationships during the **Class Period** and through which it implemented its **Alternative Fulfillment Program**;
- (aa) "**Valeant**" means Valeant Pharmaceuticals International, Inc.; and
- (bb) "**Valeant Defendants**" means Valeant and the Individual Defendants, collectively.

II. CLAIM

2. The plaintiffs claim:

- (a) an order pursuant to the *CPA* certifying this action as a class proceeding and appointing the plaintiffs as the representative plaintiffs of the Class;
- (b) an order granting leave to proceed with the statutory claim for misrepresentation under Part XXIII.1 of the *OSA* or, if necessary, the corresponding provisions of the Securities Legislation;
- (c) a declaration that the Impugned Documents contained one or more misrepresentations within the meaning of the *OSA*, the other Securities Legislation, and the common law;
- (d) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentations while knowing them to be misrepresentations
- (e) a declaration that the Defendants are liable in damages to the Class Members for misrepresentations in Valeant's public disclosure alleged herein pursuant to Part XXIII.1 of the *OSA*, the corresponding provisions of the other Securities Legislation, and the common law;
- (f) a declaration that Valeant ~~and PwC are~~ is liable in damages to the Class members for negligent misrepresentation pursuant to the common law of New York state and Rule 10b-5 of the Securities Exchange Act of 1943;

- (g) damages in an amount that this court find appropriate;
- (h) punitive damages against Valeant and the Individual Defendants in an amount that this court find appropriate;
- (i) a declaration that Valeant is vicariously liable for the acts and omissions of its officers, directors and employees;
- (j) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;
- (k) prejudgment interest and postjudgment interest, pursuant to sections 128 and 129 of the *CJA*;
- (l) costs of this action, plus pursuant to s. 26(9) of the *CPA*, the costs of notices and of administering the plan of distribution of the recovery in this action; and
- (m) such further and other relief as to this Honourable Court seems just.

III. OVERVIEW

3. Valeant is a specialty pharmaceutical and medical device company which manufactures and markets pharmaceuticals, over-the-counter products, and medical devices. Valeant is a reporting issuer in Ontario and its shares predominantly trade on the Toronto Stock Exchange (the "TSX") and the New York Stock Exchange ("NYSE").

4. During the Class Period, Valeant engaged in an aggressive growth strategy through acquisitions of pharmaceutical companies followed by the slashing of research and development budgets and steep increases in the prices of the brand name drugs it acquired. Valeant also emphasized its growing organic revenue generated through increased sales of existing pharmaceuticals, which was of paramount concern to investors. To tout Valeant's growth, the Valeant Defendants devised and consistently

reported “organic growth” rates, a financial metric that purported to represent the year over year growth of Valeant’s businesses. Valeant consistently reported “robust” and “sustainable” organic growth rates. Unbeknownst to investors, a large percentage of that organic growth was driven by sales through Philidor, a mail order pharmacy which was effectively owned and controlled by Valeant, which relationship was not disclosed to the public.

5. During the Class Period, the market responded favourably to Valeant's growth and the price of Valeant's Securities soared:

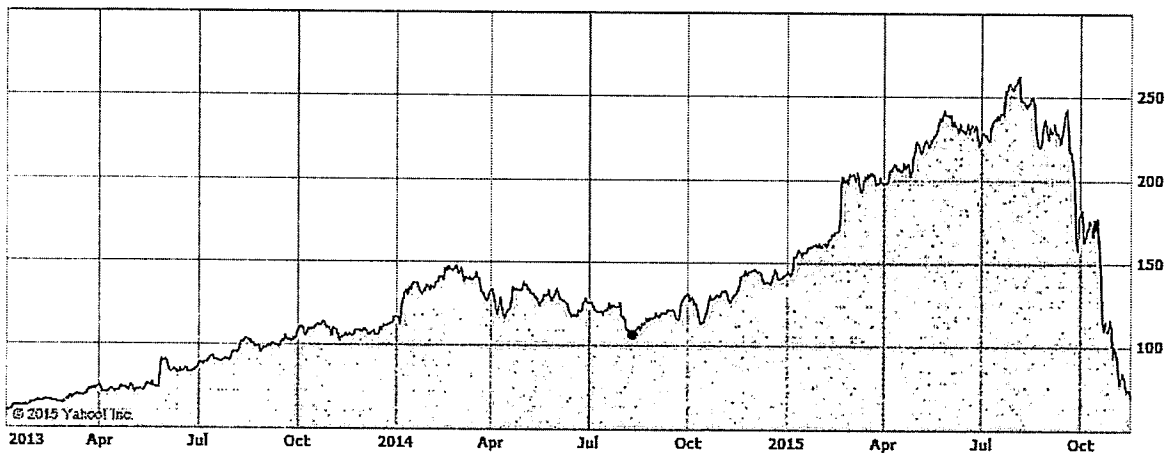


Chart of the price of Valeant's shares from January 2013 to November 2015

6. Capitalizing on the growth in the price of Valeant's Securities, during the Class Period Valeant raised in excess of \$14 billion in the capital markets.

7. On October 19, 2015, Valeant revealed for the first time that it owned an option to purchase Philidor, a Specialty Pharmacy, which Valeant used to market and sell Valeant's expensive brand name drugs. Valeant confirmed shortly thereafter that Valeant consolidated Philidor's financials and revenue into Valeant's financial statements. It was

also revealed that the growth rates Valeant reported over the recent past and its stated growth prospects were, in a significant part, predicated on Valeant's relationships with and its conduct of business through Specialty Pharmacies.

8. Specialty Pharmacies represented a network of mail-order or other pharmacies that was first established in early-2013 with Valeant's participation and under its control. Over the course of the Class Period, the Specialty Pharmacies would rapidly expand to include tens of pharmacies operating across the United States and purportedly generating hundreds of millions of dollars in revenues for Valeant.

9. In the past several years, Valeant has aggressively increased the prices of its products. In the face of Valeant's aggressive pricing practices and competition from significantly cheaper generic or other similar products, Specialty Pharmacies helped artificially improve Valeant's financial and operational results by facilitating distribution and sales of those products. Specialty Pharmacies' activities were aimed to ensure that Valeant's expensive products were dispensed to patients, despite the availability of generic and other competitive drugs at significantly lower costs and that, when medications were dispensed to patients, the payers—generally, insurers—would pay for the drugs. In order to achieve these results, Specialty Pharmacies engaged in a host of improper business practices that, at a minimum, were in violation of their contracts with the insurers.

10. In the weeks following October 19, 2015, it was revealed for the first time that during the Class Period, current and former Valeant employees had a close and direct

role in the growth, management, oversight, control, and day-to-day affairs of Philidor and the Specialty Pharmacies.

11. It was further revealed that during the Class Period, Philidor was engaging in risky, unorthodox, and illegal business practices with the goal of generating additional revenue for Valeant by increasing the sales of Valeant's expensive brand name pharmaceuticals. Valeant knew or ought to have known of such practices, and its internal controls failed to prevent such practices from occurring.

12. Finally, it was revealed that during the Class Period, Valeant had established a vast web of mail order pharmacies created for the purpose of causing insurance companies to pay for prescriptions for expensive Valeant drugs instead of generic substitutes.

13. Based on Specialty Pharmacies' improper activities, and taking advantage of the opportunities that this alternative sales channel provided, Valeant appeared to improve the distribution and sales figures for its over-priced products, thereby artificially improving its financial and operational results over the course of the Class Period. To wit, revenues generated by Specialty Pharmacies contributed to as much as 50% of Valeant's organic growth rates in 2015.

14. Additionally, during the Class Period, Valeant engaged in improper revenue generating activities, improper revenue recognition, recognition of improper or uncollectible accounts receivable, and/or channel stuffing, within and beyond the Specialty Pharmacies network. These improper activities were carried out by way of transactions which Valeant refers to as "non-standard revenue transactions" in its recent,

post-Class Period disclosures. These activities included transactions that were not executed in the normal course of business under applicable accounting standards and included fulfillment of unusually large orders with extended payment terms and increased pricing, an emphasis on delivering products prior to the execution of related contracts, and/or delivering products beyond inventory target levels, particularly at or near the end of financial reporting periods. These improper revenue generating activities violated GAAP.

15. Throughout this time, Valeant did not disclose and also took great pains to disguise its involvement in these practices and the associated risks to Valeant's business and operations.

16. In October 2015, information began to emerge regarding Valeant's improper pricing and distribution practices, particularly within the context of its previously undisclosed relationships with Specialty Pharmacies, as well as Valeant's improper financial reporting practices.

17. Subsequently, Valeant admitted to its previously undisclosed relationships with Specialty Pharmacies including Philidor, provided certain details regarding those relationships, terminated its relationships with Specialty Pharmacies and formed an *ad hoc* committee of its Board of Directors to investigate Valeant's relationships with Specialty Pharmacies and related matters.

18. As a result of these investigations, in April 2016, *inter alia*, Valeant disclosed that it had improperly recognized certain revenues within its relationships with Specialty Pharmacies and restated those revenues and related financial statement accounts.

Furthermore, Valeant disclosed that its internal controls suffered from material weaknesses relating to “tone at the top” of Valeant’s enterprise as well as “non-standard revenue transactions” resulting, in part, in financial statement misstatements.

19. Valeant’s significant and material weaknesses in its internal controls over financial reporting and disclosure controls and procedures existed at all material times during the Class Period and contributed to Valeant’s improper financial reporting and the Defendants’ other misrepresentations in the Impugned Documents, as particularized herein.

20. These revelations had a catastrophic effect on Valeant’s share price. On October 19, 2015, the price of Valeant’s common shares opened at \$220.00. After its relationship with Philidor became public and the market learned of Philidor’s risky, unorthodox, and illegal business practices, the price of Valeant shares has fallen by as much as 80%, Valeant’s market capitalization has declined by tens of billions of dollars, and Class Members have suffered significant damages caused by the misrepresentations in Valeant’s public disclosure.

21. As a reporting issuer in Ontario and elsewhere, Valeant was required to make full and true disclosure of all material information to its investors. It did not. Valeant failed to meet the standards required of a public company in Canada. The plaintiffs claim for themselves and the other Class Members damages that were incurred as a result of the material misrepresentations and the Defendants’ failure to disclose material information. Accordingly, this action is brought to recover the Class Members’ losses from the Defendants.

IV. PARTIES

A. *The Plaintiffs*

22. The plaintiff Kowalyshyn resides in Vancouver, British Columbia. She purchased 15,850 Valeant shares on the TSX during the Class Period. As of the opening of trading on October 19, 2015, she owned 1,500 Valeant shares.

23. The plaintiff Morton resides in Sarnia, Ontario. He purchased 80 Valeant shares on the TSX during the Class Period and continued to own some or all of these shares until the end of the Class Period.

24. The plaintiffs SEB Investment Management AB and SEB Asset Management S.A. are investment fund managers (together, "**SEB**"). SEB Investment Management AB is based in Sweden. SEB Asset Management S.A. is based on Luxembourg. Collectively, SEB Investment Management AB and SEB Asset Management S.A. manage more than \$100 billion in assets. SEB is authorized to make all decisions with respect to its investments, including decisions to initiate legal actions and pursue claims relating to investments. During the Class Period, SEB purchased 477,900 Valeant shares on the TSX and continued to own some or all of these shares until the end of the Class Period, and thereby suffered losses in excess of \$20 million.

25. The plaintiff O'Brien resides in Edmonton, Alberta. She purchased 100 Valeant shares on the TSX during the Class Period and continued to own those shares at the end of the Class Period.

B. *The Defendants*

26. Valeant is a pharmaceutical and medical device company, incorporated in the Province of British Columbia and headquartered in Laval, Québec. It operates manufacturing facilities, sales offices and conducts extensive business in Ontario.

27. At all material times, Valeant's shares traded predominantly on the TSX and the NYSE under the ticker symbol "VRX". Valeant has various debt instruments, derivatives and other Securities that are traded in Canada and elsewhere.

28. As a reporting issuer in Ontario, Valeant was required throughout the Class Period to issue and file with SEDAR:

- (a) within 45 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP;
- (b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP;
- (c) contemporaneously with each of the above, a MD&A of each of the above financial statements. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in future; and
- (d) within 90 days of the end of the fiscal year, an AIF, including material information about the company and its business at a point in time in the context of its historical and possible future development. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF must describe the company, its operations and prospects, risks and other external factors that impact the company specifically. Pursuant to National Instrument 51-102, during the Class Period, Valeant's AIF were filed as Annual Reports on Form 10-K. Valeant's Annual Reports on Form 10-K are the equivalent of AIF's for Canadian securities law purposes.

29. Valeant controlled the contents of its MD&As, financial statements, AIFs, and the other documents particularized herein and the misrepresentations made therein were made by Valeant.

30. J. Michael Pearson ("**Pearson**") has been Valeant's Chief Executive Officer ("**CEO**") since September 2010. In March 2011, Pearson was appointed Chairman of Valeant's Board of Directors. As Valeant's CEO, Pearson: (a) certified each of the Impugned Documents that are quarterly and annual disclosures of Valeant; (b) signed each of the Impugned Documents that are Valeant's AIFs; and (c) signed and certified Valeant's Short Form Base Shelf Prospectus dated June 14, 2013, which was supplemented by the Prospectus Supplement dated June 18, 2013 (each an Impugned Document). In so doing, he adopted as his own the false statements such documents contained, as particularized below. Pearson ceased to be CEO and a Director of Valeant in April 2016. At all material times, Pearson was a director and officer of Valeant within the meaning of the Securities Legislation.

31. Robert L. Rosiello ("**Rosiello**") became Valeant's Chief Financial Officer in June 2016. In his position as CFO, Rosiello certified Valeant's quarterly disclosures that were issued after July 2015. In so doing, he adopted as his own the false statements such documents contained, as particularized below. At all material times, Rosiello was an officer of Valeant within the meaning of the Securities Legislation.

32. Howard B. Schiller ("**Schiller**") was Valeant's Chief Financial Officer between December 2011 and July 1, 2015 and an officer of Valeant within the meaning of the Securities Legislation. Schiller was a member of Valeant's Board of Directors since

September 2012 and a director of Valeant within the meaning of the Securities Legislation. In his position as CFO, Schiller: (a) certified each Impugned Document that was issued until June 2015, when he ceased to be Valeant's CFO; (b) signed each of the Impugned Documents that are Valeant's AIFs; and (c) signed and certified Valeant's Short Form Base Shelf Prospectus dated June 14, 2013, which was supplemented by the Prospectus Supplement dated June 18, 2013 (each an Impugned Document). In January and February 2016, Schiller served as Valeant's interim-CEO while, according to Valeant, Pearson was on medical leave.

33. In March 2016, in connection with Valeant's *ad hoc* committee investigations, Valeant stated that Schiller had engaged in improper conduct and provided incorrect information to Valeant's Audit and Risk Committee and auditors, which contributed to Valeant's financial statement misstatements. Additionally, Valeant stated that it had requested that Schiller resign from the Board of Directors, but that Schiller had declined that request. In April 2016, Valeant announced that Schiller would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016;

34. Kornwasser was Valeant's Executive Vice President and Company Group Chairman from February 1, 2013 to July 2015. Kornwasser was responsible for Valeant's operations in Canada, U.S. neurology and other U.S. functions including managed care and distribution. In this position, he reported directly to Pearson. Kornwasser also supervised employees at Philidor and had direct involvement in the management and control of Philidor. At all material times, Kornwasser was an officer of Valeant within the meaning of the Securities Legislation.

35. At all material times during the Class Period, Robert A. Ingram ("**Ingram**") was a member of Valeant's Board of Directors. Ingram was a director of Valeant within the meaning of the Securities Legislation. Ingram signed each of the Impugned Documents that are Valeant's AIFs.

36. At all material times during the Class Period, Ingram was the Lead Independent Director of Valeant. In his capacity as such, Ingram had specific and stated responsibilities, including: (a) fostering processes that allow the Board to function independently of management and encouraging open and effective communication between the Board and management of the Company; and (b) in the case of a conflict of interest involving a Director, if appropriate, asking the conflicted Director to leave the room during discussion concerning such matter and, if appropriate, asking such Director to recuse him or herself from voting on the relevant matter. Ingram failed to comply with his duties and responsibilities as Valeant's Lead Independent Director.

37. At all material times during the Class Period, Ronald H. Farmer ("**Farmer**") was a member of Valeant's Board of Directors. At all relevant times, Farmer was a director of Valeant within the meaning of the Securities Legislation. On behalf of Valeant's Board of Directors, Farmer signed and certified Valeant's Short Form Base Shelf Prospectus dated June 14, 2013, which was supplemented by the Prospectus Supplement dated June 18, 2013 (each an Impugned Document). Farmer also signed each of the Impugned Documents that are Valeant's AIFs. In April 2016, Valeant announced that Farmer would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016.

38. At all material times during the Class Period, Theo Melas-Kyriazi ("**Melas-Kyriazi**") was a member of Valeant's Board of Directors. At all relevant times, Melas-Kyriazi was a director of Valeant within the meaning of the Securities Legislation. Melas-Kyriazi signed each of the Impugned Documents that are Valeant's AIFs. In April 2016, Valeant announced that Melas-Kyriazi would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016.

39. During the Class Period, Mason G. Morfit ("**Morfit**") was a member of Valeant's Board of Directors. In May 2014, Morfit ceased to be a director of Valeant, but was re-appointed as of October 25, 2015. Morfit was a director of Valeant within the meaning of the Securities Legislation. On behalf of Valeant's Board of Directors, Morfit signed and certified Valeant's Short Form Base Shelf Prospectus dated June 14, 2013, which was supplemented by the Prospectus Supplement dated June 18, 2013 (each an Impugned Document). Morfit also signed each of Valeant's 2012 and 2013 AIFs. In April 2016, Valeant announced that Morfit would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016;

40. Dr. Laurence E. Paul ("**Paul**") was a member of Valeant's Board of Directors until May 2013, when he ceased to have that position. Paul was a director of Valeant within the meaning of the Securities Legislation. Paul signed Valeant's 2012 AIF.

41. At all material times during the Class Period, Robert N. Power ("**Power**") was a member of Valeant's Board of Directors. Power was a director of Valeant within the meaning of the Securities Legislation. Power signed each of the Impugned Documents that are Valeant's AIFs.

42. At all material times during the Class Period, Norma A. Provencio ("**Provencio**") was a member of Valeant's Board of Directors. Provencio was a director of Valeant within the meaning of the Securities Legislation. Provencio signed each of the Impugned Documents that are Valeant's AIFs. In April 2016, Valeant announced that Provencio would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016.

43. Lloyd M. Segal ("**Segal**") was a member of Valeant's Board of Directors until May 2014, when he ceased to have that position. Segal was a director of Valeant within the meaning of the Securities Legislation. Segal signed Valeant's 2012 and 2013 AIFs.

44. At all material times during the Class Period, Katharine B. Stevenson ("**Stevenson**") was a member of Valeant's Board of Directors. Stevenson was a director of Valeant within the meaning of the Securities Legislation. Stevenson signed each of the Impugned Documents that are Valeant's AIFs. In March 2016, Valeant announced that Stevenson had voluntarily resigned from the Board of Directors.

45. Fred Hassan ("**Hassan**") was a member of Valeant's Board of Directors until May 2014, when he ceased to have that position. Hassan was a director of Valeant within the meaning of the Securities Legislation.

46. Colleen Goggins ("**Goggins**") was appointed a member of Valeant's Board of Directors in May 2014, and continues to hold that position until June 2016. Goggins was a director of Valeant within the meaning of the Securities Legislation. Goggins signed Valeant's 2014 AIF. In April 2016, Valeant announced that Goggins would not stand for re-election at the Annual General Meeting of Shareholders on June 14, 2016.

47. Anders O. Lonner ("**Lonner**") was appointed a member of Valeant's Board of Directors in May 2014, and (held that position until March 8, 2016, when, according to Valeant, he resigned as a director due to "other priorities and personal commitments". Lonner was a director of Valeant within the meaning of the Securities Legislation. Lonner signed Valeant's 2014 AIF.

48. Jeffrey W. Ubben ("**Ubben**") was appointed a member of Valeant's Board of Directors in October 2014, and held that position until August 2015. Ubben was a director of Valeant within the meaning of the Securities Legislation. Ubben signed Valeant's 2014 AIF.

49. At all material times during the Class Period, Provencio (Chairperson), Melas-Kyriazi and Stevenson were members of Valeant's Board of Directors' Audit and Risk Committee. In their capacities as such, these Defendants had specific responsibilities to oversee:

- (a) the quality and conduct of audits of Valeant;
- (b) the quality and reporting of Valeant's audited and interim financial statements and accompanying press releases;
- (c) the quality and function of Valeant's internal controls over financial reporting and disclosure controls and procedures;
- (d) Valeant's risk management system, policies and practices, including with respect to material risks to Valeant's business;
- (e) ethical compliance, including with respect to Valeant's Standards of Business Conduct;
- (f) compliance with laws, regulations and guidelines; and
- (g) conflicts of interests, including to conduct reviews of transactions or proposed transactions in which an executive officer of Valeant or a senior financial officer of Valeant has a conflicting interest,

all as set out in Valeant's stated Charter of the Audit and Risk Committee.

50. At all material times during the Class Period, Provencio, Melas-Kyriazi and Stevenson failed to comply with their stated duties and responsibilities as members of Valeant's Board's Audit and Risk Committee.

51. During the Class Period, Power (Chairperson; 2014-2015), Segal (Chairperson; 2013), Paul, Farmer, Ingram, Melas-Kyriazi and Goggins were members of Valeant's Board of Directors' Nominating and Corporate Governance Committee. In their capacities as such, these Defendants had specific responsibilities to:

- (a) oversee Valeant's corporate governance practices, policies and procedures;
- (b) ensure the proper flow of information to the Valeant Board; and
- (c) foster a healthy corporate governance culture within Valeant; all as set out in Valeant's stated Charter of the Nominating and Corporate Governance Committee.

52. At all material times during the Class Period, Power, Segal, Paul, Farmer, Ingram, Melas-Kyriazi and Goggins failed to comply with their stated duties and responsibilities as members of Valeant's Board's Nominating and Corporate Governance Committee.

53. The Defendants, Ingram (Chairperson), Provencio, Goggins and Morfit were members of the *ad hoc* committee of Valeant's Board of Directors established on or about October 26, 2015 to investigate Valeant's relationships with Philidor and related matters - the events out of which this action arises.

54. In April 2016, the *ad hoc* committee was dissolved by the resolution of the Board of Directors following, according to Valeant, the completion of its review. Valeant has not disclosed details regarding the *ad hoc* committee's mandate, the scope of its reviews, the information it gathered and reviewed, or its findings, although certain of the *ad hoc* committees' findings and recommendations were disclosed by Valeant in its subsequent disclosure filings in April 2016.

55. The members of Valeant's Board of Directors and Valeant's officers were authorized representatives and agents of Valeant and their acts are those of Valeant. Alternatively, Valeant is vicariously liable for the acts of its officers and directors. As officers and/or directors of Valeant, the Individual Defendants made the misrepresentations alleged herein, adopted such misrepresentations, and/or caused Valeant to make such misrepresentations while they were acting in their capacity as employees of Valeant.

56. PwC was Valeant's auditor during the Class Period. ~~PwC is an expert within the meaning of the OSA and the Securities Legislation. PwC, in providing what it purported to be audit services to Valeant, made statements that it knowingly intended to be, and which were, disseminated to Valeant's current and prospective security holders. At all material times, PwC was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on PwC's statements relating to Valeant, which they did to their detriment.~~

57. ~~In performing its engagements with Valeant, PwC purported to comply with the Auditors' Professional Standards. PwC failed to comply with those standards.~~

58. Among other services, during the Class Period, PwC: (a) performed assurance engagements in connection with Valeant's as well as its subsidiaries' quarterly and annual financial statements; (b) audited Valeant's internal controls over financial reporting in conjunction with its annual audits; and (c) performed services in connection with some or all of the Offerings, which are identified herein.

59. During the Class Period, PwC delivered unqualified audit reports to Valeant's shareholders, including the Class Members, on Valeant's and its subsidiaries' financial statements for the years 2012, 2013 and 2014. PwC's audit reports are dated February 25, 2013, February 28, 2014 and February 25, 2015. ~~PwC's audit reports on Valeant's consolidated financial statements were included or incorporated by reference in some or all of the Offering Memoranda and Prospectuses with PwC's consent.~~

~~60. As further particularized herein, PwC's audit reports issued during the Class Period were false. Furthermore, PwC failed to comply with the Auditors' Professional Standards in its engagements with Valeant's interim financial statements and offering documents issued in connection with the Offerings.~~

~~61. PwC received US\$24.30 million, US\$16.25 million and US\$17.68 million, respectively, for its services rendered in connection with fiscal years ended December 31, 2015, 2014 and 2013.~~

~~62. PwC's annual auditor's reports were made available to the shareholders of Valeant, which included the Class Members. Indeed, s. 1000.11 of the Handbook of the Canadian Institute of Chartered Accountants states that "the objective of financial~~

~~statements for profit-oriented enterprises focuses primarily on the information needs of investors and creditors” [emphasis added].~~

V. THE OFFERINGS

63. Through the Offerings, Valeant raised in aggregate in excess of \$14 billion from investors during the Class Period. In particular:

- (a) On June 24, 2013, Valeant completed an Offering of its common shares for gross proceeds of \$2.3 billion. These Securities were distributed pursuant to a Prospectus Supplement dated June 18, 2013 to a Short Form Base Shelf Prospectus dated June 14, 2013, and a Prospectus Supplement dated June 18, 2013 to a Prospectus dated June 10, 2013, which are Impugned Documents. The Prospectus issued in connection with this Offering stated that it incorporated by reference Valeant's: (i) 2012 Annual Report; (ii) 2012 Audited Annual Financial Statements; (iii) 2012 Annual MD&A; (iv) Q1 2013 IFS; and (v) Q1 2013 MD&A. Pearson and Schiller signed a certificate affirming the accuracy of the financial statements, that all the material facts were disclosed and that Valeant has adequate internal controls;
- (b) On July 12, 2013, Valeant issued: (i) US\$1,600 million aggregate principal amount of the 6.75% senior notes due 2018; and (ii) US\$1,625 million aggregate principal amount of the 7.50% senior notes due 2021. These Securities were distributed via brokered Offerings that were undertaken pursuant to an Offering Circular dated June 27, 2013, which is an Impugned Document. The Offering Memorandum issued in connection with this Offering stated that it incorporated by reference Valeant's: (i) 2012 Annual Report; (ii) Q1 2013 IFS; and (iii) Q1 2013 MD&A.
- (c) On December 2, 2013, Valeant issued US\$900 million aggregate principal amount of the 5.625% senior notes due 2021. These Securities were distributed via a brokered Offering that was undertaken pursuant to an Offering Circular dated November 15, 2013, which is an Impugned Document. The Offering Memorandum issued in connection with this Offering stated that it incorporated by reference Valeant's: (i) 2012 Annual Report; (ii) Q1 2013 IFS; (iii) Q1 2013 MD&A; (iv) Q2 2013 IFS; (v) Q2 2013 MD&A; (vi) Q3 2013 IFS; and (vii) Q3 2013 MD&A.
- (d) On January 30, 2015, Valeant issued US\$1,000 million aggregate principal amount of the 5.50% Senior Unsecured Notes due 2023. These Securities were distributed via a brokered Offering that was undertaken pursuant to an Offering Memorandum dated January 15, 2015, which is an Impugned Document. The Offering Memorandum issued in

connection with this Offering stated that it incorporated by reference Valeant's: (i) 2013 Annual Report; (ii) Q1 2014 IFS; (iii) Q1 2014 MD&A; (iv) Q2 2014 IFS; (v) Q2 2014 MD&A; (vi) Q3 2014 IFS; and (vii) Q3 2014 MD&A.

- (e) On March 27, 2015, Valeant issued: (i) US\$2,000 million aggregate principal amount of the 5.375% senior unsecured notes due 2020; (ii) US\$3,250 million aggregate principal amount of the 5.875% senior unsecured notes due 2023; (iii) €1,500 million aggregate principal amount of the 4.50% senior unsecured notes due 2023; and (iv) US\$3,250 million aggregate principal amount of the 6.125% senior unsecured notes due 2025. These Securities were distributed via brokered Offerings that were undertaken pursuant to an Offering Memorandum dated March 13, 2015, which is an Impugned Document. The Offering Memorandum issued in connection with this Offering stated that it incorporated by reference Valeant's 2014 Annual Report; and
- (f) On March 27, 2015, Valeant completed a brokered Offering of its common shares for gross proceeds of US\$1,450 million. These Securities were distributed pursuant to a Prospectus Supplement dated March 17, 2015 to a Prospectus dated June 10, 2013, which are Impugned Documents. The Prospectus issued in connection with this Offering stated that it incorporated by reference Valeant's 2014 Annual Report.

64. The offering documents referenced in the preceding paragraph included or incorporated other documents by reference that included the misrepresentations alleged herein. Had the truth in regard to Valeant's management, business and affairs been timely disclosed, securities regulators would not have receipted the Prospectuses, nor would any of the Offerings have occurred.

65. In the alternative, had the truth in regard to Valeant's management, business and affairs been timely disclosed, the prices paid for Valeant's securities in the Offerings would have been significantly reduced to reflect the true value of the securities.

66. Valeant's 6.75% senior notes due 2018, 7.50% senior notes due 2021, 5.375% senior unsecured notes due 2020, 5.875% senior unsecured notes due 2023, 4.50%

senior unsecured notes due 2023 and 6.125% senior unsecured notes due 2025 were initially issued by certain special purpose vehicle, wholly-owned Canadian subsidiaries of Valeant ("SPVs"). Upon the completion of these Offerings and the related transactions, in each case, the SPVs were voluntarily liquidated, all their obligations were assumed by Valeant, and all their assets including the proceeds of these Offerings were distributed to Valeant. Herein, the term "Valeant" includes the SPVs (and all other Valeant subsidiaries). Valeant is liable for the claims particularized against it herein respecting these Offerings by virtue, among other things, of its being the assignee of all of the SPVs' obligations and liabilities.

VI. VALEANT'S GROWTH THROUGH ALTERNATIVE FULFILMENT

1) The Dynamics of Valeant's Business and its Purported Growth

67. Since the beginning of the Class Period, Valeant has grown at a tremendous pace. This growth has been fueled by serial acquisitions of pharmaceutical companies and through organic growth (growth through internally generated profitable revenue expansion as opposed to growth through acquisition).

68. While Valeant and its management have consistently failed to provide sufficient details regarding the results of Valeant's business units, they have used non-GAAP financial metrics to present the financial results of its operations for use by the Class Members, among others. Most notable amongst these financial metrics is Valeant's "organic growth" (also known as "same store sales") - this non-GAAP measure purports to represent growth rates for businesses that have been owned by Valeant for one year or more. According to Valeant's management: "Perhaps the most important growth metric

is the overall organic growth rate for the company. These rates represent our management team's proven ability to take declining products and to reverse the trend." Valeant's stated organic growth rates are one of the main indicia used by the Class Members, among others, to ascertain the purported success of Valeant's operations as an integrated pharmaceutical company. Valeant claims that its organic growth financial measure "is useful to [Valeant] investors as it allows for a more consistent period-to-period comparison of [Valeant's] revenue".

69. Investors were attracted to Valeant's Securities as a result of its purported organic growth since valid organic growth (and not growth through acquisition) is a fundamental indicator of a healthy core business.

70. At all material times, investors were concerned about whether Valeant could increase its revenue by selling more of the pharmaceuticals that it manufactured and marketed. The value of Valeant's Securities were therefore influenced by Valeant's organic revenue growth and the risks thereto.

71. Throughout the Class Period, Valeant's organic growth grew at a significant rate and Valeant repeatedly touted its organic growth to investors in order to promote its Offerings and the purchasing and holding of Valeant Securities. Valeant's ever increasing organic growth rates are derived mainly from its sales in the key United States market and are predicated, in significant part, on two main factors described below.

72. *First, increasing product prices.* Valeant has historically increased the prices of its products year-over-year, purportedly contributing to greater revenues. By way of

example, in the first nine months of 2015, the weighted average price of Valeant's top 10 dermatology branded products was increased by 14% (individual branded drugs' price increases were as much as 61%); revenues from these products represent 62% of Valeant's U.S. dermatology business. Similarly, in the first nine months of 2015, the weighted average price of Valeant's top 10 ophthalmology branded products was increased by 10%; revenues from these products represent 86% of Valeant's U.S. ophthalmology business.

73. *Second, increasing sale volumes.* Valeant's financial results directly derive from revenues that it generates through sales of its products. Two main factors affect Valeant's revenues from its products' sales: (a) the volume of the sales (i.e. the quantity of products sold); and (b) the amount of money that Valeant is able to actually collect on those sales from payers—generally, insurers; in other words, the revenue collected from the sales.

74. Accordingly, Valeant's revenues are a function of (a) the volume of sales and (b) the revenue that Valeant is able to actually collect on its sales.

75. The two factors are interrelated: an increase in the price of Valeant product can only translate into greater revenues if Valeant actually (a) sells its products and (b) collects revenue from its sales. In other words, Valeant would realize value from its products only if the products are sold and paid for.

76. To achieve increases in both product prices and the volume of its sales, during the Class Period, Valeant distributed and sold many of its products through a previously undisclosed network of Specialty Pharmacies, some of which are related companies or

subsidiaries, and which were directly and/or indirectly controlled by Valeant and in which Valeant had direct and/or indirect ownership, equity or other financial interests.

77. The purpose of using Specialty Pharmacies was to maintain and improve Valeant's financial results by sustaining both the apparent volume and apparent profitability of Valeant's apparent sales.

2) Specialty Pharmacies

78. For many of Valeant's branded products, there are less expensive generic or other competitive products, posing a significant risk to Valeant's sales in terms of both volume and profitability. If faced with competition, Valeant's products would see either or both of their sales volume and profitability decline, particularly given Valeant's historical price increase practices. As the defendant Pearson stated on a business update call held on November 10, 2015, "when you, we increased price and the free markets are working [...] we've seen volume declines".

79. There are generally two broad methods through which pharmaceutical products can be sold: through 'conventional' retail pharmacies, or through specialty pharmacies. In the former method, a doctor will write a prescription for a patient, who then attends at a pharmacy to have the prescription filled. This is undesirable from Valeant's perspective for at least two reasons. For example:

- (a) the pharmacist may issue a generic equivalent of the Valeant branded drug (usually at a far lower price), in which case the Valeant product will not be sold;
- (b) even if the pharmacist does issue the Valeant branded drug, when he or she attempts to have the insurer adjudicate the claim and is denied, the

pharmacist has no incentive to continue to attempt to have the prescription reimbursed;

80. Alternate Fulfillment was a process whereby Valeant attempted to maximize the sale of Valeant's brand name drugs and Valeant's profits by circumventing the incentive system of the payer insurers. Alternate Fulfillment improved profitability by channeling prescriptions that could be substituted for cheaper non-Valeant alternatives or generics if the underlying prescriptions were filled through normal fulfillment channels.

81. While Valeant's Alternate Fulfillment program was an extremely important component of its business strategy for increasing organic growth, the nature and extent of this program and the companies and business procedures used were not fully disclosed by Valeant. The names of Valeant's specialty pharmacies, the involvement, ownership interests and control of such pharmacies by Valeant and the nature of their business practices were not but ought to have been disclosed during the Class Period.

82. Specialty Pharmacies typically provide services to doctors and patients not provided by conventional retail pharmacies, such as:

- (a) routinely waiving or reducing the co-payment;
- (b) taking responsibility for reimbursement of the drug from the insurers;
and
- (c) assisting doctors in completing required paperwork.

83. During the Class Period, Valeant used Specialty Pharmacies to induce doctors to prescribe, patients to buy and insurers to pay for Valeant branded drugs instead of alternative or generic drugs which are usually far less expensive.

84. Thus, to maintain and improve the profitability of Valeant's sales, Valeant's Specialty Pharmacies network provided for "backdoors" to circumvent the insurers' claim adjudication and reimbursement processes;

85. As particularized further below, Valeant, directly and/or indirectly directed or ought to have known that the Specialty Pharmacies it had dealings with were engaging in improper and illegal practices with the goal of ensuring that when Valeant brand medications were sold to patients, the insurers would pay for them.

86. Alternate Fulfilment was particularly important to certain segments of Valeant's pharmaceutical business. In particular, the Alternate Fulfilment channel sold more than 50% of certain dermatological pharmaceuticals and more than 40% of all Valeant's dermatology products. This was not but ought to have been disclosed during the Class Period.

87. During the Class Period, Valeant's organic revenue grew as a result of its increased use of the Alternate Fulfillment channel. However, during the Class Period Valeant failed to disclose material information and misrepresented material facts to purchasers of Valeant's Securities concerning the practices utilized by Valeant to increase its organic growth.

3) Philidor and R&O

88. Valeant's business model is illustrated by its dealings with a Specialty Pharmacy named Philidor RX Services, LLC and with R&O Pharmacy Inc.

89. Philidor is a Specialty Pharmacy incorporated directly or indirectly by Valeant and/or persons or entities affiliated Valeant, in Delaware on January 2, 2013 for the purpose of expanding Valeant's network of Specialty Pharmacies. Valeant knew or ought to have known that Philidor was incorporated as part of an undisclosed scheme to inflate Valeant's revenues through improper and illegal conduct.

90. At all material times, Valeant was effectively Philidor's only client.

91. R&O is a pharmacy licensed in California to sell pharmaceutical products through an agreement with a Valeant controlled subsidiary, Isolani LLC ("**Isolani**"), which was created by Philidor for the sole purpose of acquiring ownership of R&O in order to provide a channel for the sale of Valeant products.

92. R&O obtained a retail pharmacy license in 2013 and is owned and operated by Russel Reitz.

93. Valeant, directly and/or indirectly through Philidor, purchased the right to acquire R&O and thus, a right to use its license.

94. Meanwhile, Philidor had been denied a California pharmacy license on the basis of false statements in its application, relating to Philidor's owners and other financial matters.

95. Although the full extent of Valeant's involvement with Specialty Pharmacies has yet to be fully disclosed, Valeant's own limited disclosures and public information shows that:

- (a) Philidor was established with Valeant employees at Philidor when it was in its infancy;
- (b) Valeant helped launch Philidor in states across the United States and expand its operations;
- (c) Valeant remained closely involved in the running of Philidor;
- (d) Valeant employees secretly worked directly at Philidor offices in order to conceal the ties between Valeant and Philidor so it did not appear that Valeant was using Philidor to steer patients or insurers to Valeant's products;
- (e) Valeant employees' roles at Philidor included, but were not limited to, interviewing job applicants and involvement in billing;
- (f) senior Philidor employees were simultaneously senior Valeant employees;
- (g) Valeant's relationship with Philidor and its operations were overseen by Kornwasser. Kornwasser was hired less than 24 hours after the incorporation of Philidor in 2013. Kornwasser reported directly to Pearson;
- (h) after five years of employment at Valeant and Philidor's client liaison since January 2013, Gary Tanner joined Philidor as an executive Vice President and member of the management team. Tanner was a key subordinate of Kornwasser and Tanner reported directly to and was supervised by Kornwasser throughout his employment at Valeant and Philidor. Tanner interacted on a day-to-day basis with the Valeant dermatological team while employed at Philidor;
- (i) Valeant employees were involved in and significantly contributed to setting up and expanding Philidor and the network of the other Specialty Pharmacies during the Class Period; and/or
- (j) Valeant and/or persons or entities affiliated with Valeant directly or indirectly funded or contributed to the funding required for the set-up or expansion of Philidor and/or the network of Specialty Pharmacies.

96. While the full extent of Valeant's relationships with its Specialty Pharmacies has yet to be disclosed, it is clear that at all material times during the Class Period, Valeant had a very close and material relationship with Philidor, including de facto and legal control.

97. In December 2014, Valeant entered into an option purchase agreement which granted Valeant an option to acquire Philidor for a \$100 million upfront payment and milestone payments of up to \$133 million, of which, as of the end of the Class Period, \$33 million was paid. Under this transaction, according to the Defendants, Valeant had an option to acquire Philidor for \$0.

98. Pursuant to this transaction, Valeant effectively acquired Philidor.

99. Philidor is the tip of the iceberg as Valeant also had material relationships and direct or indirect control over the other Specialty Pharmacies in Valeant's network.

100. Under Valeant's management and control, over the course of the Class Period, Philidor and its network of Specialty Pharmacies grew significantly to include a variety of Valeant's key dermatology and ophthalmology drugs in the United States.

101. According to Valeant, in the first nine months of 2015, Philidor generated approximately US\$450 million in net sales.

4) Improper Practices through Specialty Pharmacies

102. There is little transparency regarding the activities within this sales channel, and Valeant has disclosed little details regarding those activities. However, based on information that was disclosed after the Class Period, Specialty Pharmacies engaged in two kinds of improper activities to maintain and improve Valeant's United States sales.

103. First, in order to maintain and improve sales volume and, accordingly, Valeant's overall financial and operational results, Specialty Pharmacies engaged in a host of

practices in order to attract sales traffic for Valeant's products including, among other things:

- (a) manipulating prescriptions;
- (b) aggressive marketing practices (some patients have reported receiving unsolicited calls from Specialty Pharmacies to sell medications);
- (c) providing co-pay waivers to insured patients, whereby they would effectively pay little to nothing for the medications;
- (d) providing attractive cash-pay options for uninsured patients;
- (e) improperly re-filling prescriptions; and
- (f) improperly using the identification numbers of other pharmacies within the extended network of Specialty Pharmacies to dispense drugs in states in which Philidor was not licensed to sell drugs including California, where Valeant had been denied a license.

104. Second, in order to maintain and improve the profitability of Valeant's sales, the Specialty Pharmacies network provided for "backdoors" to circumvent the insurers' claim adjudication and reimbursement processes. Specialty Pharmacies engaged in improper practices to ensure when medications are sold the insurers would pay for them.

For example:

- (a) Philidor's employees were directed to manipulate the prescriptions and to improperly add to them "dispense as written," a term that would indicate that the physician required or the patient desired that Valeant's branded products (not the less expensive competitive products) be sold to the patient. Without such a term having been indicated on the prescription, typically a pharmacy is required to sell the competitive generic version of the drug, and the insurer would not pay for Valeant's drugs;
- (b) Philidor's employees were directed to improperly use the identification numbers of the pharmacies in its extended network to resubmit claims after they had been denied by the insurers; and
- (c) when a patient was covered by an insurer with which Philidor did not have a contract, Philidor's employees were directed to submit the adjudication claim through certain of Philidor's partners that had such

contracts. The partners would then receive payments from the insurers and reimburse Philidor.

105. Specialty Pharmacies' activities in making a market for Valeant's products and in collecting revenues from insurers were illegal and improper business practices. At minimum, such activities were in violation of the terms of their contracts with the insurers.

106. At all material times during the Class Period, Specialty Pharmacies' activities were undertaken under direct or indirect control, supervision or direction of Valeant, its subsidiaries and affiliates, partners, management or employees and the Individual Defendants.

5) Valeant's Undisclosed Relationships with Specialty Pharmacies

107. During the Class Period, Valeant provided no disclosure regarding its relationships with and its conduct of business through Specialty Pharmacies. It was only after the Class Period that information began to emerge revealing Valeant's close and improper relationships with Specialty Pharmacies.

108. Valeant's relationships with Specialty Pharmacies were built through Philidor.

109. Valeant established its relationships with Philidor as a result of its acquisition of Medicis Pharmaceutical Corporation ("**Medicis**"), a pharmaceutical company specializing in dermatology products. In December 2012, after prolonged negotiations, Valeant eventually acquired Medicis in an all-cash acquisition for \$2.6 billion, representing a 39% premium. Pursuant to this transaction, Medicis became a subsidiary of Valeant.

110. A main consideration in Valeant's acquisition of Medicis was the Alternative Fulfillment Program. In early-2012, Medicis established an earlier version of the Alternative Fulfillment Program in order to reduce losses on, and to improve the profitability of, its prescriptions. Medicis' version of the Alternative Fulfillment Program had a limited scope and was initially unsuccessful.

111. The Valeant Defendants, however, had plans to expand the Alternative Fulfillment Program and to make it successful under Valeant's management. On a business update call held on January 3, 2013, the defendant Pearson explained this program's growth potentials for Valeant as follows:

And again, Medicis is still learning and we're just still learning about what we can do with these AF[*] scripts. So when someone actually makes the call or sends the script to the alternate channel, what can be done with that. And a number of things can be done. One is you can continue to try to adjudicate the claim just because the claim was or just because the script was rejected at retail pharmacy, does not mean that eventually you can't get the payer to actually pay for it. If you think about the retail pharmacist, the retail pharmacist doesn't have a huge incentive to work hard to get that script reimbursed. In fact you might argue they have the opposite incentive, because they get paid more if they convert it to a generic.

So, all of a sudden if it goes to a different channel where the incentives are in place to actually try to get that claim adjudicated, then -- so there's a significant amount of that volume that gets rejected by retail that you can then adjudicate, and actually get fully paid. And in fact, since it's going through a channel that doesn't include the distributor or the retailer at a higher margin. So, there's that piece that is not insubstantial;

And then the second piece if you think about it, is how much do you actually charge the patient when it turns out they do not have insurance? So the Medicis approach was to say you can get a script of Solodyn for \$20, whether you have insurance or you don't. What we've done with products like Atralin, is we actually charge different prices. If you have insurance, we'll guarantee you get it for \$20. But if you don't, it costs \$75. So we can begin to implement some of those programs;

So, I think through as we continue to learn about this AF program, there are some things that we can do that might actually change the direction in terms of so rather than see a decline in Solodyn, if we're really successful we can begin

starting to grow that product again. So it's things like that that sort of start giving us some real optimism in terms of what you can do, and how this program can sort of turn out to a much better case than assuming you didn't have the AF program;

[* Alternative Fulfillment]

112. At a Goldman Sachs event held on June 11, 2013, the defendant, Schiller stated:

Well, alternative fulfillment - I'd say a couple of things. One is, to me, the alternative fulfillment was an example of what the whole pharmaceutical industry, and it's certainly what Mike and I believe, is the trend and that is the focus on a profitable scripts. There was a day when you could call on anybody and almost any script was profitable, those days are gone. So segmenting your customer base and really focusing on profitability has got to be the future. And that alternative fulfillment was the beginning of that journey, but not the endpoint. So I probably think under Medicis, alternative fulfillment was held out a little bit too much as the holy grail. I really think it's actually the starting point, and in some ways, it was quite a clumsy starting point. It wasn't that different, but it's a process where we have generation 2 and generation 3. But it's all trying to focus on profitable scripts, and stay away from those scripts that are unprofitable, and more judicious use of co-pay cards and the rest. And making sure when a customer, a patient's covered, you get reimbursed for it.

113. At all material times, Valeant's relationships with and its conduct of business through Specialty Pharmacies were material to Valeant and its stakeholders, including the Class Members. As such, the Defendants ought to have disclosed the material facts and information concerning these relationships and related matters, but they failed to do so.

114. First, from a business model perspective, Valeant's current and future business prospects significantly depended on these relationships, which were designed to maintain and improve Valeant's financial results in the key United States market. Without those relationships, Valeant would experience a decline in its sales volumes and/or profitability and, as a result, it would be unable to maintain its claimed growth rates.

115. Notably, on December 15, 2015, Valeant disclosed that it had entered into an agreement with Walgreens, a United States retail pharmacy, to replace its Specialty Pharmacies network. As part of the agreement with Walgreens, Valeant stated that the selling price of its prescription-based dermatology and ophthalmological products would be reduced by 10 percent. Additionally, Valeant stated that the price of its branded dermatology and ophthalmological products where generics were available would be reduced by 5 to 95 percent, representing "a weighted average price decrease of more than 50 percent," according to Valeant.

116. On December 16, 2015, Valeant provided a business update regarding, among other things, the impact of the termination of its relationships with Philidor and the other Specialty Pharmacies on its business. With respect to Q4 2015, Valeant downgraded its revenue from \$3.25 to \$3.45 billion to \$2.7 to \$2.8 billion; although Valeant has not disclosed details regarding these charges and adjustments, Valeant has specifically estimated a negative adjustment of \$250 million due to "Philidor separation," and negative "pricing and volume-related changes" of \$200 million, among other charges.

117. These recent Valeant disclosures further show that without the Specialty Pharmacies network Valeant's sales would have been negatively impacted in terms of both sales volumes and profitability.

118. Second, from a business practices perspective, Specialty Pharmacies engaged in illegal and improper activities that, at a minimum, were in violation of the terms of their contracts with the insurers. As the revenues generated through the Specialty Pharmacies

network were based on improper activities, these revenues were at all times material to Valeant's business and operations regardless of the size such revenues.

119. Additionally, Specialty Pharmacies' improper activities exposed the overall business of Valeant to significant and adverse business risks, as particularized herein.

120. Third, Valeant's sales through Specialty Pharmacies materially contributed to Valeant's financial results. For example, these sales were a major contributor to Valeant's increasing (according to the defendant Pearson, "robust") "organic growth" rates - a non-GAAP measure that the Valeant Defendants have used to tout Valeant's purported success in operating its business units as an integrated pharmaceutical company. Based in significant part on the revenues generated through Specialty Pharmacies, Valeant reported organic growth rates that suddenly increased from an average of about 4% in 2013 and the first half of 2014 to 19% in Q3 2014, 16% in Q4 2014, 15% in Q1 2015, 19% in Q2 2015 and 13% in Q3 2015. As of 2015, it is expected that Specialty Pharmacies contributed more than 50% of Valeant's reported organic growth rates.

121. That the Specialty Pharmacies were material to Valeant is further evident from, among other things:

- (a) the significant decline in the market price of Valeant's Securities resulting in a damage to Valeant's market capitalization of tens of billions of dollars upon the disclosure of these relationships;
- (b) Valeant's management's deliberate choice to not disclose these relationships due, in their words, to "competitive advantages";
- (c) Valeant's management's taking steps to secure a replacement for Specialty Pharmacies immediately after Valeant terminated its relationships with them;

- (d) the market's negative reaction to the disclosure of previously undisclosed information regarding Valeant's relationships with Specialty Pharmacies, and
 - (e) the many questions that have arisen regarding Valeant's past, current and future operations in light of the recent revelations; and
 - (f) the significant decline in Valeant's reported organic growth rates after the Class Period.
- 6) **Valeant's Other Improper Business Practices and Revenue Generating Activities Within and Beyond Its Relationships with Specialty Pharmacies**

122. Throughout the Class Period, Valeant engaged in improper business practices and revenue generating activities, including improper revenue recognition, recognition of improper or uncollectible accounts receivable and channel stuffing, including by way of transactions to which Valeant refers as "non-standard revenue transactions" in its post-Class Period disclosures. These improper revenue generating activities included transactions that were not executed in the normal course of business under applicable accounting standards and included fulfillment of unusually large orders with extended payment terms and increased pricing, an emphasis on delivering products prior to the execution of related contracts, and/or delivering products beyond inventory target levels, particularly at or near the end of financial quarters. These improper revenue generating activities were in violation of GAAP, as further particularized below at paragraphs 144-159.

VII. THE DEFENDANTS' MISREPRESENTATIONS

1) Failure to Disclose Material Facts

123. During the Class Period, Valeant had close and extensive relationships with and conducted business through, Specialty Pharmacies such as Philidor.

124. The circumstances of these relationships involved material facts and information that Valeant was required by law to disclose to the Class Members, yet failed to do so.

125. Because there is an efficient market for Valeant's securities, Valeant's share price incorporates and reflects the material facts which Valeant discloses or fails to disclose publicly.

126. Throughout the Class Period the perceived value and corresponding price of Valeant's securities increased well over one hundred and fifty percent (150%).

127. However, during the Class Period, the Valeant Defendants' failure to disclose material facts and their other misrepresentations particularized herein had a significant effect on the market price and value of Valeant's securities as reflected by the drop in price and value after the corrective disclosure.

128. In fact, following the revelations regarding Valeant's relationships with Specialty Pharmacies and the manner in which it had used them to purportedly generate revenue, the market price or value of Valeant's common shares declined by approximately 50%.

129. The market price or value of Valeant's Notes was also negatively affected as a result of these revelations. As a result, the Class Members suffered billions of dollars in damages.

130. When the dust settled, the Defendants' misrepresentations, omissions, want of due diligence, failure to disclose material facts and failure to comply with accounting standards and practices saw billions in Valeant's market capitalization wiped out.

2) Insufficient and Defective Risk Disclosures

131. The Valeant Defendants had a legal obligation to disclose all risk factors relating to Valeant's business, including any matter that would be most likely to influence an investor's decision to purchase Valeant's Securities.

132. The Valeant Defendants purported to disclose such risk factors in its primary and secondary market public disclosures during the Class Period yet failed to do so.

133. Valeant's relationships with Specialty Pharmacies and its conduct of business through this network exposed Valeant's business and operations to the following specific and identifiable risks that Valeant was required, but failed to, disclose during the Class Period:

- (a) actual or alleged breaches of contracts with the insurers covering the cost of medication with whom Valeant and/or its network of Specialty Pharmacies had contractual or other business relationships;
- (b) litigation arising from such breaches of contract or other improper business practices;
- (c) the termination of Valeant's and/or Specialty Pharmacies' relationships with insurers covering the cost of medication as a result of actual or alleged improper business practices and/or breaches of contract;
- (d) compliance requirements, investigations and/or enforcement, civil or criminal proceedings arising from actual or alleged violations of the laws and regulations applicable to Valeant, including health and securities laws;
- (e) that laws and regulations governing Valeant's business may change adversely as a result of the disclosure of these improper activities; and
- (f) the risks that Valeant reported revenue generation and revenue increases both were overstated and unsustainable.

134. Notably, although these risks arose principally from Valeant's relationships with and its conduct of business through, Specialty Pharmacies, they were reasonably expected to affect Valeant's current and future outlook generally.

3) Misrepresentations Regarding Valeant's Organic Growth and Sustainability of Its Business

135. At all material times during the Class Period, the Valeant Defendants falsely represented that Valeant's business was growing sustainably and organically and had strong growth prospects.

136. All Impugned Documents that are MD&As, AIFs and Offering Documents contained statements similar to the below (reproduced from Valeant's MD&A for Q2 2015):

Our strategy is to focus our business on core geographies and therapeutic classes that offer attractive growth opportunities while maintaining our lower selling, general and administrative cost model and decentralized operating structure. Within our chosen therapeutic classes and geographies, we primarily focus on durable products which have the potential for strong operating margins and sustainable organic growth. . . . We believe this strategy will allow us to maximize both the growth rate and profitability of the Company and to enhance shareholder value;

137. Additionally, Valeant's press releases issued in conjunction with Valeant's quarterly and annual financial results during the Class Period contained statements regarding:

- (a) Valeant's organic growth rates and its expected organic growth rates for future reporting periods;
- (b) the sustainability of Valeant's business and its organic growth rates, for example:
 - (i) in the Press Release dated February 28, 2013, which accompanied Valeant's fiscal 2012 disclosures, the defendant Pearson was quoted as saying: "The continued overall robust

organic growth of our business, coupled with our strong cash flow generation, puts us in a solid position for another outstanding year in 2013";

- (ii) in the Press Release dated February 27, 2014, which accompanied Valeant's fiscal 2013 disclosures, the defendant Pearson was quoted as saying: "We are particularly pleased with the outperformance of the Bausch + Lomb businesses, coupled with the fact that the Company returned to positive organic growth. Valeant's focus on cash pay businesses, diversification, durable assets, key geographies, and lower risk R&D will continue to benefit our shareholders as we look forward to continuing our track record of outperformance in 2014"; and
 - (iii) in the Press Release dated February 22, 2015, which accompanied Valeant's fiscal 2014 disclosures, the defendant Pearson was quoted as saying: "Valeant's relentless focus on building diversified, durable businesses with strong organic growth platforms, coupled with disciplined business development, is paying off for all of our stakeholders"; "Outstanding growth in the U.S., most notably dermatology, offset the negative impact from foreign exchange. In addition, we continued to see strong organic growth in several emerging markets such as China, the Middle East and Russia. With our strong finish to the year, we are well positioned for another year of outperformance in 2015";
- (c) guidance and/or outlook information with respect to Valeant's future reporting periods.

138. All such statements were false and/or misleading when made.

139. Unbeknownst to the Class Members, Valeant's claimed financial performance and its stated "robust" and "sustainable" organic growth rates during the Class Period were derived, in a significant part, from Valeant's relationships with and its conduct of business through Specialty Pharmacies. Specialty Pharmacies, in turn, engaged in improper activities in order to enhance Valeant's products' sales and their profitability levels, including conduct in violation of their contracts with insurers. Without those improper activities, Valeant would have been unable to "achieve" the financial results that the Valeant Defendants claimed during the Class Period.

140. Additionally, Valeant's reported financial results and organic growth rates were predicated, in part, on its improper revenue generating activities, including the transactions to which Valeant refers in its recent, post-Class Period disclosures as "non-standard revenue transactions," which were carried out particularly at or near quarter ends in order to boost Valeant's sales and financial results. Valeant's financial and operational results that were predicated on the "non-standard revenue transactions" were not sustainable.

141. As the Valeant Defendants knew or ought to have known, it would have been unsustainable for Valeant to conduct its business through Specialty Pharmacies, and its stated "robust" growth rates based on those relationships and Specialty Pharmacies' improper activities would never been sustainable. Furthermore, the Valeant Defendants knew or ought to have known that Valeant reported organic growth rates were predicated, in part, upon improper revenue generating activities that were carried out in violation of GAAP and were unsustainable.

142. Valeant's business has been negatively affected as a result of the revelations regarding its unsustainable pricing and distribution practices during the Class Period resulting, *inter alia*, in significant declines in Valeant's reported organic growth rates, as seen below:

	<u>Q1 2015</u>	<u>Q2 2015</u>	<u>Q3 2015</u>	<u>Q4 2015</u>	<u>Q1 2016</u>
<u>Total U.S.</u>	<u>26%</u>	<u>32%</u>	<u>22%</u>	<u>-10.7%</u>	<u>-21.5%</u>
<u>ROW Developed</u>	<u>-1%</u>	<u>5%</u>	<u>-1%</u>	<u>-2.5%</u>	<u>-2.2%</u>
<u>Developed Markets</u>	<u>18%</u>	<u>24%</u>	<u>16%</u>	<u>-8.7%</u>	<u>-17.6%</u>
<u>Emerging Markets</u>	<u>7%</u>	<u>4%</u>	<u>3%</u>	<u>4.9%</u>	<u>2.1%</u>
<u>Total Product Sales</u>	<u>15%</u>	<u>19%</u>	<u>13%</u>	<u>-5.5%</u>	<u>-13.8%</u>

143. As of calendar year 2016, Valeant has discontinued its practice of providing guidance regarding organic growth rates.

4) GAAP Violations

Valeant Failed to Comply with GAAP

144. Valeant's revenue recognition practices and procedures violated GAAP throughout the Class Period both within and beyond the Specialty Pharmacies network.

145. Valeant improperly recognized revenue by using misleading accounting policies and practices that inflated its revenue by improperly recognizing sales to closely related companies, including Philidor, Isolani and R&O.

146. Valeant used revenue recognition practices to inflate revenues through "channel stuffing", phantom sales and phantom accounts to improperly increase receivables.

147. In its AIF for fiscal 2015, Valeant disclosed and admitted to several instances of its improper revenue generating activities by way of transactions to which it refers as "non-standard revenue transactions".

148. Particularly, Valeant admitted that certain sales transactions for deliveries to Philidor in the second half of 2014 leading up to the execution of the purchase option agreement were not executed in the normal course of business under applicable accounting standards and included actions taken by Valeant (including fulfillment of unusually large orders with extended payment terms and increased pricing, an emphasis

on delivering product prior to the execution of the purchase option agreement and seeking and filling a substitute order of equivalent value for an unavailable product) in contemplation of the purchase option agreement. Revenues on these shipments were improperly recognized the 2014 fiscal year, including Valeant's audited financial statements for that year, and were recognized again in 2015. As a result, in April 2016, Valeant restated its financial statements dating back to 2014, including the audited financial statements for that year. These restatements were material to Valeant from GAAP perspective, whether qualitatively or quantitatively, or both.

149. Additionally, in its AIF for the 2015 fiscal year, Valeant disclosed and admitted to certain "non-standard revenue transactions" in its Central and Eastern Europe market, Russia and Poland, involving sales above inventory target levels "at various quarter ends." Russia and Poland are part of Valeant's Emerging Market business segment. Furthermore, Valeant's AIF for the 2015 fiscal year suggests that currently Valeant's wholesaler inventory levels in Russia and Poland remain significantly above its wholesaler inventory targets.

150. Notably, for the 2015 fiscal year, Valeant has reported net revenues from Russia and Poland that are significantly lower than the preceding fiscal years, as follows (in millions of U.S. dollars):

	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
<u>Poland</u>	<u>213.5</u>	<u>276.2</u>	<u>268.8</u>
<u>Russia</u>	<u>168.9</u>	<u>275.1</u>	<u>202.8</u>
<u>Total</u>	<u>382.4</u>	<u>551.3</u>	<u>471.6</u>

151. The circumstances of Valeant's sales in Russia and Poland are examples of Valeant's improper revenue generating activities that are pleaded herein. The full extent of Valeant's improper revenue generating activities during the Class Period is currently unknown to the public.

152. Valeant's improper revenue generating activities, and the resultant accounting irregularities and financial statement misstatements were enabled by Valeant's materially weak and defective internal controls over financial reporting and disclosure controls and procedures. As further particularized below, at all material times during the Class Period, Valeant also failed to design or operate proper financial and other controls.

153. Further, Valeant failed to properly disclose its related party transactions between Valeant, its subsidiaries and affiliates which is a violation of GAAP and resulted in misrepresentations in Valeant's financial statements.

154. Valeant also used the following revenue recognition practices, which are contrary to GAAP:

- (a) overstated receivables that were known to be uncollectable;
- (b) use of Specialty Pharmacies to book phantom revenue;
- (c) created inflated revenue by storing inventory and recording phantom transactions with related parties as "sales" creating false revenue; and
- (d) used phantom accounts to fabricate sales.

155. As such, Valeant misrepresented the strength of its internal controls over financial reporting and disclosure controls and procedures, as it should have brought to the surface the material revenue recognition GAAP and disclosure problems.

~~PwC Misrepresented Valeant's GAAP Compliance~~

~~156. PwC misrepresented to the market that Valeant's financial statements were compliant with GAAP and all applicable internal controls over financial reporting and disclosure controls and procedures.~~

~~157. PwC knew, or should have known, that Valeant's revenue recognition practices were contrary to GAAP and specifically that the receivables were overstated and known to be uncollectable and that, consequently, Valeant's revenue and earnings were overstated.~~

~~158. Despite this, PwC issued unqualified audit reports on Valeant's and its subsidiaries' financial statements, falsely representing that those financial statements complied with GAAP.~~

~~159. In issuing unqualified audit reports on Valeant's and its subsidiaries' financial statements, PwC failed to comply with the Auditors' Professional Standards. PwC also falsely represented that in performing its audits it had complied with the Auditors' Professional Standards.~~

5) Other Misrepresentations in Valeant's Financial Statements and Accompanying MD&As

160. Valeant was required to append Valeant's MD&As and to provide therein information regarding trends, risks or events that affect the quality or variability of Valeant's earnings and cash flow and such other information that was reasonably expected to affect Valeant's financial statements in the future.

161. Valeant's MD&As issued during the Class Period failed to provide material information regarding Valeant's relationships with and its conduct of its business through Specialty Pharmacies, which were reasonably expected to affect Valeant's financial statements, rendering Valeant's financial statements false and/or misleading.

162. Additionally, Valeant's financial statements failed to disclose material and related party transactions. Philidor was a related party to Valeant in virtue of, *inter alia*, Valeant's de facto control over Philidor.

163. Accordingly, Valeant's financial statements were required under GAAP to disclose all material transactions with Philidor including, *inter alia*: (a) sales to and through Philidor and/or the related intercompany transactions between Valeant and Philidor; and (b) the option purchase agreement.

164. However, Valeant's financial statements issued during the Class Period failed to disclose these related parties and material related party transactions.

165. The financial statements also failed to provide requisite disclosure regarding Philidor as a variable interest entity.

166. A variable interest entity or VIE refers to an entity in which the investor (here, Valeant) has a controlling and/or significant financial interest. A primary beneficiary of a VIE need not be a party with the majority or even any of the voting interests in an entity. Rather, it is sufficient that the primary beneficiary has the power to direct the activities that most significantly impact the VIE's economic performance, or the

obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

167. Under GAAP when an investor, here Valeant, is the primary beneficiary of the VIE, it must consolidate the VIE's financial statements with its own.

168. On a conference call held on October 26, 2015, Rosiello disclosed for the first time that, at all material times, Philidor was a VIE in relation to Valeant.

169. Despite this, Valeant only began consolidating Philidor's financial statements in December 2014 because Valeant purportedly only then determined that it was the primary beneficiary of Philidor.

170. Valeant's financial statements failed to comply with GAAP for reasons which are set out above in section VII(4), above.

171. Valeant's financial statements also failed to comply with GAAP disclosure requirements regarding Philidor as a VIE, in that:

- (a) Valeant's financial statements for year-end 2014 and thereafter had to disclose the methodology for determining Valeant as the primary beneficiary of Philidor, the significant judgments and assumptions in making that determination and the primary factors underlying the consolidation of Philidor's financial statements;
- (b) all of Valeant's financial statements issued during the Class Period had to disclose, beyond carrying amounts of the assets and liabilities related to Philidor as a VIE, qualitative and quantitative information about Valeant's involvement with Philidor including, but not limited to, the nature, purpose, size and activities of Philidor, including how Philidor was financed; and
- (c) all of Valeant's financial statements issued during the Class Period had to disclose whether Valeant had provided financial or other support to Philidor that it was not previously contractually obligated to provide or whether Valeant intended to provide support to Philidor, including the

type and amount of support and the primary reasons for providing the support.

172. During the Class Period, Valeant purported to recognize revenue only when the following criteria were satisfied as required by GAAP: (a) revenue was realized or realizable and earned; (b) persuasive evidence of an arrangement existed; (c) delivery had occurred or services had been rendered; and (d) the price to the customer was fixed or determinable and collectability was reasonably assured.

173. However, during the Class Period, revenues recognized on sales made to or through Philidor were based on improper activities that, at a minimum, violated the contracts between Philidor and the insurers covering the cost of medication.

174. Due to such contract breaches, Valeant recognized revenues on sales made to or through Specialty Pharmacies, including Philidor, when: (a) persuasive evidence of an arrangement did not exist; (b) revenue was not measurable; and/or (c) collectability was not reasonably assured. These revenues were false and were recognized in violation of GAAP and Valeant's stated revenue recognition accounting policies.

175. Notably, in its AIF for the 2015 fiscal year, Valeant disclosed, *inter alia*, that: "Philidor is also subject to disputes with third party payers and governmental investigations related to its business practices and relationship with [Valeant] which may result in claims being asserted against [Valeant]." Furthermore, Valeant referenced certain "statements made (and actions threatened to be taken) by third parties with respect to certain of our products," suggesting that it may be forced to provide "pricing reductions (including on a retroactive basis)." These "retroactive" pricing disputes are due to the improper business practices that were carried out by Valeant and/or its

network of Specialty Pharmacies, which resulted in improper revenues that Valeant recognized in violation of GAAP. These are revenues for medications that should not have been sold to patients or paid for by the third party payers. As such, there was no basis under GAAP to recognize these revenues as Valeant had not earned them.

176. Additionally, in its AIF for the 2015 fiscal year, Valeant disclosed a "misclassification" of gross product sales made through Philidor in the amounts of US\$779 million and US\$77 million for the first three quarters of the 2015 fiscal year and the 2014 fiscal year, respectively. Contrary to Valeant's contention, these amounts do not simply represent misclassifications of financial statement accounts; rather, they constitute significant revenues that Valeant improperly recognized through Philidor's sales. These revenues were recognized in violation of GAAP, and were reported in Valeant's financial statements and accompanying disclosures for the reporting periods in 2014 and 2015.

177. The false revenues that Valeant recognized through Specialty Pharmacies were significant and material to Valeant, whether qualitatively or quantitatively, or both.

178. During the Class Period, Valeant purported to present its financial statements in accordance with GAAP, which required that the financial statements present Valeant's as well as its subsidiaries' financial position, financial performance and cash flows fairly.

179. Valeant's financial statements during the Class Period breached GAAP because of its:

- (a) failure to disclose related parties and material related party transactions with Philidor and other Specialty Pharmacies;

- (b) failures to comply with GAAP's disclosure requirements in respect of Philidor as a VIE; and
- (c) false revenue recognition on sales made to or through Philidor.

180. During the Class Period, the Defendants falsely represented that Valeant's financial statements fairly presented, in accordance with GAAP, the financial position, results of operation and cash flows of Valeant and its subsidiaries.

6) Misrepresentations Regarding Valeant's Internal Controls

181. During the Class Period, the Valeant Defendants represented that Valeant's internal controls, including disclosure controls and procedures and internal controls over financial reporting that related to Valeant's subsidiaries, were effective.

182. During the Class Period, Valeant and ~~PwC~~ also represented that Valeant's disclosure controls and procedures and internal controls over financial reporting that related to Valeant's subsidiaries, were effective.

183. Such statements, included in Valeant's public disclosures, were false and/or misleading.

184. At all material times, Valeant's disclosure controls and procedures and internal controls over financial reporting were ineffective or defective at least in respect of Valeant's relationships with Philidor and the other Specialty Pharmacies.

185. In addition, Valeant's disclosure controls and procedures and internal controls over financial reporting in relation to Philidor and the other Specialty Pharmacies were

overridden by the Individual Defendants and Valeant's management generally, rendering them ineffective or defective.

186. Furthermore, that Valeant's disclosure controls and procedures and internal controls over financial reporting were overridden by the Individual Defendant and Valeant's management generally, constituted a material fact that the defendants ought to have but failed to disclose.

187. In its AIF for fiscal 2015, Valeant disclosed that its disclosure controls and procedures and internal controls over financial reporting suffered from two material weaknesses, as a result of which Valeant did not maintain effective disclosure controls and procedures and internal controls over financial reporting over financial reporting in prior reporting periods.

188. First, Valeant determined that the tone at the top of the organization, with its performance-based environment, in which challenging targets were set and achieving those targets was a key performance expectation, was not effective in supporting Valeant's control environment. The "tone at the top" issue contributed to several issues relating to Valeant's improper revenue generating activities as well as financial reporting resulting, in part, in misstatements of financial statement accounts.

189. Second, Valeant determined that it did not design and maintain effective controls over the review, approval and documentation of the accounting and disclosure for non-standard revenue transactions particularly at or near the end of fiscal quarters resulting in part, in restatements, other revenue transactions involving nonstandard terms or amendments to arrangements.

190. Furthermore, Valeant disclosed that certain of its officers and employees, including the defendant, Schiller, had engaged in improper conduct in relation to Valeant's relationships with and financial reporting in connection with Philidor.

191. These material weaknesses in disclosure controls and procedures and internal controls over financial reporting and Valeant's management's override of Valeant's disclosure controls and procedures and internal controls over financial reporting existed at all material times within and beyond Valeant's relationships with Specialty Pharmacies, rendering Valeant's internal controls defective and deficient throughout the Class Period.

7) Misrepresentations Regarding Ethical Business Conduct

192. During the Class Period, Valeant maintained written Standards of Business Conduct applicable to Valeant's directors, officers and employees and a Code of Ethics for CEO and senior financial executives.

193. Valeant's public disclosure documents represented that Valeant and Valeant's directors, officers and employees complied with these policies;

194. For example, Valeant's management information circular dated April 9, 2015, stated:

Ethical Business Conduct

Standards of Business Conduct (including the Code of Ethics for CEO and Senior Financial Executives)

The Board has adopted a written code of business conduct and ethics entitled the Standards of Business Conduct (the "Standards") for our Directors, officers and employees that sets out the Board's expectations for the conduct of such persons

in their dealings on behalf of the Company. Employees, officers and Directors are required to maintain an understanding of and ensure that they comply with, the Standards. Supervisors are responsible for maintaining awareness of the Standards and for reporting any deviations to management. In addition, the Standards require the Company to conduct regular audits to test compliance with the Standards. Subject to Board approval, responsibility for the establishment and periodic update and review of the Standards falls within the mandate of the Audit and Risk Committee;

Employees, officers and Directors are required to immediately report violations of the Standards to their supervisors, our human resources department, our Chief Compliance Officer or our General Counsel. The Board has established reporting procedures in order to encourage employees, officers and Directors to raise concerns regarding matters addressed by the Standards on a confidential basis free from discrimination, retaliation or harassment. Employees and officers who violate the Standards may face disciplinary actions, including dismissal. The Board is not aware of any breach of the Standards by any Director or officer during the period from January 1, 2014 through the date hereof;

Code of Ethics

We also have a Code of Ethics for the CEO and Senior Finance Executives (the "Code"), which is designed to deter wrongdoing and promote (i) honest and ethical conduct in the practice of financial management, (ii) full, fair, accurate, timely and understandable disclosure and (iii) compliance with all applicable laws and regulations. Violations of the Code are reported to the Chief Compliance Officer. Failure to observe the terms of the Code may result in disciplinary action, including dismissal. The Board is not aware of any breach of the Code by the CEO or any Senior Finance Executive during the period from January 1, 2014 through the date hereof;

195. The foregoing representations were false and/or misleading.

196. *Inter alia*, Valeant's Standards of Business Conduct required as follows:
 - (a) "We will engage only in fair and open competition in compliance with applicable laws, rules and regulations";
 - (b) "We will record and report all data and information accurately, honestly and in sufficient detail";
 - (c) "We will ensure that we comply fully with all applicable securities laws, rules and regulations, including with respect to press releases, disclosure and trading in the Company's shares"; and
 - (d) "While recognizing the need to be commercially effective in the marketplace, we will maintain our commitment to be ethically and

medically responsible and to comply with the laws that apply to our business."

197. *Inter alia*, Valeant's Code of Ethics required CEO and senior financial executives of Valeant to:

- (a) "Act with honesty and integrity";
- (b) "Observe both the form and spirit of technical and ethical accounting standards";
- (c) "Ensure that Valeant's disclosure is full, fair, accurate, complete, objective, relevant, timely and understandable, including in Valeant's disclosures and filings with and other submissions to, the U.S. Securities and Exchange Commission, the Canadian securities regulatory authorities and any exchange on which Valeant's securities are listed";
- (d) "Comply with all applicable laws, rules and regulations of federal, state, provincial and local governments and other appropriate private and public regulatory agencies";
- (e) "Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting facts or allowing your independent judgment to be subordinated"; and
- (f) "Promptly report violations of this Code of Ethics."

198. Valeant's directors, officers and employees violated the above policies in their dealings with and in conducting Valeant's business through, Specialty Pharmacies, including Philidor.

199. Valeant's directors, officers and employees further violated these policies by failing to disclose material information regarding the circumstances of Valeant's relationships with Specialty Pharmacies as required by the Quebec Securities Act and other securities law.

8) Individual Defendants

200. Pursuant to NI 52-109, Pearson, Schiller and Rosiello certified the quarterly reports and 10-Ks signed during the Class Period, attesting to the accuracy of the financial statements, that all material facts were disclosed and that Valeant had adequate internal financial controls.

201. *Inter alia*, Pearson, Schiller and Rosiello certified, at the relevant times, that:

- (a) such documents did not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made;
- (b) they were responsible for establishing and maintaining Valeant's disclosure controls and procedures as well as Valeant's internal controls over financial reporting;
- (c) they had designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Valeant was made known to them by others, particularly during the period in which the documents were being prepared and information required to be disclosed by Valeant in its annual filings, interim filings or other reports filed or submitted under securities legislation was recorded, processed, summarized and reported within the time periods specified in securities legislation;
- (d) they had designed the internal controls over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP or the international financial reporting standards ("IFRS"), as applicable; and
- (e) in respect of Valeant's annual filings, the Individual Defendants had evaluated, or caused to be evaluated under their supervision, the effectiveness of Valeant's internal controls over financial reporting and Valeant's disclosure controls and procedures, at the financial year end and Valeant had disclosed in its annual filings their conclusions about the effectiveness of Valeant's controls.

202. The Individual Defendants oversaw the preparation and reporting of Valeant's disclosures to the market and knew or should have known of the foregoing misrepresentations.

203. The Individual Defendants authorized, permitted or acquiesced to the release of the Impugned Documents, which contained the foregoing misrepresentations.

9) PwC

204. PwC purportedly audited Valeant's and its subsidiaries' annual financial statements for the years 2012, 2013 and 2014, and issued unqualified audit reports to Valeant's shareholders, including the Class Members, dated February 25, 2013, February 28, 2014 and February 25, 2015.

205. In its audit reports, PwC falsely represented that:

- (a) the financial statements of Valeant and its subsidiaries presented fairly, in all material respects, the financial position of Valeant and of its subsidiaries and the results of their operations and their cash flows in accordance with GAAP;
- (b) Valeant maintained, in all material respects, effective internal control over financial reporting; and
- (c) PwC conducted its audits in accordance with the Auditors' Professional Standards.

~~206. Furthermore, by stating that Valeant and its subsidiaries' financial statements were compliant with GAAP, PwC's audit reports:~~

- ~~(a) misrepresented that Valeant's revenue recognition practices were in accordance with GAAP, which resulted in an overstatement of revenue, income and earnings throughout the Class Period;~~

- ~~(b) — misrepresented that Valeant's internal controls were effective when they were in fact materially deficient and yielded inaccurate and materially misleading financial statements and misrepresented that Valeant's financial statements had been prepared based on Valeant's maintenance and application of appropriate internal financial controls;~~
- ~~(c) — misrepresented Valeant's relationship with Specialty Pharmacies, specifically Philidor and Isolani by failing to make proper disclosure and failed to appropriately recognize the related party transactions; and~~
- ~~(d) — misrepresented that Valeant's financial statements accurately described, fairly presented and disclosed the true financial condition of Valeant.~~

~~207. PwC had the responsibility according to the Auditors' Professional Standards to review Valeant's revenue recognition practices, its related party transactions including those with Philidor, Isolani and other related parties, to determine that they complied with GAAP and were consistent with the appropriate internal financial controls. PwC knew, or ought to have known, throughout the Class Period that Valeant's revenue recognition practices did not comply with GAAP and it failed to conduct its audits in a manner consistent with the Auditors' Professional Standards and misrepresented that Valeant's financial statements and quarterly financial reports prepared during the Class Period were GAAP compliant and not misleading.~~

~~208. In performing its audits and other engagements, the Auditors' Professional Standards required PwC to:~~

- ~~(a) — ensure disclosure in accordance with GAAP of all material information regarding Valeant's revenue generation and revenue recognition practices including information regarding Valeant's dealings with Philidor as a VIE and/or a related party;~~
- ~~(b) — identify, assess and address the risks of material misstatements due to fraud or error arising from Valeant's relationships with and its conduct of business through Specialty Pharmacies; and~~
- ~~(c) — evaluate the overall presentation of Valeant's financial statements in light of the material facts relating to Valeant's revenue generation and revenue recognition~~

~~practices including relationships with Specialty Pharmacies. PwC failed to comply each and every one of these standards.~~

~~209. Throughout the Class Period, PwC had the obligation as auditors to carefully review and analyze Valeant's reported revenue including its revenue generation and revenue recognition practices to ensure that the reported revenue was legitimate, complied with appropriate and effective internal controls, was collectible and receivable and that all material risks arising from such revenue recognition practices and the sustainability of such revenue was properly and accurately disclosed.~~

~~210. PwC failed to fulfill this obligation reasonably throughout the Class Period, resulting in misleading financial reports released throughout the Class Period.~~

~~211. Material information regarding Valeant's relationships with and its conduct of business through, Specialty Pharmacies was at all material times available to PwC.~~

~~212. PwC knew, or ought to have known, of the facts relating to these relationships. Notably, as of year end 2014, pursuant to the option purchase agreement, Valeant acquired the right to audit Philidor's accounting books and records, among other rights and such an audit would have been carried out by PwC.~~

~~213. PwC's audit reports, and its representations made therein, were included or incorporated by reference with PwC's consent in Valeant's Offering Memoranda and Prospectuses.~~

VIII. THE TRUTH IS REVEALED

214. The Defendants' Class-Period misrepresentations were partially corrected by way of corrective disclosures made by Valeant and others, as particularized below, on

October 19, 2015, October 21, 2015, October 22, 2015, October 26, 2015, October 29, 2015, October 30, 2015, November 4, 2015, November 10, 2015, December 16, 2015, February 22, 2016 and March 15, 2016.

215. On October 19, 2015, Southern Investigation Report published an article questioning Valeant's relationship to Philidor Rx Services, a specialty pharmacy and Valeant's relationship to R&O Pharmacy.

216. On the same day, October 19, 2015, Valeant hosted its investor conference call to discuss its third-quarter results and its relationship with Philidor, which Individual Defendant Pearson identifies as a "specialty pharmacy." He admitted that Valeant:

- (a) did not previously disclose its relationship with specialty pharmacies because of an alleged competitive advantage;
- (b) Valeant has partnerships with other non-identified specialty pharmacies;
- (c) Valeant purchased the option to acquire Philidor;
- (d) inventory shipped to Philidor remains on Valeant's financial statements as inventory and not included in the specialty pharmacy channel inventory; and
- (e) Valeant brand prescriptions sold by specialty pharmacies are identified as organic growth.

217. On October 19, 2015, Valeant's stock price dropped from \$227.40 to 213.05.

218. On October 20, 2015, Valeant's stock price dropped from \$213.05 to \$190.38.

219. On October 21, 2015, *inter alia*, Citron Research published a report addressing Valeant's accounting and disclosure practices in relation to questionable acquisitions as well as in relation to Philidor and R&O.

220. Shortly after the release of the Citron Research report, Valeant's stock price dropped from \$190.85 to \$154.04.

221. On October 22, 2015, *inter alia*, Bronte Capital published a report addressing Valeant's response to Citron Research's report highlighting the following issues:

- (a) BMO Capital Markets questions Valeant's revenues relating to the sale of Xifaxan and sales and growth from \$300M to \$460M;
- (b) Valeant's disclosure that subpoenas it has received from prosecutors in New York and Massachusetts concern, in part, how Valeant makes disclosures regarding the distribution of its products; and
- (c) Philidor's disclosures to the State of California are inaccurate and contain material fact discrepancies.

222. On October 23, 2015, Valeant shares opened at \$153.85 and closed at \$152.69.

223. On October 26, 2015, *inter alia*, Valeant hosted another investor conference call to address the new allegations of accounting irregularities from Citron Research and Bronte Capital. At this call, Valeant and the Individual Defendants discussed the history of Valeant's relationship with Philidor. Also on October 26, 2015, Valeant disclosed that it had formed an ad hoc committee of its Board of Directors to investigate the allegations regarding Valeant's relationships with Philidor.

224. On October 29, 2015, *inter alia*, CVS, Express Scripts and UnitedHealth Group announced that they had terminated their contractual relationships with Philidor citing breaches of contract, and that they were reviewing Philidor's practices.

225. On October 30, 2015, *inter alia*, Valeant announced that it was ending its relationship with Philidor. In a statement, Pearson said: "We have lost confidence in

Philidor's ability to continue to operate in a manner that is acceptable to Valeant and the patients and doctors we serve." In the same statement, Pearson took "complete responsibility" for investors questioning Valeant and its integrity as a result of the recent allegations.

226. On November 10, 2015, *inter alia*, Valeant hosted another investor conference call to address various issues, including Valeant's decision to end its relationship with Philidor and also disclosed that they had asked Philidor to stop adjudicating claims altogether and that it was reaching out to the payers to address the situation. Pearson said Valeant was pursuing relationships with other Specialty Pharmacies and hopes to establish a new access program in the next 90 days. On this day, Valeant's share price closed at \$110.76.

227. On December 16, 2015, *inter alia*, Valeant provided a financial guidance update and hosted another investor conference call to address its business operations, among other things, revising its previous guidance as follows:

- (a) with respect to the fourth quarter of fiscal 2015, Valeant:
 - (i) significantly reduced prior revenue guidance from \$3.25 - \$3.45 billion to \$2.7 - \$2.8 billion;
 - (ii) significantly reduced prior Adjusted earnings per share (EPS) guidance from \$4.00 - \$4.20 to \$2.55 - \$2.65; and
 - (iii) significantly reduced prior Adjusted Cash Flow from Operations guidance from greater than \$1.0 billion to greater than \$600 million;
- (b) with respect to full fiscal year, Valeant:
 - (i) significantly reduced prior revenue guidance from \$11.0 -
 - (ii) \$11.2 billion to \$10.4 - \$10.5 billion;

- (iii) significantly reduced prior Adjusted earnings per share (EPS) guidance from \$11.67 - \$11.87 to \$10.23 - \$10.33; and
- (iv) significantly reduced prior Adjusted Cash Flow from Operations guidance from greater than \$3.35 billion to greater than \$2.95 billion.

228. On December 17, 2015, Valeant's stock price declined from \$163.57 to \$156.03.

229. On February 22, 2016, the Wall Street Journal reported that Valeant was likely to restate some of its previous financial results based on the findings of its *ad hoc* committee, citing to unidentified sources familiar with the matter. On the same day, Valeant provided certain updates regarding the investigations of its *ad hoc* committee. These disclosures were further corrective of the Defendants' Class Period misrepresentations, as particularized herein.

230. On February 22 and 23, 2016, Valeant's stock price closed at \$104.16 and \$109.40, respectively, down from \$117.00 as of the close of trading on February 19, 2016.

231. On March 15, 2016, Valeant issues a press release, a Form 8-K, and a Form 8-K/A (Amendment No. 1) announcing preliminary unaudited financial information for the fourth quarter of 2015 and related matters. On the same day Valeant also hosted a conference call to discuss its disclosures. These disclosures were subsequently filed as a material change report on March 24, 2016;

232. By way of its disclosures made on March 15, 2016, Valeant, *inter alia*:

- (a) announced:

- (i) unaudited Q4 2015 revenue of US\$2.8 billion (down from the initial guidance on October 19, 2015 of US\$3.25-US\$3.45 billion, but in line with revised guidance on December 16, 2015 of US\$2.7 - US\$2.8 billion);
 - (ii) unaudited Q4 2015 Adjusted earnings per share ("EPS") (non-GAAP) of US\$2.50 (down from the initial guidance on October 19, 2015 of US\$4.00-US\$4.25, and lower than the revised guidance on December 16, 2015 of US\$2.55 - US\$2.65);
 - (iii) unaudited Q4 2015 Adjusted Cash Flow from Operations of US\$838 million (down from the initial guidance of greater than US\$1 billion, but in line with the revised guidance on December 16, 2015 of greater than US\$600 million);
- (b) significantly downgraded its guidance in respect of the first quarter of 2016 as follows:
- (i) total Revenue expected to be US\$2.3 - US\$2.4 billion from previous guidance of US\$2.8 - US\$3.1 billion; and
 - (ii) adjusted EPS (non-GAAP) expected to be US\$1.30 - US\$1.55 from previous guidance of US\$2.35 - US\$2.55;
- (c) significantly downgraded its guidance in respect of full fiscal year 2016, as follows:
- (i) total Revenue expected to be US\$11.0 - US\$11.2 billion from previous guidance of US\$12.5 - US\$12.7 billion;
 - (ii) adjusted EPS (non-GAAP) expected to be US\$9.50 - US\$10.50 from previous guidance of US\$13.25 - US\$13.75; and
 - (iii) adjusted EBITDA (non-GAAP) expected to be US\$5.6 - US\$5.8 billion from previous guidance of US\$6.9 - US\$7.1 billion; and
- (d) stated:

As a result of the ongoing work of the Company's Ad Hoc Committee of the Board of Directors appointed to review the Company's relationship with Philidor and related matters, and the Company's ongoing assessment of the impact of the committee's findings on financial reporting and internal controls, the unaudited fourth quarter 2015 results are preliminary and, as previously announced, the Company has delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2015. The Company is working diligently and intends to file the Form 10-K as promptly as reasonably practicable.

233. Valeant's disclosures on March 15, 2016 were further corrective of the Defendants' Class Period misrepresentations, as particularized herein. On March 15, 2016, Valeant's stock price plummeted to \$45.14 from \$91.58 as of the close of trading on March 14, 2016.

234. During this period of corrective disclosures, material, previously undisclosed information became publicly available, including that:

- (a) Valeant had extensive and close relationships with Philidor, and assisted in setting up its business and operations with Valeant employees working at Philidor under fake names. Certain key Valeant executives and employees worked closely with Philidor and its employees to establish and expand the Specialty Pharmacies network;
- (b) Philidor had ownership and/or other financial interests in numerous pharmacies operating within its complex network, through which it would dispense medication across all United States, including where Philidor was not licensed to sell medication (including in California where Philidor had been denied a license due to unprofessional conduct and false statements made in the licensing application, including with respect to Philidor's owners and other financial matters);
- (c) Philidor took advantage of its extensive and complex network of undisclosed Specialty Pharmacies and used improper practices to claim payments from payers (e.g., insurers) for the prescriptions that it and/or the Specialty Pharmacies filled;
- (d) Philidor's activities in relation to claim adjudication and its dealings with the payers breached Valeant's and/or Philidor's contracts with the insurers. For example, in 2014, OptumRx, a leading U.S. pharmacy benefit manager began to stop payments to Philidor and sent Philidor a cease-and-desist letter citing a breach of its contract with Philidor. In response, Philidor used identification numbers of other Specialty Pharmacies in its network to submit claims to OptumRx. In the months that followed, OptumRx recognized that drug reimbursement claims filed with it could be traced to Philidor and, starting in January 2015, sent cease-and-desist letters to these other Specialty Pharmacies associated with Philidor; and
- (e) Valeant's relationships with, and its conduct of business with and through, Specialty Pharmacies were a significant contributor to Valeant's past financial and operational results and also its future performance. As such, the revelation of those relationships and the

events that followed had significant, negative impact on Valeant's business and operations.

235. In the aftermath of the recent revelations, significant concerns have arisen regarding Valeant's relationships with Specialty Pharmacies and the impact of these relationships on Valeant's business and operations.

236. The entire truth about Valeant's relationships with Specialty Pharmacies, its impact on revenue generation and revenue recognition practices, the activities of Valeant or Philidor within this network and the impact of these relationships and activities on Valeant's past, current or future operations and results has not as yet been fully revealed to investors.

IX. RIGHTS OF ACTION

A. *Negligent Misrepresentation*

237. As against the Valeant Defendants and on behalf of all Class Members who acquired Valeant's Securities in the primary market during the Class Period, the plaintiffs plead negligent misrepresentation for all of the Prospectuses and Offering Memoranda.

~~238. As against PwC and on behalf of all Class Members who acquired Valeant's Securities in the primary market during the Class Period, the plaintiffs plead negligent misrepresentation for all of the audit reports incorporated into the Prospectuses and Offering Memoranda.~~

239. As against the Valeant Defendants and on behalf of all Class Members who acquired Valeant's Securities in the secondary market during the Class Period, the plaintiffs plead negligent misrepresentation for all of the Impugned Documents.

~~240. As against PwC and on behalf of all Class Members who acquired Valeant's Securities in the secondary market during the Class Period, the plaintiffs plead negligent misrepresentation for the audit reports and documents into which they were incorporated.~~

241. The plaintiffs plead that the misrepresentations alleged herein were contained in or were incorporated by reference into the Impugned Documents.

242. The Impugned Documents were prepared, in part, for the purpose of attracting investment and inducing members of the investing public to purchase Valeant Securities. The Defendants knew and intended at all material times that the Class Members would reasonably rely to their detriment upon such documents in making the decision to purchase Valeant Securities.

~~243. PwC knew and intended at all material times that its auditor reports would be incorporated or incorporated by reference in the Prospectuses and Offering Memoranda. PwC was aware of the nature and size of the Offerings in advance of the Offerings and performed additional work in respect of the Offerings for which it was paid additional fees. PwC was consulted in respect of Valeant's financial information included in the Offerings and affirmed the content of such information before the Offerings took place.~~

~~244. PwC, in providing what it purported to be audit services to Valeant and additional services in relation to Valeant's Offerings, made statements that it knowingly intended to be, and which were, disseminated to purchasers of Valeant's securities on the primary and secondary markets, including statements that were knowingly incorporated in Prospectuses and Offering Memoranda. At all material times, PwC was aware of that class of primary and secondary market purchasers, intended to and did communicate with them, and intended that primary and secondary market purchasers of Valeant's Securities would rely on PwC's statements relating to Valeant, which they did to their detriment, and such work was intended to and did attract investment in Valeant.~~

245. Valeant and the Individual Defendants were in a relationship of proximity with the Class Members and it was reasonably foreseeable that any act or omission on their part could cause damage to the Class Members.

246. Valeant owed a duty to Class Members to ensure the accuracy of its public statements. Therefore, it had an obligation to make full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

247. The Individual Defendants, by virtue of their positions as officers and directors of Valeant, also owed a duty to Class Members to ensure that public statements on behalf of Valeant were true, accurate and not misleading. They owed a duty to ensure that material information was publicly disclosed to Class Members in a timely manner and that there were no material omissions in quarterly and annual reports. The continuous disclosure requirements in Canadian securities law mandated Valeant to provide quarterly and annual reports. These reports were meant to be read by investors in

the secondary market and to be relied upon in making investment decisions. These reports and other public disclosure were prepared to attract investment in Valeant and the Defendants intended that Class Members would rely upon public disclosure for that purpose.

248. Further, the Individual Defendants had similar statutory obligations under Canadian securities law to ensure the accuracy of these disclosure documents. During the Class Period, the Individual Defendants signed annual reports and certified that the quarterly reports and annual reports did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made not misleading. They also certified that the financial statements and other financial information fairly presented Valeant's financial condition, results of operations and cash flows.

~~249. PwC was in a relationship of proximity with the Class Members and it was reasonably foreseeable that any act or omission on its part could cause damage to the Class Members. In purchasing Valeant's Securities on the primary and secondary markets, it was reasonably foreseeable to PwC that Class Members would rely on, and Class Members did in fact rely on:~~

- ~~(a) PwC's opinion that Valeant maintained effective internal controls over financial reporting;~~
- ~~(b) PwC's opinion that Valeant financial reporting was GAAP compliant;~~
- ~~(c) PwC's statement that its audits of Valeant were compliant with the Auditors' Professional Standards.~~

~~250. PwC knew and intended that Class Members would rely on the audit reports and assurances about the material accuracy of the financial statements. PwC had a duty to~~

~~maintain or ensure that Valeant maintained appropriate internal controls to ensure that Valeant's disclosure documents adequately and fairly presented the business and affairs of Valeant on a timely basis.~~

251. The Defendants breached the standard of conduct required in the circumstances by making the misrepresentations alleged herein.

252. The Individual Defendants made the misrepresentations alleged herein by signing, authorizing, permitting and/or acquiescing to the release of the Impugned Documents.

253. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of Valeant's publicly traded Securities such that the trading price of those Securities would at all times reflect the information contained in the Impugned Documents.

254. The plaintiffs and the other Class Members directly or indirectly relied upon the misrepresentations alleged herein in making the decision to purchase and/or hold Securities of Valeant, and suffered damages when the truth was revealed.

255. The plaintiffs and other Class Members relied on the Defendants' obligation to make timely disclosure of all material facts, to comply with securities law and to prepare quarterly and annual reports in accordance with GAAP and the Auditors' Professional Standards. The Defendants violated these obligations.

256. The plaintiffs and other Class Members invested in and continued to hold Valeant shares relying on the misrepresentations in the Impugned Documents alleged

herein. The plaintiffs reviewed Valeant's public disclosure and relied on information contained therein.

257. Alternatively, the plaintiffs and the other Class Members relied upon the misrepresentations alleged herein by the act of acquiring Securities of Valeant in an efficient market. As a result, the repeated publication of the misrepresentations alleged herein in these Impugned Documents caused the price of Valeant's Securities to trade at inflated prices during the Class Period, thus directly resulting in damage to the plaintiffs and the other Class Members.

B. *Negligent Misrepresentation Under the Common Law of New York State*

258. As against Valeant and PwC and on behalf of all Class Members who acquired Valeant's Notes in one of the offerings to which the January 2013, March 2013, December 2013, January 2015 and March 2015 Offering Memoranda related, the plaintiffs assert a claim for negligent misrepresentation under the common law of the State of New York.

259. To state a claim for negligent misrepresentation under the common law of the State of New York, a plaintiff must allege (1) a special relationship (which exists as to defendants who possess unique or specialized expertise, or who are in a special position of confidence and trust with the injured party) that creates a duty to exercise reasonable care toward the plaintiff (2) the transmittal of false information; and (3) justifiable, detrimental reliance on the false information.

260. The Offering Memoranda and the documents incorporated therein contained the misrepresentations alleged herein. Valeant ~~and PwC were~~ was in a special relationship with the Class Members who purchased Valeant notes in the primary market. The Class Members who purchased Valeant's notes in one of the distributions to which the Offering Memoranda related justifiably relied on the misrepresentations and suffered losses and are entitled to damages in accordance with the common law of the State of New York. The Defendants had tremendously more expertise and information relating to Valeant relative to investors such that they were in a special relationship with the Class Members. Unlike the members of the Class, Valeant and the Individual Defendants were insiders with access to all of Valeant's corporate records and financial information and variously attended Valeant's board meetings and other high level meetings. ~~PwC was Valeant's auditor and similarly had access to non-public corporate records and financial information.~~ Valeant, and the Individual Defendants ~~and PwC~~ performed due diligence in respect of the Offerings, albeit insufficient due diligence. ~~The Class Members who purchased Valeant's notes in one of the distributions to which the Offering Memoranda related on the trustworthiness that would be credited to the Offering Memoranda because of the involvement of PwC and PwC's active role in the development and writing of the Offering Memoranda.~~

C. *Securities Misrepresentation Under United States Securities Exchange Act Rule 10b-5*

261. In the further alternative, as against Valeant ~~and PwC~~ and on behalf of all Class Members who acquired Valeant's notes in one of the Offerings, the plaintiffs assert a claim for securities misrepresentation under Rule 10b-5 of the United States Securities Exchange Act of 1934.

D. Part XXIII.1 of the OSA

262. The plaintiffs assert the claims in Part XXIII.1 of the *OSA*, and, if required, the equivalent sections of the Securities Legislation, against all Defendants in respect of all of Valeant's shares and notes that traded in the secondary market during the Class Period.

~~263. As against PwC, this claim is asserted in respect of the auditor reports included in and issued in connection with the Impugned Documents that are annual disclosure documents of Valeant, a Prospectus, or an Offering Memorandum. Such documents included, summarized, or quoted from the PwC audit reports which contained misrepresentations.~~

264. Each of the Impugned Documents except for the Offering Memoranda and press release are "Core Documents" within the meaning of the *OSA* and the Securities Legislation.

265. Each of these Impugned Documents contained one or more of the misrepresentations alleged herein.

266. Each of the Individual Defendants was an officer and/or director of Valeant at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of these Impugned Documents.

267. Valeant is a reporting issuer within the meaning of the *OSA* and the Securities Legislation.

~~268. PwC is an expert within the meaning of the OSA and the Securities Legislation. PwC consented to the use of its statements particularized above in the Impugned Documents.~~

269. At all material times, each of the Defendants knew or, in the alternative, ought to have known, that the Impugned Documents contained the misrepresentations alleged herein.

E. *Part XXIII of the OSA*

(i) *Valeant's Shares*

270. As against all Defendants, and on behalf of those Class Members who purchased Valeant shares in one of the distributions to which Prospectuses related, the plaintiffs assert the right of action set forth in s. 130 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation.

271. Valeant issued the Prospectuses, which contained the misrepresentations alleged herein, or they were contained in the disclosure documents incorporated by reference therein.

~~272. PwC consented to be named in and to the use of through incorporation by reference in the Prospectuses its auditor's reports which contained the misrepresentations herein.~~

(ii) *Valeant's Notes*

273. As against Valeant and on behalf of those Class Members who purchased or otherwise acquired Valeant's notes in one of the offerings to which the Offering

Memoranda related, the plaintiffs assert the right of action set forth in s. 130.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation.

274. Valeant issued the Offering Memoranda, which contained the misrepresentations alleged herein, or they were contained in the disclosure documents incorporated by reference therein.

X. PUNITIVE DAMAGES

275. The plaintiffs claim punitive damages against Valeant and the Individual Defendants as a result of their conduct particularized herein and, in particular, their callous disregard for their obligations to make full, plain, and true disclosure. In particular, Valeant and the Individual Defendants' conduct in continuing to hide the truth concerning Valeant's relationship with Philidor and Philidor's risky, unorthodox and illegal business practices, warrants an award of punitive damages.

XI. THE RELATIONSHIP BETWEEN THE MISREPRESENTATIONS AND THE PRICE OF VALEANT'S SECURITIES

276. The price of Valeant's Securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Valeant's disclosure documents upon the price of Valeant's Securities.

277. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

278. Valeant routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Valeant Securities. Valeant either provided copies of the above referenced documents or links thereto on its website.

279. Valeant regularly communicated with public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Valeant communicated new material information about Valeant's financial results to the public, the price of Valeant's Securities was directly affected.

280. Valeant was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Valeant Securities in such reports during the Class Period were based, in whole or in part, upon that information.

281. At all material times during the Class Period, Valeant's Securities were traded, among other places, on the TSX, which is an efficient and automated market. The price at which Valeant's Securities traded promptly incorporated material information from Valeant's disclosure documents about Valeant's business and affairs, including the Misrepresentations, which were disseminated to the public through the documents referred to above and distributed by Valeant, as well as by other means.

XII. VICARIOUS LIABILITY OF VALEANT

282. Valeant is vicariously liable for the acts and omissions of the Individual Defendants and its other officers, directors, and employees because their acts and omissions with respect to the Misrepresentations were carried out while they were engaged in the management, direction and control of the business affairs of Valeant.

XIII. PROPORTIONATE LIABILITY

283. Notwithstanding anything to the contrary in this pleading, the Plaintiffs do not plead herein, any claims against PwC and hereby abandon any such claims. The Plaintiffs shall forfeit and shall not seek to recover against any of the Defendants any portion of the damages that the Court may find to be the responsibility of PwC or which the Defendants may claim they are entitled to receive by way of contribution or indemnity from PwC.

284. Notwithstanding the foregoing, the Defendants (which, for certainty, do not include PwC) are liable amongst themselves for the damages that the Court may find against them jointly and/or severally, in the ordinary course as may be found by the Court in light of the law and the facts.

XIV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

285. This action has a real and substantial connection with Ontario because, among other things:

- (a) Valeant is a reporting issuer in Ontario;

- (b) Class Members resident in Ontario acquired Valeant Securities and suffered damage and loss;
- (c) the shares of Valeant trade on the TSX, which is located in Ontario; and
- (d) Valeant conducts extensive business in Ontario including, but not limited to, operating a manufacturing facility and marketing, selling and distributing its products.

XV. RELEVANT LEGISLATION

286. The plaintiffs plead and rely on the *CJA*, the *CPA*, the *OSA* and the Securities Legislation.

XVI. SERVICE OUTSIDE ONTARIO WITHOUT LEAVE

287. The plaintiffs plead and rely on Rule 17.02(g), (n), and (p) to serve this claim and the notice of action outside of Ontario without leave.

September 15, 2016

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**ONTARIO
SUPERIOR COURT OF JUSTICE**

PROCEEDING COMMENCED AT TORONTO

Proceeding under the *Class Proceedings Act, 1992*

ORDER

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