

TARO SETTLEMENT AGREEMENT AND RELEASE

I. PARTIES

The parties to this agreement are the State of Texas ("Texas" or "State") and Taro Pharmaceuticals U.S.A., Inc. ("Taro"). This Settlement Agreement and Release ("Agreement") is entered into as of the "Effective Date," defined in paragraph 24 below, by and among Texas and Taro. Texas and Taro are collectively referred to as "Parties." The person signing this Settlement Agreement on behalf of each Party is authorized to do so on behalf of that Party.

II. PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. Taro develops, manufactures, markets, and sells pharmaceutical products in the United States. Unless otherwise noted, Taro and all of its subsidiaries are collectively referred to herein as "Taro."

B. The pharmaceutical products Taro manufactured, marketed, distributed, and/or sold using the Labeler Code 51672 are referred to as the "Covered Drugs."

C. Texas contends that between September 1, 1995 and the Effective Date, Taro knowingly set, reported, and/or maintained, or caused to be set, reported, and/or maintained false, fraudulent, and/or inflated prices for certain of the Covered Drugs, including the prices reported directly to the Texas Vendor Drug Program ("VDP"). Texas further contends that Taro submitted or caused to be submitted, false claims to the VDP for certain of the Covered Drugs based on those false and/or inflated reported prices. Texas further contends that while Taro submitted false prices for certain of the Covered Drugs to VDP, Taro withheld or failed to submit accurate acquisition costs for certain of the Covered Drugs to VDP. Texas contends that

Taro has committed unlawful acts, as defined by Tex. Hum. Res. Code Ann. § 36.002, in connection with the submission or withholding of pricing information to the VDP, including for the purpose of including certain of Taro's Covered Drugs on the Texas Drug Code Index ("TDCI"). The conduct described in this paragraph is hereinafter referred to as the "Covered Conduct".

D. This Agreement is the result of a compromise of disputed issues of law and fact and is neither an admission of facts or liability by Taro, nor a concession by the State that the State's claims are not well-founded.

E. Taro has a number of defenses to the State's claims, and has denied and continues to deny the State's allegations or any wrongdoing as may be alleged by the State.

F. As a result of a mutual desire to settle their disputes, and to avoid the delay, expense, inconvenience, and uncertainty of protracted litigation of the State's claims, the Parties have reached a full and final settlement of the State's claims, as set forth in this Agreement; and

G. The State has concluded that this settlement is in the public interest.

III. AGREEMENT

NOW, THEREFORE, in reliance on the representations contained herein and in consideration of the mutual promises, covenants, and obligations set forth below in this Agreement, and for good and valuable consideration as stated herein, the Parties agree as follows:

1. The foregoing Preamble is incorporated herein.
2. Settlement Payment:

a. "Settlement Amount" - Taro agrees to pay the sum of NINETEEN MILLION FIVE HUNDRED THOUSAND DOLLARS (\$19,500,000.00USD) (the "Settlement Amount") according to the schedule in Section 2(a)(ii) in full settlement of claims relating to the Covered Conduct including forfeiture and disgorgement of revenues, restitution, compensatory damages, penalties, state and federal shares, and attorney's fees and costs related to the Covered Conduct and any civil or administrative claim, action, suit or proceeding (including attorney's fees, penalties, costs, and expenses of every kind and however denominated) Texas has asserted, could assert, or may assert in the future for the Covered Conduct.

- i. The payment of Settlement Amount shall be delivered by Taro in accordance with wiring instructions from Raymond Winter, Chief, Civil Medicaid Fraud Division, at the Office of the Attorney General of Texas.
- ii. Taro will make a lump-sum payment of NINETEEN MILLION FIVE HUNDRED THOUSAND DOLLARS (\$19,500,000.00USD) within ten business days of the Effective Date of this Agreement.
- iii. The parties will cooperate to exchange wiring and routing instructions so that such payments can be made promptly.
- iv. Each party shall pay its own legal fees incurred in connection with negotiating this settlement and perform whatever additional work is necessary under this settlement.

3. **Allocation of Payment:** In no way does entering into this Agreement entitle a Party to direct or influence the treatment or allocation of the Settlement Amount, by the other Party. Taro expressly acknowledges that it is not entitled to direct or influence the manner in which the Settlement Amount is allocated by Texas. Texas expressly acknowledges that it is not entitled to direct or influence the manner in which the Settlement Amount is treated by Taro for any purposes, including but not limited to federal or state taxes. Texas acknowledges that Taro contends that the Settlement Amount is compensatory and that no portion of the Settlement Amount consists of fines, penalties, or other punitive damages. Each Party will allocate and distribute the Settlement Amount in accordance with state and federal law, and Texas will distribute the United States' pro rata share of the net recovery.

4. **Texas: Release of Taro**

a. Subject to the exceptions in Paragraph 6 below, in consideration of the obligations of Taro set forth in this Agreement, and conditioned upon Taro's payment in full of the Final Settlement Payment, the State (on behalf of (i) itself, its past and present officers, agents, entities, divisions, agencies and departments and (ii) any insurers and reinsurers of those identified in sub-clause (i)), fully and finally, and to the greatest extent allowed by law, releases Taro and (i) its past and present holding companies, predecessors, successors, parents, subsidiaries, entities and divisions; (ii) all past and present officers, directors, members, partners and/or limited partners, principals, assigns, representatives, employees, agents, servants, owners, shareholders and attorneys of Taro and those identified in sub-clause (i); (iii) all heirs,

executors, administrators, spouses, agents and assigns of those identified in sub-clauses (i) and (ii); and (iv) any insurers and reinsurers of Taro and those identified in sub-clauses (i) and (ii) (collectively, the "Taro Released Parties") from any civil or administrative claim, action, suit or proceeding (including damages, attorneys' fees, penalties, costs, and expenses of every kind and however denominated) the State has or may have or could assert in the future under any source of law against the Taro Released Parties related to the Covered Conduct. In addition, the Parties agree that the payment of the Final Settlement Payment fully discharges the Taro Released Parties from any and all civil or administrative obligation to the State to pay restitution, damages, penalties or fines to the State for the Covered Conduct. In addition, the Office of the Attorney General of Texas agrees that it shall not initiate or prosecute litigation or any other civil or administrative action, including by way of example and not limitation, civil investigative demands, against the Taro Released Parties, related to the Covered Conduct, on behalf of itself or the United States. This Agreement is not intended to release claims or causes of action unrelated to the Covered Conduct.

5. Taro: Release of Texas

- a. Taro will agree to fully and finally release the State, its agents, agencies, employees, servants, attorneys, and departments from any claims based on events occurring prior to the date of this Agreement (including attorney's fees, costs, and expenses of every kind and however denominated) which Taro has asserted, could assert, or may assert in the future against the State, its agents,

agencies, employees, servants, attorneys and departments, related to the Covered Conduct and the State's investigation and prosecution thereof. This agreement is not intended to release claims or causes of action unrelated to the Covered Conduct.

6. **Limitations on Release:** Notwithstanding any other terms of this Agreement, including the release provisions in Paragraphs 4, and 5 above, specifically reserved and excluded from the definition of Covered Conduct, and thus the scope and terms of this Agreement, and from the scope and terms of the releases, as to any entity or person (including Taro, and the State), are the following:
 - a. Any claims based upon obligations created by this Agreement;
 - b. Any express or implied product or service warranty claims or other claims for defective or deficient products or services, including quality of goods and services by Taro;
 - c. Any civil or administrative liability that any person or entity has or may have to individual consumers involving unfair and/or deceptive acts and practices and/or violations of consumer protection laws;
 - d. Any civil or administrative liability that any person or entity, including the Taro Released Parties, has or may have to the State for state or federal antitrust violations;
 - e. Any civil or administrative liability that any person or entity has or may have that is unrelated to the Covered Conduct but is related to marketing or promotion of any of the covered drugs, such as off-label marketing, product misbranding, or misrepresentations or concealment of information about the

- safety, efficacy, or appropriate use of Taro's drugs, including the Covered Drugs;
- f. Any civil or administrative liability that any person or entity, other than the State, has or may have regarding inducement of healthcare providers to prescribe any of the covered drugs;
 - g. The subrogation rights to claims for personal injury or property damage arising from usage of Taro's products by a participant in the Medicaid Program;
 - h. Any claims based on a failure to deliver products or services due;
 - i. Any claims arising from Taro's obligation to report and/or to pay rebates to the State under any law or contract, including, but not limited to, under the provisions of the Omnibus Budget Reconciliation Act of 1990 ("OBRA 90") and;
 - j. Any civil, criminal, or administrative liability arising under Title 26, U.S. Code (Internal Revenue Code) or any state tax or revenue law.
7. The State hereby agrees that this Agreement, and any and all negotiations, documents and discussions associated with this Agreement shall be without prejudice to the rights of any Party, shall not be deemed or construed to be an admission or evidence of any violation of any statute or law, of any liability or wrongdoing by the Taro Released Parties or of the truth or the infirmity of any of the claims or allegations of the State, and evidence thereof shall not be discoverable or used directly or indirectly by the State in any way (except that the provisions of this Agreement may be used by the Parties to enforce its terms), whether in Texas or in

any other forum. The State agrees it will not urge or seek to admit this Agreement as evidence of any fault or liability of the Taro Released Parties in any investigation, administrative claim, action, suit or proceeding, or federal or state court or arbitration proceeding unless ordered to do so by a state court, federal court, or arbitration panel.

8. The State represents to Taro, subject only to the rights possessed by the United States, that no interest in any claim herein released has been assigned by them to any third party.
9. Nothing in this Agreement shall be construed to create a waiver of the State's Sovereign Immunity.
10. Any Party shall be entitled to enforce the terms of this Agreement in the District Courts of Travis County, Texas, which shall have exclusive jurisdiction and venue over any such action.
11. This Agreement constitutes the complete agreement between the Parties with regard to the settlement and dismissal of claims and allegations relating to the Covered Conduct as defined herein. This Agreement may not be amended except by a writing signed by all Parties.
12. Each Party will bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.
13. This Agreement shall be governed by the laws of the State of Texas.
14. This Agreement shall be construed and interpreted to effectuate the Parties' intent, which is to resolve completely the State's claims and allegations in connection with the Covered Conduct with respect to Taro.

15. None of the Parties to this Agreement shall be considered the drafter of this Agreement or of any included provision for the purpose of any statute, case law or rule of construction that would or might cause any provision to be construed against the drafter.
16. The Parties each represent that this Agreement is freely and voluntarily entered into without any degree of duress whatsoever.
17. Unless otherwise stated in writing subsequent to the Effective Date of this Agreement, all notifications and communications made pursuant to this Agreement shall be submitted to the entities listed below:

- a. State, for all purposes:

OFFICE OF THE ATTORNEY GENERAL
Civil Medicaid Fraud Division
P O Box 12548
Austin, Texas 78711-2548

- b. Taro Pharmaceuticals U.S.A., Inc., for all purposes:

Stephen J. Manzano
Interim General Counsel, VP Corporate Compliance
3 Skyline Drive
Hawthorne, NY 10532

with a copy to

Mr. Joseph R. Knight
Baker Botts
98 San Jacinto Blvd., Suite 1500
Austin, TX 78701

18. The Parties have read the foregoing Agreement and accept and agree to the provisions contained herein and hereby have caused this Agreement to be signed as of the day and date adjacent to their respective signatures. The individual signing

this Agreement on behalf of Taro represents and warrants that he is authorized by Taro to execute this Agreement. The undersigned State signatories represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement and to compromise the claims of the State. The Texas Health and Human Services Commission ("HHSC") Executive Commissioner concurs with the aspects of the agreement that are within his authority and that the HHSC General Counsel is authorized to sign this Agreement on behalf of the HHSC Executive Commissioner.

19. The Parties represent and acknowledge that in entering into this Agreement they are not relying on any promises or representations other than those expressly set forth in this Agreement.
20. The waiver of any rights conferred by this Agreement shall be effective only if made in writing by the waiving Party. The waiver by any Party of any breach of this Agreement shall not be deemed or construed as a waiver of any other breach, whether prior to, subsequent to, or contemporaneously with this Agreement.
21. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which shall constitute one and the same Agreement.
22. Each Party agrees to perform such further acts and to execute and to deliver such further documents as may reasonably be necessary to carry out this Agreement.
23. The Parties understand, acknowledge and agree that (i) they have each performed an independent investigation of the fact and law surrounding this matter, and (ii) they each may hereafter discover facts in addition to, or different from, those that they now know or believe to be true. Nevertheless it is the Parties' intention to resolve

this matter pursuant to the terms of this Agreement, which shall remain in full force and effect notwithstanding the discovery of additional facts or law, or changes in the law, and this Agreement shall not be subject to rescission or modification by reason of any such discovery.

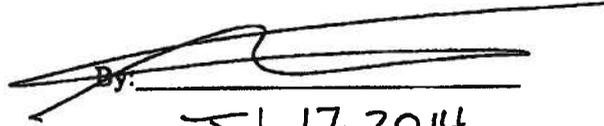
- 24. The Effective Date of this Agreement shall be the date of signature of the last signatory to this Agreement.**

EXECUTION OF RELEASE

**STATE of TEXAS
Office of the Attorney General**

Taro Pharmaceuticals U.S.A., Inc.

By: _____


By: _____

Date: _____

Date: July 17, 2014

Raymond C. Winter
Chief, Civil Medicaid Fraud Division
Assistant Attorney General
Office of the Attorney General of Texas
P.O. Box 12548
Austin, Texas 78711-2548

Stephen J. Manzano
Interim General Counsel, VP Corporate
Compliance

Texas Health & Human Services Commission

By: _____

Date: _____

Kyle L. Janek, M.D.
Executive Commissioner
Texas Health & Human Services Commission
Brown-Heatley Building
4900 N.Lamar Blvd.
Austin, Texas 78751-2316

EXECUTION OF RELEASE

**STATE of TEXAS
Office of the Attorney General**

Taro Pharmaceuticals U.S.A., Inc.

By: *Raymond C. Winter*

By:

Date: *7/29/14*

Date:

**Raymond C. Winter
Chief, Civil Medicaid Fraud Division
Assistant Attorney General
Office of the Attorney General of Texas
P.O. Box 12548
Austin, Texas 78711-2548**

**Stephen J. Manzano
Interim General Counsel, VP Corporate
Compliance**

Texas Health & Human Services Commission

By: *Ch. Janek*

Date: *7-24-14*

**Kyle L. Janek, M.D.
Executive Commissioner
Texas Health & Human Services Commission
Brown-Heatley Building
4900 N.Lamar Blvd.
Austin, Texas 78751-2316**