ALLERGAN INC
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-10269

Allergan, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**95-1622442** (I.R.S. Employer Identification No.)
2525 Dupont Drive	**92612**
Irvine, California (Address of Principal Executive Offices)	(Zip Code)

(714) 246-4500

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

As of April 30, 2009, there were 307,511,888 shares of common stock outstanding (including 3,021,693 shares held in treasury).

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FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

	Three months ended	
	March 31, 2009	March 31, 2008
Revenues:		
Product net sales	$ 994.6	$ 1,061.0
Other revenues	12.6	15.6
Total revenues	1,007.2	1,076.6
Operating costs and expenses:		
Cost of sales (excludes amortization of acquired intangible assets)	177.8	182.2
Selling, general and administrative	484.5	482.2
Research and development	182.1	182.9
Amortization of acquired intangible assets	38.6	34.9
Restructuring charges	42.1	28.4
Operating income	82.1	166.0
Non-operating income (expense):		
Interest income	2.7	11.2
Interest expense	(19.4)	(21.5)
Unrealized loss on derivative instruments, net	(2.8)	(3.3)
Other, net	0.8	(2.9)
	(18.7)	(16.5)
Earnings before income taxes	63.4	149.5
Provision for income taxes	18.4	41.6
Net earnings	45.0	107.9
Net earnings attributable to noncontrolling interest	0.3	0.2
Net earnings attributable to Allergan, Inc.	$ 44.7	$ 107.7
Earnings per share attributable to Allergan, Inc. stockholders:		
Basic	$ 0.15	$ 0.35
Diluted	$ 0.15	$ 0.35

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and equivalents	$ 1,088.3	$ 1,110.4
Trade receivables, net	536.6	538.4
Inventories	255.4	262.5
Other current assets	346.2	359.3
Total current assets	2,226.5	2,270.6
Investments and other assets	251.8	272.1
Property, plant and equipment, net	778.7	775.4
Goodwill	1,975.3	1,981.8
Intangibles, net	1,447.4	1,491.9
Total assets	$ 6,679.7	$ 6,791.8
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ 1.1	$ 4.4
Accounts payable	185.1	173.9
Accrued compensation	92.6	132.6
Other accrued expenses	326.0	336.7
Income taxes	6.3	49.4
Total current liabilities	611.1	697.0
Long-term debt	890.5	885.3
Long-term convertible notes	599.4	685.2
Deferred tax liabilities	27.1	69.0
Other liabilities	395.4	402.8
Commitments and contingencies		
Equity:		
Allergan, Inc. stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 500,000,000 shares; issued 307,512,000 shares as of March 31, 2009 and December 31, 2008	3.1	3.1
Additional paid-in capital	2,677.6	2,596.6
Accumulated other comprehensive loss	(224.2)	(198.7)
Retained earnings	1,855.7	1,842.1
	4,312.2	4,243.1
Less treasury stock, at cost (2,901,000 shares as of March 31, 2009 and 3,424,000 shares as of December 31, 2008)	(158.0)	(192.4)
Total stockholders equity	4,154.2	4,050.7
Noncontrolling interest	2.0	1.8
Total equity	4,156.2	4,052.5

Total liabilities and equity	$ 6,679.7	$ 6,791.8

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three months ended	
	March 31, 2009	March 31, 2008
Cash flows from operating activities:		
Net earnings	$ 45.0	$ 107.9
Non-cash items included in net earnings:		
Depreciation and amortization	69.0	63.6
Amortization of original issue discount and debt issuance costs	7.3	7.4
Amortization of net realized gain on interest rate swap	(0.3)	(0.3)
Deferred income tax benefit	(40.3)	(10.5)
Loss on disposal and impairment of assets	3.1	0.6
Loss on extinguishment of convertible debt	5.3	
Unrealized loss on derivative instruments	2.8	3.3
Expense of share-based compensation plans	98.2	24.6
Restructuring charges	42.1	28.4
Changes in assets and liabilities:		
Trade receivables	(9.2)	(101.5)
Inventories	3.8	(16.5)
Other current assets	8.0	9.2
Other non-current assets	2.8	(0.9)
Accounts payable	9.1	(11.6)
Accrued expenses	(82.2)	(39.2)
Income taxes	(43.0)	(27.7)
Other liabilities	(5.0)	5.4
Net cash provided by operating activities	116.5	42.2
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(0.1)
Additions to property, plant and equipment	(11.5)	(28.5)
Additions to capitalized software	(8.9)	(9.5)
Proceeds from sale of business and assets		6.0
Net cash used in investing activities	(20.4)	(32.1)
Cash flows from financing activities:		
Dividends to stockholders	(15.2)	(15.1)
Repayments of convertible borrowings	(98.3)	
Payments to acquire treasury stock		(93.1)
Net repayments of notes payable	(3.3)	(1.7)
Sale of stock to employees	5.0	27.4
Excess tax benefits from share-based compensation	0.1	6.7
Net cash used in financing activities	(111.7)	(75.8)
Effect of exchange rate changes on cash and equivalents	(6.5)	12.4

Net decrease in cash and equivalents	(22.1)	(53.3)
Cash and equivalents at beginning of period	1,110.4	1,157.9
Cash and equivalents at end of period	$ 1,088.3	$ 1,104.6
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of amount capitalized)	$ 7.7	$ 5.2
Income taxes, net of refunds	$ 99.3	$ 71.1

In the first quarter of 2009, the Company acquired an office building contiguous to its main facility in Irvine, California for approximately $20.7 million. The Company assumed a mortgage of $20.0 million and paid $0.7 million in cash.

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2008. The Company prepared the unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the three month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009 or any other period(s).

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

All prior period information has been retrospectively adjusted to reflect the impact of the adoptions of Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) and Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160) in the first quarter of 2009.

Recently Adopted Accounting Standards

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1), which requires publicly traded companies to include in their interim financial reports certain disclosures about the carrying value and fair value of financial instruments previously required only in annual financial statements and to disclose changes in significant assumptions used to calculate the fair value of financial instruments. FSP FAS 107-1 and APB 28-1 is effective for all interim reporting periods ending after June 15, 2009, with early adoption permitted for interim reporting periods ending after March 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

In November 2008, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7), which clarifies how to account for acquired intangible assets subsequent to initial measurement in situations in which an entity does not intend to actively use the assets but intends to hold the asset to prevent others from obtaining access to the asset (a defensive intangible asset), except for intangible assets that are used in research and development activities. EITF 08-7 requires that a defensive intangible asset be accounted for as a separate unit of accounting and assigned a useful life that reflects the entity s consumption of the expected benefits related to that asset. EITF 08-7 became effective for intangible assets acquired on or after December 15, 2008. The Company adopted the provisions of EITF 08-7 in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, which clarifies the accounting for convertible debt instruments that may be settled fully or partially in cash upon conversion. FSP APB 14-1 requires entities to separately measure and account for the liability and equity components of qualifying convertible debt and amortize the value of the equity component to interest cost over the estimated life of the convertible debt instrument. By amortizing the value of the equity component, an entity will effectively recognize interest cost at its non-convertible debt borrowing rate. FSP APB 14-1 also requires re-measurement of the liability and equity components upon extinguishment of a convertible debt instrument, which may result in a gain or loss recognized in the financial statements for the extinguishment of the liability component. FSP APB 14-1 requires retrospective application for all instruments that were outstanding during any periods presented. FSP APB 14-1 became effective for fiscal years beginning after December 15, 2008. The Company adopted FSP APB 14-1 on January 1, 2009 and the adoption impacted both current year and historical accounting for the Company s 1.50% Convertible Senior Notes due 2026 (2026 Convertible Notes), resulting in a $6.5 million increase in interest expense and a $2.5 million reduction in the provision for income taxes for the three month period ended March 31, 2009, and a $6.1 million increase in interest

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expense and a $2.4 million decrease in the provision for income taxes for the three month period ended March 31, 2008. The adoption also resulted in an $80.4 million increase in additional paid-in capital, a $64.8 million reduction in long-term convertible notes, a $24.9 million increase in deferred tax liabilities, a $0.5 million increase in non-current assets and a $40.0 million decrease in retained earnings as of January 1, 2009. The impact on basic and diluted earnings per share for each of the three month periods ended March 31, 2009 and 2008 was a reduction of $0.01.

In June 2008, the FASB ratified the consensus reached by the EITF in EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* (EITF 07-5), which clarifies the criteria for determining whether certain financial instruments should be classified as derivative instruments or equity instruments under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). EITF 07-5 became effective for fiscal years beginning after December 15, 2008. The Company adopted the provisions of EITF 07-5 in the first quarter of 2009 as was required to evaluate the equity component of its 2026 Convertible Notes under the provisions of EITF 07-5 in connection with the adoption of FSP APB 14-1. The Company determined that the conversion feature of its 2026 Convertible Notes is indexed to its own stock and is therefore classified as an equity intrument.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3), which amends the guidance for estimating the useful lives of recognized intangible assets and requires additional disclosure related to renewing or extending the useful lives of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 became effective for fiscal years and interim periods beginning after December 15, 2008. The Company adopted the provisions of FSP FAS 142-3 in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161), which requires entities to disclose: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 became effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted the provisions of SFAS No. 161 in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised), *Business Combinations* (SFAS No. 141R), which significantly changes the accounting and reporting requirements for business combination transactions, including capitalization of in-process research and development assets and expensing acquisition costs as incurred. SFAS No. 141R became effective for business combination transactions occurring in fiscal years beginning after December 15, 2008. The Company adopted the provisions of SFAS No. 141R in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, which changes the accounting and financial reporting of ownership interests in subsidiaries held by parties other than the parent, and the allocation of net income attributable to the parent and the noncontrolling interest. SFAS No. 160 also establishes disclosure requirements to separately identify the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 became effective for fiscal years beginning after December 15, 2008. The Company adopted the provisions of SFAS No. 160 in the first quarter of 2009. The adoption of SFAS No. 160 changed the presentation format of the Company s consolidated statements of earnings and consolidated balance sheets, but did not have an impact on net earnings or equity attributable to the Company s stockholders.

In December 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1), which defines collaborative arrangements and requires that transactions with third parties that do not participate in the arrangement be reported in the appropriate income statement line items pursuant to the guidance in EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. Income statement classification of payments made between participants of a collaborative arrangement are to be based on other applicable authoritative accounting literature. If the payments are not within the scope or analogy of other authoritative accounting literature, a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 became effective for fiscal years beginning after December 15, 2008 and applied as a change in accounting principle to all prior periods retrospectively for all collaborative arrangements existing as of the effective date. The Company adopted the provisions of EITF 07-1 in the first quarter of 2009. The adoption did not have a material impact on the Company s consolidated financial statements.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Standards Not Yet Adopted

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1), which amends FASB Statement No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits*, and provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires an employer to disclose information about how investment allocation decisions are made, and to disclose separately for pension plans and other postretirement benefit plans the fair value of each major category of plan assets based on the nature and risks of assets as of each annual reporting date for which a statement of financial position is presented and information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the annual reporting date. The disclosures about plan assets are to be provided for fiscal years ending after December 15, 2009, which will be the Company s fiscal year 2009. Upon initial adoption, the provisions are not required for earlier periods that are presented for comparative purposes. The Company does not expect that the adoption of FSP FAS 132(R)-1 will have a material impact on the Company s consolidated financial statements.

Note 2: *Aczone*® Asset Purchase

On July 11, 2008, the Company completed the acquisition of assets related to *Aczone*® (dapsone) gel 5%, a topical treatment for acne vulgaris, from QLT USA, Inc. (QLT) for approximately $150.0 million. The acquisition was funded from cash and equivalents balances. The Company acquired QLT s right, title and interest in and to the intellectual property, assigned contracts, registrations and inventories related to *Aczone*®, which is approved for sale in both the United States and Canada for the treatment of certain dermatological conditions. The Company accounted for the acquisition as a purchase of net assets.

The Company determined that the assets acquired consist of product rights for developed technology for *Aczone*® of $145.6 million and inventories of $4.4 million. The useful life of the developed technology was determined to be approximately eight years. The Company believes the fair values assigned to the assets acquired were based on reasonable assumptions.

Note 3: Restructuring Charges and Integration and Transition Costs

2009 Restructuring Plan

On February 4, 2009, the Company announced a restructuring plan that involves a workforce reduction of approximately 460 employees, primarily in the United States and Europe. The majority of the employees affected by the restructuring plan are U.S. urology sales and marketing personnel as a result of the Company s decision to focus on the urology specialty and to seek a partner to promote *Sanctura XR*® to general practitioners, and marketing personnel in the United States and Europe as the Company adjusts its back-office structures to a reduced short-term sales outlook for some businesses. The restructuring plan also includes modest workforce reductions in other functions as the Company re-engineers its processes to increase efficiency and productivity.

As part of the restructuring plan, the Company modified the outstanding stock options issued in its February 2008 full-round employee stock option grant. The stock options were originally granted with an exercise price of $64.47 with a standard four year graded vesting term, a ten year contractual term, and standard 90 day expiration upon termination of employment provisions. These options were modified to be immediately vested in full and to remove the 90 day expiration upon termination of employment provision. Because the modified awards became fully vested and there was no future derived service period, all unamortized compensation expense related to the original grant and the additional compensation expense attributable to the modification of the awards was recognized in full on the modification date.

In addition, the contractual provisions of outstanding stock options, other than the February 2008 full-round employee stock option grant, held by employees impacted by the workforce reduction were modified to extend the stock option expiration dates. Under the original contractual provisions, outstanding stock options held by employees involved in a workforce reduction automatically become fully vested upon termination of employment and the stock options expire after the earlier of 90 days from termination of employment or the remaining stock option contractual term. Under the modified terms, stock options for the impacted employees will expire after the earlier of three years from termination of employment or the remaining contractual term. All unamortized compensation expense related to the original stock option awards

plus the incremental compensation expense associated with the modifications will be recognized ratably from the modification date to the employees expected termination date.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company estimates that the total pre-tax charges related to the 2009 restructuring plan will be between $119.0 million and $126.0 million, of which $40.0 million to $45.0 million are expected to be cash expenditures. The total estimated pre-tax charges consist primarily of employee severance and other one-time termination benefits of $40.0 million to $45.0 million, asset write-offs of $2.0 million to $3.0 million, costs associated with the modification of stock options issued in the February 2008 full-round employee stock option grant of approximately $73.0 million and costs associated with the modification of stock options, other than the February 2008 full-round employee stock option grant, for employees impacted by the workforce reduction of $4.0 million to $5.0 million.

The Company began to record costs associated with the 2009 restructuring plan in the first quarter of 2009 and expects to continue to recognize costs through the fourth quarter of 2009. The Company expects the restructuring plan to be substantially completed by the end of the second quarter of 2009. In the first quarter of 2009, the Company recorded pre-tax restructuring charges of $38.4 million, recognized a total of $77.0 million related to employee stock option modifications, consisting of $5.0 million of cost of sales, $51.7 million in selling, general and administrative (SG&A) expenses, and $20.3 million in research and development (R&D) expenses, and recognized $2.2 million of asset write-offs in SG&A expenses.

The following table presents the restructuring charges related to the 2009 restructuring plan during the three month period ended March 31, 2009:

	Employee Severance	Other	Total
		(in millions)	
Net charge during the three month period ended March 31, 2009	$ 33.6	$ 4.8	$ 38.4
Spending	(17.9)	(2.8)	(20.7)
Balance at March 31, 2009 (included in Other accrued expenses)	$ 15.7	$ 2.0	$ 17.7

Restructuring and Phased Closure of Arklow Facility

On January 30, 2008, the Company announced the phased closure of its breast implant manufacturing facility at Arklow, Ireland and the transfer of production to the Company s manufacturing plant in Costa Rica. The Arklow facility was acquired by the Company in connection with its 2006 acquisition of Inamed Corporation (Inamed) and employed approximately 360 people. As of March 31, 2009, all production activities at the Arklow facility had ceased. Based on current foreign currency exchange rates, the Company estimates that the total pre-tax restructuring and other transition related costs associated with the closure of the Arklow manufacturing facility will be between $59.0 million and $67.0 million, consisting primarily of employee severance and other one-time termination benefits of $30.0 million to $33.0 million, asset impairments and accelerated depreciation of $15.0 million to $17.0 million, and contract termination and other costs of $14.0 million to $17.0 million. The Company expects that $44.0 million to $50.0 million of the pre-tax charges will be cash expenditures. Certain employee retention termination benefits and accelerated depreciation costs related to inventory production in Arklow will be capitalized to inventory as incurred and recognized as cost of sales in the periods the related products are sold.

The Company began to record costs associated with the closure of the Arklow manufacturing facility in the first quarter of 2008 and expects to continue to recognize costs through the fourth quarter of 2009. The restructuring charges primarily consist of employee severance, one-time termination benefits, contract termination costs and other costs related to the closure of the Arklow manufacturing facility. During the three month periods ended March 31, 2009 and 2008, the Company recorded $4.0 million and $27.5 million of pre-tax restructuring charges, respectively. During the three month period ended March 31, 2009, the Company also recognized $4.4 million of cost of sales for the rollout of capitalized employee retention termination benefits and accelerated depreciation costs related to inventory production and $0.1 million of R&D expenses related to one-time termination benefits. During the three month period ended March 31, 2008, the Company recognized $0.6 million of SG&A expenses and $0.1 million of R&D expenses related to one-time termination benefits and asset impairments.

At March 31, 2009, $9.7 million of capitalized employee retention termination benefits and accelerated depreciation costs are included in Inventories in the accompanying unaudited condensed consolidated balance sheet.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the restructuring activities related to the phased closure of the Arklow facility through March 31, 2009:

	Employee Severance	Contract Termination Costs	Other	Total
		(in millions)		
Net charge during 2008	$ 20.5	$ 5.6	$ 1.1	$ 27.2
Spending	(7.2)	(0.5)	(1.0)	(8.7)
Foreign exchange translation effects	(1.8)	(0.6)		(2.4)
Balance at December 31, 2008	11.5	4.5	0.1	16.1
Net charge during the three month period ended March 31, 2009	3.5		0.5	4.0
Spending	(14.4)	(0.1)	(0.2)	(14.7)
Foreign exchange translation effects	(0.5)	(0.2)		(0.7)
Balance at March 31, 2009 (included in Other accrued expenses)	$ 0.1	$ 4.2	$ 0.4	$ 4.7

Other Restructuring Activities and Integration Costs

Included in the three month period ended March 31, 2009 is a $0.4 million restructuring charge reversal related to the Company s closure of its collagen manufacturing facility in Fremont, California and $0.1 million of restructuring charges for an abandoned leased facility related to the Company s restructuring and streamlining of its European operations. Included in the three month period ended March 31, 2008 are $0.8 million and $0.1 million, respectively, of restructuring charges related to the Company s 2007 acquisitions of Groupe Cornéal Laboratoires (Cornéal) and EndoArt SA.

In the three month period ended March 31, 2008, SG&A expenses include $0.2 million and $0.4 million, respectively related to integration costs associated with the Company s 2007 acquisitions of Esprit Pharma Holding Company, Inc. and Cornéal.

Note 4: Intangibles

At March 31, 2009 and December 31, 2008, the components of amortizable and unamortizable intangibles and certain other related information were as follows:

	March 31, 2009			December 31, 2008		
	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period (in years)
	(in millions)			(in millions)		
Amortizable Intangible Assets:						
Developed technology	$ 1,386.0	$ (238.8)	14.4	$ 1,390.8	$ (215.0)	14.3
Customer relationships	42.3	(41.3)	3.1	42.3	(37.8)	3.1

Licensing	223.5	(84.6)	10.0	223.5	(78.9)	10.0
Trademarks	26.9	(15.9)	6.2	27.3	(14.9)	6.3
Core technology	187.9	(39.3)	15.2	190.4	(36.5)	15.2
	1,866.6	(419.9)	13.5	1,874.3	(383.1)	13.5
Unamortizable Intangible Assets:						
Business licenses	0.7			0.7		
	$ 1,867.3	$ (419.9)		$ 1,875.0	$ (383.1)	

Developed technology consists primarily of current product offerings, primarily saline and silicone gel breast implants, obesity intervention products, dermal fillers, skin care and urologics products acquired in connection with business combinations and asset acquisitions. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with the Inamed acquisition, primarily in the breast implant market in the United States. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of proprietary technology associated with silicone gel breast implants, gastric bands and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Cornéal acquisition, gastric band technology acquired in

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

connection with the EndoArt acquisition, and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc.

The following table provides amortization expense by major categories of acquired amortizable intangible assets for the three month periods ended March 31, 2009 and 2008, respectively:

	Three months ended	
	March 31, 2009	March 31, 2008
	(in millions)	
Developed technology	$ 25.2	$ 22.7
Customer relationships	3.4	3.4
Licensing	5.8	4.4
Trademarks	1.1	1.2
Core technology	3.1	3.2
	$ 38.6	$ 34.9

Amortization expense related to acquired intangible assets generally benefits multiple business functions within the Company, such as the Company s ability to sell, manufacture, research, market and distribute products, compounds and intellectual property. The amount of amortization expense excluded from cost of sales consists primarily of amounts amortized with respect to developed technology and licensing intangible assets.

Estimated amortization expense is $144.9 million for 2009, $140.9 million for 2010, $137.4 million for 2011, $132.4 million for 2012 and $119.3 million for 2013.

Note 5: Inventories

Components of inventories were:

	March 31, 2009	December 31, 2008
	(in millions)	
Finished products	$ 168.4	$ 174.9
Work in process	29.6	36.8
Raw materials	57.4	50.8
Total	$ 255.4	$ 262.5

At March 31, 2009 and December 31, 2008, approximately $7.5 million and $11.2 million, respectively, of the Company s finished goods medical device inventories, primarily breast implants, were held on consignment at a large number of doctors offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant.

Note 6: Convertible Notes

In 2006, the Company issued Convertible Senior Notes due 2026 for an aggregate principal amount of $750.0 million (2026 Convertible Notes). The 2026 Convertible Notes are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 1.50% per annum. The 2026 Convertible Notes will be convertible into cash and, if applicable, shares of the Company s common stock based on an initial conversion rate of 15.7904 shares of the Company s common stock per $1,000 principal amount of the 2026 Convertible Notes if the Company s stock price reaches certain specified thresholds. As of March 31, 2009, the conversion criteria had not been met. The Company was not permitted to redeem the 2026 Convertible Notes prior to April 5, 2009, will be permitted to redeem the 2026 Convertible Notes from and after April 5, 2009 to April 4, 2011 if the closing price of its common stock reaches a specified threshold, and will be permitted to redeem the 2026 Convertible Notes at any time on or after April 5, 2011. Holders of the 2026 Convertible Notes will also be able to require the Company to redeem the 2026 Convertible Notes on April 1, 2011, April 1, 2016 and April 1, 2021 or upon a change in control of the Company. The 2026 Convertible Notes mature on April 1, 2026, unless previously redeemed by the Company or earlier converted by the note holders.

The Company accounts for the liability and equity components of the 2026 Convertible Notes in accordance with FSP APB 14-1. As of March 31, 2009, the carrying value of the liability component is $599.4 million with an effective interest rate of 5.59%. The difference between the carrying value of the liability component and the principal amount of the 2026 Convertible Notes of $649.7 million is recorded as debt discount and is being amortized to interest expense through the first noteholder put date in April 2011.

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In the first quarter of 2009, the Company paid $98.3 million to repurchase $100.3 million principal amount of the 2026 Convertible Notes with a carrying value of $92.3 million and a calculated fair value of approximately $97.0 million. The Company recognized a $4.7 million loss on extinguishment of the convertible debt. In addition, the Company wrote off $0.6 million of related unamortized deferred debt issuances costs as loss on extinguishment of the convertible debt. The difference between the amount paid to repurchase the 2026 Convertible Notes and the calculated fair value of the liability component was recognized as a reduction to additional paid in capital, net of the effect of deferred taxes.

Note 7: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, R&D tax credits available in the United States and other foreign jurisdictions and deductions available in the United States for domestic production activities. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers.

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. Valuation allowances against deferred tax assets were $8.4 million as of March 31, 2009 and December 31, 2008.

In February 2009, the California Legislature enacted 2009-2010 budget legislation containing various California tax law changes including an election to apply a single sales factor apportionment formula for taxable years beginning on or after January 1, 2011. The Company anticipates making the election and as a result, the state and federal deferred tax assets and deferred tax liabilities have been re-determined to reflect an adjustment to the resulting tax rate. The impact of the adjustment was an increase to the provision for income taxes of $1.5 million.

The total amount of unrecognized tax benefits was $48.0 million and $47.5 million as of March 31, 2009 and December 31, 2008, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $42.5 million and $42.0 million as of March 31, 2009 and December 31, 2008, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $29.5 million due to the settlement of an income tax audit in the United States.

Total interest accrued related to uncertainty in income taxes included in the Company s unaudited condensed consolidated balance sheet was $5.2 million and $12.8 million as of March 31, 2009 and December 31, 2008, respectively.

The Company has not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because it has currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2008, the Company had approximately $1,630.9 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these funds were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company s U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 8: Share-Based Compensation

The Company recognizes compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date using the Black-Scholes option-pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period using the straight-line single option method. The fair value of modifications to

share-based awards is generally estimated using a lattice model.

The determination of fair value using the Black-Scholes and lattice option-pricing models is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables, including expected stock

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price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. The Company estimates stock price volatility based on an equal weighting of the historical average over the expected life of the award and the average implied volatility of at-the-money options traded in the open market. The Company estimates employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

For the three month periods ended March 31, 2009 and 2008, share-based compensation expense was as follows:

	Three months ended	
	March 31, 2009	March 31, 2008
	(in millions)	
Cost of sales	$ 6.7	$ 1.8
Selling, general and administrative	65.9	16.4
Research and development	25.6	6.4
Pre-tax share-based compensation expense	98.2	24.6
Income tax benefit	31.8	8.9
Net share-based compensation expense	$ 66.4	$ 15.7

Share-based compensation expense for the three month period ended March 31, 2009 includes $77.0 million of pre-tax compensation expense from stock option modifications related to the 2009 restructuring plan.

As of March 31, 2009, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $137.7 million, which is expected to be recognized over the next 48 months (37 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of March 31, 2009.

Note 9: Employee Retirement and Other Benefit Plans

The Company sponsors various qualified defined benefit pension plans covering a substantial portion of its employees. In addition, the Company sponsors two supplemental nonqualified plans covering certain management employees and officers and one retiree health plan covering U.S. retirees and dependents.

Components of net periodic benefit cost for the three month periods ended March 31, 2009 and 2008, respectively, were as follows:

	Three months ended	
	Pension Benefits	Other Postretirement Benefits

	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
	(in millions)		(in millions)	
Service cost	$ 5.6	$ 6.4	$ 0.4	$ 0.4
Interest cost	9.2	8.8	0.6	0.6
Expected return on plan assets	(10.6)	(10.7)		
Amortization of prior service cost			(0.1)	(0.1)
Recognized net actuarial loss	3.1	1.6		
Net periodic benefit cost	$ 7.3	$ 6.1	$ 0.9	$ 0.9

In 2009, the Company expects to pay contributions of between $35.0 million and $45.0 million for its U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for its other postretirement plan.

Note 10: Legal Proceedings

The following supplements and amends the discussion set forth in Note 14 Legal Proceedings in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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In July 2008, a complaint entitled Kramer, Bryant, Spears, Doolittle, Clark, Whidden, Powell, Moore, Hennessey, Sody, Breeding, Downey, Underwood-Boswell, Reed-Momot, Purdon & Hahn v. Allergan, Inc. was filed in the Superior Court for the State of California for the County of Orange. The complaint makes allegations against the Company relating to *Botox*® and *Botox*® Cosmetic including failure to warn, manufacturing defects, negligence, breach of implied and express warranties, deceit by concealment and negligent misrepresentation and seeks damages, attorneys fees and costs. On July 17, 2008, the plaintiffs filed a first amended complaint. On September 29, 2008, the Company filed an answer to the first amended complaint. In February and May 2009, the plaintiffs filed requests for dismissal without prejudice as to plaintiffs Hennessey, Hahn and Underwood-Boswell and Purdon and Moore, respectively. On February 13, 2009, the court entered the request for dismissal without prejudice as to plaintiffs Hennessey, Hahn and Underwood-Boswell. A status conference was held on February 17, 2009. The court scheduled a further status conference for June 22, 2009.

The Company is involved in various other lawsuits and claims arising in the ordinary course of business. These other matters are, in the opinion of management, immaterial both individually and in the aggregate with respect to the Company s consolidated financial position, liquidity or results of operations.

Because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation, investigation, inquiry or claim, management is currently unable to predict the ultimate outcome of any litigation, investigation, inquiry or claim, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome. The Company believes however, that the liability, if any, resulting from the aggregate amount of uninsured damages for any outstanding litigation, investigation or claim, other than the inquiry being conducted by the U.S. Department of Justice, Northern District of Georgia (DOJ) discussed in Note 11, Contingencies below, will not have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations. However, an adverse ruling in a patent infringement lawsuit involving the Company could materially affect the Company s ability to sell one or more of its products or could result in additional competition. In view of the unpredictable nature of such matters, the Company cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which the Company is a party or the impact on the Company of an adverse ruling in such matters.

Note 11: Contingencies

On March 3, 2008, the Company received service of a Subpoena Duces Tecum from the DOJ. The subpoena requests the production of documents relating to the Company s sales and marketing practices in connection with *Botox*®. During fiscal year 2008, the Company incurred approximately $25.7 million of costs associated with the DOJ s inquiry. During the three month period ended March 31, 2009, the Company incurred $7.8 million of costs associated with the DOJ s inquiry. Costs associated with responding to the DOJ investigation are expected to total approximately $30.0 million to $34.0 million during fiscal year 2009. Estimated costs include attorneys fees and costs associated with document production, imaging and information services support. Because of the uncertainties related to the incurrence, amount and range of loss, if any, that might be incurred related to this inquiry, management is currently unable to predict the ultimate outcome or determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome associated with this inquiry.

Note 12: Guarantees

The Company s Restated Certificate of Incorporation, as amended, provides that the Company will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each person that is involved in or is, or is threatened to be, made a party to any action, suit or proceeding by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise. The Company has also entered into contractual indemnity agreements with each of its directors and executive officers pursuant to which, among other things, the Company has agreed to indemnify such directors and executive officers against any payments they are required to make as a result of a claim brought against such executive officer or director in such capacity, excluding claims (i) relating to the action or inaction of a director or executive officer that resulted in such director or executive officer gaining illegal personal profit or advantage, (ii) for an accounting of profits made from the purchase or sale of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law or (iii) that are based upon or arise out of such director s or executive officer s knowingly fraudulent, deliberately dishonest or willful misconduct. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has

purchased directors and officers liability insurance policies intended to reduce the Company s monetary exposure and to enable the Company to

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recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification arrangements is minimal.

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators in its drug, biologics and medical device development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements involving parties performing services for the Company in the ordinary course of business, and in its real estate leases. The Company also customarily agrees to certain indemnification provisions in its discovery and development collaboration agreements. With respect to the Company s clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator s institution relating to personal injury or property damage, violations of law or certain breaches of the Company s contractual obligations arising out of the research or clinical testing of the Company s products, compounds or drug candidates. With respect to real estate lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company s contractual obligations. The indemnification provisions appearing in the Company s collaboration agreements are similar, but in addition provide some limited indemnification for the collaborator in the event of third party claims alleging infringement of intellectual property rights. In each of the above cases, the terms of these indemnification provisions generally survive the termination of the agreement. The maximum potential amount of future payments that the Company could be required to make under these provisions is generally unlimited. The Company has purchased insurance policies covering personal injury, property damage and general liability intended to reduce the Company s exposure for indemnification and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification arrangements is minimal.

Note 13: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company s consolidated balance sheets. The U.S. programs include the *ConfidencePlus*® and *ConfidencePlus*® Premier warranty programs. The *ConfidencePlus*® program currently provides lifetime product replacement and $1,200 of financial assistance for surgical procedures within ten years of implantation. The *ConfidencePlus*® Premier program, which generally requires a low additional enrollment fee, currently provides lifetime product replacement, $2,400 of financial assistance for surgical procedures within ten years of implantation and contralateral implant replacement. The enrollment fee is deferred and recognized as income over the ten year warranty period for financial assistance. The warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company s estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities through March 31, 2009:

	(in millions)
Balance at December 31, 2008	$ 29.5
Provision for warranties issued during the period	1.5
Settlements made during the period	(1.5)
Balance at March 31, 2009	$ 29.5

Current portion	$	6.5
Non-current portion		23.0
Total	$	29.5

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Note 14: Earnings Per Share

The table below presents the computation of basic and diluted earnings per share: