

ALLERGAN INC
Form 10-Q
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

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)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	95-1622442 (I.R.S. Employer Identification No.)
2525 Dupont Drive Irvine, California (Address of Principal Executive Offices)	92612 (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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of July 31, 2008, there were 307,511,888 shares of common stock outstanding (including 3,138,552 shares held in treasury).

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FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2008

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Table of Contents**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		Six months ended	
	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
Revenues:				
Product net sales	\$ 1,155.8	\$ 962.6	\$ 2,216.8	\$ 1,825.2
Other revenues	16.2	15.3	31.8	29.4
Total revenues	1,172.0	977.9	2,248.6	1,854.6
Operating costs and expenses:				
Cost of sales (excludes amortization of acquired intangible assets)	197.5	168.1	379.7	319.9
Selling, general and administrative	506.9	433.1	989.1	819.5
Research and development	213.4	154.0	396.3	364.0
Amortization of acquired intangible assets	35.8	29.0	70.7	57.4
Restructuring charges	9.4	10.1	37.8	13.3
Operating income	209.0	183.6	375.0	280.5
Non-operating income (expense):				
Interest income	10.3	14.8	21.5	30.2
Interest expense	(14.8)	(17.5)	(30.2)	(36.0)
Unrealized loss on derivative instruments, net	(0.2)	(0.4)	(3.5)	(1.7)
Other, net	(8.2)	(4.3)	(11.1)	(5.4)
Earnings from continuing operations before income taxes and minority interest	196.1	176.2	351.7	267.6
Provision for income taxes	48.4	36.7	92.4	83.4
Minority interest expense	0.4	0.5	0.6	0.4
Earnings from continuing operations	147.3	139.0	258.7	183.8
Loss from discontinued operations, net of applicable income tax benefit of \$0.7 million and \$1.2 million for the three and six month periods ended June 29, 2007, respectively		(1.2)		(2.2)
Net earnings	\$ 147.3	\$ 137.8	\$ 258.7	\$ 181.6
Basic earnings (loss) per share:				
Continuing operations	\$ 0.48	\$ 0.46	\$ 0.85	\$ 0.60
Discontinued operations		(0.01)		
Net basic earnings per share	\$ 0.48	\$ 0.45	\$ 0.85	\$ 0.60

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Diluted earnings (loss) per share:					
Continuing operations	\$	0.48	\$	0.45	\$ 0.84 \$ 0.60
Discontinued operations					(0.01)
Net diluted earnings per share	\$	0.48	\$	0.45	\$ 0.84 \$ 0.59

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ALLERGAN, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share data)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,090.2	\$ 1,157.9
Trade receivables, net	621.6	463.1
Inventories	270.2	224.7
Other current assets	269.0	278.5
Total current assets	2,251.0	2,124.2
Investments and other assets	250.0	249.9
Property, plant and equipment, net	710.6	686.4
Goodwill	2,018.6	2,082.1
Intangibles, net	1,439.9	1,436.7
Total assets	\$ 6,670.1	\$ 6,579.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 5.4	\$ 39.7
Accounts payable	208.8	208.7
Accrued compensation	135.1	155.3
Other accrued expenses	373.2	295.7
Income taxes		16.3
Total current liabilities	722.5	715.7
Long-term debt	839.6	840.2
Long-term convertible notes	750.0	750.0
Deferred tax liabilities	103.0	220.6
Other liabilities	319.3	312.7
Commitments and contingencies		
Minority interest	1.9	1.5
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 June 30, 2008 and December 31, 2007	3.1	3.1
Additional paid-in capital	2,478.6	2,450.4
Accumulated other comprehensive income (loss)	2.6	(34.8)

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Retained earnings	1,613.7	1,423.5
	4,098.0	3,842.2
Less treasury stock, at cost (2,777,000 shares as of June 30, 2008 and 1,605,000 shares as of December 31, 2007, respectively)	(164.2)	(103.6)
Total stockholders' equity	3,933.8	3,738.6
Total liabilities and stockholders' equity	\$ 6,670.1	\$ 6,579.3

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ALLERGAN, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	Six months ended	
	June 30, 2008	June 29, 2007
<i>Cash flows provided by operating activities:</i>		
Net earnings	\$ 258.7	\$ 181.6
Non-cash items included in net earnings:		
In-process research and development charge		72.0
Depreciation and amortization	128.7	102.5
Settlement of a pre-existing distribution agreement in a business combination		2.3
Amortization of original issue discount and debt issuance costs	2.1	2.3
Amortization of net realized gain on interest rate swap	(0.7)	(0.4)
Deferred income tax benefit	(41.4)	(27.3)
Loss on disposal of fixed assets	0.9	3.3
Unrealized loss on derivative instruments	3.5	1.7
Expense of share-based compensation plans	47.2	41.2
Minority interest expense	0.6	0.4
Restructuring charges	37.8	13.3
Changes in assets and liabilities:		
Trade receivables	(154.5)	(54.3)
Inventories	(36.9)	(9.9)
Other current assets	17.3	(9.1)
Other non-current assets	3.8	(8.2)
Accounts payable	(6.0)	40.0
Accrued expenses	12.3	1.1
Income taxes	(32.6)	(30.7)
Other liabilities	4.4	9.0
 Net cash provided by operating activities	 245.2	 330.8
<i>Cash flows from investing activities:</i>		
Acquisitions, net of cash acquired	(0.1)	(313.0)
Additions to property, plant and equipment	(65.7)	(49.0)
Additions to capitalized software	(26.8)	(10.3)
Additions to intangible assets	(63.0)	(5.0)
Proceeds from sale of business and assets	6.0	
Proceeds from sale of property, plant and equipment	0.1	8.9
 Net cash used in investing activities	 (149.5)	 (368.4)
<i>Cash flows from financing activities:</i>		
Dividends to stockholders	(30.4)	(30.3)
Payments to acquire treasury stock	(154.8)	(61.7)
Net repayments of notes payable	(34.7)	(107.4)
Sale of stock to employees	37.3	83.8
Excess tax benefits from share-based compensation	7.6	12.4
 Net cash used in financing activities	 (175.0)	 (103.2)

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Effect of exchange rate changes on cash and equivalents	11.6	
Net decrease in cash and equivalents	(67.7)	(140.8)
Cash and equivalents at beginning of period	1,157.9	1,369.4
Cash and equivalents at end of period	\$ 1,090.2	\$ 1,228.6
<i>Supplemental disclosure of cash flow information</i>		
Cash paid for:		
Interest (net of amount capitalized)	\$ 36.0	\$ 32.3
Income taxes, net of refunds	\$ 154.3	\$ 125.7

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 2007. The Company prepared the 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 and six month periods ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008 or any other period(s).

Reclassifications

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

The Company's unaudited condensed consolidated financial statements and related notes for the three and six month periods ended June 29, 2007 contained herein have been recast to reflect the results of operations of its ophthalmic surgical device business as a discontinued operation. (See Note 3, Discontinued Operations.)

Common Stock Split

On June 22, 2007, the Company completed a two-for-one stock split of its common stock. The stock split was structured in the form of a 100% stock dividend and was paid to stockholders of record on June 11, 2007.

All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented.

Recently Adopted Accounting Standards

In June 2007, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 became effective for fiscal years beginning after December 15, 2007. The Company adopted the provisions of EITF 07-3 in the first fiscal quarter of 2008. The adoption did not have a material impact on the Company's consolidated financial statements.

In June 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11), which requires that the income tax benefits of dividends or dividend equivalents on unvested share-based payments be recognized as an increase in additional paid-in capital and reclassified from additional paid-in capital to the income statement when the related award is forfeited (or is no longer expected to vest). The reclassification is limited to the amount of the entity's pool of excess tax benefits available to absorb tax deficiencies on the date of the reclassification. EITF 06-11 became effective for fiscal years beginning after December 15, 2007. The Company adopted the provisions of EITF 06-11 in the first fiscal quarter of 2008. The adoption did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which allows an entity to voluntarily choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS No. 159 in the first fiscal quarter of 2008. The adoption did not have a material impact on the Company's consolidated financial statements.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB agreed to a one-year deferral of the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair values in the financial statements on a nonrecurring basis. The Company adopted the provisions of SFAS No. 157 in the first fiscal quarter of 2008. The adoption did not have a material impact on the Company's consolidated financial statements. See Note 16, *Fair Value Measurements*, for information about assets and liabilities measured at fair value. The Company does not expect that the adoption of the provisions for other nonfinancial assets or liabilities will have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). The Company adopted the balance sheet recognition and reporting provisions of SFAS No. 158 during the fourth fiscal quarter of 2006. In the first fiscal quarter of 2008, the Company adopted the measurement date provision of SFAS No. 158, which requires the Company to change its measurement date for pension and other postretirement plans from September 30 to December 31. As a result, the Company recognized an increase of \$5.2 million in its net pension liability, an increase of \$1.6 million in related deferred income tax assets, a reduction of \$4.6 million in its beginning retained earnings and an increase of \$1.0 million in accumulated other comprehensive income.

New Accounting Standards Not Yet Adopted

In May 2008, the FASB issued 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), 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 is effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009. The Company has determined that FSP APB 14-1 will affect the accounting for its 1.50% Convertible Senior Notes due 2026, but has not yet evaluated the impact on the Company's consolidated financial statements.

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 factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 allows an entity to use its own historical experience in renewing or extending similar arrangements, adjusted for specified entity-specific factors, in developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset and will be effective for fiscal years and interim periods beginning after December 15, 2008, which will be the Company's fiscal year 2009. Additional disclosures are required to enable financial statement users to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The Company has not yet evaluated the potential impact of adopting FSP FAS 142-3 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 Statement of Financial Accounting Standards No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial

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position, financial performance and cash flows. SFAS No. 161 will be effective for fiscal years and interim periods beginning after November 15, 2008, which will be the Company's fiscal year 2009. The Company has not yet evaluated the potential impact of adopting SFAS No. 161 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) 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). These two standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141R is required to be adopted concurrently with SFAS No. 160 and will be effective for business combination transactions occurring in fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009. The impact of adopting SFAS No. 141R on the Company's consolidated financial statements will depend on the economic terms of any future business combination transactions and changes in estimated unrecognized tax benefit liabilities for pre-existing business combination transactions. The Company does not expect that the adoption of SFAS No. 160 will have a material impact on the Company's consolidated financial statements.

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 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, 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 does not expect that the adoption of EITF 07-1 will have a material impact on the Company's consolidated financial statements.

Note 2: Acquisitions***Esprit Acquisition***

On October 16, 2007, the Company completed the acquisition of Esprit Pharma Holding Company, Inc. (Esprit), a pharmaceutical company based in the United States with expertise in the genitourinary market, for an aggregate purchase price of approximately \$370.8 million, net of cash acquired. The acquisition was funded from cash and equivalents balances. Prior to and in anticipation of the acquisition, the Company loaned Esprit \$74.8 million in August 2007, the proceeds of which were used by Esprit to fund a milestone payment to a third party and to repay certain outstanding obligations to third-party lenders. The loan was secured by all of Esprit's assets. The loan terms were at fair value. The loan and accrued interest of \$0.9 million were effectively settled upon the acquisition with no resulting gain or loss. The Esprit acquisition provides the Company with a dedicated urologics product line within its specialty pharmaceuticals segment.

The following table summarizes the components of the Esprit purchase price:

	(in millions)
Cash consideration, net of cash acquired	\$ 288.6
Transaction costs	6.5
Cash paid	295.1
Settlement of a pre-existing loan from the Company to Esprit plus accrued interest	75.7
	\$ 370.8

Purchase Price Allocation

The Esprit purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based

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on their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The goodwill acquired in the Esprit acquisition is not deductible for tax purposes.

The Company believes the fair values assigned to the Esprit assets acquired and liabilities assumed were based on reasonable assumptions. The following table summarizes the estimated fair values of net assets acquired:

	(in millions)
Current assets	\$ 40.6
Identifiable intangible asset	358.8
Goodwill	46.0
Deferred tax assets non-current	89.1
Other non-current assets	0.1
Accounts payable and accrued liabilities	(24.5)
Deferred tax liabilities current and non-current	(130.9)
Other non-current liabilities	(8.4)
	\$ 370.8

In the second quarter of 2008, the fair value assigned to deferred tax assets non-current increased by \$80.5 million due to an increase in the expected utilization of net operating loss carryforwards of Esprit and the fair value assigned to other non-current liabilities increased by \$7.2 million due to an increase in unrecognized tax benefits attributable to the acquisition of Esprit, which resulted in a net decrease of \$73.3 million to goodwill. The Company's fair value estimates for the Esprit purchase price allocation may change during the allowable allocation period, which is currently up to one year from the acquisition date, if additional information becomes available.

Pro Forma Results of Operations

The following unaudited *pro forma* operating results for the three and six month periods ended June 29, 2007, respectively, assume the Esprit acquisition had occurred on January 1, 2007, and exclude any *pro forma* charges for inventory fair value adjustments.

	Three months ended June 29, 2007	Six months ended June 29, 2007
	(in millions, except per share amounts)	
Product net sales	\$ 973.5	\$ 1,845.7
Total revenues	\$ 988.8	\$ 1,875.1
Earnings from continuing operations	\$ 125.6	\$ 155.9
Earnings per share from continuing operations basic	\$ 0.41	\$ 0.51
Earnings per share from continuing operations diluted	\$ 0.41	\$ 0.51

The *pro forma* information is not necessarily indicative of the actual results that would have been achieved had the Esprit acquisition occurred as of January 1, 2007, or the results that may be achieved in the future.

EndoArt SA Acquisition

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On February 22, 2007, the Company completed the acquisition of EndoArt SA (EndoArt), a provider of telemetrically-controlled (or remote-controlled) implants used in the treatment of morbid obesity and other conditions, for an aggregate purchase price of approximately \$97.1 million, net of cash acquired. The acquisition consideration was all cash, funded from the Company's cash and equivalents balances. In connection with the EndoArt acquisition, the Company acquired assets with a fair value of \$98.5 million and assumed liabilities of \$1.4 million.

In conjunction with the EndoArt acquisition, the Company recorded an in-process research and development expense of \$72.0 million related to EndoArt's *EasyBand* Remote Adjustable Gastric Banding System in the United States, which had not received approval by the U.S. Food and Drug Administration (FDA) as of the EndoArt acquisition date and had no alternative future use.

Table of Contents**ALLERGAN, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Cornéal Acquisition***

On January 2, 2007, the Company purchased all of the outstanding common stock of Groupe Cornéal Laboratoires (Cornéal), a health care company that develops, manufactures and markets dermal fillers, viscoelastics and a range of ophthalmic surgical device products, for an aggregate purchase price of approximately \$209.2 million, net of \$2.3 million associated with the settlement of a pre-existing unfavorable distribution agreement. The Company recorded the \$2.3 million charge at the acquisition date to effectively settle the pre-existing unfavorable distribution agreement between Cornéal and one of the Company's subsidiaries, primarily related to distribution rights for *Juvéderm* in the United States. Prior to the acquisition, the Company also had a \$4.4 million payable to Cornéal outstanding for products purchased under the distribution agreement, which was effectively settled upon the acquisition. In connection with the Cornéal acquisition, the Company acquired assets with a fair value of \$284.8 million and assumed liabilities of \$75.6 million. As a result of the acquisition, the Company obtained the technology, manufacturing process and worldwide distribution rights for *Juvéderm*, *Surgiderm*® and certain other hyaluronic acid-based dermal fillers. The acquisition was funded from the Company's cash and equivalents balances and its committed long-term credit facility.

Note 3: Discontinued Operations

On July 2, 2007, the Company completed the sale of the ophthalmic surgical device business that it acquired as a part of the Cornéal acquisition in January 2007, for net cash proceeds of \$28.6 million. The net assets of the disposed business consisted of current assets of \$24.3 million, non-current assets of \$9.8 million and current liabilities of \$4.2 million. The Company recorded a pre-tax loss of \$1.3 million (\$1.0 million net of tax) associated with the sale.

The following amounts related to the ophthalmic surgical device business have been segregated from continuing operations and reported as discontinued operations through the date of disposition. The Company did not account for its ophthalmic surgical device business as a separate legal entity. Therefore, the following selected financial data for the Company's discontinued operations is presented for informational purposes only and does not necessarily reflect what the net sales or earnings would have been had the business operated as a stand-alone entity. The financial information for the Company's discontinued operations includes allocations of certain expenses to the ophthalmic surgical device business. These amounts have been allocated to the Company's discontinued operations on the basis that is considered by management to reflect most fairly or reasonably the utilization of the services provided to, or the benefit obtained by, the ophthalmic surgical device business. The Company's unaudited condensed consolidated financial statements and related notes for the three and six month periods ended June 29, 2007 contained herein have been recast to reflect the results of operations of its ophthalmic surgical device business as a discontinued operation.

The following table sets forth selected financial data of the Company's discontinued operations for the three and six month periods ended June 29, 2007.

Selected Financial Data for Discontinued Operations

	Three months ended June 29, 2007	Six months ended June 29, 2007
	(in millions)	
Net sales	\$ 10.2	\$ 20.0
Loss from discontinued operations before income taxes	\$ (1.9)	\$ (3.4)
Loss from discontinued operations	\$ (1.2)	\$ (2.2)

Note 4: Restructuring Charges and Integration and Transition Costs***Restructuring and Phased Closure of Arklow Facility***

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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 acquisition of Inamed Corporation (Inamed) in 2006 and employs approximately 360 people. Production at the facility is expected to be phased out by early 2009. Based

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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 \$65 million and \$70 million, consisting primarily of employee severance and other one-time termination benefits of \$35 million to \$37 million, asset impairments and accelerated depreciation of \$17 million to \$18 million, and contract termination and other costs of \$13 million to \$15 million. The Company expects that \$50 million to \$55 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 incur costs through the fourth quarter of 2009. During the three and six month periods ended June 30, 2008, the Company recorded pre-tax restructuring charges of \$0.1 million and \$27.6 million, respectively. During the three month period ended June 30, 2008, the Company recorded other transition related costs of \$0.3 million, consisting of \$0.1 million in cost of sales, \$0.1 million in selling, general and administrative (SG&A) expenses and \$0.1 million in R&D expenses. During the six month period ended June 30, 2008, the Company recorded other transition related costs of \$1.0 million, consisting of \$0.1 million in cost of sales, \$0.7 million in SG&A expenses and \$0.2 million in R&D expenses. At June 30, 2008, \$9.6 million of capitalized employee retention termination benefits and accelerated depreciation costs are included in Inventories in the accompanying unaudited condensed consolidated balance sheet. As of June 30, 2008, none of the capitalized amounts have been recognized as cost of sales.

The following table presents the restructuring activities related to the phased closure of the Arklow facility during the six month period ended June 30, 2008:

	Employee Severance	Contract Termination Costs	Other	Total
	(in millions)			
Net charge during the six month period ended June 30, 2008	\$ 21.2	\$ 5.8	\$ 0.6	\$ 27.6
Spending	(0.6)	(0.3)	(0.4)	(1.3)
Foreign exchange translation effects	0.3	0.1		0.4
Balance at June 30, 2008 (included in Other accrued expenses)	\$ 20.9	\$ 5.6	\$ 0.2	\$ 26.7

Restructuring and Integration of Cornéal Operations

In connection with the January 2007 Cornéal acquisition, the Company initiated a restructuring and integration plan to merge the Cornéal facial aesthetics business operations with the Company's operations. Specifically, the restructuring and integration activities involve a workforce reduction of approximately 20 positions, principally general and administrative positions, moving key Cornéal facial aesthetics business functions to Company locations, integrating Cornéal's distributor operations with the Company's existing distribution network and integrating Cornéal's information systems with the Company's information systems.

The Company began to record costs associated with the restructuring and integration of the former Cornéal facial aesthetics business in the first quarter of 2007. As of June 30, 2008, the Company substantially completed all activities related to the restructuring and integration of the former Cornéal facial aesthetics business operations. As of June 30, 2008, the Company has recorded cumulative pre-tax restructuring charges of \$23.2 million and cumulative pre-tax integration and transition costs of \$9.6 million. The restructuring charges primarily consist of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and other costs related to the restructuring of the Cornéal operations. During the three and six month periods ended June 30, 2008, the Company recorded pre-tax restructuring charges of \$5.8 million and \$6.6 million, respectively, related to the restructuring of the Cornéal operations. During the three and six month periods ended June 29, 2007, the Company recorded pre-tax restructuring charges of \$2.0 million associated with the termination of duplicative distribution arrangements. The integration and transition costs primarily consist of salaries, travel, communications, recruitment and

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consulting costs. During the three month period ended June 30, 2008, the Company recorded pre-tax integration and transition costs of \$0.7 million, consisting of \$0.1 million in cost of sales

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and \$0.6 million in SG&A expenses. During the six month period ended June 30, 2008, the Company recorded pre-tax integration and transition costs of \$1.1 million, consisting of \$0.1 million in cost of sales and \$1.0 million in SG&A expenses. During the three and six month periods ended June 29, 2007, the Company recorded pre-tax integration and transition costs of \$2.1 million and \$5.6 million, respectively, as SG&A expenses.

The following table presents the cumulative restructuring activities related to the Cornéal operations through June 30, 2008:

	Employee Severance	Contract Termination Costs (in millions)	Total
Net charge during 2007	\$ 3.8	\$ 12.8	\$ 16.6
Spending	(1.0)	(4.9)	(5.9)
Balance at December 31, 2007	2.8	7.9	10.7
Net charge during the six month period ended June 30, 2008	0.4	6.2	6.6
Spending	(1.9)	(3.7)	(5.6)
Balance at June 30, 2008 (included in Other accrued expenses)	\$ 1.3	\$ 10.4	\$ 11.7

Restructuring and Integration of Inamed Operations

In connection with the Company's March 2006 acquisition of Inamed, the Company initiated a global restructuring and integration plan to merge Inamed's operations with the Company's operations and to capture synergies through the centralization of certain general and administrative and commercial functions. Specifically, the restructuring and integration activities involved a workforce reduction of approximately 60 positions, principally general and administrative positions, moving key commercial Inamed business functions to the Company's locations around the world, integrating Inamed's distributor operations with the Company's existing distribution network and integrating Inamed's information systems with the Company's information systems.

As of December 31, 2007, the Company substantially completed all activities related to the restructuring and operational integration of the former Inamed operations and recorded cumulative pre-tax restructuring charges of \$21.0 million, cumulative pre-tax integration and transition costs of \$26.0 million, and \$1.6 million for income tax costs related to intercompany transfers of trade businesses and net assets related to the global restructuring and integration plan to merge Inamed's operations with the Company's operations. The restructuring charges primarily consisted of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and other costs related to restructuring the former Inamed operations. The integration and transition costs primarily consisted of salaries, travel, communications, recruitment and consulting costs. The Company did not incur any restructuring charges or integration and transition costs during the three and six month periods ended June 30, 2008. During the three and six month periods ended June 29, 2007, the Company recorded pre-tax restructuring charges of \$7.1 million and \$8.5 million, respectively, and pre-tax integration and transition costs of \$1.7 million and \$3.6 million, respectively, as SG&A expenses, associated with the global restructuring and integration of the former Inamed operations. As of June 30, 2008, remaining accrued expenses of \$0.7 million for the global restructuring and integration of the former Inamed operations are included in Other accrued expenses.

On January 30, 2007, the Company's Board of Directors approved an additional plan to restructure and eventually sell or close the collagen manufacturing facility in Fremont, California that the Company acquired in the Inamed acquisition. This plan is the result of a reduction in anticipated future market demand for human and bovine collagen products. The Company estimates that total pre-tax restructuring charges for severance, lease termination and contract settlement costs will be between \$6.0 million and \$8.0 million, all of which are expected to be cash expenditures. The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 59 positions,

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consisting principally of manufacturing positions at the facility, that are expected to result in estimated total employee severance costs of approximately \$1.5 million to \$2.0 million. Estimated charges for contract and lease termination costs are expected to total approximately \$4.5 million to \$6.0 million. The Company began to record these costs in the first quarter of 2007 and expects to continue to incur them up through and including the fourth quarter of 2008. Prior to any closure or sale of the collagen manufacturing facility, the Company intends to manufacture a sufficient quantity of collagen products to meet estimated market demand through 2010.

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As of June 30, 2008, the Company has recorded cumulative pre-tax restructuring charges of \$2.1 million related to the restructuring of the collagen manufacturing facility. During the three and six month periods ended June 30, 2008, the Company recorded pre-tax restructuring charges of \$0.4 million related to contract settlement costs of the collagen manufacturing facility. During the six month period ended June 29, 2007, the Company recorded pre-tax restructuring charges of \$1.7 million related to employee severance costs of the collagen manufacturing facility. As of June 30, 2008, accrued expenses of \$2.1 million for the restructuring of the collagen manufacturing facility are included in Other accrued expenses and Accounts payable in the amount of \$1.7 million and \$0.4 million, respectively.

Other Restructuring Activities and Integration Costs

Included in each of the first six months of 2008 and 2007 are \$0.1 million of restructuring charges related to the EndoArt acquisition. Included in the three and six month periods ended June 30, 2008 and June 29, 2007 are \$3.1 million and \$1.0 million, respectively, of restructuring charges for an abandoned leased facility related to the Company's restructuring and streamlining of its European operations. Included in the second quarter and first six months of 2008 are \$0.6 million and \$0.8 million, respectively, of SG&A expenses related to miscellaneous integration costs associated with the Esprit acquisition.

Note 5: Intangibles

At June 30, 2008 and December 31, 2007, the components of amortizable and unamortizable intangibles and certain other related information were as follows:

Intangibles

	June 30, 2008			December 31, 2007		
	Gross Amount (in millions)	Accumulated Amortization	Weighted Average Amortization Period (in years)	Gross Amount (in millions)	Accumulated Amortization	Weighted Average Amortization Period (in years)
Amortizable Intangible Assets:						
Developed technology	\$ 1,255.7	\$ (158.6)	15.0	\$ 1,247.8	\$ (111.8)	15.1
Customer relationships	42.3	(31.0)	3.1	42.3	(24.1)	3.1
Licensing	222.9	(72.7)	9.8	159.6	(63.2)	8.2
Trademarks	28.2	(13.0)	6.4	28.2	(10.9)	6.4
Core technology	196.1	(30.9)	15.1	191.9	(24.0)	15.2
	1,745.2	(306.2)	13.9	1,669.8	(234.0)	14.0
Unamortizable Intangible Assets:						
Business licenses	0.9			0.9		
	\$ 1,746.1	\$ (306.2)		\$ 1,670.7	\$ (234.0)	

Developed technology consists primarily of current product offerings, primarily saline and silicone breast implants, obesity intervention products, dermal fillers and urologics products acquired in connection with the Esprit, EndoArt, Cornéal and Inamed 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

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breast implants and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Corneal acquisition, gastric band technology acquired in connection with the EndoArt acquisition, and a drug delivery technology acquired in connection with the Company's 2003 acquisition of Oculex Pharmaceuticals, Inc. The increase in licensing assets in 2008 is primarily due to a buyout payment of contingent licensing obligations related to *Sanctura*[®] products and a milestone payment recorded in 2008 related to expected annual *Restasis*[®] net sales.

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The following table provides amortization expense by major categories of acquired amortizable intangible assets for the three and six month periods ended June 30, 2008 and June 29, 2007, respectively:

	Three months ended		Six months ended	
	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
	(in millions)		(in millions)	
Developed technology	\$ 22.9	\$ 16.4	\$ 45.6	\$ 32.4
Customer relationships	3.4	3.4	6.8	6.8
Licensing	5.0	4.9	9.4	9.7
Trademarks	1.2	1.2	2.4	2.4
Core technology	3.3	3.1	6.5	6.1
	\$ 35.8	\$ 29.0	\$ 70.7	\$ 57.4

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 \$144.0 million for 2008, \$132.4 million for 2009, \$128.2 million for 2010, \$121.7 million for 2011 and \$115.9 million for 2012.

Note 6: Inventories

Components of inventories were:

	June 30, 2008	December 31, 2007
	(in millions)	
Finished products	\$ 170.5	\$ 137.4
Work in process	39.4	46.0
Raw materials	60.3	41.3
Total	\$ 270.2	\$ 224.7

At June 30, 2008 and December 31, 2007, approximately \$12.8 million and \$13.3 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 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 California and other foreign jurisdictions and deductions available in the United States for domestic production activities. At the present time, the U.S. federal R&D tax credit is expired.

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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. Reductions to valuation allowances related to net operating loss carryforwards of acquired businesses will be treated as adjustments to purchased goodwill up through and until the end of the Company's 2008 fiscal year.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation allowances against deferred tax assets were \$19.0 million and \$99.9 million as of June 30, 2008 and December 31, 2007, respectively. The decrease in the valuation allowance against deferred tax assets primarily relates to an increase in the expected utilization of net operating loss carryforwards of Esprit, which the Company acquired in October 2007, and is treated as a reduction of purchased goodwill.

In connection with the final stage of the Inamed and Esprit legal entity integration, the Company realigned its U.S. operations during the current quarter. The state and federal deferred tax assets and deferred tax liabilities have been re-determined to reflect a true-up to the resulting tax rate. The impact of the true-up was a decrease to the provision for income taxes by \$2.4 million.

The total amount of unrecognized tax benefits was \$50.8 million and \$59.6 million as of June 30, 2008 and December 31, 2007, respectively. The decrease in the total amount of unrecognized tax benefits is primarily attributable to \$21.8 million in payments accounted for during the first quarter of 2008 in connection with the completion and settlement of a federal income tax audit by the U.S. Internal Revenue Service for tax years 2003 and 2004. Of the \$21.8 million in payments, \$14.0 million was on deposit as an advance payment and the remaining \$7.8 million was paid during the first quarter of 2008. In addition, the total amount of unrecognized tax benefits decreased by \$0.8 million mainly as a result of amended state income tax return filings due to the completion and settlement of the federal income tax audit for tax years 2003 and 2004. These decreases to the total amount of unrecognized tax benefits were partially offset by increases of \$13.8 million resulting from tax positions taken during a prior period and changes in estimate to various issues under audit. These increases also include unrecognized tax benefits attributable to the acquisition of Esprit, which are currently treated as adjustments to purchased goodwill.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$18.9 million and \$39.9 million as of June 30, 2008 and December 31, 2007, respectively.

Total interest accrued related to uncertainty in income taxes included in the Company's unaudited condensed consolidated balance sheet was \$9.8 million and \$10.9 million as of June 30, 2008 and December 31, 2007, respectively.

The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities related to research credits, foreign tax credits, transfer pricing and amended U.S. state income tax returns will decrease by approximately \$19.1 million due to the settlement of income tax audits in the United States.

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, 2007, the Company had approximately \$1,007.0 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 determination of fair value using the Black-Scholes option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. The Company currently estimates stock price volatility based upon an equal weighting of the

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five and three-quarter year historical average 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 and six month periods ended June 30, 2008 and June 29, 2007, share-based compensation expense was as follows:

	Three months ended		Six months ended	
	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
	(in millions)		(in millions)	
Cost of sales	\$ 2.4	\$ 1.6	\$ 4.2	\$ 3.0
Selling, general and administrative	15.0	13.6	31.4	27.7
Research and development	5.2	4.7	11.6	10.5
Pre-tax share-based compensation expense	22.6	19.9	47.2	41.2
Income tax benefit	8.0	7.0	16.9	14.7
Net share-based compensation expense	\$ 14.6	\$ 12.9	\$ 30.3	\$ 26.5

As of June 30, 2008, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately \$180.2 million, which is expected to be recognized over the next 48 months (35 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 June 30, 2008.

In February 2008, the Company granted 4.3 million stock options and 0.2 million shares of restricted stock and stock units to employees. Historically, the majority of the Company's total annual share-based grants have occurred in the first fiscal quarter.

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 and six month periods ended June 30, 2008 and June 29, 2007, respectively, were as follows:

	Three months ended
	Pension Benefits
	Other Postretirement Benefits

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	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
	(in millions)		(in millions)	
Service cost	\$ 6.4	\$ 6.3	\$ 0.4	\$ 0.7
Interest cost	8.8	7.8	0.6	0.5
Expected return on plan assets	(10.7)	(9.3)		
Amortization of prior service cost			(0.1)	(0.2)
Recognized net actuarial loss	1.6	2.9		
Net periodic benefit cost	\$ 6.1	\$ 7.7	\$ 0.9	\$ 1.0

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	Six months ended			
	Pension Benefits		Other Postretirement Benefits	
	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
	(in millions)		(in millions)	
Service cost	\$ 12.8	\$ 12.6	\$ 0.8	\$ 1.4
Interest cost	17.6	15.6	1.2	1.0
Expected return on plan assets	(21.4)	(18.6)		
Amortization of prior service cost			(0.2)	(0.4)
Recognized net actuarial loss	3.2	5.8		
Net periodic benefit cost	\$ 12.2	\$ 15.4	\$ 1.8	\$ 2.0

In 2008, the Company expects to pay contributions of between \$18 million and \$19 million for its U.S. and non-U.S. pension plans and between \$0.9 million and \$1.0 million for its other postretirement plan.

Note 10: Legal Proceedings

The following supplements and amends the discussion set forth under Part I, Item 3, Legal Proceedings in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and Part II, Item 1, Legal Proceedings in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008.

In August 2004, James Clayworth, R. Ph., doing business as Clayworth Pharmacy, filed a complaint entitled *Clayworth v. Allergan, et al.* in the Superior Court of the State of California for the County of Alameda. The complaint, as amended, named the Company and 12 other defendants and alleged unfair business practices, including a price fixing conspiracy relating to the reimportation of pharmaceuticals from Canada. The complaint sought damages, equitable relief, attorney's fees and costs. On January 8, 2007, the court entered a notice of entry of judgment of dismissal against the plaintiffs dismissing the plaintiffs' complaint. On the same date, the plaintiffs filed a notice of appeal with the Court of Appeal of the State of California, First Appellate District. On April 14, 2007, the plaintiffs filed an opening brief with the Court of Appeal of the State of California. The defendants filed their joint opposition on July 5, 2007, and the plaintiffs filed their reply on August 24, 2007. On May 14, 2008, the court heard oral arguments and took the matter under submission. On July 25, 2008, the Court of Appeal of the State of California affirmed the Superior Court of the State of California for the County of Alameda's ruling granting the Company's motion for summary judgment.

In May 2005, after receiving a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex, Inc. (Apotex) indicating that Apotex had filed an Abbreviated New Drug Application (ANDA) with the FDA for a generic form of *Acular*®. The Company and Roche Palo Alto LLC (Roche), the holder of U.S. Patent No. 5,110,493 (the 493 patent), filed a complaint captioned *Roche Palo Alto LLC, formerly known as Syntex (U.S.A.) LLC and Allergan, Inc. v. Apotex, Inc., et al.* in the U.S. District Court for the Northern District of California. In the complaint, the Company and Roche asked the court to find that the 493 patent is valid, enforceable and infringed by Apotex's proposed generic drug. Apotex filed an answer to the complaint and a counterclaim against the Company and Roche. The Company and Roche moved for summary judgment and, on September 11, 2007, the court granted the Company and Roche's motion for summary judgment. On September 26, 2007, Apotex filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit. The parties filed their briefs in the appeal and the court heard oral arguments on May 7, 2008. On July 9, 2008, the U.S. Court of Appeals for the Federal Circuit affirmed the U.S. District Court for the Northern District of California's grant of the Company and Roche's motion for summary judgment. On July 23, 2008, Apotex filed a Combined Petition for Panel Rehearing and Rehearing En Banc with the U.S. Court of Appeals for the Federal Circuit.

In February 2007, the Company received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Exela PharmSci, Inc. (Exela) indicating that Exela had filed an ANDA with the FDA for a generic form of *Alpha*®. In the certification, Exela contends that U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, all of which are assigned to the Company and are listed in the

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Orange Book under *Alphagan*[®] *P*, are invalid and/or not infringed by the proposed Exela product. In March 2007, the Company

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filed a complaint against Exela in the U.S. District Court for the Central District of California entitled *Allergan, Inc. v. Exela PharmSci, Inc., et al.* (the *Exela Action*). In its complaint, the Company alleges that Exela's proposed product infringes U.S. Patent No. 6,641,834. In April 2007, the Company filed an amended complaint adding Paddock Laboratories, Inc. and PharmaForce, Inc. as defendants. Also in April 2007, Exela filed a complaint for declaratory judgment in the U.S. District Court for the Eastern District of Virginia, Alexandria Division, entitled *Exela PharmSci, Inc. v. Allergan, Inc.* Exela's complaint seeks a declaration of noninfringement, unenforceability, and/or invalidity of U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337. In June 2007, Exela filed a voluntary dismissal without prejudice in the Virginia action.

In May 2007, the Company received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex indicating that Apotex had filed ANDAs with the FDA for generic versions of *Alphagan[®] P* and *Alphagan[®] P 0.1%*. In the certification, Apotex contends that U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, all of which are assigned to the Company and are listed in the Orange Book under *Alphagan[®] P* and *Alphagan[®] P 0.1%*, are invalid and/or not infringed by the proposed Apotex products. In May 2007, the Company filed a complaint against Apotex in the U.S. District Court for the District of Delaware entitled *Allergan, Inc. v. Apotex, Inc. and Apotex Corp.* (the *Apotex Action*). In its complaint, the Company alleges that Apotex's proposed products infringe U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337. In June 2007, Apotex filed its answer, including defenses and counterclaims. In July 2007, the Company filed a response to Apotex's counterclaims.

In May 2007, the Company filed a motion with the multi district litigation panel to consolidate the *Exela Action* and the *Apotex Action* in the District of Delaware. A hearing on the Company's motion took place on July 26, 2007. On August 20, 2007, the panel granted the Company's motion and transferred the *Exela Action* to the District of Delaware for coordinated or consolidated pretrial proceedings with the *Apotex Action*. On March 26, 2008, the defendants in the *Exela Action* consented to trial in Delaware. The court has scheduled a trial date for March 9, 2009 in the *Apotex Action* and the *Exela Action*.

In November 2007, the Company filed a complaint captioned *Allergan, Inc. v. Cayman Chemical Company, Jan Marini Skin Research, Inc., Athena Cosmetics Corporation, Dermaquest, Inc., Intuit Beauty, Inc., Civic Center Pharmacy and Photomedix, Inc.* in the U.S. District Court for the Central District of California. In its complaint, the Company alleges that the defendants are infringing U.S. Patent No. 6,262,105 (the *105 patent*), licensed to the Company by Murray A. Johnstone, M.D. On January 7, 2008, Photomedix, Inc. filed a motion to dismiss the Company's complaint. On January 23, 2008, the Company filed a motion for leave to file a second amended complaint to add Murray A. Johnstone, the holder of the *105 patent*, as a plaintiff and to add Global MDRx as a defendant. On March 3, 2008, the U.S. District Court for the Central District of California denied Photomedix, Inc.'s motion to dismiss and granted the Company's motion for leave to file a second amended complaint. On April 28, 2008, the Company filed a motion for leave to file a third amended complaint to add patent infringement claims relating to U.S. Patent No. 7,351,404 against the defendants, and to add Athena Bioscience, LLC and Cosmetic Alchemy, LLC as additional defendants. On July 17, 2008, the Company and Jan Marini Skin Research, Inc. (*Jan Marini*) entered into a settlement agreement under which Jan Marini agreed to acknowledge the validity of the Company's patents in exchange for the Company dismissing all claims against Jan Marini. On July 21, 2008, the Company and Intuit Beauty, Inc. (*Intuit*) entered into a settlement agreement under which Intuit agreed to acknowledge the validity of the Company's patents in exchange for the Company dismissing all claims against Intuit. The court has scheduled a trial date for November 3, 2009.

On July 9, 2008, a complaint entitled *Kramer, Bryant, Spears, Doolittle, Clark, Whidden, Powell, Moore, Hennessy, 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, attorney's fees and costs.

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 and results of operations.

Table of Contents**ALLERGAN, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation, investigation or claim, management is currently unable to predict the ultimate outcome of any litigation, investigation 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 investigation being conducted by the U.S. Attorney, U.S. Department of Justice, Northern District of Georgia (DOJ) discussed in Note 11,

Contingencies, 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 its 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 or claim to which the Company is a party or the impact on the Company of an adverse ruling in such matters. As additional information becomes available, the Company will assess its potential liability and revise its estimates.

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 *BotA*. During the second quarter of 2008, the Company incurred \$9.0 million of costs associated with the DOJ investigation. Costs associated with responding to the DOJ investigation are expected to total approximately \$25 million to \$35 million during fiscal year 2008. Estimated costs include attorney's 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 investigation, 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 investigation.

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 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 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 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 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

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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 term of these indemnification provisions generally survives 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. The 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 June 30, 2008:

	(in millions)
Balance at December 31, 2007	\$ 28.0
Provision for warranties issued during the period	3.5
Settlements made during the period	(3.1)
Decreases in warranty estimates	(1.0)
 Balance at June 30, 2008	 \$ 27.4
 Current portion	 \$ 6.0
Non-current portion	21.4
 Total	 \$ 27.4

Table of Contents**ALLERGAN, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 14: Earnings Per Share**

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

	Three months ended		Six months ended	
	June 30, 2008	June 29, 2007	June 30, 2008	June 29, 2007
	(in millions, except per share amounts)			
Net earnings				
Earnings from continuing operations	\$ 147.3	\$ 139.0	\$ 258.7	\$ 183.8
Loss from discontinued operations		(1.2)		(2.2)
Net earnings	\$ 147.3	\$ 137.8	\$ 258.7	\$ 181.6
Weighted average number of shares issued	304.4	304.7	304.7	304.3
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	2.6	3.5	2.9	3.5
Diluted shares	307.0	308.2	307.6	307.8
Basic earnings (loss) per share:				
Continuing operations	\$ 0.48	\$ 0.46	\$ 0.85	\$ 0.60
Discontinued operations		(0.01)		
Net basic earnings per share	\$ 0.48	\$ 0.45	\$ 0.85	\$ 0.60
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.48	\$ 0.45	\$ 0.84	\$ 0.60
Discontinued operations				(0.01)
Net diluted earnings per share	\$ 0.48	\$ 0.45	\$ 0.84	\$ 0.59

For the three and six month periods ended June 30, 2008, options to purchase 11.7 million and 8.4 million shares of common stock at exercise prices ranging from \$48.07 to \$65.63 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company's 1.50% Convertible Senior Notes due 2026 for the three and six month periods ended June 30, 2008, as the Company's average stock price for the respective periods was less than the conversion price of the notes.

For the three and six month periods ended June 29, 2007, options to purchase 6.1 million and 8.8 million shares of common stock at exercise prices ranging from \$49.94 to \$63.76 and \$48.07 to \$63.76 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company's 1.50% Convertible Senior Notes due 2026 for the three and six month periods ended June 29, 2007, as the Company's average stock price for the respective periods was less than the conversion price of

the notes.

Table of Contents**ALLERGAN, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 15: Comprehensive Income**

The following table summarizes the components of comprehensive income for the three and six month periods ended June 30, 2008 and June 29, 2007:

	Three months ended					
	June 30, 2008			June 29, 2007		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
	(in millions)					
Foreign currency translation adjustments	\$ 3.6	\$	\$ 3.6	\$ 4.3	\$	\$ 4.3
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.4)	0.2	(0.2)	(0.4)	0.2	(0.2)
Unrealized holding loss on available-for-sale securities	(2.7)	1.0	(1.7)	(0.7)	0.2	(0.5)
Other comprehensive income	\$ 0.5	\$ 1.2	1.7	\$ 3.2	\$	&