Santo Mining Corp.
Form 10-Q
June 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 April 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 333-169503

SANTO MINING CORP.

(Exact name of registrant as specified in its charter)

Nevada	**27-0518586**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Avenida Sarasota No. 20

Torre Empresarial AIRD, Suite # 1103

La Julia, Santo Domingo, Dominican Republic

(Address of principal executive offices) (Zip Code)

1-809-535-9443
(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 [X] 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," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	**[ ]**	**Accelerated filer**	**[ ]**
Non-accelerated filer	**[ ]**	**Smaller reporting company**	**[X]**
(Do not check if a 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]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 69,431,269 as of June 19, 2013.

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CAUTIONARY NOTE REGARDING ON FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as "anticipate," "believe," "estimate," "intend," "could," "should," "would," "may," "seek," "plan," "might," "will," "expect," "predict," "proj "potential," "continue" negatives thereof or similar expressions. Forward-looking statements speak only as of the date they are made, are based on various underlying assumptions and current expectations about the future and are not guarantees. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievement to be materially different from the results of operations or plans expressed or implied by such forward-looking statements.

We cannot predict all of the risks and uncertainties. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements. These forward-looking statements are found at various places throughout this Report and include information concerning possible or assumed future results of our operations, including statements about potential acquisition or merger targets; business strategies; future cash flows; financing plans; plans and objectives of management; any other statements regarding future acquisitions, future cash needs, future operations, business plans and future financial results, and any other statements that are not historical facts.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. All subsequent written and oral forward-looking statements concerning other matters addressed in this Report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

CERTAIN TERMS USED IN THIS REPORT

When this Report uses the words “we,” “us,” “our,” and the “Company,” they refer to Santo Mining Corp. “SEC” refers to the Securities and Exchange Commission. When this report uses the word “Property” or “Claim”, it refers to an “exploration concession application” which according to the Dominican Mining Law grants the holder with certain preferential rights. Upon issuance an exploration concession it grants the holder the exclusive right to explore within its boundary limits for up to a six year period. It also grants the holder the exclusive right to apply for an exploitation concession valid up to a seventy-five year period.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal occurring adjustments) considered necessary in order to make the financial statements not misleading, have been included. Operating results for the three and six months ended April 30, 2013 are not necessarily indicative of results that may be expected for the year ending July 31, 2013.

SANTO MINING CORP.

(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

(Unaudited)

	April 30, 2013	July 31, 2012
ASSETS		
CURRENT ASSETS		
Cash	$ 45,293	$ 50,793
Prepaid expense	103,500	-
Total Current Assets	148,793	50,793
Mineral claims	579,315	63,912
Website, net of amortization of $1,745 and $1,340, respectively	3,345	3,540
Deposits	106,247	16,826
TOTAL ASSETS	$ 837,700	$ 135,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 124,395	$ 46,172
Related party payable	149,696	79,696
Convertible note payable	46,277	-
Derivative liability	6,890	-
TOTAL LIABILITIES	327,258	125,868
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, 450,000,000 shares authorized, $0.00001 par value; none issued and outstanding	-	-
Common stock, 450,000,000 shares authorized, $0.00001 par value; 69,431,269 and 63,635,340 shares issued and outstanding, respectively	694	636
Additional paid-in capital	1,349,951	290,123
Deficit accumulated during the development stage	(840,203)	(281,556)
TOTAL STOCKHOLDERS' EQUITY	510,442	9,203
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 837,700	$ 135,071

See accompanying notes to unaudited financial statements.

SANTO MINING CORP.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,		From July 8, 2009 (Inception) to April 30,
	2013	2012	2013	2012	2013
OPERATING EXPENSES					
Consulting fees	$ 166,511	$ 2,310	$ 310,239	$ 8,950	$ 421,250
General and administrative	55,276	5,867	147,984	25,008	202,061
Legal and accounting fees	54,476	16,331	100,257	41,875	216,556
Total operating expenses	276,263	24,508	558,480	75,833	839,867
OTHER INCOME (EXPENSES)					
Foreign currency transaction loss	-	-	-	(16)	(173)
Change in fair value of derivative liability	212	-	212	-	212
Interest expense	(379)	-	(379)	-	(375)
Total other expenses	(167)	-	(167)	(16)	(336)
Net loss	$ (276,430)	$ (24,508)	$ (558,647)	$ (75,849)	$ (840,203)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)	
Basic and diluted weighted average number of common shares outstanding	66,251,271	63,185,026	64,823,026	63,036,135	

See accompanying notes to unaudited financial statements.

SANTO MINING CORP.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended April 30, 2013	Nine Months Ended April 30, 2012	From July 8, 2009 (Inception) to April 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (558,647)	$ (75,849)	$ (840,203)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization expense	405	794	1,745
Share-based compensation	167,132	-	213,799
Amortization of debt discount	379	-	379
Change in fair value of derivative liability	(212)	-	(212)
Changes in operating assets and liabilities:			
Accounts payable and accrued expenses	78,223	2,266	124,395
Net cash used in operating activities	(312,720)	(72,789)	(500,097)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment of deposits on mineral claims	(106,247)	-	(106,247)
Loan to related party	-	(42,537)	-
Purchase of mineral claims	(29,523)	-	(106,119)
Payments for website	(210)	-	(5,090)
Net cash used in investing activities	(135,980)	(42,537)	(217,456)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock	390,200	150,000	630,150
Proceeds from issuance of convertible note	53,000	-	53,000
Proceeds from related party payable	-	43,744	79,696
Net cash provided by financing activities	443,200	193,744	762,846
Net change in cash	(5,500)	78,418	45,293

Cash, beginning of period		50,793		2,187		-
Cash, end of period	$	45,293	$	80,605	$	45,293
SUPPLEMENTAL CASH FLOWS DISCLOSURES:						
Interest paid	$	-	$	-	$	4
Income taxes paid	$	-	$	-	$	-
NONCASH INVESTING AND FINANCING ACTIVITIES:						
Shares transferred between related parties for mineral claims	$	6,654	$	-	$	10,796
Fair value of derivative liability	$	7,102	$	-	$	7,102
Liability accrued for purchase of mineral claims	$	70,000	$	-	$	70,000
Shares issued for purchase of mineral claims	$	392,400	$	-	$	392,400
Shares issued for prepaid expenses	$	103,500	$	-	$	103,500

See accompanying notes to unaudited financial statements.

SANTO MINING CORP.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying unaudited interim financial statements of Santo Mining Corp. ("Santo Mining" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in Santo Mining's Annual Report filed with the SEC on Form 10-K for the year ended July 31, 2012. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which substantially duplicate the disclosure contained in the audited financial statements for fiscal 2012 as reported in the Form 10-K have been omitted.

Fair Value Measurement

The Company values its derivative instruments under FASB ASC 820 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. The Company uses Level 3 to value its derivative instruments.

The following table sets forth by level with the fair value hierarchy the Company's financial assets and liabilities measured at fair value on April 30, 2013.

	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	$ -	$ -	$ 6,890	$ 6,890

NOTE 2. – GOING CONCERN

These financial statements have been prepared on a going concern basis, which implies Santo Mining will continue to meet its obligations and continue its operations for the next fiscal year. As of April 30, 2013, Santo Mining has not generated revenues and has accumulated losses of $840,203 since inception. Santo mining has not commenced operations. These factors raise substantial doubt regarding Santo Mining's ability to continue as a going concern. The continuation of Santo Mining as a going concern is dependent upon financial support from its stockholders, the ability of Santo Mining to obtain necessary equity financing to continue operations, and the attainment of profitable operations. Realization value may be substantially different from carrying values as shown and these financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should Santo Mining be unable to continue as a going concern.

The Company intends to continue seeking and investigating potentially revenue producing projects through its mining operations. No assurances can be given as to the likelihood of it obtaining any revenue producing projects.

NOTE 3. – MINERAL CLAIMS

When this report uses the word "property" or "claim" it refers to a "concession application" which according to the Dominican Mining Law grants the holder with certain preferential rights including future exclusive rights to prospect, explore and exploit metallic minerals within its designated boundaries.

On July 30, 2012, under the Acquisition Agreement, Ms. Ruiz agreed to transfer 6,456,600 shares of the Company's common stock she owned to GEXPLO SRL ("GEXPLO"), a company owned by Mr. Alain French, the Company's new President, Chief Executive Officer and Director, for a mineral right previously owned by GEXPLO. The Company

recorded $4,142 (original costs incurred by GEXPLO to obtain the claim) for the mineral right and the same amount in paid-in capital for the shares transferred as the result of this related party transaction.

On September 17, 2012, the Company exercised its right of first refusal to purchase two additional mineral properties, the Walter Claim and the Maria Claim, from GEXPLO pursuant to the Acquisition Agreement. In exchange for the Walter Claim and the Maria Claim, Rosa Habeila Feliz Ruiz, the Secretary of the Company, transferred 13,181,460 of her shares of the Company's common stock to the Vendor. The Vendor is owned by Alain French, our President, Chief Executive Officer and Director.

On October 12, 2012, the Company amended the Acquisition Agreement with GEXPLO and Rosa Habeila Feliz Ruiz, an officer and director of the Company. Pursuant to the Amendment, the Company would no longer have right of first refusal to purchase the Shalee and Daniel claims and instead would have right of first refusal to purchase the Henry, Francesca, Kato f/k/a Eliza, and Nathaniel claims.

On October 12, 2012, the Company exercised its right of first refusal to purchase four additional mineral properties, the Henry Claim, the Francesca Claim, the Kato f/k/a Claim and the Nathaniel Claim, from the Vendor pursuant to the Acquisition Agreement. In exchange for the Claims, Rosa Habeila Feliz Ruiz transferred 12,644,943 of her shares of the Company's common stock to the Vendor. The Vendor is owned by Alain French, our President, Chief Executive Officer and Director.

On March 25, 2013, the Company agreed to purchase from Alain French 100% right, title and interest in the "RICHARD" Mineral Exploration Concession Application in the Dominican Republic, consisting of 220 Hectares located in Dominican Republic, and any deposits of minerals on RICHARD for $10,000 and 1,000,000 shares of the Company's common stock, par value $0.00001. As of April 30, 2013, the Company has recorded mineral claims of $177,400, including $167,400 fair value of the shares and $10,000 payable to the related party.

On April 3, 2013, the Company agreed to purchase from Alain French 100% right, title and interest in the "CHARLES" Mineral Exploration Concession Application in the Dominican Republic consisting of 220 Hectares located in Dominican Republic, and any deposits of minerals on CHARLES for an initial payment of $10,000 at closing, a second payment of $50,000 in 90 days, and 1,500,000 shares of the Company's common stock, par value $0.00001. As of April 30, 2013, the Company has recorded mineral claims of $285,000, including $225,000 fair value of the shares and $60,000 payable to the related party.

NOTE 4. – RELATED PARTY TRANSACTIONS

As of April 30, 2013 and July 31, 2012, the Company had payable of $79,696 to Ms. Ruiz for the advances she made to the Company to cover incorporation costs of the Company and ongoing legal and accounting fees related to the Company's SEC reporting obligations. These advances bear no interest, are unsecured and are due on demand.

On May 31, 2012, the Company entered into a promissory note with GEXPLO, SRL, a company owned by the Company's then corporate secretary, Mr. Alain French. The total amount loaned was $59,770 as of May 31, 2012 for exploration expenses that the Company paid on GEXPLO's behalf for Alexia Claim which was acquired by the Company in July 2012. The loan is non-interest bearing and matures on December 31, 2012. The loan was cancelled by the Company as consideration in the Acquisition Agreement, on July 30, 2012. See Note 3 for the shares transferred between Ms. Ruiz and GEXPLO.

As of April 30, 2013, the Company had made advances to GEXPLO, a company owned by the Company's President, for a total of $96,247 for exploration expenses he paid on the Company's behalf.

As described in Note 3, as of April 30, 2013, the Company accrued related party payable of $70,000 for mineral claims, RICHARD and CHARLES, the Company acquired from Alain French during the current quarter.

NOTE 5. – CONVERTIBLE NOTES

On April 19, 2013, the Company borrowed $53,000 from Asher Enterprises, Inc. under a Convertible Promissory Note. The note is unsecured, bears interest at 8% per annum and matures on January 22, 2014. The note is convertible into common stock of the Company and the conversion price shall equal the variable conversion price of 47% multiplied by the average of the lowest three (3) trading prices for the common stock during the thirty (30) trading day period ending on the latest complete trading day prior to the conversion date.

The Company analyzed the Convertible Promissory Note for derivative accounting consideration under FASB ASC 470 and determined that the embedded conversion feature, with a grant date fair value of $7,102 (See Note 6), qualified for accounting treatment as a financial derivative (See Note 6). The Company recognized a discount of $7,102 on this note as result of the embedded conversion feature being a financial derivative. The discount will be amortized by the Company through interest expense over the life of the note.

A summary of value changes to the Convertible Promissory Note for the period ended April 30, 2013 is as follows:

Principal amount	$	53,000
Less: discount related to fair value of the embedded conversion feature		(7,102)
Add: amortization of discount		379
Carrying value at April 30, 2013	$	46,277

During the nine months ended April 30, 2013, the Company recorded $379 amortization of the debt discount.

NOTE 6. – DERIVATIVE LIABILITY

The Company has determined that the variable conversion price under its $53,000 Convertible Promissory Note causes the embedded conversion feature to be a financial derivative. The Company may not have enough authorized common shares to settle its obligation if the note holder elects to convert the note to common shares when the trading price is lower than certain threshold.

The fair value of the conversion feature is recognized as a financial derivative at issuance and is measured at fair value at each reporting period. The fair values of the financial derivative were calculated using a modified binomial valuation model with the following assumptions at April 19, 2013 and April 30, 2013:

	April 19, 2013	April 30, 2013
Market value of common stock on measurement date (1)	$0.14	$0.14
Adjusted conversion price (2)	$0.066	$0.063
Risk free interest rate (3)	0.13%	0.11%
Life of the note in years	0.77 years	0.77 years
Expected volatility (4)	423%	387%
Expected dividend yield (5)	-	-

(1) The market value of common stock is based on closing market price as of April 19, 2013 and April 30, 2013.
(2) The adjusted conversion price is calculated based on conversion terms described in the note agreement.
(3) The risk-free interest rate was determined by management using the 1 year Treasury Bill as of the respective Offering or measurement date.
(4) The volatility factor was estimated by management using the historical volatilities of the Company's stock Management determined the dividend yield to be 0% based upon its expectation that it will not pay
(5) dividends for the foreseeable future

The following table provides a summary of the changes in fair value of the derivative financial instruments measured at fair value on a recurring basis using significant unobservable inputs:

	Financial Derivatives
Fair value at April 19, 2013	$ 7,102
Change in fair value of derivative liability	(212)
Fair value at April 30, 2013	$ 6,890

NOTE 7. – COMMON STOCK

In September 2012, 116,665 shares were issued to a third-party vendor for services. These shares were recorded at their fair value of $23,332. The Company expensed the entire amount during the nine months period ended April 30, 2013 for the services rendered.

On September 17, 2012, the Company sold 600,000 shares of common stock for $300,000.

Equity Enhancement Program with Hanover Holdings I, LLC

On March 11, 2013, the Company entered into a common stock purchase agreement (“Purchase Agreement”) with Hanover Holdings I, LLC, a New York limited liability company (“Hanover”). The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, Hanover is committed to purchase up to $16,000,000 (the “Total Commitment”) worth of the Company’s Common Stock (the “Shares”), over the 36-month term of the Purchase Agreement.

Also on March 11, 2013, Hanover deposited $90,000, as an Administrative Fee, into an escrow account, which was disbursed to the Company promptly after the filing of an initial registration statement with the SEC on March 15, 2013.

The Company issued 1,044,264 shares of the Company's common stock to Hanover for services. The fair value of these shares, $167,500, was recorded as offering cost as a reduction to addition paid-in capital.

In connection with the execution of the Purchase Agreement, the Company and Hanover also entered into a registration rights agreement. Pursuant to the Registration Rights Agreement, the Company filed an initial registration statement ("Registration Statement") with the SEC on March 15, 2013 (the "Filing Deadline") and agreed to have it declared effective at the earlier of (A) the 90th calendar day after the earlier of (1) the Filing Deadline and (2) the date of which such initial Registration Statement is filed with the SEC and (B) the fifth business day after the date the Company is notified by the SEC that such Registration Statement will not be reviewed or will not be subject to further review (the "Effectiveness Deadline"). On June 10, 2013, the Company withdrew the Registration Statement. As of the date of this Report, the Company is renegotiating the terms of the Purchase Agreement with Hanover.

If the initial Registration Statement is not declared effective by the Effectiveness Deadline, the Company is required to issue to Hanover additional shares of the Company's common stock equal to the quotient obtained by dividing (a) $167,500 by (b) the arithmetic average of the VWAPs over the 10 trading day period immediately preceding the Effectiveness Deadline, rounded up to the nearest whole share (the "Additional Commitment Shares"). As of the date of this Report, the Company has not issued additional common stock to Hanover and is negotiating a resolution with regard to the Additional Commitment Shares.

If at any time all of the Registrable Securities (as defined in the Registration Rights Agreement) are not covered by the initial Registration Statement, the Company has agreed to file with the SEC one or more additional Registration Statements so as to cover all of the Registrable Securities not covered by such initial Registration Statement, in each case, as soon as practicable, but in no event later than the applicable filing deadline for such additional Registration Statements as provided in the Registration Rights Agreement.

On April 5, 2013, the Company issued 635,000 shares of common stock for services. The fair value of these shares, $108,000, was recorded as follows: $4,500 as share-based compensation and $103,500 as prepaid expense for the service not been received yet.

Also on April 5, 2013, the Company issued 900,000 shares of common stock for services. The fair value of these shares, $139,300, was recorded as share-based compensation.

As of April 30, 2013, the Company has recorded 2,500,000 shares of common stock, at fair value of $392,400 for purchase of mineral claims.

NOTE 8. – SUBSEQUENT EVENTS

On June 12, 2013, the Company issued to JMJ Financial (the "Lender") convertible promissory note as of the same date in the principal amount of $335,000 (the "Note") with a maturity date of June 11, 2013, for total consideration of $300,000 (the "Consideration"). The interest rate of the Note is 0% if repaid within the first 90 days, and shall increase to 12% after 90 days.

Upon the closing on June 12, 2013, the Lender paid to the Company consideration in the amount of $60,000. The Lender may pay additional consideration, as chosen by the lender, up to an additional $150,000. Thereafter, the Lender may pay additional consideration to the Company by mutual agreement up to a total consideration of $300,000.

Pursuant to the terms of the Note, the Lender may elect to convert all or part of the outstanding unpaid principal and accrued interest into shares of the Company's common stock (up to an amount that would result in JMJ Financial holding no more than 4.99% of the outstanding shares of common stock of the Company) at a conversion price of the lesser of: (i) $0.138, or (ii) 60% of the lowest trade price in the 25 trading days preceding the conversion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read along with our financial statements and notes thereto. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. See "Cautionary Note Regarding Forward Looking Statements."

Overview

Santo Mining Corp. (the "Company") is a company which acquires and also applies for metallic mining concessions in the Dominican Republic for the purpose of exploration and ultimately the extraction of precious and base metal mineral ores. We target near-term production opportunities in areas geologically similar to Pueblo Viejo, one of the largest sulfide gold deposits in the Western Hemisphere. Our vision is to define deposits and extract metals from both alluvial deposits that require minimal processing and bulk-tonnage, open-pit oxide and sulfide gold deposits where poly-metallic ores with economic concentrations of precious and base metals may be extracted and transported to local or offshore processing plants and refineries.

The Company plans to combine rapid exploration methodology with innovative operational and logistical approaches to ensure the efficient and effective extraction of gold and other metals in the future.

Our exploration projects create an alternative opportunity for investors. Each of our claim areas lie within high-potential geology–with the same characteristics as Pueblo Viejo, one of the world's largest sulifde gold deposit. Each claim is ideally situated for our geology team approach to exploration.

This swift mobilization and on-site sampling analysis capability was developed to drive growth and value in the near and long terms. Our claims are 100% owned, and lie in the core of the mineral rich Hispaniola Gold-Copper Back-Arc.

We are a development stage company and have not yet generated or realized any revenues from our business operations.

There is a going concern as to whether we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay our bills. Our independent auditor has raised substantial doubt regarding our ability to

continue as a going concern. This is because we have not generated any revenues and no revenues are anticipated until we are able to go into production of gold. Accordingly, we must raise cash from sources other than operations. Our only other source for cash at this time is investments by others. We must raise cash to implement our project and begin our operations.

To meet our need for cash, we raised $150,000 in a private placement offering which closed on March 2, 2012 with an additional $51,000 private placement which closed on July 19, 2012 and another private placement offering that closed on September 17, 2012, which raised $300,000. Even with these funds, we cannot guarantee that we will stay in business after twelve months. If we are unable to secure any favorable mineral results from testing and sampling and if mineral prices continue to be higher than the price we have negotiated with our suppliers, we may quickly use up the proceeds from the offerings and will need to find alternative sources, like a second public offering, further private placement of securities, or loans from our officers or others in order for us to maintain our operations. At the present time, we have not made any arrangements to raise additional cash, other than from our private offering. If we need additional cash and cannot raise it, we will either have to suspend operations until we do raise the cash, or cease operations entirely. However, our President and CEO is willing to fund the initial operations of the Company until sufficient funds are available. These initial operations specifically refer to the fees associated with the filing of the company's periodic and annual reporting requirements to maintain compliance with the SEC, and all applicable legal and accounting fees that we expect to be incurred by the Company in that regard. We anticipate these fees to total approximately $60,000 to $85,000.

From July 8, 2009 through to the date of the acquisition of our first Claim, we were a designated shell company with minimal operations. As described below, on July 30, 2012, we entered into an acquisition agreement and began operations and ceased to be a shell.

On March 2, 2012, the Company sold 337,500 shares of common stock for $150,000 in a private placement transaction. The shares were issued pursuant to Regulation S of the Exchange Act of 1933.

On March 19, 2012, the Company filed a Certificate of Amendment to our Articles of Incorporation (the "Amendment") to change our name from "Santo Pita Corporation" to "Santo Mining Corp." and to increase the authorized shares of our common stock from 100,000,000 to 450,000,000.

On March 26, 2012, we effected a 1-for-4.5 forward stock split of our common stock. On July 9, 2012, a 4-for-1 reverse stock split of our common stock was effective decreasing our issued and outstanding common stock from 253,199,996 to 63,300,005. All share and per share amounts have been restated retroactively for the impact of the splits.

On July 19, 2012, the Company sold 102,000 shares of common stock for $51,000.

On July 30, 2012 (the "Closing Date"), we entered into a mineral property acquisition agreement (the "Acquisition Agreement") with GEXPLO, SRL (the "Vendor") and Rosa Habeila Feliz Ruiz, an officer and director of the Company, whereby the Company agreed to acquire from the Vendor an undivided one hundred percent (100%) interest in and to a mineral claim known as Alexia, which is located in the province of Dajabon, in the municipalities

of Dajabon and Partido, specifically in the sections Chaucey, La Gorra and Partido Arriba, covering Los Indios, Pueblo Nuevo, Hatico Viejo, El Junco, La Gallina, Tahuique and Charo located in the Dajabon 5874-I (11) and Loma de Cabrera 5874-II (19) topographical sheets, complying with the terms of mining law No. 146 and its regulations (the "Alexia Claim") as described in the Acquisition Agreement (the "Acquisition").

Pursuant to the terms of the Acquisition Agreement, in consideration of an undivided 100% interest in and to the Alexia Claim, the Vendor received 6,456,600 shares of the Company's common stock transferred from Ms. Ruiz and the cancellation of the promissory note for $59,770 from the Company to the Vendor dated May 31, 2012.

On September 17, 2012, the Company sold 600,000 shares of common stock for $300,000.

In September 2012, 116,665 shares were issued to a third-party vendor for services. These shares were recorded at their fair value of $23,333.

On September 17, 2012, the Company exercised its right of first refusal to purchase two additional mineral properties, Walter (the “Walter Claim”) and Maria (the “Maria Claim”), from GEXPLO, SRL pursuant to the “Acquisition Agreement”. In exchange for the Walter Claim and the Maria Claim, Rosa Habeila Feliz Ruiz, the Secretary of the Company, transferred 13,181,460 of her shares of the Company’s common stock to the Vendor. The Vendor is owned by Alain French, our President, Chief Executive Officer and sole Director.

On October 12, 2012, the Company amended the Acquisition Agreement (the “Amendment”) with GEXPLO, SRL and Rosa Habeila Feliz Ruiz, an officer and director of the Company. Pursuant to the Amendment, the Company would no longer have right of first refusal to purchase the Shalee and Daniel claims and instead would have right of first refusal to purchase the Henry, Francesca, Kato f/k/a Eliza, and Nathaniel claims.

On October 12, 2012, the Company exercised its right of first refusal to purchase four additional mineral properties, Henry (the “Henry Claim”), Francesca (the “Francesca Claim”), Kato (f/k/a Eliza) (the “Kato Claim”) and Nathaniel (the “Nathaniel Claim”), from the Vendor pursuant to the Acquisition Agreement. In exchange for the Claims, Rosa Habeila Feliz Ruiz transferred 12,644,943 of her shares of the Company’s common stock to the Vendor. The Vendor is owned by Alain French, our President, Chief Executive Officer and Director.

On November 19, 2012, the Company declared a 1-for-2 forward stock split.

On December 7, 2012, the Company filed a Certificate of Change with the Nevada Secretary of State to cancel the Certificate of Amendment originally filed on November 19, 2012 declaring a forward split of the Company’s shares of common stock. The forward split was subsequently cancelled.

On December 14, 2012, Rosa Habeila Feliz Ruiz submitted a letter of resignation to the board of directors of the company, pursuant to which she resigned as Secretary and Director, effective immediately. Ms. Ruiz’s resignation was not as a result of any disagreement with the Company. The Company appointed Alain French, our Chief Executive Officer, President, Treasurer and Director as Secretary of the Company.

Equity Enhancement Program with Hanover Holdings I, LLC

Common Stock Purchase Agreement

On March 11, 2013 (the "Closing Date"), the Company entered into a common stock purchase agreement dated as of the Closing Date (the "Purchase Agreement") with Hanover Holdings I, LLC, a New York limited liability company ("Hanover"). The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, Hanover is committed to purchase up to $16,000,000 (the "Total Commitment") worth of the Company's Common Stock (the "Shares"), over the 36-month term of the Purchase Agreement.

From time to time over the term of the Purchase Agreement, commencing on the trading day immediately following the date on which the initial registration statement is declared effective by the SEC, as further discussed below, the Company may, in its sole discretion, provide Hanover with draw down notices (each, a "Draw Down Notice") to purchase a specified dollar amount of Shares (the "Draw Down Amount") over a 10 consecutive trading day period commencing on the trading day specified in the applicable Draw Down Notice (the "Pricing Period"), with each draw down subject to the limitations discussed below. The maximum amount of Shares requested to be purchased pursuant to any single Draw Down Notice cannot exceed 300% of the average daily trading volume of the Company's common stock for the five trading days immediately preceding the date of the Draw Down Notice (the "Maximum Draw Down Amount").

Once presented with a Draw Down Notice, Hanover is required to purchase a pro rata portion of the applicable Draw Down Amount on each trading day during the applicable Pricing Period on which the daily volume weighted average price for our common stock (the "VWAP") equals or exceeds a floor price determined by the Company for such draw down (the "Floor Price"). If the VWAP falls below the applicable Floor Price on any trading day during the applicable Pricing Period, the Purchase Agreement provides that Hanover will not be required to purchase the pro rata portion of the applicable Draw Down Amount allocated to that trading day. The per share purchase price for the Shares subject to a Draw Down Notice shall be equal to 92.5% of the arithmetic average of the five lowest VWAPs that equal or exceed the applicable Floor Price during the applicable Pricing Period; provided, however, that if the VWAP does not equal or exceed the applicable Floor Price for at least five trading days during the applicable Pricing Period, then the per share purchase price shall be equal to 92.5% of the arithmetic average of all VWAPs that equal or exceed the applicable Floor Price during such Pricing Period. Each purchase pursuant to a draw down shall reduce, on a dollar-for-dollar basis, the Total Commitment under the Purchase Agreement.

The Company is prohibited from issuing a Draw Down Notice if (i) the amount requested in such Draw Down Notice exceeds the Maximum Draw Down Amount, (ii) the sale of Shares pursuant to such Draw Down Notice would cause the Company to issue or sell or Hanover to acquire or purchase an aggregate dollar value of Shares that would exceed the Total Commitment, or (iii) the sale of Shares pursuant to the Draw Down Notice would cause the Company to sell or Hanover to purchase an aggregate number of shares of the Company's common stock which would result in beneficial ownership by Hanover of more than 4.99% of the Company's common stock (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder). The Company cannot make more than one draw down in any Pricing Period and must allow 24 hours to elapse between the completion of the settlement of any one draw down and the commencement of a Pricing Period for any other draw down.

Additionally, on the Closing Date, Hanover deposited $90,000, as an Administrative Fee, into an escrow account, which was disbursed to the Company promptly after the filing of an initial registration statement with the SEC on March 15, 2013. The Company paid to Hanover a commitment fee equal to $167,500 (or 1.047% of the Total Commitment under the Purchase Agreement) in the form of 1,044,264 restricted shares of the Company's common stock, calculated at a price equal to the arithmetic average of the VWAPs over the 10 trading day period immediately preceding the Closing Date (the "Initial Commitment Shares"). The Initial Commitment Shares, together with the Additional Commitment Shares (as defined below), will be registered for resale in the Registration Statement, as discussed below, and are subject to a "dribble out" agreement between the Company and Hanover, whereby Hanover has agreed to sell no more than one-tenth of the Initial Commitment Shares and the Additional Commitment Shares, on a pro-rata basis, during the 10-week period immediately following the effective date of the initial registration

statement; provided, however, that if the VWAP falls below $0.10 for any trading day during such 10-week period, the dribble out will automatically cease to apply.

The Purchase Agreement also provides for indemnification of Hanover and its affiliates in the event that Hanover incurs losses, liabilities, obligations, claims, contingencies, damages, costs and expenses related to a breach by the Company of any of its representations and warranties under the Purchase Agreement or the other related transaction documents or any action instituted against Hanover or its affiliates due to the transactions contemplated by the Purchase Agreement or other transaction documents, subject to certain limitations. The issuance of the Initial Commitment Shares and the Additional Commitment Shares, if any, and the sale of the Shares to Hanover under the Purchase Agreement are exempt from registration under the Securities Act pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act ("Regulation D"). We made this determination based on the representations of Hanover that Hanover is an "accredited investor" within the meaning of Rule 501 of Regulation D and has access to information about the Company and its investment.

The Company agreed to pay up to $10,000 of reasonable attorneys' fees and expenses incurred by Hanover in connection with the preparation, negotiation, execution and delivery of the Purchase Agreement and related transaction documentation. Further, if the Company issues a Draw Down Notice and fails to deliver the shares to Hanover on the applicable settlement date, and such failure continues for 10 trading days, the Company agreed to pay Hanover, in addition to all other remedies available to Hanover under the Purchase Agreement, an amount in cash equal to 2.0% of the purchase price of such shares for each 30-day period the shares are not delivered, plus accrued interest.

Registration Rights Agreement

In connection with the execution of the Purchase Agreement, the Company and Hanover also entered into a registration rights agreement. Pursuant to the Registration Rights Agreement, the Company filed an initial registration statement ("Registration Statement") with the SEC on March 15, 2013 (the "Filing Deadline") and agreed to have it declared effective at the earlier of (A) the 90th calendar day after the earlier of (1) the Filing Deadline and (2) the date of which such initial Registration Statement is filed with the SEC and (B) the fifth business day after the date the Company is notified by the SEC that such Registration Statement will not be reviewed or will not be subject to further review (the "Effectiveness Deadline"). On June 10, 2013, the Company withdrew the Registration Statement. As of the date of this Report, the Company is renegotiating the terms of the Purchase Agreement with Hanover.

If the initial Registration Statement is not declared effective by the Effectiveness Deadline, the Company is required to issue to Hanover additional shares of the Company's common stock equal to the quotient obtained by dividing (a) $167,500 by (b) the arithmetic average of the VWAPs over the 10 trading day period immediately preceding the Effectiveness Deadline, rounded up to the nearest whole share (the "Additional Commitment Shares"). As of the date of this Report, the Company has not issued additional common stock to Hanover and is negotiating a resolution with regard to the Additional Commitment Shares.

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If at any time all of the Registrable Securities (as defined in the Registration Rights Agreement) are not covered by the initial Registration Statement, the Company has agreed to file with the SEC one or more additional Registration Statements so as to cover all of the Registrable Securities not covered by such initial Registration Statement, in each case, as soon as practicable, but in no event later than the applicable filing deadline for such additional Registration Statements as provided in the Registration Rights Agreement.

The Company also agreed, among other things, to indemnify Hanover from certain liabilities and fees and expenses of Hanover incident to the Company's obligations under the Registration Rights Agreement, including certain liabilities under the Securities Act. Hanover has agreed to indemnify and hold harmless the Company and each of its directors, officers and persons who control the Company against certain liabilities that may be based upon written information furnished by Hanover to the Company for inclusion in a registration statement pursuant to the Registration Rights Agreement, including certain liabilities under the Securities Act.

On March 14, 2013, the Company issued 1,044,264 shares of the Company's common stock to Hanover as a commitment fee equal pursuant to the Purchase Agreement. These shares were valued at $167,500. The issuance under the Purchase Agreement is exempt from registration under the Securities Act pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act ("Regulation D"). We made this determination based on the representations of the Investor that the Investor is an "accredited investor" within the meaning of Rule 501 of Regulation D and has access to information about the Company and its investment.

On March 13, 2013, the Company entered into a definitive long-term license agreement (the "License Agreement") with Campania Minera Los Angeles Del Desierto CA De CV, a Mexican company (the "Concessionaire"), to develop and mine three metallic concessions (the "Consessions") located in Ocampo, Coahuila in Mexico owned by the Consessionaire. Pursuant to the License Agreement, the Concessionaire will receive 40% of any royalty from the Consessions, and the remaining 60% will be retained by the Company. The Company is also required to make payments totaling $210,000 (the "Initial Payment") within a year of signing the License Agreement as well as issue 1,000,000 shares of the Company's common stock to the Concessionaire by June 14, 2013. $100,000 of the Initial Payment will be advanced towards the royalty fee.

On March 25, 2013, the Company entered into a Mining Purchase Acquisition Agreement (the "Richard Agreement") with GEXPLO, SRL, a company owned by Alain French, our President and Chief Executive Office ("GEXPLO"), pursuant to which the Company agreed to purchase from GEXPLO and undivided on hundred percent (100%) right, title and interest in the "RICHARD" Mineral Exploration Concession Application in the Dominican Republic, consisting of 220 Hectares located in Dominican Republic, and any deposits of minerals on RICHARD for $10,000 and 1,000,000 shares of the Company's common stock, par value $0.00001. As of April 30, 2013, the Company has recorded mineral claims of $177,400, including $167,400 fair value of the shares and $10,000 payable to the related party.

On April 3, 2013, the Company entered into a Mining Purchase Acquisition Agreement (the “Charles Agreement”) with GEXPLO, SRL, a company owned by Alain French, our President and Chief Executive Office (“GEXPLO”), pursuant to which the Company agreed to purchase from GEXPLO and undivided on hundred percent (100%) right, title and interest in the “CHARLES” Mineral Exploration Concession Application in the Dominican Republic consisting of 220 Hectares located in Dominican Republic, and any deposits of minerals on CHARLES for an initial payment of $10,000 at closing, a second payment of $50,000 in 90 days, and 1,500,000 shares of the Company’s common stock, par value $0.00001. As of April 30, 2013, the Company has recorded mineral claims of $285,000, including $225,000 fair value of the shares and $60,000 payable to the related party.

Subsequent Events

On June 12, 2013, the Company issued to JMJ Financial (the "Lender") convertible promissory note as of the same date in the principal amount of $335,000 (the "Note") with a maturity date of June 11, 2013, for total consideration of $300,000 (the "Consideration"). The interest rate of the Note is 0% if repaid within the first 90 days, and shall increase to 12% after 90 days.

Upon the closing on June 12, 2013, the Lender paid to the Company consideration in the amount of $60,000. The Lender may pay additional consideration, as chosen by the lender, up to an additional $150,000. Thereafter, the Lender may pay additional consideration to the Company by mutual agreement up to a total consideration of $300,000.

Pursuant to the terms of the Note, the Lender may elect to convert all or part of the outstanding unpaid principal and accrued interest into shares of the Company's common stock (up to an amount that would result in JMJ Financial holding no more than 4.99% of the outstanding shares of common stock of the Company) at a conversion price of the lesser of: (i) $0.138, or (ii) 60% of the lowest trade price in the 25 trading days preceding the conversion.

The Note is subject to customary default provisions, including failure to issue common stock upon conversion (the "Conversion Delay"). Upon the occurrence and during the continuation of any Conversion Delay, the Lender may rescind any portion of that particular conversion and have the conversion amount returned. In the event the Company shall fail to deliver shares of its common stock after the fourth business day, a penalty of $2,000 per day will be assessed for each day until share delivery is made

The Note may be prepaid in whole or in part, at any time during the period beginning on the issue date and ending on the date which is 90 days following the issue date, at which time the Company may not make further payments on the Note prior to the maturity date without written approval from the Lender.

The foregoing description of the terms of the Note are qualified in their entirety by reference to the provisions of the promissory note filed as Exhibit 4.1, to this Report , which is incorporated by reference herein.

Plan of Operations

Since we entered into the Acquisition Agreement, we have changed our plan of operations to focus on the exploration of our Claims in the Dominican Republic. We are also hopeful on closing additional Claims in the near future as laid out in the Acquisition Agreement. Concurrently, we plan to undertake exploration on the Properties already acquired. Our exploration plan is detailed in the "Item 2: Properties" section of our Annual Report, filed on Form 10-K for the year ended July 31, 2012 filed with the SEC on November 13, 2012.

Limited Operating History; Need for Additional Capital

There is no historical financial information about us upon which to base an evaluation of our performance. We are a development stage company and have not generated any revenues to date. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources and possible cost overruns due to price and cost increases in services and products.

We have no assurance that future additional financing will be available to us on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue, develop or expand our operations. Equity financing could result in additional dilution to our existing stockholders.

Results of Operations

From Inception on July 8, 2009 to April 30, 2013

On July 30, 2012, we entered into the Acquisition Agreement. As a result of the transfer of titles on certain mineral claims to us, we began operations and ceased to be a shell.

As of the date of this report, we have yet generated any revenues from our business operations.

Our net loss since inception is $840,203 as a result of incurring expenses of $216,556 for accounting and legal fees, $421,250 for consulting fees, $202,061 for other general and administrative expenses, interest expense of $375, gain on change in fair value of derivative liability of $212 and foreign currency translation loss of $173.

Liquidity and Capital Resources

As of April 30, 2013, our total assets were $837,700, comprised of cash, prepaid expense, deposits, amounts capitalized relating to the development of our websites and mineral claim, and our total liabilities were $327,258, comprised of accounts payable and related party advances, convertible notes payable and derivative liability.

The following table sets forth selected cash flow information for the period from July 8, 2009 (inception) to April 30, 2013:

Net cash used in operating activities	$	(500,097)
Net cash used in investing activities		(217,456)
Net cash provided by financing activities		762,846
Net change in cash	$	45,293

Operating Activities

Cash used in operating activities for the period from July 8, 2009 (inception) to April 30, 2013 was $500,097, which was primarily due to professional fees and share-based compensation incurred by the Company during this period.

Investing activities:

Cash used in investing activities for the period from July 8, 2009 (inception) to April 30, 2013 was $217,456, which was primarily due to $106,247 payment of deposit on mineral claims, $106,119 payment for purchase of mineral claims and $5,090 payment for purchase of website.

Financing activities:

On July 30, 2010, we sold 37,500,000 shares of common stock to our former officer and director, Rosa Habeila Feliz Ruiz for $5,000. There were no other shares issued to Ms. Ruiz since our inception.

On July 31, 2010, the Company sold 25,462,499 shares of common stock for $33,950. The shares were issued pursuant to Regulation S of the Securities Act of 1933 to forty (40) investors.

On March 2, 2012, the Company sold 337,500 shares of common stock for $150,000 in a private placement transaction. The shares were issued pursuant to Regulation S of the Securities Act.

On July 19, 2012, the Company sold 102,000 shares of common stock for $51,000 in a private placement transaction. The shares were issued pursuant to Regulation S of the Securities Act.

On May 31, 2012, the Company entered into a promissory note with GEXPLO, SRL, a company owned by our corporate President, Mr. Alain French. The total amount loaned was $59,770 as of May 31, 2012 for exploration and start-up expenses that we paid on GEXPLO's behalf. The loan was to be a non-interest bearing and was to mature on December 31, 2012. The transactions have been recorded as a loan to related party. The loan was cancelled by the Company as consideration in the Acquisition Agreement, on July 30, 2012.

On September 17, 2012, the Company sold 600,000 shares of common stock for $300,000 in a private placement transaction. The shares were issued pursuant to Regulation S of the Securities Act.

On March 11, 2013, Hanover deposited $90,000, as an Administrative Fee, into an escrow account, which was disbursed to the Company promptly after the filing of an initial registration statement with the SEC on March 15, 2013. The Company issued 1,044,264 shares of the Company's common stock to Hanover for services. The fair value of these shares, $167,500, was recorded as offering cost as a reduction of addition paid-in capital.

On April 19, 2013, the Company borrowed $53,000 from Asher Enterprises, Inc. under a Convertible Promissory Note.

As of April 30, 2013, the Company had $79,696 payable owed to a related party.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our Disclosure Controls were not effective as of the end of the period covered by this report.

We are currently engaged in the review, documentation and remediation of its disclosure controls and procedures. Once our company is engaged in a business of merit and has sufficient personnel available, we will establish and implement the internal control procedures.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Mine Safety and Health Administration Regulations

We consider health, safety and environmental stewardship to be a core value for the Company.

Our Dominican Republic exploration properties are not subject to regulation by the Federal Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977 (the "Mine Act"). Pursuant to Section 1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the quarter ended April 30, 2013 and the fiscal year ended July 31, 2012, despite the fact Santo Ming Corp is outside the "Mine Act" jurisdiction, the Company had no such specified health and safety violations, orders or citations, related assessments or legal actions, mining-related fatalities, or similar events in relation to our United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following documents are included herein:

Exhibit No.	Document Description
4.1	Form of Note
31.1	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data Files 101 INS - XBRL Instance Document 101 SCH - XBRL Taxonomy Schema 101 CAL - XBRL Taxonomy Calculation Linkbase 101 DEF - XBRL Taxonomy Definition Linkbase 101 LAB - XBRL Taxonomy Label Linkbase 101 PRE - XBRL Taxonomy Presentation Linkbase

In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

* Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANTO MINING CORP.

DATED: June 19, 2013 BY:/s/ALAIN FRENCH

	102.80	115.63	0.10	83.36	95.43	0.10
Fourth	105.84	123.02	0.10	85.90	110.50	0.10

Our common stock is listed on the New York Stock Exchange and is traded under the symbol AGN. In newspapers, stock information is frequently listed as Alergn.

The approximate number of stockholders of record was 5,752 as of February 9, 2007.

On January 30, 2007, our Board of Directors declared a cash dividend of $0.10 per share, payable March 9, 2007 to stockholders of record on February 16, 2007.

Securities Authorized for Issuance Under Equity Compensation Plans

The information included under Item 12 of Part III of this report, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, is hereby incorporated by reference into this Item 5 of Part II of this report.

Issuer Purchases of Equity Securities

The following table discloses the purchases of our equity securities during the fourth fiscal quarter of 2006.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)
October 1, 2006 to October 31, 2006	0	$ N/A	0	6,966,844
November 1, 2006 to November 30, 2006	0	$ N/A	0	7,571,156

December 1, 2006 to December 31, 2006	0	$ N/A	0	7,712,756
Total	0	$ N/A	0	N/A

(1) We maintain an evergreen stock repurchase program, which we first announced on September 28, 1993. Under the stock repurchase program, we may maintain up to 9.2 million repurchased shares in our treasury account at any one time. As of December 31, 2006, we held approximately 1.5 million treasury shares under this program.

(2) The following share numbers reflect the maximum number of shares that may be purchased under our stock repurchase program and are as of the end of each of the respective periods.

Item 6. ***Selected Financial Data***

SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(in millions, except per share data)				
Summary of Operations					
Product net sales	$ 3,010.1	$ 2,319.2	$ 2,045.6	$ 1,755.4	$ 1,385.0
Other revenues	53.2	23.4	13.3	9.4	10.5
Research service revenues				16.0	40.3
Total revenues	3,063.3	2,342.6	2,058.9	1,780.8	1,435.8
Operating costs and expenses:					
Cost of product sales (excludes amortization of acquired intangible assets)	575.7	385.3	381.7	316.9	221.4
Cost of research services				14.5	36.6
Selling, general and administrative	1,333.4	936.8	791.7	705.9	633.9
Research and development	1,055.5	388.3	342.9	762.6	232.7
Amortization of acquired intangible assets	79.6	17.5	8.2	5.0	1.1
Legal settlement					118.7
Restructuring charges (reversal) and asset write-offs, net	22.3	43.8	7.0	(0.4)	62.4
Operating (loss) income	(3.2)	570.9	527.4	(23.7)	129.0
Non-operating (loss) income	(16.3)	28.3	4.7	(5.8)	(39.2)
(Loss) earnings from continuing operations before income taxes and minority interest	(19.5)	599.2	532.1	(29.5)	89.8
(Loss) earnings from continuing operations	(127.4)	403.9	377.1	(52.5)	64.0
Earnings from discontinued operations					11.2
Net (loss) earnings	$ (127.4)	$ 403.9	$ 377.1	$ (52.5)	$ 75.2
Basic (loss) earnings per share:					
Continuing operations	$ (0.87)	$ 3.08	$ 2.87	$ (0.40)	$ 0.49
Discontinued operations					0.09
Diluted (loss) earnings per share:					
Continuing operations	$ (0.87)	$ 3.01	$ 2.82	$ (0.40)	$ 0.49
Discontinued operations					0.08
Cash dividends per share	$ 0.40	$ 0.40	$ 0.36	$ 0.36	$ 0.36
Financial Position					
Current assets	$ 2,130.3	$ 1,825.6	$ 1,376.0	$ 928.2	$ 1,200.2
Working capital	1,472.2	781.6	916.4	544.8	796.6

Total assets	5,767.1	2,850.5	2,257.0	1,754.9	1,806.6
Long-term debt, excluding current portion	1,606.4	57.5	570.1	573.3	526.4
Total stockholders equity	3,143.1	1,566.9	1,116.2	718.6	808.3

Certain reclassifications of prior year amounts have been made to conform with the current year presentation. Beginning in 2006, we report amortization of acquired intangible assets on a separate line in our consolidated statements of operations, which includes the amortization of the intangible assets acquired in connection with the Inamed acquisition, as well as the amortization of other intangible assets previously reported in cost of sales, selling, general and administrative expenses, and research and development expenses. Beginning in 2006, we report other revenues on a separate line in our consolidated statements of operations, which primarily include royalties and reimbursement income in connection with various contractual agreements. These other revenue amounts were previously included in selling, general and administrative expenses. The financial data above also has been recast to reflect the results of operations and financial positions of our ophthalmic surgical and contact lens care businesses as a discontinued operation following our spin-off of Advanced Medical Optics, Inc., or AMO. The results of operations for our discontinued operations include allocations of certain Allergan expenses to those operations. These amounts have been allocated 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, those operations.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This financial review presents our operating results for each of the three years in the period ended December 31, 2006, and our financial condition at December 31, 2006. Except for the historical information contained herein, the following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under Item 1A of Part I of this report, Risk Factors. In addition, the following review should be read in connection with the information presented in our consolidated financial statements and the related notes to our consolidated financial statements.

Critical Accounting Policies, Estimates and Assumptions

The preparation and presentation of financial statements in conformity with U.S. generally accepted accounting principles requires us to establish policies and to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. In our judgment, the accounting policies, estimates and assumptions described below have the greatest potential impact on our consolidated financial statements. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

Revenue Recognition

We recognize revenue from product sales when goods are shipped and title and risk of loss transfer to our customers. A substantial portion of our revenue is generated by the sale of specialty pharmaceutical products (primarily eye care pharmaceuticals and skin care products) to wholesalers within the United States, and we have a policy to attempt to maintain average U.S. wholesaler inventory levels at an amount less than eight weeks of our net sales. A portion of our revenue is generated from consigned inventory of breast implants maintained at physician, hospital and clinic locations. These customers are contractually obligated to maintain a specific level of inventory and to notify us upon the use of consigned inventory. Revenue for consigned inventory is recognized at the time we are notified by the customer that the product has been used. Notification is usually through the replenishing of the inventory, and we periodically review consignment inventories to confirm the accuracy of customer reporting.

We generally offer cash discounts to customers for the early payment of receivables. Those discounts are recorded as a reduction of revenue and accounts receivable in the same period that the related sale is recorded. The amounts reserved for cash discounts were $2.3 million and $1.8 million at December 31, 2006 and 2005, respectively. Provisions for cash discounts deducted from consolidated sales in 2006, 2005 and 2004 were $30.9 million, $26.6 million and $22.5 million, respectively. We permit returns of product from most product lines by any class of customer if such product is returned in a timely manner, in good condition and from normal distribution channels. Return policies in certain international markets and for certain medical device products, primarily breast implants, provide for more stringent guidelines in accordance with the terms of contractual agreements with customers. We do not provide a right of return on our facial aesthetics product line. Our estimates for sales returns are based upon the historical patterns of products returned matched against the sales from which they originated, and management s evaluation of specific factors that may increase the risk of product returns. The amount of allowances for sales returns recognized in our consolidated balance sheets at December 31, 2006 and 2005 were $20.1 million and $5.1 million, respectively. Provisions for sales returns deducted from consolidated sales were $146.5 million, $30.6 million and $25.4 million in 2006, 2005 and 2004, respectively. The increase in the allowance for sales returns at December 31, 2006 compared to December 31, 2005 and the increase in the provision for sales returns in 2006 compared to 2005 and 2004 was primarily due to the acquired Inamed medical device products, primarily breast implants, which

generally have a significantly higher rate of return than specialty pharmaceutical products. Historical allowances for cash discounts and product returns have been within the amounts reserved or accrued.

We participate in various managed care sales rebate and other incentive programs, the largest of which relates to Medicaid and Medicare. Sales rebate and other incentive programs also include chargebacks, which are contractual discounts given primarily to federal government agencies, health maintenance organizations, pharmacy

benefits managers and group purchasing organizations. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in Other accrued expenses in our consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $71.2 million and $71.9 million at December 31, 2006 and 2005, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $175.6 million, $167.4 million and $144.7 million in 2006, 2005 and 2004, respectively. The increase in the provision for sales rebates and other incentive programs during 2006 and 2005 compared to the corresponding prior year is primarily due to the increase in U.S. specialty pharmaceutical sales, principally eye care pharmaceutical products which are subject to such rebate and incentive programs. In addition, an increase in our published list prices in the United States for pharmaceutical products, which occurred for several of our products early in 2006 and 2005, generally results in higher provisions for sales rebates and other incentive programs deducted from consolidated sales.

Our procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management s judgment with respect to many factors, including but not limited to, current market dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, we use historical sales, product utilization and rebate data and apply forecasting techniques in order to estimate our liability amounts. Qualitatively, management s judgment is applied to these items to modify, if appropriate, the estimated liability amounts. There are inherent risks in this process. For example, customers may not achieve assumed utilization levels; customers may misreport their utilization to us; and actual movements of the U.S. Consumer Price Index Urban (CPI-U), which affect our rebate programs with U.S. federal and state government agencies, may differ from those estimated. On a quarterly basis, adjustments to our estimated liabilities for sales rebates and other incentive programs related to sales made in prior periods have not been material and have generally been less than 0.5% of consolidated product net sales. An adjustment to our estimated liabilities of 0.5% of consolidated product net sales on a quarterly basis would result in an increase or decrease to net sales and earnings before income taxes of approximately $4 million to $5 million. The sensitivity of our estimates can vary by program and type of customer. Additionally, there is a significant time lag between the date we determine the estimated liability and when we actually pay the liability. Due to this time lag, we record adjustments to our estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods. Material differences may result in the amount of revenue we recognize from product sales if the actual amount of rebates and incentives differ materially from the amounts estimated by management.

We recognize license fees, royalties and reimbursement income for services provided as other revenues based on the facts and circumstances of each contractual agreement. In general, we recognize income upon the signing of a contractual agreement that grants rights to products or technology to a third party if we have no further obligation to provide products or services to the third party after entering into the contract. We defer income under contractual agreements when we have further obligations that indicate that a separate earnings process has not culminated.

Pensions

We sponsor various pension plans in the United States and abroad in accordance with local laws and regulations. Our U.S. pension plans account for a large majority of our aggregate pension plans net periodic benefit costs and projected benefit obligations. In connection with these plans, we use certain actuarial assumptions to determine the plans net periodic benefit costs and projected benefit obligations, the most significant of which are the expected long-term rate of return on assets and the discount rate.

Our assumption for the weighted average expected long-term rate of return on assets in our U.S. pension plans for determining the net periodic benefit cost is 8.25% for 2006, which is the same rate used for 2005 and 2004. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. pension plans were

6.19%, 6.89% and 6.88% for 2006, 2005 and 2004, respectively. We determine, based upon recommendations from our pension plans investment advisors, the expected rate of return using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Our investment advisors study historical market returns and preserve long-term historical relationships between equities and fixed income in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. They also evaluate market factors such as inflation and interest rates before

long-term capital market assumptions are determined. The expected rate of return is applied to the market-related value of plan assets. As a sensitivity measure, the effect of a 0.25% decline in our rate of return on assets assumptions for our U.S. and non-U.S. pension plans would increase our expected 2007 pre-tax pension benefit cost by approximately $1.2 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2006 were 5.90% and 4.65%, respectively, and at December 31, 2005 were 5.60% and 4.24%, respectively. We determine the discount rate largely based upon an index of high-quality fixed income investments (for our U.S. plans, we use the U.S. Moody s Aa Corporate Long Bond Index and for our non-U.S. plans, we use the iBoxx Corporate AA 10+ Year Index and the iBoxx £ Corporate AA 15+ Year Index) and, for our U.S. plans, a constructed hypothetical portfolio of high quality fixed income investments with maturities that mirror the pension benefit obligations at the plans measurement date. As a sensitivity measure, the effect of a 0.25% decline in the discount rate assumption for our U.S and non-U.S. pension plans would increase our expected 2007 pre-tax pension benefit costs by approximately $3.7 million and increase our pension plans projected benefit obligations at December 31, 2006 by approximately $27.0 million.

In the fourth quarter of 2006, we adopted the balance sheet recognition and reporting provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which required us to recognize the funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of our defined benefit pension and other postretirement benefit plans in our December 31, 2006 consolidated balance sheet. We discuss this change in accounting principle and the impact on our consolidated financial statements under Item 7A of Part II of this report, Recently Adopted Accounting Standards.

Share-Based Awards

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payment* (SFAS No. 123R), which requires measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. Under SFAS No. 123R, the fair value of share-based payment awards is estimated at the grant date using an option pricing model, and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. Prior to the adoption of SFAS No. 123R, we accounted for share-based awards using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Under the intrinsic value method, no share-based compensation cost was recognized for awards to employees or directors if the exercise price of the award was equal to the fair market value of the underlying stock on the date of grant.

We adopted SFAS No. 123R using the modified prospective application method. Under the modified prospective application method, prior periods are not retrospectively revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards and awards that were outstanding on the adoption effective date that are subsequently modified or cancelled. Estimated compensation expense for awards outstanding and unvested on the adoption effective date is recognized over the remaining service period using the compensation cost calculated for *pro forma* disclosure purposes under SFAS No. 123.

Pre-tax share-based compensation expense recognized under SFAS No. 123R for the year ended December 31, 2006 was $69.6 million, which consisted of compensation related to employee and director stock options of $48.6 million, employee and director restricted share awards of $9.2 million, and $11.8 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended December 31, 2005 was $13.6 million, which consisted of compensation related to employee and director restricted

share awards of $4.1 million and $9.5 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended December 31, 2004 was $11.5 million, which consisted of compensation related to employee and director restricted share awards of $2.3 million and $9.2 million related to stock contributed to employee benefit plans. There was no share-based compensation expense recognized during 2005 and 2004 related to employee or director stock options. The income

tax benefit related to recognized share-based compensation was $25.3 million, $4.9 million and $3.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

We use the Black-Scholes option-pricing model to estimate the fair value of share-based awards. The determination of fair value using the Black-Scholes model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility and projected employee stock option exercise behaviors. Prior to the adoption of SFAS No. 123R, we used an estimated stock price volatility based upon our five year historical average. Upon adoption of SFAS No. 123R, we changed our estimated volatility calculation to an equal weighting of our ten year historical average and the average implied volatility of at-the-money options traded in the open market. We estimate employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

We recognize share-based compensation cost over the requisite service period using the straight-line single option method. Since share-based compensation under SFAS No. 123R is recognized only for those awards that are ultimately expected to vest, we have applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. SFAS No. 123R requires these estimates to be revised, if necessary, 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. In the *pro forma* information required under SFAS No. 123 prior to January 1, 2006, we accounted for forfeitures as they occurred.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, *Transitional Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. We have elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance additional paid-in capital pool (APIC Pool) related to tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

Income Taxes

Income taxes are 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 and research and development (R&D) tax credits available in the United States. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions we use to estimate our annual effective tax rate, including factors such as our mix of pre-tax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, reserves for uncertain tax positions, utilization of R&D tax credits and changes in or interpretation of tax laws in jurisdictions where we conduct operations. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities, along with net operating loss and tax credit carryforwards. We record a valuation allowance against our deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce the valuation allowance against our deferred tax assets, our income tax expense will increase or decrease, respectively, in the period such determination is made.

Valuation allowances against our deferred tax assets were $20.8 million and $44.1 million at December 31, 2006 and 2005, respectively. Changes in the valuation allowances are recognized in the provision for income taxes as incurred and are generally included as a component of the estimated annual effective tax rate. The decrease in the amount of valuation allowances at December 31, 2006 compared to December 31, 2005 is primarily due to a $17.2 million reversal of the valuation allowance against a deferred tax asset that we have determined is now realizable. As a result of this determination, we have filed a refund claim for a prior year with the U.S. Internal Revenue Service. This refund

claim relates to the deductibility of certain capitalized intangible assets associated with our retinoid portfolio that we transferred to a third party in 2004. The balance of the net decrease in the valuation allowance at December 31, 2006 compared to December 31, 2005 is primarily due to a decrease in the valuation allowance related to deferred tax assets for certain capitalized intangible assets that became realizable due to the completion of a federal tax audit in the United States, and the abandonment of certain intangible assets for

tazarotene oral technologies that will result in a current tax deduction. Material differences in the estimated amount of valuation allowances may result in an increase or decrease in the provision for income taxes if the actual amounts for valuation allowances required against deferred tax assets differ from the amounts we estimate.

We have not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because we have currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2006, we had approximately $725.5 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 our U.S. tax liability, if any. We annually update our estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Purchase Price Allocation

The allocation of the purchase price for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values under the provisions of Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS No. 141). Additionally, we must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in a business combination.

On March 23, 2006, we acquired Inamed Corporation, or Inamed, and we engaged an independent third-party valuation firm to assist us in determining the estimated fair values of in-process research and development, identifiable intangible assets and certain tangible assets. Appraisals inherently require significant estimates and assumptions, including but not limited to, determining the timing and estimated costs to complete the in-process R&D projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates. We believe the estimated fair values assigned to the Inamed assets acquired and liabilities assumed are based on reasonable assumptions. However, the fair value estimates for the purchase price allocation may change during the allowable allocation period under SFAS No. 141, which is up to one year from the acquisition date, if additional information becomes available that would require changes to our estimates.

Operations

Headquartered in Irvine, California, we are a technology-driven, global health care company that discovers, develops and commercializes specialty pharmaceutical and medical device products for the ophthalmic, neurological, facial aesthetics, medical dermatological, breast aesthetics, obesity intervention and other specialty markets. We are a pioneer in specialty pharmaceutical research, targeting products and technologies related to specific disease areas such as glaucoma, retinal disease, dry eye, psoriasis, acne and movement disorders. Additionally, we discover, develop and market medical devices, aesthetics-related pharmaceuticals, and over-the-counter products. Within these areas, we are an innovative leader in saline and silicone gel-filled breast implants, dermal facial fillers and obesity intervention products, therapeutic and other prescription products, and to a limited degree, over-the-counter products that are sold in more than 100 countries around the world. We are also focusing research and development efforts on new therapeutic areas, including gastroenterology, neuropathic pain and genitourinary diseases. At December 31, 2006, we employed approximately 6,772 persons around the world. Our principal markets are the United States, Europe, Latin America and Asia Pacific.

Results of Operations

Following our June 2002 spin-off of AMO and through the first fiscal quarter of 2006, we operated our business on the basis of a single reportable segment specialty pharmaceuticals. Due to the Inamed acquisition, beginning in the second fiscal quarter of 2006, we operated our business on the basis of two reportable segments specialty pharmaceuticals and medical devices. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products, including: ophthalmic products for glaucoma therapy, ocular inflammation, infection, allergy and dry eye; skin care products for acne, psoriasis and other prescription and over-the-counter

dermatological products; and *Botox*® for certain therapeutic and aesthetic indications. The medical devices segment produces breast implants for aesthetic augmentation and reconstructive surgery; facial aesthetics products; and the *LAP-BAND*® System designed to treat severe and morbid obesity and the *BIB*™ System for the treatment of obesity. We provide global marketing strategy teams to coordinate the development and execution of a consistent marketing strategy for our products in all geographic regions that share similar distribution channels and customers.

Management evaluates our business segments and various global product portfolios on a revenue basis, which is presented below. We also report sales performance using the non-GAAP financial measure of constant currency sales. Constant currency sales represent current period reported sales, adjusted for the translation effect of changes in average foreign exchange rates between the current period and the corresponding period in the prior year. We calculate the currency effect by comparing adjusted current period reported sales, calculated using the monthly average foreign exchange rates for the corresponding period in the prior year, to the actual current period reported sales. We routinely evaluate our net sales performance at constant currency so that sales results can be viewed without the impact of changing foreign currency exchange rates, thereby facilitating period-to-period comparisons of our sales. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the growth at constant currency rates will be higher or lower, respectively, than growth reported at actual exchange rates.

The following tables compare net sales by product line within each reportable segment and certain selected pharmaceutical products for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,		Change in Product Net Sales			Percent Change in Product Net Sales		
	2006	2005	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$ 1,530.6	$ 1,321.7	$ 208.9	$ 200.0	$ 8.9	15.8%	15.1%	0.7%
Botox/Neuromodulator	982.2	830.9	151.3	145.1	6.2	18.2%	17.5%	0.7%
Skin Care	125.7	120.2	5.5	5.4	0.1	4.6%	4.5%	0.1%
Subtotal Pharmaceuticals	2,638.5	2,272.8	365.7	350.5	15.2	16.1%	15.4%	0.7%
Other*		46.4	(46.4)	(46.4)		(100.0)%	(100.0)%	%
Total Specialty Pharmaceuticals	2,638.5	2,319.2	319.3	304.1	15.2	13.8%	13.1%	0.7%
Medical Devices:								
Breast Aesthetics	177.2		177.2	177.2		%	%	%
Obesity Intervention	142.3		142.3	142.3		%	%	%
Facial Aesthetics	52.1		52.1	52.1		%	%	%
Total Medical Devices	371.6		371.6	371.6		%	%	%
Total product net sales	$ 3,010.1	$ 2,319.2	$ 690.9	$ 675.7	$ 15.2	29.8%	29.1%	0.7%
Domestic product net sales	67.4%	67.5%						
International product net sales	32.6%	32.5%						
Selected Product Sales:								
Alphagan P, Alphagan and Combigan	$ 295.9	$ 277.2	$ 18.7	$ 16.9	$ 1.8	6.7%	6.1%	0.6%
Lumigan Franchise	327.5	267.6	59.9	57.8	2.1	22.4%	21.6%	0.8%
Other Glaucoma	16.3	18.0	(1.7)	(1.9)	0.2	(9.2)%	(10.4)%	1.2%
Restasis	270.2	190.9	79.3	79.2	0.1	41.6%	41.5%	0.1%

	Year Ended December 31,		Change in Product Net Sales			Percent Change in Product Net Sales		
	2005	2004	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							

Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$ 1,321.7	$ 1,137.1	$ 184.6	$ 170.3	$ 14.3	16.2%	15.0%	1.2%
Botox/Neuromodulator	830.9	705.1	125.8	118.1	7.7	17.8%	16.7%	1.1%
Skin Care	120.2	103.4	16.8	16.7	0.1	16.2%	16.2%	%
Subtotal Pharmaceuticals	2,272.8	1,945.6	327.2	305.1	22.1	16.8%	15.7%	1.1%
Other*	46.4	100.0	(53.6)	(53.8)	0.2	(53.6)%	(53.8)%	0.2%
Total Specialty Pharmaceuticals	$ 2,319.2	$ 2,045.6	$ 273.6	$ 251.3	$ 22.3	13.4%	12.3%	1.1%
Domestic product net sales	67.5%	69.1%						
International product net sales	32.5%	30.9%						
Selected Product Sales:								
Alphagan P, Alphagan and Combigan	$ 277.2	$ 268.9	$ 8.3	$ 6.1	$ 2.2	3.1%	2.3%	0.8%
Lumigan Franchise	267.6	232.9	34.7	32.5	2.2	14.9%	13.9%	1.0%
Other Glaucoma	18.0	19.1	(1.1)	(1.6)	0.5	(5.9)%	(8.5)%	2.6%
Restasis	190.9	99.8	91.1	90.9	0.2	91.2%	91.0%	0.2%

* Other specialty pharmaceuticals sales primarily consist of sales to Advanced Medical Optics, Inc., or AMO, pursuant to a manufacturing and supply agreement entered into as part of the June 2002 AMO spin-off that terminated as scheduled in June 2005.

Product Net Sales

The $690.9 million increase in product net sales in 2006 compared to 2005 primarily resulted from $371.6 million of medical device product net sales in 2006 following the Inamed acquisition and an increase of $319.3 million in our specialty pharmaceuticals product net sales. The increase in specialty pharmaceuticals product net sales is due primarily to increases in sales of our eye care pharmaceuticals and *Botox*® product lines, partially offset by a decrease in other specialty pharmaceuticals sales, primarily consisting of contract sales to AMO that terminated as scheduled in June 2005.

Eye care pharmaceuticals sales increased in 2006 compared to 2005 primarily because of strong growth in sales of *Restasis*®, our therapeutic for the treatment of chronic dry eye disease, an increase in sales of our glaucoma drug *Lumigan*®, growth in sales of eye drop products, primarily *Refresh*®, an increase in sales of *Elestat*®, our topical antihistamine used for the prevention of itching associated with allergic conjunctivitis, an increase in sales of *Combigan*™ in Europe, Latin America and Canada, an increase in new product sales of *Alphagan*® *P* 0.1%, our recently introduced next generation of *Alphagan*® for the treatment of glaucoma that was launched in the United States in the first quarter of 2006, strong sales growth of *Zymar*®, a newer anti-infective, and an increase in sales of *Acular LS*®, our newer non-steriodal anti-inflammatory. This increase in eye care pharmaceuticals sales was partially offset by lower sales of *Alphagan*® *P* 0.15% due to a general decline in U.S. wholesaler demand and the negative effect of generic *Alphagan*® competition, a decrease in sales of *Acular*®, our older generation anti-inflammatory, and lower sales of other glaucoma products. We continue to believe that generic formulations of *Alphagan*® will have a negative effect on future net sales of our *Alphagan*® franchise. We estimate the majority of the increase in our eye care pharmaceuticals sales was due to a shift in sales mix to a greater percentage of higher priced products, and an overall net increase in the volume of product sold. We increased the published list prices for certain eye care pharmaceutical products in the United States, ranging from five percent to nine percent, effective January 22, 2006. We increased the published U.S. list price for *Lumigan*® by five percent, *Restasis*® by seven percent, *Alphagan*® *P* 0.15% by five percent, *Zymar*® by seven percent, and *Acular LS*® by nine percent. This increase in prices had a positive net effect on our U.S. sales for 2006, but the actual net effect is difficult to determine due to the various managed care sales rebate and other incentive programs in which we participate. Wholesaler buying patterns and the change in dollar value of prescription product mix also affected our reported net sales dollars, although we are unable to determine the impact of these effects. We have a policy to attempt to maintain average U.S. wholesaler inventory levels of our specialty pharmaceutical products at an amount less than eight weeks of our net sales. At December 31, 2006, based on available external and internal information, we believe the amount of average U.S. wholesaler inventories of our specialty pharmaceutical products was near the lower end of our stated policy levels.

Botox® sales increased in 2006 compared to 2005 primarily due to strong growth in demand in the United States and in international markets, excluding Japan, for both cosmetic and therapeutic use. Effective January 1, 2006, we increased the published price for *Botox*® and *Botox*® Cosmetic in the United States by approximately four percent, which we believe had a positive effect on our U.S. sales growth in 2006, primarily related to sales of *Botox*® Cosmetic. In the United States, the actual net effect from the increase in price for sales of *Botox*® for therapeutic use is difficult to determine, primarily due to rebate programs with U.S. federal and state government agencies. International *Botox*® sales benefited from strong sales growth for both cosmetic and therapeutic use in Europe, Latin America and Asia Pacific outside Japan. This increase in international *Botox*® sales was partially offset by a $38.8 million decrease in international sales of *Botox*® for therapeutic use in Japan, where we recently adopted a third party license and distribution business model as a result of our long-term agreement with GlaxoSmithKline, or GSK, that commenced in September 2005. Based on internal information and assumptions, we estimate in 2006 that *Botox*® therapeutic sales accounted for approximately 52% of total consolidated *Botox*® net sales and cosmetic sales accounted for approximately 48% of total consolidated *Botox*® net sales. Therapeutic and cosmetic net sales increased by approximately 8% and 32%, respectively in 2006 compared to 2005. The growth rate in *Botox*® therapeutic net sales

was negatively impacted in 2006 by the $38.8 million reduction in net sales in Japan in 2006 compared to 2005 due to our long-term agreement with GSK. Excluding this net sales reduction of $38.8 million in Japan, therapeutic *Botox*® net sales increased by 17% in 2006 compared to 2005. We believe our worldwide market share for neuromodulators, including *Botox*®, is currently over 85%.

Skin care sales increased in 2006 compared to 2005 primarily due to higher sales of *Tazorac*®, *Zorac*®, *Avage*® and *MD Forte*®. Net sales of *Tazorac*®, *Zorac*® and *Avage*® increased $4.3 million, or 4.9%, to $91.2 million in

2006, compared to $86.9 million in 2005. The increase in sales of *Tazorac*®, *Zorac*® and *Avage*® resulted primarily from our increasing the published U.S. list price for these products by nine percent effective January 14, 2006.

Net sales from medical device products were $371.6 million in 2006. Product net sales consisted of $177.2 million related to breast aesthetics, $142.3 million for obesity intervention and $52.1 million for facial aesthetics. Medical device product net sales have been included in our consolidated product net sales effective March 23, 2006, the date of the Inamed acquisition. Breast aesthetics net sales primarily consist of saline-filled and silicone gel-filled breast implants and tissue expanders for use in breast reconstruction, augmentation and revisions. Obesity intervention net sales primarily consist of devices used for minimally invasive long-term treatments of obesity such as our *LAP-BAND*® System and *BIB*™ System. Facial aesthetics net sales primarily consist of dermal filler products used to correct facial wrinkles, which include collagen and hyaluronic acid-based injectable products.

The $273.6 million increase in net sales in 2005 compared to 2004 was primarily the result of increases in sales of our eye care pharmaceuticals, *Botox*® and skin care product lines, partially offset by a decrease in other non-pharmaceutical sales to AMO.

Eye care pharmaceuticals sales increased in 2005 compared to 2004 primarily because of strong growth in sales in the United States of *Restasis*®, our drug for the treatment of chronic dry eye disease, an increase in sales of our glaucoma drug *Lumigan*®, growth in sales of our *Alphagan*® franchise, primarily from our international operations and new product sales from *Combigan*™ which was in the launch phase in Canada and Brazil during 2005, a strong increase in sales of eye drop products, primarily *Refresh*®, growth in sales of *Zymar*®, a newer anti-infective, an increase in sales of *Elestat*®, our topical antihistamine used for the prevention of itching associated with allergic conjunctivitis, and an increase in sales of *Acular LS*®, our newer non-steroidal anti-inflammatory. This increase in sales was partially offset by a decrease in sales of *Ocuflox*®, our older generation anti-infective that is experiencing generic competition in the United States, *Acular*®, our older generation anti-inflammatory, and other glaucoma products. We continue to believe that generic formulations of *Alphagan*® will have a negative impact on future net sales of our *Alphagan*® franchise. We estimate the majority of the change in our eye care pharmaceutical sales was due to mix and volume changes; however, we increased the published list prices for certain eye care pharmaceutical products in the United States, ranging from three and one-half percent to nine percent, effective February 5, 2005. We increased the published U.S. list price for *Lumigan*® by seven percent, *Restasis*® by three and one-half percent and *Alphagan*® *P* by five percent. This increase in prices had a subsequent positive net effect on our U.S. sales during 2005 compared to 2004, but the actual net effect is difficult to determine due to the various managed care sales rebate and other incentive programs in which we participate. Wholesaler buying patterns and the change in dollar value of prescription product mix also affected our reported net sales dollars. We have a policy to attempt to maintain average U.S. wholesaler inventory levels of our products at an amount less than eight weeks of our net sales. At December 31, 2005, based on available external and internal information, we believe the amount of average U.S. wholesaler inventories of our products was near the lower end of our stated policy levels.

Botox® sales increased in 2005 compared to 2004 primarily as a result of strong growth in demand in the United States and in international markets for both therapeutic and cosmetic uses. Based on internal information and assumptions, we estimate that in 2005, *Botox*® therapeutic sales accounted for approximately 57% of total consolidated *Botox*® net sales and cosmetic sales accounted for approximately 43% of total consolidated *Botox*® net sales. Therapeutic and cosmetic net sales grew approximately 16% and 21%, respectively, in 2005 compared to 2004. Effective January 4, 2005, we increased the published price for *Botox*® and *Botox*® Cosmetic in the United States by approximately four percent, which we believe had a positive effect on our U.S. sales growth in 2005. International *Botox*® sales also benefited from strong sales growth in Europe, especially in Germany, the United Kingdom, Spain, Italy and the Nordics, growth in sales in smaller distribution markets serviced by our European export sales group, and an increase in sales in Canada, Mexico, Japan and Australia. We believe our worldwide market share in 2005 for neuromodulators, including *Botox*®, was over 85%.

Skin care sales increased in 2005 compared to 2004 primarily due to higher sales of *Tazorac*® in the United States and new product sales generated from *Prevage*tm antioxidant cream, which we launched in January 2005. Net sales of *Tazorac*®, *Zorac*® and *Avage*® increased $11.8 million, or 15.7%, to $86.9 million in 2005 compared to $75.1 million in 2004. We increased the published U.S. list price for *Tazorac*® by nine percent effective February 5, 2005.

Foreign currency changes increased product net sales by $15.2 million in 2006 compared to 2005, primarily due to the strengthening of the euro, British Pound, Canadian dollar and Brazilian real, partially offset by the weakening of the Australian dollar and other Asian and Latin America currencies compared to the U.S. dollar. The $22.3 million increase in net sales from the impact of foreign currency changes in 2005 compared to 2004 was due primarily to the strengthening of the Brazilian real, Canadian dollar, British Pound, Australian dollar, Mexican peso, the euro and other Latin American currencies compared to the U.S. dollar.

U.S. sales as a percentage of total product net sales decreased by 0.1 percentage points to 67.4% compared to U.S. sales of 67.5% in 2005, due primarily to the impact of sales of medical device products, which have a lower amount of U.S. sales as a percentage of total product net sales compared to our pharmaceutical products, and a decrease in U.S. other non-pharmaceutical sales, partially offset by an increase in U.S. *Botox*® sales as a percentage of total pharmaceutical product net sales. U.S. sales in 2005 as a percentage of total product net sales declined 1.6 percentage points to 67.5% compared to U.S. sales of 69.1% in 2004, due primarily to a decrease in U.S. other non-pharmaceutical sales and an increase in international *Botox*® and eye care pharmaceutical sales, principally in Europe, as a percentage of total product net sales.

Other Revenues

Other revenues increased $29.8 million to $53.2 million in 2006 compared to $23.4 million in 2005. Other revenues increased $10.1 million to $23.4 million in 2005 compared to $13.3 million in 2004. The increase in other revenues in 2006 compared to 2005 is primarily related to an increase of approximately $18.0 million in royalty income earned principally from sales of *Botox*® in Japan by GSK under a license agreement and other miscellaneous royalty agreements, and an increase of approximately $11.8 million in reimbursement income, earned primarily from services provided in connection with contractual agreements related to the development and promotion of *Botox*® in Japan and China, the co-promotion of GSK s products *Imitrex Statdose System*® and *Amerge*® in the United States to neurologists, and services performed under a co-promotion agreement for a third-party skin care product. The increase in other revenues in 2005 compared to 2004 is primarily related to an increase in reimbursement income of $12.4 million associated with services provided in connection with contractual agreements related to the development of *Posurdex*® for the ophthalmic specialty market in Japan, the development and promotion of *Botox*® in Japan and China, and services performed under a co-promotion agreement for a third-party skin care product, partially offset by a decline in royalty income of $2.3 million, due primarily to a decrease in royalty receipts related to patents for the use of botulinum toxin type B for cervical dystonia.

Income and Expenses

The following table sets forth the relationship to product net sales of various items in our consolidated statements of operations:

	Year Ended December 31,		
	2006	**2005**	**2004**
Product net sales	100.0%	100.0%	100.0%
Other revenues	1.7	1.0	0.7
Operating costs and expenses:			
Cost of sales (excludes amortization of acquired intangible assets)	19.1	16.6	18.7
Selling, general and administrative	44.3	40.4	38.7
Research and development	35.1	16.7	16.8

Amortization of acquired intangible assets	2.6	0.8	0.4
Restructuring charges	0.7	1.9	0.3
Operating (loss) income	(0.1)	24.6	25.8
Other, net	(0.5)	1.2	0.2
(Loss) earnings before income taxes and minority interest	(0.6)%	25.8%	26.0%
Net (loss) earnings	(4.2)%	17.4%	18.4%

Cost of Sales

Cost of sales increased $190.4 million, or 49.4%, in 2006 to $575.7 million, or 19.1% of product net sales, compared to $385.3 million, or 16.6% of product net sales in 2005. Cost of sales in dollars increased in 2006 compared to 2005 primarily as a result of the 29.8% increase in product net sales and the increase in the mix of medical device product net sales relative to total product net sales. Our cost of sales as a percentage of product net sales for 2006 increased 2.5 percentage points from our cost of sales percentage in 2005, primarily as a result of incremental cost of sales of $47.9 million associated with the Inamed acquisition purchase accounting fair-market value inventory adjustment that was fully recognized as cost of sales in 2006, sales of our medical device products, which generally have a higher cost of sales percentage compared to our specialty pharmaceutical products and a small increase in our cost of sales percentage for *Botox*®. Cost of sales in 2006 also includes $0.9 million related to integration and transition costs associated with the Inamed acquisition and $3.0 million of costs associated with stock option compensation. The increase in the cost of sales percentage in 2006 compared to 2005 was partially offset by the $46.4 million decrease in other non-pharmaceutical sales, primarily contract manufacturing sales related to AMO, which had a significantly higher cost of sales percentage than our pharmaceutical sales.

Cost of sales increased $3.6 million, or 0.9%, in 2005 to $385.3 million, or 16.6% of product net sales, compared to $381.7 million, or 18.7% of product net sales in 2004. Cost of sales in dollars increased in 2005 compared to 2004 primarily as a result of the 16.8% increase in pharmaceutical product net sales, partially offset by a decrease in other non-pharmaceutical sales of $53.6 million. As a percentage of product net sales, cost of sales decreased by 2.1 percentage points in 2005 compared to 2004 primarily as a result of the decrease in other non-pharmaceutical sales, primarily contract manufacturing sales, which had a significantly higher cost of sales percentage than our pharmaceutical sales. The decrease in cost of sales percentage in 2005 compared to 2004 was partially offset by a small increase in the cost of sales percentage of our eye care pharmaceuticals, *Botox*® and skin care product lines.

Selling, General and Administrative

Selling, general and administrative, or SG&A, expenses increased $396.6 million, or 42.3%, to $1,333.4 million, or 44.3% of product net sales in 2006 compared to $936.8 million, or 40.4% of product net sales in 2005. The increase in SG&A expenses in dollars primarily relates to increased SG&A expenses associated with the Inamed acquisition, an increase in selling expenses, principally personnel costs driven by the expansion of our U.S. facial aesthetics, neuroscience and ophthalmology sales forces and our European glaucoma sales force to promote growth in consolidated product sales, especially for *Restasis*®, *Lumigan*®, *Combigan*™, *Botox*® and *Botox*® Cosmetic, and to support our agreement with GSK to promote GSK s *Imitrex Statdose System*® and *Amerge*® products in the United States. SG&A also increased in 2006 compared to 2005 due to an increase in marketing expenses supporting our expanded selling efforts, higher general and administrative expenses, primarily incentive compensation costs, legal costs and bank fees, an increase in integration and transition costs related to the Inamed acquisition of $19.6 million, additional costs associated with stock option compensation of $34.6 million, and a $1.9 million increase in transition and duplicate operating expenses associated with the restructuring and streamlining of our European operations, to $5.7 million in 2006, which includes a loss of $3.4 million on the sale of our Mougins, France facility, compared to $3.8 million in 2005. In addition, SG&A expenses increased in 2006 compared to 2005 due to pre-tax gains in 2005 totaling $14.2 million that did not recur in 2006. These gains in 2005 consisted of a $7.9 million pre-tax gain on the sale of our contact lens care and surgical distribution business in India to a subsidiary of AMO, a $5.7 million pre-tax gain on the sale of assets primarily used for contract manufacturing and the former distribution of AMO related products at our manufacturing facility in Ireland, and a $0.6 million pre-tax gain from the sale of a former manufacturing plant in Argentina. SG&A expenses in 2006 also included a $28.5 million contribution to The Allergan Foundation compared to a $2.0 million contribution in 2005. SG&A expenses as a percentage of product net sales increased in 2006 compared to 2005 due primarily to higher selling expenses and general and administrative costs, partially offset by lower promotion expenses as a percentage of product net sales.

Selling, general and administrative expenses increased $145.1 million, or 18.3%, to $936.8 million in 2005, or 40.4% of product net sales, compared to $791.7 million, or 38.7% of product net sales in 2004. The increase in SG&A expenses in 2005 in dollars compared to 2004 was primarily a result of an increase in promotion costs associated with direct-to-consumer advertising in the United States for *Restasis*®, *Botox*® Cosmetic, and to a lesser

extent, the hyperhidrosis indication for *Botox*®, an increase in selling expenses, principally personnel costs, and marketing expenses supporting the increase in consolidated sales, especially for *Restasis*®, *Botox*® and *Botox*® Cosmetic, a small increase in the cost of providing product samples, and higher general and administrative expenses, primarily incentive compensation, legal costs, information services, corporate development expenses and charitable donations. We made a $2.0 million contribution to The Allergan Foundation in 2005, but did not make a similar contribution in 2004. SG&A expenses also increased due to an increase in co-promotion costs related to sales of *Elestat*®, costs associated with expanding our *Botox*® sales force in Europe driven by separating the therapeutic and aesthetic businesses, and our eye care pharmaceuticals and *Botox*® sales forces in the United States, and the non-recurrence of a favorable settlement of a patent dispute amounting to $2.4 million in the first quarter of 2004. SG&A expenses were also negatively impacted in 2005 by implementation and transition related expenses and duplicate operating expenses associated with the restructuring and streamlining of our European operations, which totaled $3.8 million, and by an increase in the translated U.S. dollar value of foreign currency denominated expenses, especially in Europe and Latin America. This increase in SG&A expenses during 2005 compared to 2004 was partially offset by a $7.9 million pre-tax gain on the sale of our contact lens care and surgical products distribution business in India to a subsidiary of AMO, and a $5.7 million pre-tax gain on the sale of assets primarily used for contract manufacturing and the former distribution of AMO related products at our manufacturing facility in Ireland. As a percentage of product net sales, SG&A expenses increased in 2005 compared to 2004 due primarily to higher promotion and marketing expenses, and general and administrative expenses as a percentage of product net sales, partially offset by lower selling expenses, higher miscellaneous operating income and the pre-tax gains from the sale of assets as a percentage of net sales.

Research and Development

Research and development, or R&D, expenses increased $667.2 million, or 171.8%, to $1,055.5 million in 2006, or 35.1% of product net sales, compared to $388.3 million, or 16.7% of product net sales in 2005. For the year ended December 31, 2006, R&D expenses include a charge of $579.3 million for in-process R&D acquired in the Inamed acquisition. In-process R&D represents an estimate of the fair value of purchased in-process technology for Inamed projects that, as of the Inamed acquisition date (March 23, 2006), had not reached technical feasibility and had no alternative future uses in their current state. Excluding the effect of the $579.3 million in-process R&D charge, R&D expenses increased by $87.9 million, or 22.6%, to $476.2 million in 2006, or 15.8% of product net sales, compared to $388.3 million, or 16.7% of product net sales in 2005. The increase in R&D expenses, excluding the $579.3 million in-process R&D charge, was primarily a result of higher rates of investment in our eye care pharmaceuticals and *Botox*® product lines, increased spending for new pharmaceutical technologies, the addition of development expenses associated with our medical device products acquired in the Inamed acquisition, and $11.0 million of additional costs associated with stock option compensation, partially offset by a decline in spending for our skin care product line. R&D expenses in 2006 include $0.2 million of integration and transition costs related to the Inamed acquisition and $0.5 million of transition and duplicate operating expenses related to the restructuring and streamlining of our operations in Europe. Included in our spending for research and development in 2005 is approximately $10.4 million in costs, which did not recur in 2006, associated with two third party technology and license agreements and a buy-out of a license agreement as discussed below in the analysis of R&D expenses in 2005 compared to 2004. Spending increases in 2006 compared to 2005 were primarily driven by an increase in clinical trial costs associated with *Posurdex*®, memantine, and certain *Botox*® indications for overactive bladder, migraine headache and benign prostatic hypertrophy. The decrease in R&D expenses, excluding the in-process R&D charge, as a percentage of product net sales in 2006 compared to 2005 was primarily due to our medical device products acquired in the acquisition of Inamed, which have a lower level of R&D spend as a percentage of product net sales relative to our specialty pharmaceutical products.

R&D expenses increased $45.4 million, or 13.2%, to $388.3 million in 2005, or 16.7% of product net sales, compared to $342.9 million, or 16.8% of product net sales in 2004. R&D spending in dollars increased in 2005 compared to

2004 primarily as a result of higher rates of investment in our eye care pharmaceuticals and *Botox*® product lines and new technologies, partially offset by lower spending for our skin care product line. Spending increases in 2005 compared to 2004 were primarily driven by an increase in clinical trial costs associated with our *Posurdex*® technology and certain *Botox*® indications for overactive bladder and migraine headache. Also included in our spending for research and development in 2005 is $7.4 million in costs associated with two new third party

technology license and development agreements associated with in-process technologies and $3.0 million related to the buy-out of a license agreement with Johns Hopkins University associated with ongoing *Botox*® research activities.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets increased $62.1 million to $79.6 million in 2006, or 2.6% of product net sales, compared to $17.5 million, or 0.8% of product net sales in 2005. This increase in amortization expense in dollars and as a percentage of product net sales in 2006 compared to 2005 is primarily due to a $58.6 million increase in amortization of intangible assets related to the Inamed acquisition and capitalized payments to third party licensors related to achievement of regulatory approvals to commercialize *Juvéderm*™ dermal filler products in the United States and Australia.

Amortization of acquired intangible assets increased $9.3 million to $17.5 million in 2005, or 0.8% of product net sales, compared to $8.2 million, or 0.4% of product net sales in 2004. The increase in amortization expense in 2005 compared to 2004 was primarily due to an increase in amortization of intangible assets associated with a royalty buy-out agreement relating to *Restasis*®.

Restructuring Charges, Integration Costs, and Transition and Duplicate Operating Expenses

Restructuring charges in 2006 were $22.3 million compared to $43.8 million in 2005 and $7.0 million in 2004. The $21.5 million decrease in restructuring charges in 2006 compared to 2005 is due primarily to a decline in restructuring activities related to the streamlining of our European operations and the termination of our manufacturing and supply agreement with AMO, which terminated as scheduled in June 2005, partially offset by an increase in restructuring costs associated with the integration of the Inamed operations that we acquired in 2006. The $36.8 million increase in restructuring charges in 2005 compared to 2004 was due primarily to activities associated with the streamlining of our European operations, the termination of our manufacturing and supply agreement with AMO, and the restructuring and streamlining of our operations in Japan.

Restructuring and Integration of Inamed Operations

In connection with the Inamed acquisition on March 23, 2006, we initiated a global restructuring and integration plan to merge Inamed s operations with our operations and to capture synergies through the centralization of certain general and administrative and commercial functions. Specifically, the restructuring and integration activities involve eliminating certain general and administrative positions, moving key commercial Inamed business functions to our locations around the world, integrating Inamed s distributor operations with our existing distribution network and integrating Inamed s information systems with our information systems.

We have incurred, and anticipate that we will continue to incur, charges relating to severance, relocation and one-time termination benefits, payments to public employment and training programs, integration and transition costs, and contract termination costs in connection with the restructuring and integration of our Inamed operations. We currently estimate that the total pre-tax charges resulting from the restructuring, including integration and transition costs, will be between $61.0 million and $75.0 million, all of which are expected to be cash expenditures. In addition to the pre-tax charges, we expect to incur capital expenditures of approximately $20.0 million to $25.0 million, primarily related to the integration of information systems.

The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 59 positions, principally general and administrative positions at Inamed locations. These workforce reduction activities began in the second quarter of 2006 and are expected to be substantially completed by the close of the fourth quarter of 2007. Charges associated with the workforce reduction, including severance, relocation and one-time termination

benefits, and payments to public employment and training programs, are currently expected to total approximately $7.0 million to $9.0 million.

Estimated charges include estimates for contract and lease termination costs, including the termination of duplicative distributor arrangements. Contract and lease termination costs are expected to total approximately $29.0 million to $36.0 million. We began to record these costs in the second quarter of 2006 and expect to continue to incur them up through and including the fourth quarter of 2007.

We also expect to pay an additional amount of approximately $1.5 million to $2.0 million for taxes related to intercompany transfers of trade businesses and net assets.

During the year ended December 31, 2006, we recorded pre-tax restructuring charges of $13.5 million, $20.7 million of integration and transition costs and $1.6 million for income tax costs related to intercompany transfers of trade businesses and net assets, which we included in our provision for income taxes. Restructuring charges primarily consisted of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and other costs related to the restructuring of the Inamed operations. Integration and transition costs consisted primarily of salaries, travel, communications, recruitment and consulting costs. Integration and transition costs were reported in our 2006 consolidated statement of operations as $0.9 million in cost of sales, $19.6 million in SG&A expenses, and $0.2 million in R&D expenses.

The following table presents the cumulative restructuring activities related to the Inamed operations through December 31, 2006:

	Employee Severance	Contract and Lease Termination Costs	Total
		(in millions)	
Net charge during 2006	$ 6.1	$ 7.4	$ 13.5
Spending	(2.1)	(2.5)	(4.6)
Balance at December 31, 2006 (included in Other accrued expenses)	$ 4.0	$ 4.9	$ 8.9

On January 30, 2007, our Board of Directors approved an additional plan to restructure and eventually sell or close our collagen manufacturing facility in Fremont, California that we acquired in the Inamed acquisition. This plan is the result of a reduction in anticipated future market demand for human and bovine collagen products. In connection with the restructuring and eventual sale or closure of the facility, we estimate that total pre-tax 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 69 positions, consisting principally of manufacturing positions at our facility. We expect to begin to record these costs in the first quarter of 2007 and expect to continue to incur them up through and including the fourth quarter of 2008. Prior to any closure of our facility, we intend to manufacture a sufficient quantity of inventories of our collagen products to meet estimated market demand through 2010.

Restructuring and Streamlining of Operations in Japan

On September 30, 2005, we entered into a long-term agreement with GSK to develop and promote our *Botox*® product in Japan and China. Under the terms of this agreement, we licensed to GSK all clinical development and commercial rights to *Botox*® in Japan and China. As a result of this agreement, we initiated a plan in October 2005 to restructure and streamline our operations in Japan. We substantially completed the restructuring activities as of June 30, 2006. As of December 31, 2006, we recorded cumulative pre-tax restructuring charges of $1.9 million ($2.3 million in 2005 and a net reversal of $0.4 million in 2006). There are no remaining accrued liabilities for restructuring and streamlining of our operations in Japan at December 31, 2006.

Restructuring and Streamlining of European Operations

Effective January 2005, our Board of Directors approved the initiation and implementation of a restructuring of certain activities related to our European operations to optimize operations, improve resource allocation and create a scalable, lower cost and more efficient operating model for our European research and development and commercial activities. Specifically, the restructuring involved moving key European research and development and select commercial functions from our Mougins, France and other European locations to our Irvine, California, Marlow, United Kingdom and Dublin, Ireland facilities and streamlining functions in our European management services group. The workforce reduction began in the first quarter of 2005 and was substantially completed by the close of the second quarter of 2006.

As of December 31, 2006, we substantially completed all activities related to the restructuring and streamlining of our European operations and recorded cumulative pre-tax restructuring charges of $37.5 million, primarily related to severance, relocation and one-time termination benefits, payments to public employment and training programs, contract termination costs and capital and other asset-related expenses. During the years ended December 31, 2006 and 2005, we recorded $8.6 million and $28.9 million, respectively, of restructuring charges related to our European operations.

Additionally, as of December 31, 2006, we have incurred cumulative transition and duplicate operating expenses of $11.8 million relating primarily to legal, consulting, recruiting, information system implementation costs and taxes related to the European restructuring activities. Duplicate operating expenses are costs incurred during the transition period to ensure that job knowledge and skills are properly transferred to new employees. For the year ended December 31, 2006, we recorded $6.2 million of transition and duplicate operating expenses, including a $3.4 million loss related to the sale of our Mougins, France facility, consisting of $5.7 million in selling, general and administrative expenses and $0.5 million in research and development expenses. For the year ended December 31, 2005, we recorded $5.6 million of transition and duplicate operating expenses, consisting of $0.3 million in cost of sales, $3.8 million in selling, general and administrative expenses and $1.5 million in research and development expenses.

The following table presents the cumulative restructuring activities related to our European operations through December 31, 2006:

	Employee Severance	Other Costs	Total
		(in millions)	
Net charge during 2005	$ 25.9	$ 3.0	$ 28.9
Assets written off		(0.2)	(0.2)
Spending	(10.7)	(2.8)	(13.5)
Balance at December 31, 2005	15.2		15.2
Net charge during 2006	4.6	4.0	8.6
Spending	(15.7)	(0.8)	(16.5)
Balance at December 31, 2006 (included in Other accrued expenses for employee severance and in Other liabilities for other costs)	$ 4.1	$ 3.2	$ 7.3

Termination of Manufacturing and Supply Agreement with Advanced Medical Optics

In October 2004, our Board of Directors approved certain restructuring activities related to the scheduled termination in June 2005 of our manufacturing and supply agreement with AMO, which we spun-off in June 2002. Under the manufacturing and supply agreement, which was entered into in connection with the AMO spin-off, we agreed to manufacture certain contact lens care products and VITRAX, a surgical viscoelastic, for AMO for a period of up to three years ending in June 2005. As part of the scheduled termination of the manufacturing and supply agreement, we eliminated certain manufacturing positions at our Westport, Ireland; Waco, Texas; and Guarulhos, Brazil manufacturing facilities.

As of December 31, 2005, we substantially completed all activities related to the termination of the manufacturing and supply agreement. As of December 31, 2006, we recorded cumulative pre-tax restructuring charges of $22.2 million ($7.1 million in 2004, $14.5 million in 2005 and $0.6 million in 2006). There are no remaining accrued liabilities for the termination of our manufacturing and supply agreement with AMO at December 31, 2006.

Operating Income (Loss)

Management evaluates business segment performance on an operating income (loss) basis exclusive of general and administrative expenses and other indirect costs, restructuring charges, in-process research and development expenses, amortization of identifiable intangible assets related to the Inamed acquisition and certain other adjustments, which are not allocated to our business segments for performance assessment by our chief

operating decision maker. Other adjustments excluded from our business segments for purposes of performance assessment represent income or expenses that do not reflect, according to established company-defined criteria, operating income or expenses associated with our core business activities.

General and administrative expenses, other indirect costs and other adjustments not allocated to our business segments for purposes of performance assessment consisted of the following items: for 2006, general and administrative expenses of $244.8 million, integration and transition costs related to Inamed operations of $20.7 million, a purchase accounting fair-market value inventory adjustment related to the Inamed acquisition of $47.9 million, transition and duplicate operating expenses relating to the restructuring and streamlining of our operations in Europe of $6.2 million, a contribution to The Allegan Foundation of $28.5 million, and other net indirect costs of $3.6 million; for 2005, general and administrative expenses of $159.0 million, transition and duplicate operating expenses relating to the restructuring and streamlining of our operations in Europe of $5.6 million, pre-tax gains totaling $14.2 million on the sale of our contact lens care and surgical distribution business in India, the sale of assets at our manufacturing facility in Ireland and the sale of a former manufacturing plant in Argentina, the buyout of a license agreement of $3.0 million, and other net indirect income of $5.2 million; and for 2004, general and administrative expenses of $149.3 million, a favorable settlement of a patent dispute of $2.4 million, and other net indirect costs of $3.4 million.

The following table presents operating income (loss) for each reportable segment for the years ended December 31, 2006, 2005 and 2004 and a reconciliation of our segments operating income to consolidated operating income (loss):

	2006	2005	2004
		(in millions)	
Operating income (loss):			
Specialty pharmaceuticals	$ 888.8	$ 762.9	$ 684.7
Medical devices	119.9		
Total segments	1,008.7	762.9	684.7
General and administrative expenses, other indirect costs and other adjustments	351.7	148.2	150.3
In-process research and development	579.3		
Amortization of acquired intangible assets(a)	58.6		
Restructuring charges	22.3	43.8	7.0
Total operating (loss) income	$ (3.2)	$ 570.9	$ 527.4

(a) Represents amortization of identifiable intangible assets related to the Inamed acquisition.

Our consolidated operating loss for the year ended December 31, 2006 was $3.2 million, or (0.1)% of product net sales, compared to consolidated operating income of $570.9 million, or 24.6% of product net sales in 2005. The $574.1 million decrease in consolidated operating income was due to the $190.4 million increase in cost of sales, $396.6 million increase in SG&A expenses, $667.2 million increase in R&D expenses, and $62.1 million increase in amortization of acquired intangible assets, partially offset by the $690.9 million increase in product net sales, $29.8 million increase in other revenues and $21.5 million decrease in restructuring charges.

Our specialty pharmaceuticals segment operating income in 2006 was $888.8 million, compared to operating income of $762.9 million in 2005. The $125.9 million increase in specialty pharmaceuticals segment operating income was due primarily to an increase in product net sales of our eye care pharmaceuticals and *Botox*® product lines, partially offset by an increase in cost of sales, including the effect of a small increase in our cost of sales percentage for *Botox*®, an increase in selling and marketing expenses, primarily due to increased personnel costs, and an increase in research and development expenses.

The increase in our medical device segment operating income of $119.9 million for the year ended December 31, 2006 was due to the Inamed acquisition.

Our consolidated operating income was $570.9 million, or 24.6% of product net sales in 2005, compared to operating income of $527.4 million, or 25.8% of product net sales in 2004. The $43.5 million increase in operating income in 2005 compared to 2004 was due primarily to the $273.6 million increase in product net sales and an increase in other revenues of $10.1 million, partially offset by the $3.6 million increase in cost of sales, $145.1 million increase in SG&A expenses, $45.4 million increase in R&D expenses, $9.3 million increase in amortization of acquired intangible assets and $36.8 million increase in restructuring charges.

Our specialty pharmaceuticals segment operating income in 2005 was $762.9 million, compared to operating income of $684.7 million in 2004. The $78.2 million increase in specialty pharmaceuticals segment operating income was due primarily to an increase in product net sales of our eye care pharmaceuticals and *Botox*® product lines and a positive benefit from the change in total mix as a result of the decline in contract manufacturing sales which had a significantly higher cost of sales percentage than our pharmaceutical sales, partially offset by an increase in cost of sales, an increase in selling expenses, primarily due to increased personnel costs, an increase in promotion expenses associated with direct-to-consumer advertising, and an increase in research and development expenses.

Non-Operating Income and Expenses

Total net non-operating expenses for the year ended December 31, 2006 were $16.3 million compared to net non-operating income of $28.3 million in 2005. Interest income in 2006 was $48.9 million compared to interest income of $35.4 million in 2005. The increase in interest income in 2006 was primarily due to higher average cash equivalent balances earning interest of approximately $139 million and an increase in average interest rates earned on all cash equivalent balances earning interest of approximately 1.44% in 2006 compared to 2005. The increase in interest income in 2006 compared to 2005 was partially offset by a $4.9 million reversal of previously recognized estimated statutory interest income related to a matter involving the expected recovery of previously paid state income taxes, which became recoverable due to a favorable state tax court decision that became final in 2004. Interest income in 2005 included the recognition of $2.1 million of statutory interest income related to that same state tax court decision. Interest expense increased $47.8 million to $60.2 million in 2006 compared to $12.4 million in 2005, primarily due to an increase in borrowings to fund the Inamed acquisition and the write-off of unamortized debt origination fees of $4.4 million due to the redemption of our zero coupon convertible senior notes due 2022, partially offset by a $4.9 million reversal of previously accrued statutory interest expense associated with the resolution of several significant uncertain income tax audit issues. Interest expense in 2005 also includes a $7.3 million reversal of statutory interest expense associated with the resolution of several significant uncertain income tax audit issues.

Gains on investments of $0.3 million in 2006 and $0.8 million in 2005 resulted from the sale of miscellaneous third party equity investments. At December 31, 2006, we had a carrying amount of $7.1 million (with a cost basis of $5.0 million) in third party equity investments with public and privately held companies. These investments are subject to review for other than temporary declines in fair value on a quarterly basis.

During 2006, we recorded a net unrealized loss on derivative instruments of $0.3 million compared to a net unrealized gain of $1.1 million in 2005. Other, net expense was $5.0 million in 2006 compared to Other, net income of $3.4 million in 2005. In 2006, Other, net expense primarily includes $2.7 million of costs for the settlement of a previously disclosed contingency involving non-income taxes in Brazil and net realized losses from foreign currency transactions of $3.2 million. In 2005, Other, net primarily includes a gain of $3.5 million for the receipt of a technology transfer fee related to the assignment of a third party patent licensing arrangement covering the use of botulinum toxin type B for cervical dystonia and net realized losses from foreign currency transactions of $1.0 million.

Total net non-operating income in 2005 was $28.3 million compared to net non-operating income of $4.7 million in 2004. Interest income in 2005 was $35.4 million compared to interest income of $14.1 million in 2004. The increase in interest income in 2005 compared to 2004 was primarily due to higher average cash equivalent balances earning interest of approximately $323 million and an increase in average interest rates earned on all cash equivalent balances earning interest of approximately 1.82% in 2005 compared to 2004. Interest income in 2005 also benefited from the recognition of $2.1 million of statutory interest income related to the expected

recovery of previously paid state income taxes, which became recoverable due to a favorable state court decision that became final during 2004. Interest expense decreased to $12.4 million in 2005 compared to interest expense of $18.1 million in 2004, primarily due to a reversal during 2005 of $7.3 million of previously accrued statutory interest expense associated with a reduction in accrued income taxes payable related to the resolution of several significant uncertain income tax audit issues, and the non-recurrence in 2005 of a $3.1 million adjustment to interest expense recorded in 2004 related to the accelerated amortization of certain debt issuance costs. This decrease in interest expense in 2005 was partially offset by an increase in interest expense related to additional foreign borrowings in Ireland required to effectuate the repatriation of dividends that occurred during the third quarter of 2005.

Gains on investments of $0.8 million in 2005 and $0.3 million in 2004 resulted from the sale of miscellaneous third party equity investments.

During 2005, we recorded a net unrealized gain on derivative instruments of $1.1 million compared to net unrealized losses of $0.4 million during 2004. Other net income was $3.4 million in 2005 compared to other net income of $8.8 million in 2004. In 2005, Other, net income primarily includes a gain of $3.5 million for the receipt of a technology transfer fee related to the assignment of a third party patent licensing arrangement covering the use of botulinum toxin type B for cervical dystonia and net realized losses from foreign currency transactions of $1.0 million. In 2004, Other, net primarily includes a realized gain of $6.5 million related to an agreement with ISTA Pharmaceuticals, Inc. to revise its previous *Vitrase®* product collaboration agreement and a realized gain of $5.0 million for the receipt of a technology transfer fee related to the assignment of a third party patent licensing arrangement covering the use of botulinum toxin type B for cervical dystonia.

Income Taxes

Our effective tax rate in 2006 was 551.3% compared to the effective tax rate of 32.1% in 2005. Included in our operating loss for 2006 are pre-tax charges of $579.3 million for in-process R&D acquired in the Inamed acquisition, a $47.9 million charge to cost of sales associated with the Inamed purchase accounting fair-market value inventory adjustment rollout, total integration, transition and duplicate operating expenses of $26.9 million related to the Inamed acquisition and restructuring and streamlining of our European operations, a $28.5 million contribution to The Allergan Foundation and total restructuring charges of $22.3 million. In 2006, we recorded income tax benefits of $15.7 million related to the Inamed purchase accounting fair-market value inventory adjustment rollout, $9.1 million related to total integration, transition and duplicate operating expenses, $11.3 million related to the contribution to The Allergan Foundation, and $3.5 million related to total restructuring charges. Also included in the provision for income taxes in 2006 is a $17.2 million reduction in the provision for income taxes due to the reversal of the valuation allowance against a deferred tax asset that we have determined is now realizable. As a result of this determination, we have filed a refund claim for a prior year with the U.S. Internal Revenue Service. The refund claim relates to the deductibility of certain capitalized intangible assets associated with our retinoid portfolio that we transferred to a third party in 2004. Also included in the provision for income taxes in 2006 is a reduction of $14.5 million in estimated income taxes payable primarily due to the resolution of several significant previously uncertain income tax audit issues associated with the completion of an audit by the U.S. Internal Revenue Service for tax years 2000 to 2002, a $2.8 million reduction in income taxes payable previously estimated for the 2005 repatriation of foreign earnings that had been permanently re-invested outside the United States, a beneficial change of $1.2 million for the expected income tax benefit for previously paid state income taxes, which became recoverable due to a favorable state court decision concluded in 2004, an unfavorable adjustment of $3.9 million for a previously filed income tax return currently under examination and a provision for income taxes of $1.6 million related to intercompany transfers of trade businesses and net assets associated with the Inamed acquisition. Excluding the impact of the total pre-tax charges of $704.9 million and the total net income tax benefits of $69.8 million for the items discussed above, our adjusted effective tax rate for 2006 was 25.9%. We believe that the use of an adjusted effective tax rate provides a more meaningful measure of the impact of income taxes on our results of operations because it excludes the effect of

certain discrete items that are not included as part of our core business activities.

The calculation of our 2006 adjusted effective tax rate is summarized below:

	2006 (in millions)
Earnings before income taxes and minority interest, as reported	$ (19.5)
In-process R&D expense	579.3
Inamed fair-market inventory rollout	47.9
Total integration, transition and duplicate operating expenses	26.9
Contribution to The Allergan Foundation	28.5
Total restructure charges	22.3
	$ 685.4
Provision for income taxes, as reported	$ 107.5
Income tax (provision) benefit for:	
Inamed fair-market inventory rollout	15.7
Total integration, transition and duplicate operating expenses	9.1
Contribution to The Allergan Foundation	11.3
Total restructure charges	3.5
Reduction in valuation allowance associated with a refund claim	17.2
Resolution of uncertain income tax audit issues	14.5
Adjustment to estimated taxes on 2005 repatriation of foreign earnings	2.8
Recovery of previously paid state income taxes	1.2
Unfavorable adjustment for previously filed tax return currently under examination	(3.9)
Intercompany transfers of trade businesses and net assets	(1.6)
	$ 177.3
Adjusted effective tax rate	25.9%

Our effective tax rate in 2005 was 32.1% compared to the effective tax rate of 28.9% in 2004. Included in our operating income in 2005 are pre-tax restructuring charges of $43.8 million, transition/duplicate operating expenses associated with the European restructuring activities of $5.6 million, a gain of $7.9 million on the sale of our distribution business in India and a gain of $5.7 million on the sale of assets used primarily for contract manufacturing of AMO products. In 2005, we recorded income tax benefits of $7.6 million related to the pre-tax restructuring charges and $1.1 million related to transition/duplicate operating expenses, and a provision for income taxes of $1.7 million on the gain on sale of the distribution business in India and $0.6 million on the gain on sale of assets used primarily for contract manufacturing. Included in the provision for income taxes in 2005 is an estimated $29.9 million income tax provision associated with our decision to repatriate $674.0 million in extraordinary dividends as defined by the American Jobs Creation Act of 2004, or the Act, from unremitted foreign earnings that were previously considered indefinitely reinvested by certain non-U.S. subsidiaries. Also included in the provision for income taxes in 2005 is an estimated provision of $19.7 million associated with our decision to repatriate approximately $85.8 million in additional dividends above the base and extraordinary dividend amounts, as defined by the Act, from unremitted

foreign earnings that were previously considered indefinitely reinvested. Also included in the provision for income taxes in 2005 is a $1.4 million beneficial change in estimate for the expected income tax benefit for previously paid state income taxes, which became recoverable due to a favorable state court decision that became final during 2004, and an estimated $24.1 million reduction in estimated income taxes payable primarily due to the resolution of several significant previously uncertain income tax audit issues, including the resolution of certain transfer pricing issues for which an Advance Pricing Agreement, or APA, was executed with the U.S. Internal Revenue Service during the third quarter of 2005. The APA covers tax years 2002 through 2008. The $24.1 million reduction in estimated income taxes payable also includes beneficial changes associated with other transfer price settlements for a discontinued product line, which was not covered by

the APA, the deductibility of transaction costs associated with the 2002 spin-off of AMO and intangible asset issues related to certain assets of Allergan Specialty Therapeutics, Inc. and Bardeen Sciences Company, LLC, which we acquired in 2001 and 2003, respectively. This change in estimate relates to tax years currently under examination or not yet settled through expiry of the statute of limitations.

Excluding the impact of the pre-tax restructuring charges, transition and duplicate operating expenses and gains from the sale of the distribution business in India and the sale of assets used for contract manufacturing, and the related income tax provision (benefit) associated with these pre-tax amounts, the provision for income taxes due to the extraordinary dividends and additional dividends above the base and extraordinary dividend amounts, the decrease in the provision for income taxes resulting from the additional income tax benefit for previously paid state income taxes which became recoverable, and reduction in estimated income taxes payable due to the resolution of several significant uncertain income tax audit issues, our adjusted effective tax rate for 2005 was 27.5%.

The calculation of our 2005 adjusted effective tax rate is summarized below:

	2005 (in millions)
Earnings before income taxes and minority interest, as reported	$ 599.2
Restructure charges	43.8
Transition/duplicate operating expenses associated with the European restructuring	5.6
Gain on sale of distribution business in India	(7.9)
Gain on sale of assets used for contract manufacturing	(5.7)
	$ 635.0
Provision for income taxes, as reported	$ 192.4
Income tax (provision) benefit for:	
Restructure charges	7.6
Transition/duplicate operating expenses associated with the European restructuring	1.1
Gain on sale of distribution business in India	(1.7)
Gain on sale of assets used for contract manufacturing	(0.6)
Recovery of previously paid state income taxes	1.4
Resolution of uncertain income tax audit issues	24.1
Extraordinary dividend of $674.0 million under the American Jobs Creation Act of 2004	(29.9)
Additional dividends of $85.8 million above the base and extraordinary dividend amounts	(19.7)
	$ 174.7
Adjusted effective tax rate	27.5%

Included in our operating income in 2004 are pre-tax restructuring charges of $7.0 million primarily associated with the scheduled termination of our manufacturing and supply agreement with AMO. We recorded an income tax benefit of $0.8 million related to these pre-tax restructuring charges. Included in our provision for income taxes in 2004 is an estimated $6.1 million income tax benefit for previously paid state income taxes, which became recoverable due to a

favorable state court decision that became final during the second quarter of 2004. Excluding the impact of the $7.0 million pre-tax restructuring charges and related tax benefit of $0.8 million, and the $6.1 million income tax benefit from the state court decision, our adjusted effective tax rate for 2004 was 29.8%.

The decrease in the adjusted effective tax rate to 25.9% in 2006 compared to the adjusted effective tax rate in 2005 of 27.5% is primarily due to the beneficial tax rate effects from increased U.S. deductions for interest expense and the amortization of acquired intangible assets associated with the Inamed acquisition, stock option

compensation expense, and an increase in the utilization of R&D tax credits, partially offset by an increase in the mix of earnings in higher tax rate jurisdictions.

The decrease in the adjusted effective tax rate to 27.5% in 2005 compared to the adjusted effective tax rate in 2004 of 29.8% is primarily due to a tax rate benefit related to an increase in the mix of our earnings generated in non-U.S. jurisdictions with low tax rates in 2005 compared to 2004, a decrease in the valuation allowance related to a change in estimate of the amount of realizable deferred tax assets in Japan stemming from the recent licensing agreement with GlaxoSmithKline and an increase in the expected income tax benefit from utilizing available foreign tax credits, partially offset by a net increase in the estimate for income taxes payable for certain contingent income tax liabilities.

Net Earnings (Loss)

Our net loss for the year ended December 31, 2006 was $127.4 million compared to net earnings of $403.9 million in 2005. The $531.3 million decrease in net earnings was primarily the result of the decrease in operating income of $574.1 million and the increase in net non-operating expense of $44.6 million, partially offset by a decrease in the provision for income taxes of $84.9 million and a decrease in minority interest expense of $2.5 million.

Net earnings in 2005 were $403.9 million compared to net earnings of $377.1 million in 2004. The $26.8 million increase in net earnings was primarily the result of the $43.5 million increase in operating income and a $23.6 million increase in total net non-operating income, partially offset by an increase in the provision for income taxes of $38.4 million.

Liquidity and Capital Resources

We assess our liquidity by our ability to generate cash to fund our operations. Significant factors in the management of liquidity are: funds generated by operations; levels of accounts receivable, inventories, accounts payable and capital expenditures; the extent of our stock repurchase program; funds required for acquisitions; adequate credit facilities; and financial flexibility to attract long-term capital on satisfactory terms.

Historically, we have generated cash from operations in excess of working capital requirements. The net cash provided by operating activities was $746.9 million in 2006 compared to $424.6 million in 2005 and $548.5 million in 2004. Cash flow from operating activities increased in 2006 compared to 2005 primarily as a result of an increase in earnings from operations, including the effect of adjusting for non-cash items, a decrease in income taxes paid, a decrease in contributions made to our pension plans, a decrease in cash requirements for our inventories and a net decrease in cash required to fund changes in other net operating assets and liabilities, partially offset by an increase in cash required to fund growth in our trade receivables, primarily in North America and Europe. The decrease in income taxes paid in 2006 compared to 2005 was primarily due to payments made in 2005 related to the estimated U.S. income tax liability for the repatriation of certain foreign earnings and advance payments in anticipation of income tax audit settlements. We paid pension contributions of $13.0 million in 2006 compared to $49.6 million in 2005. The decrease in pension contributions in 2006 compared to 2005 was primarily due to an increase in the discount rates used to calculate our accumulated benefit obligations as of September 30, 2006, the measurement date for our pension plans, compared to the negative impact of lower discount rates in 2005 compared to 2004 on the calculation of our accumulated benefit obligations as of September 30, 2005. Prior to 2006, our funding policy for our funded pension plans was based upon our desire to maintain plan assets in excess of accumulated benefit obligations in our funded pension plans. Beginning in 2006, we changed our funding policy for our funded pension plans to be based upon the greater of: (i) annual service cost, administrative expenses, and a seven year amortization of any funded deficit or surplus relative to the projected benefit obligations or (ii) a 90% minimum funded status for our accumulated benefit obligations. In 2007, we expect to pay pension contributions of between approximately

$17.0 million and $18.0 million.

Cash flow from operating activities decreased in 2005 compared to 2004, primarily as a result of higher income taxes paid, an increase in contributions to our pension plans and an increase in cash required to fund the growth in other current assets, partially offset by an increase in earnings from operations, including the effect of adjusting for non-cash items, and an increase in other liabilities, primarily for deferred income related to an up-front payment

received in connection with our licensing arrangement with GlaxoSmithKline. The increase in income taxes paid is primarily due to payments for the estimated U.S. income tax liability for the repatriation of certain foreign earnings and advance payments in anticipation of income tax audit settlements. We paid pension contributions of $49.6 million in 2005 compared to $16.9 million in 2004. The increase in the amount of pension contributions in 2005 compared to 2004 is primarily due to the negative impact of lower discount rates on the calculation of our accumulated benefit obligations as of September 30, 2005, the measurement date for our pension plans, and our desire to maintain plan assets in excess of accumulated benefit obligations in our funded pension plans.

Net cash used in investing activities was $1,484.6 million in 2006, compared to $182.1 million in 2005 and $106.8 million in 2004. The increase in cash used in investing activities in 2006 was primarily due to the Inamed acquisition. The cash portion of the Inamed purchase price was $1,328.7 million, net of cash acquired. Additionally, we invested $131.4 million in new facilities and equipment during 2006 compared to $78.5 million during 2005 and $96.4 million in 2004. During 2006, we purchased additional real property for approximately $20.0 million, consisting of two office buildings contiguous to our main facility in Irvine, California, and we capitalized $11.5 million as intangible assets primarily related to milestone payments for regulatory approvals to commercialize the *Juvéderm*™ dermal filler family of products in the United States and Australia. Capital expenditures during 2005 included the purchase of approximately four acres of additional real property contiguous to our main facility in Irvine, California, and during 2004, the additions to property, plant and equipment included costs to construct a new research and development facility in Irvine, California. In 2005, we paid $110.0 million in connection with a royalty buyout agreement relating to *Restasis*®, our drug for the treatment of chronic dry eye disease, of which $99.3 million was capitalized as an intangible licensing asset, and $10.7 million was used to pay previously accrued net royalty obligations. Net cash used in investing activities also includes $18.4 million, $13.6 million and $10.5 million to acquire software during 2006, 2005 and 2004, respectively. We currently expect to invest between $130 million and $140 million in capital expenditures for manufacturing equipment and facilities and other property, plant and equipment during 2007.

Net cash provided by financing activities was $803.0 million in 2006 compared to $160.3 million in 2005 and net cash used in financing activities of $51.9 million in 2004. In order to fund part of the cash portion of the Inamed purchase price, we borrowed $825.0 million under a bridge credit facility entered into in connection with the transaction. On April 12, 2006, we completed concurrent private placements of $750 million in aggregate principal amount of 1.50% Convertible Senior Notes due 2026, or 2026 Convertible Notes, and $800 million in aggregate principal amount of 5.75% Senior Notes due 2016, or 2016 Notes. We used part of the proceeds from these debt issuances to repay all borrowings under the bridge credit facility. Additionally, we received $182.7 million from the sale of stock to employees, $13.0 million upon termination of an interest rate swap contract related to the 2016 Notes and $35.4 million in excess tax benefits from share-based compensation. These amounts were partially offset by net repayments of notes payable of $67.5 million, cash payments of $20.2 million in offering fees related to the issuance of the 2026 Convertible Notes and the 2016 Notes, cash paid on the conversion of our zero coupon convertible senior notes due 2022, or 2022 Notes, of $521.9 million, repurchase of approximately 2.9 million shares of our common stock for approximately $307.8 million and $58.4 million in dividends paid to stockholders. Net cash provided by financing activities was $160.3 million in 2005, composed primarily of a $157.0 million increase in notes payable and $149.9 million of cash provided by the sale of stock to employees, partially offset by $94.3 million of cash used for the purchase of treasury stock and $52.3 million for payment of dividends. Net cash used in financing activities was $51.9 million in 2004, composed primarily of $65.2 million for purchases of treasury stock, $47.3 million for payment of dividends and $23.0 million for net repayments of debt, partially offset by $83.6 million of cash provided by the sale of stock to employees.

On January 30, 2007, our Board of Directors declared a quarterly cash dividend of $0.10 per share, payable March 9, 2007 to stockholders of record on February 16, 2007. We maintain an evergreen stock repurchase program. Our evergreen stock repurchase program authorizes us to repurchase our common stock for the primary purpose of funding

our stock-based benefit plans. Under the stock repurchase program, we may maintain up to 9.2 million repurchased shares in our treasury account at any one time. As of December 31, 2006, we held approximately 1.5 million treasury shares under this program. We are uncertain as to the level of stock repurchases, if any, to be made in the future.

The 2026 Convertible Notes pay interest semi-annually at a rate of 1.50% per annum and are convertible, at the holder s option, at an initial conversion rate of 7.8952 shares per $1,000 principal amount of notes. In certain circumstances the 2026 Convertible Notes may be convertible into cash in an amount equal to the lesser of their principal amount or their conversion value. If the conversion value of the 2026 Convertible Notes exceeds their principal amount at the time of conversion, we will also deliver common stock or, at our election, a combination of cash and common stock for the conversion value in excess of the principal amount. We will not be 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 our 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 us to redeem the 2026 Convertible Notes on April 1, 2011, April 1, 2016 and April 1, 2021 or upon a change in control of us. The 2026 Convertible Notes mature on April 1, 2026, unless previously redeemed by us or earlier converted by the note holders.

The 2016 Notes were sold at 99.717% of par value with an effective interest rate of 5.79%, and will pay interest semi-annually at a rate of 5.75% per annum, and are redeemable at any time at our option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2016 Notes will be due and payable on April 1, 2016, unless earlier redeemed by us. On January 31, 2007, we entered into a nine-year, two-month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap receives interest at a fixed rate of 5.75% and pays interest at a variable interest rate equal to LIBOR plus 0.368%, and effectively converts $300.0 million of the 2016 Notes to a variable interest rate. Based on the structure of the hedging relationship, the hedge meets the criteria for using the short-cut method for a fair value hedge under the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133).

At December 31, 2006, we had a committed long-term credit facility, a commercial paper program, a medium term note program, an unused debt shelf registration statement that we may use for a new medium term note program and other issuances of debt securities, and various foreign bank facilities. The committed long-term credit facility allows for borrowings of up to $800 million through March 2011. The commercial paper program also provides for up to $600 million in borrowings. The current medium term note program allows us to issue up to an additional $6.5 million in registered notes on a non-revolving basis. The debt shelf registration statement provides for up to $350 million in additional debt securities. Borrowings under the committed long-term credit facility and medium-term note program are subject to certain financial and operating covenants that include, among other provisions, maintaining maximum leverage ratios and minimum interest coverage ratios. Certain covenants also limit subsidiary debt. We believe we were in compliance with these covenants at December 31, 2006. As of December 31, 2006, we had $102.0 million in borrowings under our committed long-term credit facility, $58.5 million in borrowings outstanding under the medium term note program and no borrowings under our commercial paper program.

During March 2006 and April 2006, holders of our 2022 Notes began to exercise the conversion feature of the 2022 Notes. In May 2006, we announced our intention to redeem the 2022 Notes. Most holders elected to exercise the conversion feature of the 2022 Notes prior to redemption. Upon their conversion, we were required to pay the accreted value of the 2022 Notes in cash and had the option to pay the remainder of the conversion value in cash or shares of our common stock. We exercised our option to pay the remainder of the conversion value in shares of our common stock. In connection with the conversion, we paid approximately $505.3 million in cash for the accreted value of the 2022 Notes and issued 2.1 million shares of our common stock for the remainder of the conversion value. In addition, holders of approximately $20.3 million of aggregate principal at maturity of the 2022 Notes did not exercise the conversion feature, and in May 2006 we paid the accreted value (approximately $16.6 million) in cash to redeem these 2022 Notes.

A significant amount of our existing cash and equivalents are held by non-U.S. subsidiaries. We currently plan to use these funds in our operations outside the United States. Withholding and U.S. taxes have not been provided for unremitted earnings of certain non-U.S. subsidiaries because we have reinvested these earnings indefinitely in such operations. As of December 31, 2006, we had approximately $725.5 million in unremitted earnings outside the

United States for which withholding and U.S. taxes were not provided. Tax costs would be incurred if these funds were remitted to the United States.

In connection with our March 2006 Inamed acquisition, we initiated a global restructuring and integration plan to merge the Inamed operations with our operations and to capture synergies through the centralization of certain general and administrative functions. As of December 31, 2006, we recorded pre-tax restructuring charges of $13.5 million, $20.7 million of integration and transition costs and $1.6 million of income tax costs related to intercompany transfers of trade businesses and net assets, which we included in our provision for income taxes. We currently estimate that the total pre-tax charges resulting from the restructuring, including integration and transition costs, will be between $61.0 million and $75.0 million, all of which are expected to be cash expenditures. In addition to the pre-tax charges, we expect to incur capital expenditures of approximately $20.0 million to $25.0 million, primarily related to the integration of information systems, and to pay an additional amount of approximately $1.5 million to $2.0 million for taxes related to intercompany transfers of trade businesses and net assets.

During 2006, we completed the restructuring and streamlining of our operations in Japan. As of December 31, 2006, we recorded cumulative pre-tax restructuring charges of $1.9 million ($2.3 million in 2005 and a net reversal of $0.4 million in 2006). There are no remaining accrued liabilities for restructuring and streamlining of our operations in Japan at December 31, 2006.

As of December 31, 2006, we substantially completed the restructuring and streamlining of our European operations and recorded cumulative pre-tax restructuring charges of $37.5 million, primarily related to severance, relocation and one-time termination benefits, payments to public employment and training programs, contract termination costs and capital and other asset-related expenses. Additionally, as of December 31, 2006, we incurred cumulative transition and duplicate operating expenses of $11.8 million relating primarily to legal, consulting, recruiting, information system implementation costs and taxes related to the European restructuring activities. Future expenses related to the restructuring and streamlining of our European operations, if any, are not expected to be significant.

In the fourth quarter of 2006, we adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), which required us to recognize the funded status of our defined benefit pension and other postretirement benefit plans in our December 31, 2006 consolidated balance sheet. The adoption of SFAS No. 158 had no impact on our liquidity or capital resources for the year ended December 31, 2006. We discuss the change in accounting principle and the impact on our financial statements under Item 7A of Part II of this report, Recently Adopted Accounting Standards.

On January 2, 2007, we consummated the acquisition of all of the outstanding capital stock of Groupe Cornéal Laboratoires and its subsidiaries, or Cornéal, pursuant to a Stock Sale and Purchase Agreement, or Purchase Agreement, dated October 31, 2006, by and among us, our indirect wholly owned subsidiary Allergan Holdings France, SAS, and Waldemar Kita, the controlling stockholder of Cornéal, the European Pre-Floatation Fund II and the other minority stockholders of Cornéal. Under the Purchase Agreement, we purchased the outstanding capital stock of Cornéal for an aggregate purchase price of approximately $233.9 million, subject to possible post-closing adjustments based on a final determination of Cornéal s debt and cash levels. The acquisition consideration was all cash, funded from current cash and equivalents balances and our committed long-term credit facility.

On February 21, 2007, we completed the acquisition of EndoArt SA. Under the terms of the agreement, we purchased all the outstanding capital stock of EndoArt SA for an aggregate purchase price of approximately $97.0 million, net of excess cash. The acquisition consideration was all cash, funded from current cash and equivalents balances.

We believe that the net cash provided by operating activities, supplemented as necessary with borrowings available under our existing credit facilities and existing cash and equivalents, will provide us with sufficient resources to meet our expected obligations, working capital requirements, debt service and other cash needs over the next year.

Inflation

Although at reduced levels in recent years, inflation continues to apply upward pressure on the cost of goods and services that we use. The competitive and regulatory environments in many markets substantially limit our ability to fully recover these higher costs through increased selling prices. We continually seek to mitigate the adverse effects of inflation through cost containment and improved productivity and manufacturing processes.

Foreign Currency Fluctuations

Approximately 32.6% of our product net sales in 2006 were derived from operations outside the United States, and a portion of our international cost structure is denominated in currencies other than the U.S. dollar. As a result, we are subject to fluctuations in sales and earnings reported in U.S. dollars due to changing currency exchange rates. We routinely monitor our transaction exposure to currency rates and implement certain economic hedging strategies to limit such exposure, as we deem appropriate. The net impact of foreign currency fluctuations on our sales was as follows: a $15.2 million increase in 2006, a $22.3 million increase in 2005, and a $41.9 million increase in 2004. The 2006 sales increase included $7.8 million related to the Brazilian real, $6.1 million related to the Canadian dollar, $2.0 million related to the euro, and $1.0 million related to the British Pound, partially offset by decreases of $1.7 million primarily related to the Australian dollar and other Asian and Latin American currencies. The 2005 sales increase included $1.1 million related to the euro, $5.2 million related to the Canadian dollar, $1.3 million related to the Australian dollar, $10.9 million related to the Brazilian real, $1.2 million related to the Mexican peso and $2.3 million related to other Latin American currencies. The 2004 sales increase included $23.9 million related to the euro, $4.5 million related to the British Pound, $4.2 million related to the Canadian dollar, $4.0 million related to the Australian dollar, $2.0 million related to the Japanese yen and $1.8 million related to the Brazilian real. See Note 1, Summary of Significant Accounting Policies, in the notes to the consolidated financial statements listed under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules, for a description of our accounting policy on foreign currency translation.

Inamed Corporation

On March 23, 2006, we completed the acquisition of Inamed Corporation, or Inamed, a global healthcare company that develops, manufactures, and markets a diverse line of products, including breast implants, a range of facial aesthetics, and obesity intervention products.

The Inamed acquisition was completed pursuant to an agreement and plan of merger, dated as of December 20, 2005, and subsequently amended as of March 11, 2006, by and among us, our wholly-owned subsidiary Banner Acquisition, Inc., and Inamed, and an exchange offer made by Banner Acquisition to acquire Inamed shares for either $84.00 in cash or 0.8498 of a share of our common stock, subject to proration so that 45% of the aggregate Inamed shares tendered were exchanged for cash and 55% of the aggregate Inamed shares tendered were exchanged for shares of our common stock. In the exchange offer, we paid approximately $1.31 billion in cash and issued 16,194,051 shares of common stock through Banner Acquisition, acquiring approximately 93.86% of Inamed s outstanding common stock. Following the exchange offer, the remaining outstanding shares of Inamed common stock were acquired for approximately $81.7 million in cash and 1,010,576 shares of our common stock through the merger of Banner Acquisition with and into Inamed in a merger in which Inamed survived as our wholly-owned subsidiary. As a final step in the plan of reorganization, we merged Inamed into Inamed, LLC, our wholly-owned subsidiary. The consideration paid in the merger does not include shares of common stock and cash that were paid to option holders for outstanding options to purchase shares of Inamed common stock, which were cancelled in the merger and converted into the right to receive an amount of cash equal to 45% of the in the money value of the option and a number of shares of our common stock with a value equal to 55% of the in the money value of the option. Subsequent

to the merger, we issued 237,066 shares of common stock and paid $17.9 million in cash to satisfy this obligation to the option holders. We funded part of the cash portion of the purchase price by borrowing $825.0 million under our $1.1 billion bridge credit facility. In April 2006, we used the proceeds from the issuance of the 2016 Notes to repay borrowings under the bridge credit facility. Also, we subsequently terminated the bridge credit facility in April 2006. See Note 2, Inamed Acquisition, in the notes to our consolidated financial statements listed under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules.

We believe the fair values assigned to the 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	$ 323.7
Property, plant and equipment	57.7
Identifiable intangible assets	971.9
In-process research and development	579.3
Goodwill	1,824.2
Other non-current assets, primarily deferred tax assets	56.6
Accounts payable and accrued liabilities(a)	(127.0)
Deferred tax liabilities current and non-current	(362.3)
Other non-current liabilities	(33.4)
	$ 3,290.7

(a) Accounts payable and accrued liabilities include approximately $10.3 million of recognized liabilities related to the involuntary termination and relocation of certain Inamed employees in accordance with the Emerging Issues Task Force (EITF) in EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.*

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

In the normal course of business, our operations are exposed to risks associated with fluctuations in foreign currency exchange rates. We address these risks through controlled risk management that includes the use of derivative financial instruments to economically hedge or reduce these exposures. We do not enter into financial instruments for trading or speculative purposes. See Note 11, Financial Instruments, in the notes to the consolidated financial statements listed under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules, for activities relating to foreign currency risk management.

To ensure the adequacy and effectiveness of our foreign exchange hedge positions, we continually monitor our foreign exchange forward and option positions both on a stand-alone basis and in conjunction with our underlying foreign currency exposures, from an accounting and economic perspective.

However, given the inherent limitations of forecasting and the anticipatory nature of the exposures intended to be hedged, we cannot assure you that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect our consolidated operating results and financial position.

We record current changes in the fair value of open foreign currency option contracts as Unrealized gain (loss) on derivative instruments, net, and we record the gains and losses realized from settled option contracts in Other, net in the accompanying consolidated statements of operations. The premium costs of purchased foreign exchange option

contracts are recorded in Other current assets and are amortized to Other, net over the life of the options. We have recorded all unrealized and realized gains and losses from foreign currency forward contracts through Other, net in the accompanying consolidated statements of operations.

Interest Rate Risk

Our interest income and expense is more sensitive to fluctuations in the general level of U.S. interest rates than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on our cash and equivalents, interest expense on our debt as well as costs associated with foreign currency contracts.

At December 31, 2006, we had approximately $102.0 million of variable rate debt. If the interest rates on our variable rate debt were to increase or decrease by 1% for the year, annual interest expense would increase or

decrease by approximately $1.0 million based on the amount of outstanding variable rate debt at December 31, 2006.

In February 2006, we entered into interest rate swap contracts based on the 3-month LIBOR with an aggregate notional amount of $800 million, a swap period of 10 years and a starting swap rate of 5.198%. We entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for our $800 million aggregate principal amount Senior Notes due 2016 issued in April 2006. In April 2006, we terminated the interest rate swap contracts and received approximately $13.0 million. The total gain is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. As of December 31, 2006, the remaining unrecognized gain, net of tax, of $7.3 million is recorded as a component of accumulated other comprehensive loss. At December 31, 2006, there are no outstanding interest rate swap contracts.

On January 31, 2007, we entered into a nine-year, two-month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap receives interest at a fixed rate of 5.75% and pays interest at a variable interest rate equal to LIBOR plus 0.368%, and effectively converts $300.0 million of the 2016 Notes to a variable interest rate. Based on the structure of the hedging relationship, the hedge meets the criteria for using the short-cut method for a fair value hedge under the provisions of SFAS No. 133.

The tables below present information about certain of our investment portfolio and our debt obligations at December 31, 2006 and 2005:

	December 31, 2006							
	Maturing in							Fair Market
	2007	2008	2009	2010	2011	Thereafter	Total	Value
	(in millions, except interest rates)							
ASSETS								
Cash equivalents:								
Repurchase Agreements	$ 130.0	$	$	$	$	$	$ 130.0	$ 130.0
Weighted Average Interest Rate	5.35%						5.35%	
Commercial Paper	771.0						771.0	771.0
Weighted Average Interest Rate	5.29%						5.29%	
Foreign Time Deposits	288.6						288.6	288.6
Weighted Average Interest Rate	3.75%						3.75%	
Other Cash Equivalents	138.7						138.7	138.7
Weighted Average Interest Rate	5.91%						5.91%	
Total Cash Equivalents	$ 1,328.3	$	$	$	$	$	$ 1,328.3	$ 1,328.3
Weighted Average Interest Rate	5.03%						5.03%	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$)	$	$ 33.5	$	$	$ 750.0	$ 822.9	$ 1,606.4	$ 1,686.7
		6.91%			1.50%	5.84%	3.84%	

Weighted Average Interest Rate								
Other Variable Rate (non-US$)		102.0					102.0	102.0
Weighted Average Interest Rate		5.46%					5.46%	
Total Debt Obligations	$	102.0	$ 33.5	$	$ 750.0	$ 822.9	$ 1,708.4	$ 1,788.7
Weighted Average Interest Rate		5.46%	6.91%		1.50%	5.84%	3.93%	

	December 31, 2005							
	Maturing in							Fair Market Value
	2006	2007	2008	2009	2010	Thereafter	Total	
	(in millions, except interest rates)							
ASSETS								
Cash equivalents:								
Repurchase Agreements	$ 50.0	$	$	$	$	$	$ 50.0	$ 50.0
Weighted Average Interest Rate	4.44%						4.44%	
Commercial Paper	656.0						656.0	656.0
Weighted Average Interest Rate	4.28%						4.28%	
Other Cash Equivalents	554.6						554.6	554.6
Weighted Average Interest Rate	4.41%						4.41%	
Total Cash Equivalents	$ 1,260.6	$	$	$	$	$	$ 1,260.6	$ 1,260.6
Weighted Average Interest Rate	4.34%						4.34%	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$)	$ 520.0	$	$ 32.5	$	$	$ 25.0	$ 577.5	$ 851.2
Weighted Average Interest Rate	1.25%		6.91%			7.47%	1.84%	
Other Variable Rate (non-US$)	169.6						169.6	169.6
Weighted Average Interest Rate	4.63%						4.63%	
Total Debt Obligations	$ 689.6	$	$ 32.5	$	$	$ 25.0	$ 747.1	$ 1,020.8
Weighted Average Interest Rate	2.08%		6.91%			7.47%	2.47%	

Contractual Obligations and Commitments

The table below presents information about our contractual obligations and commitments at December 31, 2006:

	Payments Due by Period				
	Less than One Year	1-3 Years	3-5 Years	More than Five Years	Total
			(in millions)		
Notes payable, convertible notes and long-term debt obligations	$ 102.0	$ 33.5	$ 750.0	$ 822.9	$ 1,708.4
Operating lease obligations	30.7	39.7	23.2	64.1	157.7

Purchase obligations	126.3	46.5	0.3		173.1
Other long-term liabilities (excluding deferred income) reflected on our consolidated balance sheet		34.0	34.0	123.3	191.3
Total	$ 259.0	$ 153.7	$ 807.5	$ 1,010.3	$ 2,230.5

Guarantees

Our Certificate of Incorporation, as amended, provides that we 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 Allergan or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise. We have also entered into contractual indemnity agreements with each of our directors and executive officers, pursuant to which we have 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 our securities 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 we could be required to make under these indemnification provisions is unlimited. However, we have purchased directors and officers liability insurance policies intended to reduce our monetary exposure and to enable us to recover a portion of any future amounts paid. We have not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, we believe the estimated fair value of these indemnification arrangements is minimal.

We customarily agree in the ordinary course of our business to indemnification provisions in agreements with clinical trials investigators in our drug development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements involving parties performing services for us in the ordinary course of business, and in our real estate leases. We also customarily agree to certain indemnification provisions in our drug discovery and development collaboration agreements. With respect to our 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 our contractual obligations arising out of the research or clinical testing of our 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 us, to violations of law by us or to certain breaches of our contractual obligations. The indemnification provisions appearing in our 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 we could be required to make under these provisions is generally unlimited. We have purchased insurance policies covering personal injury, property damage and general liability intended to reduce our exposure for indemnification and to enable us to recover a portion of any future amounts paid. We have not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, we believe the estimated fair value of these indemnification arrangements is minimal.

Foreign Currency Risk

Overall, we are a net recipient of currencies other than the U.S. dollar and, as such, benefit from a weaker dollar and are adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect our consolidated revenues or operating costs and expenses as expressed in U.S. dollars.

From time to time, we enter into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow our management to focus its attention on our core business issues and challenges. Accordingly, we enter into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. We enter into foreign currency forward and option contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed one year.

We use foreign currency option contracts, which provide for the sale or purchase of foreign currencies to offset foreign currency exposures expected to arise in the normal course of our business. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying currency exposures.

All of our outstanding foreign exchange forward contracts are entered into to protect the value of intercompany receivables denominated in currencies other than the lender s functional currency. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables are recorded through Other, net in the accompanying consolidated statements of operations.

All of our outstanding foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Japanese yen, Swedish krona, Swiss franc and U.K. Pound. Current changes in the fair value of open foreign currency option contracts are recorded through earnings as Unrealized gain (loss) on derivative instruments, net while any realized gains (losses) on settled contracts are recorded through earnings as Other, net in the accompanying consolidated statements of operations. The premium costs of purchased foreign exchange option contracts are recorded in Other current assets and amortized to Other, net over the life of the options.

The following table provides information about our foreign currency derivative financial instruments outstanding as of December 31, 2006 and 2005. The information is provided in U.S. dollars, as presented in our consolidated financial statements.

	2006		2005	
	Notional Amount (in millions)	Average Contract Rate or Strike Amount	Notional Amount (in millions)	Average Contract Rate or Strike Amount
Foreign currency forward contracts:				
(Receive U.S. dollar/pay foreign currency)				
Euro	$ 142.3	1.32	$ 12.6	1.20
Canadian dollar	1.8	1.15	6.9	1.15
Australian dollar	9.1	0.78	2.6	0.75
U.K. Pound			16.5	1.77
	$ 153.2		$ 38.6	
Estimated fair value	$ (0.7)		$ 0.7	
Foreign currency sold put options:				
Canadian dollar	$ 35.0	1.14	$ 26.0	1.15
Mexican peso	14.3	11.00	11.7	10.78
Australian dollar	20.6	0.78	12.1	0.75
Brazilian real	11.7	2.24	9.3	2.40
Euro	73.0	1.34	39.4	1.20
Japanese yen	9.6	113.06		
Swedish krona	7.7	6.79		
Swiss franc	6.1	1.18		
	$ 178.0		$ 98.5	
Estimated fair value	$ 3.8		$ 2.9	
Foreign currency purchased call options:				

U.K. Pound	$ 15.3	1.96	$ 17.0	1.76
Estimated fair value	$ 0.2		$ 0.2	

Recently Adopted Accounting Standards

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). SFAS No. 154 requires retrospective application to prior-period financial statements of changes in accounting principles, unless a new accounting pronouncement provides specific transition provisions to the contrary or it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also redefines restatement

as the revising of previously issued financial statements to reflect the correction of an error. We adopted the provisions of SFAS No. 154 in our first fiscal quarter of 2006. The adoption did not have a material effect on our 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). SFAS No. 158 requires employers to recognize on their balance sheet an asset or liability equal to the over- or under-funded benefit obligation of each defined benefit pension and other postretirement plan and to recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the actuarial gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of (i) Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions* and (ii) Statement of Financial Accounting Standards No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements. This change in balance sheet reporting is effective for fiscal years ending after December 15, 2006 for public companies, which is our fiscal year 2006. SFAS No. 158 also eliminates the ability to use an early measurement date and requires employers to measure defined benefit plan assets and obligations as of the date of the employer s fiscal year end statement of financial position, commencing with fiscal years ending after December 15, 2008, which is our fiscal year 2008. We adopted the balance sheet recognition and reporting provisions of SFAS No. 158 during our fourth fiscal quarter of 2006. We currently expect to adopt in our fourth fiscal quarter of 2008 the provisions of SFAS No. 158 relating to the change in measurement date, which is not expected to have a material impact on our consolidated financial statements. See Note 9, Employee Retirement and Other Benefit Plans in the notes to our consolidated financial statements listed under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules, for further discussion of the effect of adopting SFAS No. 158 on our consolidated financial statements.

New Accounting Standards Not Yet Adopted

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity s first fiscal year that begins after September 15, 2006, which is our fiscal year 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for fiscal years beginning after December 15, 2006, which is our fiscal year 2007. We are still completing our evaluation of the potential effect of adopting FIN 48 on our consolidated financial statements. We currently do not expect the adoption of FIN 48 to have a material impact on our consolidated financial statements.

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 under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, which is our fiscal year 2008. We have not yet evaluated the potential impact of adopting SFAS No. 157 on our consolidated financial statements.

Item 8. ***Financial Statements and Supplementary Data***

The information required by this Item is incorporated herein by reference to the financial statements set forth in Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, including our Principal Executive Officer and our Principal Financial Officer, does not expect that our disclosure controls or procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Allergan have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006, the end of the annual period covered by this report. The evaluation of our disclosure controls and procedures included a review of the disclosure controls and procedures objectives, design, implementation and the effect of the controls and procedures on the information generated for use in this report. In the course of our evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm the appropriate corrective actions, including process improvements, were being undertaken. Our assessment did not include evaluating the effectiveness of internal control over financial reporting at our recently acquired Inamed business, which is included in our 2006 consolidated financial statements and constituted: $70.3 million of cash and equivalents, $75.5 million of trade receivables, net, $52.5 million of inventories and $64.4 million of property, plant and equipment, net as of December 31, 2006, and $371.6 million of product net sales for the year ended December 31, 2006. Management did not assess the effectiveness of internal control over financial reporting at this newly acquired business due to the complexity associated with assessing internal controls during integration efforts.

Based on the foregoing, our Principal Executive Officer and our Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

Further, management determined that, as of December 31, 2006, there were no changes in our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management report on internal control over financial reporting and the attestation report on management s assessment of our internal control over financial reporting are contained in Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

For information required by this Item regarding our executive officers, see Item 1 of Part I of this report, Business.

The information to be included in the sections entitled Election of Directors and Corporate Governance in the Proxy Statement to be filed by us with the Securities and Exchange Commission no later than 120 days after the close of our fiscal year ended December 31, 2006 (the Proxy Statement) is incorporated herein by reference.

The information to be included in the section entitled Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement is incorporated herein by reference.

The information to be included in the section entitled Code of Business Conduct and Ethics in the Proxy Statement is incorporated herein by reference.

We have filed, as exhibits to this report, the certifications of our Principal Executive Officer and Principal Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

On May 16, 2006, we submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

Item 11. ***Executive Compensation***

The information to be included in the sections entitled Executive Compensation and Non-Employee Directors Compensation in the Proxy Statement is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information to be included in the section entitled Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in the Proxy Statement is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information to be included in the sections entitled Certain Relationships and Related Transactions and Compensation Committee Interlocks and Insider Participation in the Proxy Statement is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information to be included in the section entitled Independent Registered Public Accounting Firm Fees in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. *Consolidated Financial Statements and Supplementary Data:*

The following financial statements are included herein under Item 8 of Part II of this report, Financial Statements and Supplementary Data :

(a) 2. *Financial Statement Schedules:*

All other schedules have been omitted for the reason that the required information is presented in the financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable.

(a) 3. *Exhibits:*

INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Allergan, Inc., as filed with the State of Delaware on May 22, 1989 (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Registration Statement on Form S-1 No. 33-28855, filed on May 24, 1989)

3.2 Certificate of Amendment of Certificate of Incorporation of Allergan, Inc. (incorporated by reference to Exhibit 3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 30, 2000)

3.3 Certificate of Amendment of Restated Certificate of Incorporation of Allergan, Inc. (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Current Report on Form 8-K filed on September 20, 2006)

3.4 Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 30, 1995)

3.5 First Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)

3.6 Second Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.5 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)

3.7 Third Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.6 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)

Exhibit Number	Description
4.1	Certificate of Designations of Series A Junior Participating Preferred Stock, as filed with the State of Delaware on February 1, 2000 (incorporated by reference to Exhibit 4.1 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 1999)
4.2	Rights Agreement, dated January 25, 2000, between Allergan, Inc. and First Chicago Trust Company of New York (incorporated by reference to Exhibit 4 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)
4.3	Amendment to Rights Agreement, dated as of January 2, 2002, between First Chicago Trust Company of New York, Allergan, Inc. and EquiServe Trust Company, N.A., as successor Rights Agent (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Annual Report on Form 10-K for the year ended December 31, 2001)
4.4	Second Amendment to Rights Agreement, dated as of January 30, 2003, between First Chicago Trust Company of New York, Allergan, Inc. and EquiServe Trust Company, N.A., as successor Rights Agent (incorporated by reference to Exhibit 1 to Allergan, Inc. s amended Form 8-A filed on February 14, 2003)
4.5	Third Amendment to Rights Agreement, dated as of October 7, 2005, between Wells Fargo Bank, National Association and Allergan, Inc., as successor Right Agent (incorporated by reference to Exhibit 4.11 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
4.6	Amended and Restated Indenture, dated as of July 28, 2004, between Allergan, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.11 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 2004)
4.7	Form of Zero Coupon Convertible Senior Note Due 2022 (incorporated by reference to Exhibit 4.2 (included in Exhibit 4.1) to Allergan, Inc. s Registration Statement on Form S-3 dated January 9, 2003, Registration No. 333-102425)
4.8	Registration Rights Agreement, dated as of November 6, 2002, by and between Allergan, Inc. and Banc of America Securities LLC, Salomon Smith Barney Inc., J.P. Morgan Securities Inc. and Banc One Capital Markets, Inc. (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Registration Statement on Form S-3 dated January 9, 2003, Registration No. 333-102425)
4.9	Indenture, dated as of April 12, 2006, between Allergan, Inc. and Wells Fargo, National Association relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.10	Indenture, dated as of April 12, 2006, between Allergan, Inc. and Wells Fargo, National Association relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.11	Form of 1.50% Convertible Senior Note due 2026 (incorporated by reference (and included in) the Indenture dated as of April 12, 2006 between Allergan, Inc. and Wells Fargo, National Association at Exhibit 4.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.12	Form of 5.75% Senior Note due 2016 (incorporated by reference to (and included in) the Indenture dated as of April 12, 2006 between Allergan, Inc. and Wells Fargo, National Association at Exhibit 4.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.13	Registration Rights Agreement, dated as of April 12, 2006, among Allergan, Inc. and Banc of America Securities LLC and Citigroup Global Markets Inc., as representatives of the Initial Purchasers named therein, relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.14	Registration Rights Agreement, dated as of April 12, 2006, among Allergan, Inc. and Morgan Stanley & Co., Incorporated, as representative of the Initial Purchasers named therein, relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.4 to Allergan, Inc. s Current Report

on Form 8-K filed on April 12, 2006)

10.1 Form of Director and Executive Officer Indemnity Agreement

10.2 Form of Allergan, Inc. Change in Control Agreement 11E Grade (applicable to certain employees hired before December 4, 2006) *

10.3 Form of Allergan, Inc. Change in Control Agreement 11E Grade (applicable to certain employees hired after December 4, 2006) *

Exhibit Number	Description
10.4	First Amendment to Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Appendix A to Allergan, Inc. s Proxy Statement filed on March 21, 2006)*
10.5	Amended Form of Restricted Stock Award Agreement under Allergan, Inc. s 2003 Nonemployee Director Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.60 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 2006)
10.6	Amended Form of Non-Qualified Stock Option Award Agreement under Allergan, Inc. s 2003 Nonemployee Director Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.61 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 2006)
10.7	Allergan, Inc. Deferred Directors Fee Program, amended and restated as of November 15, 1999 (incorporated by reference to Exhibit 4 to Allergan, Inc. s Registration Statement on Form S-8 dated January 6, 2000, Registration No. 333-94155)*
10.8	Allergan, Inc. 1989 Incentive Compensation Plan, as amended and restated November 2000 and as adjusted for 1999 split (incorporated by reference to Exhibit 10.5 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2000)
10.9	First Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.51 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.10	Second Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.7 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.11	Form of Certificate of Restricted Stock Award Terms and Conditions under Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.8 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.12	Form of Restricted Stock Units Terms and Conditions under Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.9 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.13	Allergan, Inc. Employee Stock Ownership Plan (Restated 2003) (incorporated by reference to Exhibit 10.6 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
10.14	First Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.52 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.15	Second Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.9 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)
10.16	Third Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.13 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.17	Allergan, Inc. Employee Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.7 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
10.18	First Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.53 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.19	Second Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.12 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)

10.20 Third Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.17 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)

10.21 Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.8 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)

10.22 First Amendment to Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.50 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)

Exhibit Number	Description
10.23	Second Amendment to Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.20 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.24	Restated Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.5 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 1996)*
10.25	First Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.4 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)*
10.26	Second Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.12 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)*
10.27	Third Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.46 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)*
10.28	Fourth Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.13 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.29	Restated Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.6 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 1996)*
10.30	First Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)*
10.31	Second Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.11 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)*
10.32	Third Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.45 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)*
10.33	Fourth Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.18 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.34	Allergan, Inc. 2006 Executive Bonus Plan (incorporated by reference to Appendix B to Allergan, Inc. s Proxy Statement filed on March 21, 2006)*
10.35	Allergan, Inc. 2007 Executive Bonus Plan Performance Objectives
10.36	Allergan, Inc. 2007 Management Bonus Plan*
10.37	Allergan, Inc. Executive Deferred Compensation Plan (amended and restated effective January 1, 2003) (incorporated by reference to Exhibit 10.22 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.38	First Amendment to Allergan, Inc. Executive Deferred Compensation Plan (amended and restated effective January 1, 2003) (incorporated by reference to Exhibit 10.29 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)*
10.39	Allergan, Inc. Premium Priced Stock Option Plan (incorporated by reference to Exhibit B to Allergan, Inc. s Proxy Statement filed on March 23, 2001)*
10.40	Acceleration of Vesting of Premium Priced Stock Options (incorporated by reference to Exhibit 10.57 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 25, 2005)
10.41	Distribution Agreement, dated March 4, 1994, between Allergan, Inc. and Merrill Lynch & Co. and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 10.14 to Allergan, Inc. s Report on Form 10-K for the fiscal year ended December 31, 1993)
10.42	Credit Agreement, dated as of October 11, 2002, among Allergan, Inc., as Borrower and Guarantor, the Eligible Subsidiaries Referred to Therein, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.47 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 27, 2002)
10.43	

First Amendment to Credit Agreement, dated as of October 30, 2002, among Allergan, Inc., as Borrower and Guarantor, the Eligible Subsidiaries Referred to Therein, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.48 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 27, 2002)

Exhibit Number	Description
10.44	Second Amendment to Credit Agreement, dated as of May 16, 2003, among Allergan, Inc., as Borrower and Guarantor, the Banks listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.49 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 27, 2003)
10.45	Third Amendment to Credit Agreement, dated as of October 15, 2003, among Allergan, Inc., as Borrower and Guarantor, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.54 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.46	Fourth Amendment to Credit Agreement, dated as of May 26, 2004, among Allergan, Inc., as Borrower and Guarantor, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Document Agent (incorporated by reference to Exhibit 10.56 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 25, 2004)
10.47	Amended and Restated Credit Agreement, dated as of March 31, 2006, among Allergan, Inc. as Borrower and Guarantor, the Banks listed therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Document Agent (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 4, 2006)
10.48	Purchase Agreement, dated as of April 6, 2006, among Allergan, Inc. and Banc of America Securities LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, as representatives of the initial purchasers named therein, relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
10.49	Purchase Agreement, dated as of April 6, 2006, among Allergan, Inc. and Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 10.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
10.50	Stock Sale and Purchase Agreement, dated as of October 31, 2006, by and among Allergan, Inc., Allergan Holdings France, SAS, Waldemar Kita, the European Pre-Floatation Fund II and the other minority stockholders of Groupe Cornéal Laboratories and its subsidiaries (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on November 2, 2006)
10.51	Contribution and Distribution Agreement, dated as of June 24, 2002, by and among Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.35 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)
10.52	Transitional Services Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.36 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)
10.53	Employee Matters Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.37 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)
10.54	Tax Sharing Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.38 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)
10.55	Manufacturing and Supply Agreement, dated as of June 30, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.39 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)

10.56 Agreement and Plan of Merger, dated as of December 20, 2005, by and among Allergan, Inc., Banner Acquisition, Inc., a wholly-owned subsidiary of Allergan, and Inamed Corporation (incorporated by reference to Exhibit 99.2 to Allergan, Inc. s Current Report on Form 8-K filed on December 13, 2005)

10.57 Transition and General Release Agreement, effective as of August 6, 2004, by and between Allergan, Inc. and Lester J. Kaplan (incorporated by reference to Exhibit 10.55 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 26, 2004)

Exhibit Number	Description
10.58	Transfer Agent Services Agreement, dated as of October 7, 2005, by and among Allergan, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.57 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.59	*Botox*® China License Agreement, dated as of September 30, 2005, by and among Allergan, Inc. Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.51** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.60	*Botox*® Japan License Agreement, dated as of September 30, 2005, by and among Allergan, Inc. Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.52** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.61	Co-Promotion Agreement, dated as of September 30, 2005, by and among Allergan, Inc., Allergan Sales, LLC and SmithKline Beecham Corporation d/b/a GlaxoSmithKline (incorporated by reference to Exhibit 10.53** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.62	*Botox*® Global Strategic Support Agreement, dated as of September 30, 2005, by and among Allergan, Inc., Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.54** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.63	China *Botox*® Supply Agreement, dated as of September 30, 2005, by and among Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.55** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.64	Japan *Botox*® Supply Agreement, dated as of September 30, 2005, by and between Allergan Pharmaceuticals Ireland and Glaxo Group Limited (incorporated by reference to Exhibit 10.56** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.65	Severance and General Release Agreement between Allergan, Inc. and Roy J. Wilson, dated as of October 6, 2006 (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on October 10, 2006)
21	List of Subsidiaries of Allergan, Inc.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm
23.2	Report and consent of KPMG LLP, independent registered public accounting firm
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350

* Management contract or compensatory plan or arrangement.

** Confidential treatment was requested with respect to the omitted portions of this Exhibit, which portions have been filed separately with the Securities and Exchange Commission and which portions were granted confidential treatment on December 13, 2005.

All current directors and executive officers of Allergan, Inc. have entered into the Indemnity Agreement with Allergan, Inc.

All vice president level employees, including executive officers, of Allergan, Inc., grade level 11E and above, hired before December 4, 2006, are eligible to be party to the Allergan, Inc. Change in Control Agreement.

All employees of Allergan, Inc., grade level 11E and below, hired after December 4, 2006, are eligible to be party to the Allergan, Inc. Change in Control Agreement.

(b) *Item 601 Exhibits*

Reference is hereby made to the Index of Exhibits under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Allergan, Inc.

By /s/ David E.I. Pyott

David E.I. Pyott
Chairman of the Board and
Chief Executive Officer

Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By
/s/ David E.I. Pyott

David E.I. Pyott
Chairman of the Board and
Chief Executive Officer

Date: March 1, 2007

Date: March 1, 2007

By
/s/ Jeffrey L. Edwards

Jeffrey L. Edwards
Executive Vice President, Finance and
Business Development, Chief Financial Officer
(Principal Financial Officer)

Date: March 1, 2007

By
/s/ James F. Barlow

James F. Barlow
Senior Vice President, Corporate Controller (Principal Accounting Officer)

Date: March 1, 2007

By

/s/ Herbert W. Boyer

Herbert W. Boyer, Ph.D.,
Vice Chairman of the Board

Date: March 1, 2007

By
/s/ Deborah L. Dunsire

Deborah L. Dunsire, M.D., *Director*

Date: March 1, 2007

By
/s/ Handel E. Evans

Handel E. Evans, *Director*

Date: March 1, 2007

By
/s/ Michael R. Gallagher

Michael R. Gallagher, *Director*

Date: March 1, 2007

By
/s/ Gavin S. Herbert

Gavin S. Herbert,
Director and Chairman Emeritus

Date: March 1, 2007

By
/s/ Robert A. Ingram

Robert A. Ingram, *Director*

Date: March 1, 2007

By
/s/ Trevor M. Jones

Trevor M. Jones, *Director*

By
/s/ Louis J. Lavigne, Jr.

Date: March 1, 2007 Louis J. Lavigne, Jr., *Director*

Date: March 1, 2007

By
/s/ Russell T. Ray

Russell T. Ray, *Director*

Date: March 1, 2007

By
/s/ Stephen J. Ryan

Stephen J. Ryan, M.D., *Director*

Date: March 1, 2007

By
/s/ Leonard D. Schaeffer

Leonard D. Schaeffer, *Director*

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, refers to the process designed by, or under the supervision of, our Principal Executive Officer and Principal Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Allergan;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Allergan are being made only in accordance with authorizations of management and directors of Allergan; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Allergan s assets that could have a material effect on the financial statements.

Management s assessment of the effectiveness of Allergan s internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report on management s assessment and on the effectiveness of Allergan s internal control over financial reporting as of December 31, 2006. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for Allergan.

Our assessment did not include evaluating the effectiveness of internal control over financial reporting at our recently acquired Inamed business, which is included in our 2006 consolidated financial statements and constituted: $70.3 million of cash and equivalents, $75.5 million of trade receivables, net, $52.5 million of inventories and $64.4 million of property, plant and equipment, net as of December 31, 2006, and $371.6 million of product net sales for the year ended December 31, 2006. Management did not assess the effectiveness of internal control over financial reporting at this newly acquired business due to the complexity associated with assessing internal controls during integration efforts.

Management has used the framework set forth in the report entitled *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of Allergan s internal control over financial reporting. Management has concluded that Allergan s internal control over financial reporting was effective as of the end of the most recent fiscal year, based on those criteria.

David E.I. Pyott
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Jeffrey L. Edwards
Executive Vice President, Finance and
Business Development, Chief Financial Officer
(Principal Financial Officer)

February 26, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Allergan, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Allergan, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria)**.** The Company management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Inamed Corporation, which was acquired in 2006 and is included in the 2006 consolidated financial statements of the Company and constituted $70.3 million of cash and equivalents, $75.5 million of trade receivables, net, $52.5 million of inventories and $64.4 million of property, plant and equipment, net as of December 31, 2006, and $371.6 million of product net sales for the year ended December 31, 2006. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Inamed Corporation.

In our opinion, management s assessment that Allergan, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Allergan, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Allergan, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the years then ended, and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California
February 26, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Allergan, Inc.

We have audited the consolidated balance sheets of Allergan, Inc. (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The consolidated financial statements and financial statement schedule of the Company for the year ended December 31, 2004, were audited by other auditors whose report dated March 4, 2005, expressed an unqualified opinion on those statements and schedule.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allergan, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the years ended December 31, 2006 and 2005, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Allergan, Inc. changed its method of accounting for Share-Based Payments in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) effective January 1, 2006 and its method of accounting for Defined Benefit Pension and Other Post Retirement Plans in accordance with Statement of Financial Accounting Standards No. 158 in the fourth quarter of 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California
February 26, 2007

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Allergan, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders equity and cash flows of Allergan, Inc. and subsidiaries (the Company) for the year ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Allergan, Inc. and subsidiaries for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Costa Mesa, California
March 4, 2005

ALLERGAN, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2006	2005
	(in millions, except share data)	
ASSETS		
Current assets:		
Cash and equivalents	$ 1,369.4	$ 1,296.3
Trade receivables, net	386.9	246.1
Inventories	168.5	90.1
Other current assets	205.5	193.1
Total current assets	2,130.3	1,825.6
Investments and other assets	148.2	258.9
Deferred tax assets		123.2
Property, plant and equipment, net	611.4	494.0
Goodwill	1,833.6	9.0
Intangibles, net	1,043.6	139.8
Total assets	$ 5,767.1	$ 2,850.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 102.0	$ 169.6
Convertible notes, net of discount		520.0
Accounts payable	142.4	92.3
Accrued compensation	124.8	84.8
Other accrued expenses	235.2	177.3
Income taxes	53.7	
Total current liabilities	658.1	1,044.0
Long-term debt	856.4	57.5
Long-term convertible notes	750.0	
Deferred tax liabilities	84.8	
Other liabilities	273.2	181.0
Commitments and contingencies		
Minority interest	1.5	1.1
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 153,756,000 shares as of December 31, 2006 and 134,255,000 shares as of December 31, 2005	1.5	1.3
Additional paid-in capital	2,359.6	417.7

Accumulated other comprehensive loss	(127.4)	(50.6)
Retained earnings	1,065.7	1,305.1
	3,299.4	1,673.5
Less treasury stock, at cost (1,487,000 and 1,431,000 shares, respectively)	(156.3)	(106.6)
Total stockholders equity	3,143.1	1,566.9
Total liabilities and stockholders equity	$ 5,767.1	$ 2,850.5

See accompanying notes to consolidated financial statements.

ALLERGAN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2006	2005	2004
	(in millions, except per share data)		
Revenues:			
Product net sales	$ 3,010.1	$ 2,319.2	$ 2,045.6
Other revenues	53.2	23.4	13.3
Total revenues	3,063.3	2,342.6	2,058.9
Operating costs and expenses:			
Cost of sales (excludes amortization of acquired intangible assets)	575.7	385.3	381.7
Selling, general and administrative	1,333.4	936.8	791.7
Research and development	1,055.5	388.3	342.9
Amortization of acquired intangible assets	79.6	17.5	8.2
Restructuring charges	22.3	43.8	7.0
Operating (loss) income	(3.2)	570.9	527.4
Non-operating income (expense):			
Interest income	48.9	35.4	14.1
Interest expense	(60.2)	(12.4)	(18.1)
Gain on investments, net	0.3	0.8	0.3
Unrealized (loss) gain on derivative instruments, net	(0.3)	1.1	(0.4)
Other, net	(5.0)	3.4	8.8
(Loss) earnings before income taxes and minority interest	(19.5)	599.2	532.1
Provision for income taxes	107.5	192.4	154.0
Minority interest expense	0.4	2.9	1.0
Net (loss) earnings	$ (127.4)	$ 403.9	$ 377.1
Basic (loss) earnings per share	$ (0.87)	$ 3.08	$ 2.87
Diluted (loss) earnings per share	$ (0.87)	$ 3.01	$ 2.82

See accompanying notes to consolidated financial statements.

ALLERGAN, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Treasury Stock		
	Shares	Par Value	Capital	Loss	Earnings	Shares	Amount	Total
r 31,	134.3	$ 1.3	$ 360.5	$ (54.9)	$ 695.7	(4.1)	$ (284.0)	$ 718.6
ncome					377.1			377.1
sive : n nt								
ments n								
sive				9.2				9.2
ncome								
per					(47.3)			(47.3
rcised			28.2		(45.8)	1.9	129.4	111.8
ner			(3.9)		2.8	0.2	10.8	9.7
ury						(0.8)	(65.2)	(65.2
ns			2.3					2.3
r 31,	134.3	1.3	387.1	(45.7)	982.5	(2.8)	(209.0)	1,116.2
ncome					403.9			403.9
sive :								

				(4.9)				(4.9)
				(52.6)				(52.6)
			33.9	(30.8)	2.4	180.4		183.5
			(8.3)	2.1	0.3	16.3		10.1
					(1.3)	(94.3)		(94.3)
			5.0					5.0
	134.3	1.3	417.7	(50.6)	1,305.1	(1.4)	(106.6)	1,566.9
				(127.4)				(127.4)
				32.9				32.9
				(109.7)				(109.7)

per								
					(58.7)			(58.7
rcised			35.4		(58.7)	2.6	241.3	218.0
ner								
					2.2	0.1	9.6	11.8
non								
on with								
	2.1							
non								
ed								
	17.4	0.2	1,859.1					1,859.3
ury								
						(2.9)	(307.8)	(307.8
d								
			47.4		3.2	0.1	7.2	57.8
r 31,								
	153.8	$ 1.5	$ 2,359.6	$ (127.4)	$ 1,065.7	(1.5)	$ (156.3)	$ 3,143.1

See accompanying notes to consolidated financial statements.

ALLERGAN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006	2005	2004
	(in millions)		
Cash flows provided by operating activities:			
Net (loss) earnings	$ (127.4)	$ 403.9	$ 377.1
Non-cash items included in net (loss) earnings			
In-process research and development charge	579.3		
Depreciation and amortization	152.4	78.9	68.3
Amortization of original issue discount and debt issuance costs	10.0	9.8	11.8
Amortization of net realized gain on interest rate swap	(0.9)		
Deferred income tax benefit	(47.6)	(25.0)	(34.5)
Gain on investments	(0.3)	(0.8)	(0.3)
Loss (gain) on disposal of assets	4.3	(5.8)	4.1
Unrealized loss (gain) on derivative instruments, net	0.3	(1.1)	0.4
Expense of share-based compensation plans	69.6	15.1	11.5
Minority interest expense	0.4	2.9	1.0
Restructuring charges	22.3	43.8	7.0
Changes in assets and liabilities:			
Trade receivables	(57.7)	(11.2)	(15.8)
Inventories	34.1	1.1	(11.8)
Other current assets	18.1	(31.9)	14.7
Other non-current assets	0.1	(34.4)	(26.0)
Accounts payable	17.0	(3.8)	9.2
Accrued expenses	10.7	(27.7)	27.7
Income taxes	42.5	(61.8)	72.3
Other liabilities	19.7	72.6	31.8
Net cash provided by operating activities	746.9	424.6	548.5
Cash flows from investing activities:			
Acquisition of Inamed, net of cash acquired	(1,328.7)		
Additions to property, plant and equipment	(131.4)	(78.5)	(96.4)
Additions to capitalized software	(18.4)	(13.6)	(10.5)
Additions to intangible assets	(11.5)	(99.3)	
Proceeds from sale of property, plant and equipment	4.8	7.8	
Proceeds from sale of investments	0.6	1.3	
Other, net		0.2	0.1
Net cash used in investing activities	(1,484.6)	(182.1)	(106.8)

Cash flows from financing activities:			
Dividends to stockholders	(58.4)	(52.3)	(47.3)
Proceeds from issuance of senior notes	797.7		
Proceeds from issuance of convertible senior notes	750.0		
Debt issuance costs	(20.2)		
Bridge credit facility borrowings	825.0		
Bridge credit facility repayments	(825.0)		
Repayments of convertible borrowings	(521.9)		
Net (repayments) borrowings of notes payable	(67.5)	157.0	(12.6)
Net repayments under commercial paper obligations			(10.4)
Sale of stock to employees	182.7	149.9	83.6
Payments to acquire treasury stock	(307.8)	(94.3)	(65.2)
Net proceeds from settlement of interest rate swap	13.0		
Excess tax benefits from share-based compensation	35.4		
Net cash provided by (used in) financing activities	803.0	160.3	(51.9)
Effect of exchange rates on cash and equivalents	7.8	(1.3)	(2.6)
Net increase in cash and equivalents	73.1	401.5	387.2
Cash and equivalents at beginning of year	1,296.3	894.8	507.6
Cash and equivalents at end of year	$ 1,369.4	$ 1,296.3	$ 894.8
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 34.1	$ 11.5	$ 13.5
Income taxes, net of refunds	$ 78.4	$ 279.4	$ 110.0

On March 23, 2006, the Company completed the acquisition of Inamed Corporation. In exchange for the common stock of Inamed Corporation, the Company issued common stock with a fair value of $1,859.3 million and paid $1,328.7 million in cash, net of cash acquired. In connection with the Inamed acquisition, the Company acquired assets with a fair value of $3,813.4 million and assumed liabilities of $522.7 million.

Cash paid for income taxes in 2005 includes amounts related to the Company s repatriation of foreign earnings in connection with the American Jobs Creation Act of 2004.

See accompanying notes to consolidated financial statements.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Allergan, Inc. (Allergan or the Company) and all of its subsidiaries. All significant transactions among the consolidated entities have been eliminated from the financial statements.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Actual results could differ materially from those estimates.

Foreign Currency Translation

The financial position and results of operations of the Company s foreign subsidiaries are generally determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss in stockholders equity. Gains and losses resulting from foreign currency transactions are included in earnings and have not been material in any year presented. (See Note 11, Financial Instruments.)

Cash and Equivalents

The Company considers cash in banks, repurchase agreements, commercial paper and deposits with financial institutions with maturities of three months or less and that can be liquidated without prior notice or penalty, to be cash and equivalents.

Investments

The Company has both marketable and non-marketable equity investments in conjunction with its various collaboration arrangements. The Company classifies its marketable equity investments as available-for-sale securities with net unrealized gains or losses recorded as a component of accumulated other comprehensive loss. The non-marketable equity investments represent investments in start-up technology companies or partnerships that invest in start-up technology companies and are recorded at cost. Marketable and non-marketable equity investments are evaluated periodically for impairment. If it is determined that a decline of any investment is other than temporary, then the investment basis would be written down to fair value and the write-down would be included in earnings as a loss.

Inventories

Inventories are valued at the lower of cost or market (net realizable value). Cost is determined by the first-in, first-out method.

Long-Lived Assets

Property, plant and equipment are stated at cost. Additions, major renewals and improvements are capitalized, while maintenance and repairs are expensed. Upon disposition, the net book value of assets is relieved and resulting gains or losses are reflected in earnings. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful life of the related asset. The useful lives for buildings, including building improvements, range from seven years to 40 years and, for machinery and equipment, three years to 15 years. Leasehold improvements are amortized over the shorter of their economic lives or lease terms. Accelerated depreciation methods are generally used for income tax purposes.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All long-lived assets are reviewed for impairment in value when changes in circumstances dictate, based upon undiscounted future operating cash flows, and appropriate losses are recognized and reflected in current earnings, to the extent the carrying amount of an asset exceeds its estimated fair value determined by the use of appraisals, discounted cash flow analyses or comparable fair values of similar assets.

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead tested for impairment annually. Intangible assets include developed technology, customer relationships, licensing agreements, trademarks, core technology and other rights, which are being amortized over their estimated useful lives ranging from three to 16 years, and a foreign business license with an indefinite useful life that is not amortized, but instead tested for impairment annually.

Treasury Stock

Treasury stock is accounted for by the cost method. The Company maintains an evergreen stock repurchase program. The evergreen stock repurchase program authorizes management to repurchase the Company s common stock for the primary purpose of funding its stock-based benefit plans. Under the stock repurchase program, the Company may maintain up to 9.2 million repurchased shares in its treasury account at any one time. As of December 31, 2006 and 2005, the Company held approximately 1.5 million and 1.4 million treasury shares, respectively, under this program.

Revenue Recognition

The Company recognizes revenue from product sales when goods are shipped and title and risk of loss transfer to its customers. A portion of the Company s revenue is generated from consigned inventory of breast implants maintained at physician, hospital and clinic locations. These customers are contractually obligated to maintain a specific level of inventory and to notify the Company upon use. Revenue for consigned inventory is recognized at the time the Company is notified by the customer that the product has been used. Notification is usually through the replenishing of the inventory, and the Company periodically reviews consignment inventories to confirm the accuracy of customer reporting.

The Company generally offers cash discounts to customers for the early payment of receivables. Those discounts are recorded as a reduction of revenue and accounts receivable in the same period that the related sale is recorded. The amounts reserved for cash discounts were $2.3 million and $1.8 million at December 31, 2006 and 2005, respectively. The Company permits returns of product from most product lines by any class of customer if such product is returned in a timely manner, in good condition and from normal distribution channels. Return policies in certain international markets and for certain medical device products, primarily breast implants, provide for more stringent guidelines in accordance with the terms of contractual agreements with customers. The Company does not provide a right of return on its facial aesthetics product line. Estimated allowances for sales returns are based upon the Company s historical patterns of products returned matched against the sales from which they originated, and management s evaluation of specific factors that may increase the risk of product returns. The amount of allowances for sales returns accrued for the Company s specialty pharmaceutical products at December 31, 2006 and 2005 were $4.9 million and $5.1 million, respectively, and are included in Other accrued expenses in the Company s consolidated balance sheets. The amount of allowances for sales returns reserved for the medical device products at December 31, 2006 were $15.2 million, and

are recorded in Trade receivables, net in the Company s consolidated balance sheet. Historical allowances for cash discounts and product returns have been within the amounts reserved or accrued.

The Company participates in various managed care sales rebate and other incentive programs, the largest of which relates to Medicaid and Medicare. Sales rebate and other incentive programs also include chargebacks, which

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are contractual discounts given primarily to federal government agencies, health maintenance organizations, pharmacy benefits managers and group purchasing organizations. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in Other accrued expenses in the Company s consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $71.2 million and $71.9 million at December 31, 2006 and 2005, respectively.

The Company s procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management s judgment with respect to many factors including, but not limited to, current market place dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, the Company uses historical sales, product utilization and rebate data and applies forecasting techniques in order to estimate the Company s liability amounts. Qualitatively, management s judgment is applied to these items to modify, if appropriate, the estimated liability amounts. Additionally, there is a significant time lag between the date the Company determines the estimated liability and when the Company actually pays the liability. Due to this time lag, the Company records adjustments to its estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods.

The Company recognizes license fees, royalties and reimbursement income for services provided as other revenues based on the facts and circumstances of each contractual agreement. In general, the Company recognizes income upon the signing of a contractual agreement that grants rights to products or technology to a third party if the Company has no further obligation to provide products or services to the third party after entering into the contract. The Company defers income under contractual agreements when it has further obligations that indicate that a separate earnings process has not culminated.

Share-Based Awards

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payment* (SFAS No. 123R), which requires measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. Under SFAS No. 123R, the fair value of share-based payment awards is estimated at the grant date using an option pricing model, and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. Prior to the adoption of SFAS No. 123R, the Company accounted for share-based awards using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Under the intrinsic value method, no share-based compensation cost was recognized for awards to employees or directors if the exercise price of the award was equal to the fair market value of the underlying stock on the date of grant.

The Company adopted SFAS No. 123R using the modified prospective application method. Under the modified prospective application method, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards and awards that were outstanding on the adoption effective date that are subsequently modified or cancelled. Estimated compensation expense for awards outstanding and unvested on the adoption effective date is recognized over the remaining service period using the compensation cost calculated for *pro forma* disclosure purposes under SFAS No. 123.

Pre-tax share-based compensation expense recognized under SFAS No. 123R for the year ended December 31, 2006 was $69.6 million, which consisted of compensation related to employee and director stock options of $48.6 million, employee and director restricted share awards of $9.2 million, and $11.8 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended December 31, 2005 was $13.6 million, which consisted of compensation related to employee and director restricted share awards of $4.1 million and $9.5 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004 was $11.5 million, which consisted of compensation related to employee and director restricted share awards of $2.3 million and $9.2 million related to stock contributed to employee benefit plans. There was no share-based compensation expense recognized during 2005 and 2004 related to employee or director stock options. The income tax benefit related to recognized share-based compensation was $25.3 million, $4.9 million and $3.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based awards. The determination of fair value using the Black-Scholes model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility and projected employee stock option exercise behaviors. Prior to the adoption of SFAS No. 123R, the Company used an estimated stock price volatility based upon the Company s five year historical average. Upon adoption of SFAS No. 123R, the Company changed its estimated volatility calculation to an equal weighting of the Company s ten 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.

The Company recognizes share-based compensation cost over the requisite service period using the straight-line single option method. Since share-based compensation under SFAS No. 123R is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. SFAS No. 123R requires these estimates to be revised, if necessary, 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. In the Company s *pro forma* information required under SFAS No. 123 prior to January 1, 2006, the Company accounted for forfeitures as they occurred.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, *Transitional Election Related to Accounting for Tax Effects of Share-Based Payment Awards.* The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance additional paid-in capital pool (APIC Pool) related to tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

Advertising Expenses

Advertising expenses relating to production costs are expensed as incurred and the costs of television time, radio time and space in publications are expensed when the related advertising occurs. Advertising expenses were approximately $99.7 million, $100.5 million and $54.0 million in 2006, 2005 and 2004, respectively.

Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities, along with net operating loss and tax credit carryforwards. 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, its income tax expense will increase or decrease, respectively, in the period such determination is made.

Valuation allowances against the Company s deferred tax assets were $20.8 million and $44.1 million at December 31, 2006 and 2005, respectively. Material differences in the estimated amount of valuation allowances may result in an increase or decrease in the provision for income taxes if the actual amounts for valuation allowances required against deferred tax assets differ from the amounts the Company estimates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2006, the Company had approximately $725.5 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.

Purchase Price Allocation

The allocation of purchase price for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in a business combination.

On March 23, 2006, the Company acquired Inamed Corporation (Inamed) for the purchase price of approximately $3.3 billion. The purchase price for Inamed was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company engaged an independent third-party valuation firm to assist it in determining the estimated fair values of in-process research and development, identifiable intangible assets and certain tangible assets. Such a valuation requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates. The Company believes the estimated fair values assigned to the Inamed assets acquired and liabilities assumed are based on reasonable assumptions.

Comprehensive Income (Loss)

Comprehensive income (loss) encompasses all changes in equity other than those with stockholders and consists of net earnings (losses), foreign currency translation adjustments, pension liability adjustments, unrealized gains or losses on marketable equity investments and unrealized and realized gains or losses on derivative instruments, if applicable. The Company does not provide for U.S. income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries.

Reclassifications

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

Beginning in 2006, the Company reports amortization of acquired intangible assets on a separate line in its consolidated statements of operations, which includes the amortization of the intangible assets acquired in connection with the Inamed acquisition, as well as the amortization of other intangible assets previously reported in cost of sales, selling, general and administrative expenses, and research and development expenses. The amount of amortization of acquired intangible assets reclassified in 2005 was $17.5 million, consisting of $14.3 million previously classified in

cost of sales, $0.5 million previously classified in selling, general and administrative expenses, and $2.7 million previously classified in research and development expenses. The amount of amortization of acquired intangible assets reclassified in 2004 was $8.2 million, consisting of $5.0 million previously classified in cost of sales, $0.5 million previously classified in selling, general and administrative expenses, and $2.7 million previously classified in research and development expenses.

Beginning in 2006, the Company reports other revenues on a separate line in its consolidated statements of operations, which primarily include royalties and reimbursement income in connection with various contractual

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreements. These other revenue amounts were previously included in selling, general and administrative expenses. The amounts of other revenues previously included as part of selling, general and administrative expenses in 2005 and 2004 were $23.4 million and $13.3 million, respectively.

Recently Adopted Accounting Standards

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). SFAS No. 154 requires retrospective application to prior-period financial statements of changes in accounting principles, unless a new accounting pronouncement provides specific transition provisions to the contrary or it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The Company adopted the provisions of SFAS No. 154 in its first fiscal quarter of 2006. The adoption did not have a material effect 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). SFAS No. 158 requires employers to recognize on their balance sheet an asset or liability equal to the over- or under-funded benefit obligation of each defined benefit pension and other postretirement plan and to recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the actuarial gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of (i) Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions* and (ii) Statement of Financial Accounting Standards No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements. This change in balance sheet reporting is effective for fiscal years ending after December 15, 2006 for public companies, which is the Company s fiscal year 2006. SFAS No. 158 also eliminates the ability to use an early measurement date and requires employers to measure defined benefit plan assets and obligations as of the date of the employer s fiscal year end statement of financial position, commencing with fiscal years ending after December 15, 2008, which is the Company s fiscal year 2008. The Company adopted the balance sheet recognition and reporting provisions of SFAS No. 158 during the Company s fourth fiscal quarter of 2006. The Company currently expects to adopt in the fourth fiscal quarter of 2008 the provisions of SFAS No. 158 relating to the change in measurement date, which is not expected to have a material impact on the Company s consolidated financial statements. See Note 9, Employee Retirement and Other Benefit Plans, for further discussion of the effect of adopting SFAS No. 158 on the Company s consolidated financial statements.

New Accounting Standards Not Yet Adopted

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity s first fiscal year that begins after September 15, 2006, which is the Company s fiscal year 2007. The Company does not expect the adoption of SFAS No. 155 to have a material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for fiscal years beginning after December 15, 2006, which is the Company s

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fiscal year 2007. The Company is still completing its evaluation of the potential effect of adopting FIN 48 on its consolidated financial statements. The Company currently does not expect the adoption of FIN 48 to have a material impact on its consolidated financial statements.

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 under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, which is the Company s fiscal year 2008. The Company has not yet evaluated the potential impact of adopting SFAS No. 157 on its consolidated financial statements.

Note 2: Inamed Acquisition

On March 23, 2006, the Company completed the acquisition of Inamed Corporation (Inamed), a global healthcare company that develops, manufactures, and markets a diverse line of products, including breast implants, a range of facial aesthetics and obesity intervention products.

The Inamed acquisition was completed pursuant to an agreement and plan of merger, dated as of December 20, 2005, and subsequently amended as of March 11, 2006, by and among the Company, its wholly-owned subsidiary Banner Acquisition, Inc., and Inamed, and an exchange offer made by Banner Acquisition to acquire Inamed shares for either $84.00 in cash or 0.8498 of a share of the Company s common stock, subject to proration so that 45% of the aggregate Inamed shares tendered were exchanged for cash and 55% of the aggregate Inamed shares tendered were exchanged for shares of the Company s common stock. In the exchange offer, the Company paid approximately $1.31 billion in cash and issued 16,194,051 shares of common stock through Banner Acquisition, acquiring approximately 93.86% of Inamed s outstanding common stock. Following the exchange offer, the remaining outstanding shares of Inamed common stock were acquired for approximately $81.7 million in cash and 1,010,576 shares of Allergan common stock through the merger of Banner Acquisition with and into Inamed in a merger in which Inamed survived as Allergan s wholly-owned subsidiary. As a final step in the plan of reorganization, the Company merged Inamed into Inamed, LLC, a wholly-owned subsidiary of the Company. The consideration paid in the merger does not include shares of the Company s common stock and cash that were paid to former Inamed option holders for outstanding options to purchase shares of Inamed common stock, which were cancelled in the merger and converted into the right to receive an amount of cash equal to 45% of the in the money value of the option and a number of shares of the Company s common stock with a value equal to 55% of the in the money value of the option. Subsequent to the merger, the Company issued 237,066 shares of common stock and paid $17.9 million in cash to satisfy its obligation to the option holders. The fair value of these shares of Company common stock and cash paid to option holders of Inamed common stock were included in the calculation of the purchase price detailed below.

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

	(in millions)
Fair value of Allergan shares issued	$ 1,859.3
Cash consideration	1,409.3
Transaction costs	22.1

	$ 3,290.7

The value of the shares of Company common stock used in determining the purchase price was $106.60 per share, based on the closing price of the Company s common stock on December 20, 2005, the effective date of the merger agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase Price Allocation

The Inamed purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date (March 23, 2006). The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The goodwill acquired in the Inamed acquisition is not deductible for tax purposes.

The Company believes the fair values assigned to the 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	$ 323.7
Property, plant and equipment	57.7
Identifiable intangible assets	971.9
In-process research and development	579.3
Goodwill	1,824.2
Other non-current assets, primarily deferred tax assets	56.6
Accounts payable and accrued liabilities(a)	(127.0)
Deferred tax liabilities current and non-current	(362.3)
Other non-current liabilities	(33.4)
	$ 3,290.7

(a) Accounts payable and accrued liabilities include approximately $10.3 million of recognized liabilities related to the involuntary termination and relocation of certain Inamed employees in accordance with the Emerging Issues Task Force (EITF) in EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.*

The Company s fair value estimates for the purchase price allocation may change during the allowable allocation period, which is up to one year from the acquisition date, if additional information becomes available.

In-process Research and Development

In conjunction with the Inamed acquisition, the Company recorded a charge to in-process research and development expense of $579.3 million for acquired in-process research and development assets that the Company determined were not yet complete and had no alternative future uses in their current state.

These in-process research and development assets are composed of Inamed s silicone breast implant technology for use in the United States, Inamed s *Juvéderm*™ dermal filler technology for use in the United States, and Inamed s *BIB*™

BioEnterics® Intragastric Balloon (*BIB*™ System) technology for use in the United States, which were valued at $405.8 million, $41.2 million and $132.3 million, respectively. All of these assets had not received approval by the U.S. Food and Drug Administration (FDA) as of the Inamed acquisition date of March 23, 2006. Because the in-process research and development assets had no alternative future use, they were charged to expense on the Inamed acquisition date.

As of the Inamed acquisition date, the responsive gel round implants were expected to be approved by the FDA in mid-2006 and the Style 410 was estimated to be approved approximately six to twelve months thereafter. The Company s management estimated that the projects were approximately 90 percent complete as the patient data had been collected and submitted to the FDA, with remaining efforts focused on responding to FDA questions and compiling additional data regarding clinical trials and other information necessary to answer any additional FDA requests. Subsequently, on November 17, 2006, the responsive gel round model of the silicone breast implants received FDA approval. The Company is required, as a condition of approval, to conduct extensive sets of ongoing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

studies (committed patient breast implant follow-up, or BIF, studies) for the responsive gel round breast implants extending for a period of 10 years after FDA approval. The Company expects that it will also be required, as a condition of approval, to conduct the BIF studies for the Style 410 breast implants extending for a period of 10 years after FDA approval. The current BIF study will include 40,000 patients with silicone gel breast implants and 20,000 patients with saline implants.

As of the Inamed acquisition date, the *Juvéderm*tm dermal filler technology was expected to be approved by the FDA in mid-2006. As of the acquisition date, all clinical trial patient data had been filed with the FDA, and the FDA had recently completed its inspection of the manufacturing process. Remaining efforts focused on meetings with the FDA and responding to FDA questions and requests. Subsequently, on June 5, 2006, *Juvéderm*tm received FDA approval.

As of the Inamed acquisition date, the *BIB*tm System was expected to be approved in late 2008. Remaining efforts will be focused on completing discussions with the FDA regarding study design and performing a future clinical trial to pursue a premarket approval in the United States.

The estimated fair value of the in-process research and development assets was determined based on the use of a discounted cash flow model using an income approach for the acquired technologies. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates ranging from 12% to 15%. At the time of the Inamed acquisition, material net cash inflows were estimated to begin in 2006 for the silicone breast implants and *Juvéderm*tm and in 2008 for the *BIB*tm System. Gross margin and expense levels were estimated to be consistent with Inamed s historical results.

The major risks and uncertainties associated with the timely and successful completion of the acquired in-process projects consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. The major risks and uncertainties associated with the core technology consist of the Company s ability to successfully utilize the technology in future research projects. No assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of the projects will materialize as estimated. For these reasons, among others, actual results may vary significantly from estimated results.

Identifiable Intangible Assets

Acquired identifiable intangible assets include product rights for approved indications of currently marketed products, customer relationships, trademarks and core technology for saline-filled and silicone-filled breast implants, dermal fillers, and obesity intervention products. The amounts assigned to each class of intangible assets and the related weighted average amortization periods are summarized in the following table:

	Value of intangible assets acquired (in millions)	**Weighted-average amortization period**

Developed technology	$ 796.4	15.4 years
Core technology	113.3	16.0 years
Customer relationships	42.3	3.1 years
Trademarks	19.9	5.0 years
Total	$ 971.9	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquired developed technology assets primarily consist of the following currently marketed Inamed product lines:

	(in millions)
LAP-BAND® Intragastric Banding System (*LAP-BAND*® System) worldwide	$ 523.6
Breast aesthetics (including saline breast implants worldwide and silicone breast implants in international markets)	158.5
BIB™ System in international markets	35.0
Tissue expanders worldwide	42.4
Other	36.9
	$ 796.4

Impairment evaluations in the future for acquired developed technology will occur at a consolidated cash flow level within the Company s medical devices segment with valuation analysis and related potential impairment actions segregated between two markets, the United States and Canada, and the rest of the world, which were used to originally value the intangible assets.

Goodwill

Goodwill represents the excess of the Inamed purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of Inamed will produce the following significant benefits:

Increased Market Presence and Opportunities. The combination of the Company and Inamed should increase the combined company s market presence and opportunities for growth in sales, earnings and stockholder returns.

Enhanced Product Mix. The complementary nature of the Company s products with those of Inamed should benefit current patients and customers of both companies and provide the combined company with the ability to access new patients and physician customers.

Operating Efficiencies. The combination of the Company and Inamed provides the opportunity for potential economies of scale, cost savings and access to a highly trained Inamed work force as of the acquisition date.

The Company believes that these primary factors support the amount of goodwill recognized as a result of the purchase price paid for Inamed, in relation to other acquired tangible and intangible assets, including in-process research and development. The goodwill acquired in the Inamed acquisition is not deductible for tax purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pro Forma Results of Operations

Unaudited *pro forma* operating results for the Company, assuming the acquisition of Inamed occurred January 1, 2006 and 2005 and excluding any *pro forma* charge for in-process research and development costs, inventory fair value adjustments and Inamed share-based compensation expense in 2006 and transaction costs are as follows:

	2006	2005
	(in millions, except per share amounts)	
Product net sales	$ 3,109.5	$ 2,757.0
Total revenues	$ 3,162.7	$ 2,780.4
Net earnings	$ 471.7	$ 396.2
Basic earnings per share	$ 3.13	$ 2.67
Diluted earnings per share	$ 3.08	$ 2.62

The *pro forma* information is not necessarily indicative of the actual results that would have been achieved had the Inamed acquisition occurred as of January 1, 2006 and 2005, or the results that may be achieved in the future.

Note 3: Restructuring Charges, Integration Costs, and Transition and Duplicate Operating Expenses

Restructuring and Integration of Inamed Operations

In connection with the March 2006 Inamed acquisition, 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 involve eliminating certain 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.

The Company has incurred, and anticipates that it will continue to incur, charges relating to severance, relocation and one-time termination benefits, payments to public employment and training programs, integration and transition costs, and contract termination costs in connection with the Inamed restructuring. The Company currently estimates that the total pre-tax charges resulting from the restructuring, including integration and transition costs, will be between $61.0 million and $75.0 million, all of which are expected to be cash expenditures. In addition to the pre-tax charges, the Company expects to incur capital expenditures of approximately $20.0 million to $25.0 million, primarily related to the integration of information systems.

The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 59 positions, principally general and administrative positions at Inamed locations. These workforce reduction activities began in the second quarter of 2006 and are expected to be substantially completed by the close of the fourth quarter of 2007. Charges associated with the workforce reduction, including severance, relocation and one-time termination

benefits, and payments to public employment and training programs, are currently expected to total approximately $7.0 million to $9.0 million.

Estimated charges include estimates for contract and lease termination costs, including the termination of duplicative distributor arrangements. Contract and lease termination costs are expected to total approximately $29.0 million to $36.0 million. The Company began to record these costs in the second quarter of 2006 and expects to continue to incur them up through and including the fourth quarter of 2007.

The Company also expects to pay an additional amount of approximately $1.5 million to $2.0 million for taxes related to intercompany transfers of trade businesses and net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the year ended December 31, 2006, the Company recorded pre-tax restructuring charges of $13.5 million, primarily consisting of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor arrangements and other costs related to the restructuring of the Inamed operations. During 2006, the Company also recorded $20.7 million of integration and transition costs associated with the Inamed integration. Integration and transition costs consisted primarily of salaries, travel, communications, recruitment and consulting costs. Integration and transition costs included in the Company s consolidated statement of operations for the year ended December 31, 2006 consisted of $0.9 million in cost of sales, $19.6 million in selling, general and administrative expenses and $0.2 million in research and development expenses. During 2006, the Company also recorded $1.6 million for income tax costs related to intercompany transfers of trade businesses and net assets, which the Company included in its provision for income taxes.

The following table presents the cumulative restructuring activities related to the Inamed operations through December 31, 2006:

	Employee Severance	Contract and Lease Termination Costs (in millions)	Total
Net charge during 2006	$ 6.1	$ 7.4	$ 13.5
Spending	(2.1)	(2.5)	(4.6)
Balance at December 31, 2006 (included in Other accrued expenses)	$ 4.0	$ 4.9	$ 8.9

Restructuring and Streamlining of Operations in Japan

On September 30, 2005, the Company entered into a long-term agreement with GlaxoSmithKline (GSK) to develop and promote the Company s *Botox*® product in Japan and China. Under the terms of this agreement, the Company licensed to GSK all clinical development and commercial rights to *Botox*® in Japan and China. As a result of this agreement, the Company initiated a plan in October 2005 to restructure and streamline its operations in Japan. The Company substantially completed the restructuring activities as of June 30, 2006. As of December 31, 2006, the Company recorded cumulative pre-tax restructuring charges of $1.9 million ($2.3 million in 2005 and a net reversal of $0.4 million in 2006). There are no remaining accrued liabilities for restructuring and streamlining of the Company s operations in Japan at December 31, 2006.

Restructuring and Streamlining of European Operations

Effective January 2005, the Company s Board of Directors approved the initiation and implementation of a restructuring of certain activities related to the Company s European operations to optimize operations, improve resource allocation and create a scalable, lower cost and more efficient operating model for the Company s European

research and development (R&D) and commercial activities. Specifically, the restructuring involved moving key European R&D and select commercial functions from the Company s Mougins, France and other European locations to the Company s Irvine, California, Marlow, United Kingdom and Dublin, Ireland facilities and streamlining functions in the Company s European management services group. The workforce reduction began in the first quarter of 2005 and was substantially completed by the close of the second quarter of 2006.

As of December 31, 2006, the Company substantially completed all activities related to the restructuring and streamlining of its European operations and recorded cumulative pre-tax restructuring charges of $37.5 million, primarily related to severance, relocation and one-time termination benefits, payments to public employment and training programs, contract termination costs and capital and other asset-related expenses. During the years ended December 31, 2006 and 2005, the Company recorded $8.6 million and $28.9 million, respectively, of restructuring charges related to its European operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additionally, as of December 31, 2006, the Company has incurred cumulative transition and duplicate operating expenses of $11.8 million relating primarily to legal, consulting, recruiting, information system implementation costs and taxes related to the European restructuring activities. Duplicate operating expenses are costs incurred during the transition period to ensure that job knowledge and skills are properly transferred to new employees. For the year ended December 31, 2006, the Company recorded $6.2 million of transition and duplicate operating expenses, including a $3.4 million loss related to the sale of its Mougins, France facility, consisting of $5.7 million in selling, general and administrative expenses and $0.5 million in research and development expenses. For the year ended December 31, 2005, the Company recorded $5.6 million of transition and duplicate operating expenses, consisting of $0.3 million in cost of sales, $3.8 million in selling, general and administrative expenses and $1.5 million in research and development expenses.

The following table presents the cumulative restructuring activities related to the Company s European operations through December 31, 2006:

	Employee Severance	Other Costs	Total
		(in millions)	
Net charge during 2005	$ 25.9	$ 3.0	$ 28.9
Assets written off		(0.2)	(0.2)
Spending	(10.7)	(2.8)	(13.5)
Balance at December 31, 2005	15.2		15.2
Net charge during 2006	4.6	4.0	8.6
Spending	(15.7)	(0.8)	(16.5)
Balance at December 31, 2006 (included in Other accrued expenses for employee severance and in Other liabilities for other costs)	$ 4.1	$ 3.2	$ 7.3

Termination of Manufacturing and Supply Agreement with Advanced Medical Optics

In October 2004, the Company s Board of Directors approved certain restructuring activities related to the scheduled termination in June 2005 of the Company s manufacturing and supply agreement with Advanced Medical Optics (AMO), which the Company spun-off in June 2002. Under the manufacturing and supply agreement, which was entered into in connection with the AMO spin-off, the Company agreed to manufacture certain contact lens care products and VITRAX, a surgical viscoelastic, for AMO for a period of up to three years ending in June 2005. As part of the scheduled termination of the manufacturing and supply agreement, the Company eliminated certain manufacturing positions at the Company s Westport, Ireland; Waco, Texas; and Guarulhos, Brazil manufacturing facilities.

As of December 31, 2005, the Company had substantially completed all activities related to the termination of the manufacturing and supply agreement. As of December 31, 2006, the Company recorded cumulative pre-tax restructuring charges of $22.2 million ($7.1 million in 2004, $14.5 million in 2005 and $0.6 million in 2006). There are no remaining accrued liabilities for the termination of the Company s manufacturing and supply agreement with AMO at December 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4: Composition of Certain Financial Statement Captions

	December 31,	
	2006	**2005**
	(in millions)	
Trade receivables, net		
Trade receivables	$ 417.9	$ 250.5
Less allowance for sales returns medical device products	15.2	
Less allowance for doubtful accounts	15.8	4.4
	$ 386.9	$ 246.1
Inventories		
Finished products	$ 107.1	$ 52.9
Work in process	31.2	24.8
Raw materials	30.2	12.4
	$ 168.5	$ 90.1
Other current assets		
Prepaid expenses	$ 55.0	$ 57.5
Deferred taxes	113.0	91.1
Other	37.5	44.5
	$ 205.5	$ 193.1
Investments and other assets		
Prepaid pensions	$	$ 135.4
Investments in corporate-owned life insurance contracts used to fund deferred executive compensation	49.3	42.0
Capitalized software	34.3	27.3
Debt issuance costs	18.3	5.0
Equity investments	7.1	8.3
Other	39.2	40.9
	$ 148.2	$ 258.9
Property, plant and equipment, net		
Land	$ 32.4	$ 18.6
Buildings	540.6	475.7
Machinery and equipment	399.1	318.1

	972.1	812.4
Less accumulated depreciation	360.7	318.4
	$ 611.4	$ 494.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2006	2005
	(in millions)	
Other accrued expenses		
Sales rebates and other incentive programs	$ 71.2	$ 71.9
Restructuring charges	13.0	16.1
Royalties	31.6	24.1
Accrued interest	21.7	0.9
Sales returns specialty pharmaceutical products	4.9	5.1
Product warranties breast implant products	4.4	
Other	88.4	59.2
	$ 235.2	$ 177.3
Other liabilities		
Postretirement benefit plan	$ 35.8	$ 27.3
Qualified and non-qualified benefit plans	69.9	31.5
Deferred executive compensation	47.9	43.1
Deferred income	81.9	73.7
Product warranties breast implant products	20.4	
Other	17.3	5.4
	$ 273.2	$ 181.0
Accumulated other comprehensive loss		
Foreign currency translation adjustments	$ (23.7)	$ (48.6)
Deferred holding gains on derivative instruments, net of taxes of $4.8 million	7.3	
Pension liability adjustments, net of taxes of $55.5 million and $2.3 million for 2006 and 2005, respectively	(112.2)	(3.8)
Unrealized gain on investments, net of taxes of $0.9 million and $1.2 million for 2006 and 2005, respectively	1.2	1.8
	$ (127.4)	$ (50.6)

The increase in trade receivables, net, inventories, property, plant and equipment, net, other accrued expenses and other liabilities at December 31, 2006 compared to December 31, 2005 was primarily due to the Inamed acquisition. The decrease in investment and other assets at December 31, 2006 compared to December 31, 2005 was primarily due to the decrease in prepaid pensions upon adopting SFAS No. 158. At December 31, 2006, approximately $8.0 million of Allergan 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 is not significant.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5: Intangibles and Goodwill

At December 31, 2006 and 2005, the components of amortizable and unamortizable intangibles and goodwill and certain other related information were as follows:

Intangibles

	December 31, 2006			December 31, 2005		
	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	$ 796.4	$ (39.9)	15.4	$	$	
Customer relationships	42.3	(10.3)	3.1			
Licensing	149.4	(44.2)	8.0	137.8	(25.5)	8.0
Trademarks	23.5	(5.7)	6.5	3.5	(2.3)	15.0
Core technology	142.6	(11.4)	15.8	29.3	(4.1)	15.0
Other	1.0	(1.0)	5.0	1.1	(0.9)	5.0
	1,155.2	(112.5)	13.9	171.7	(32.8)	9.3
Unamortizable Intangible Assets:						
Business licenses	0.9			0.9		
	$ 1,156.1	$ (112.5)		$ 172.6	$ (32.8)	

Developed technology consists primarily of current product offerings, primarily saline and silicone breast implants, obesity intervention products and dermal fillers acquired in connection with the Inamed acquisition. 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 breast implants and intragastric balloon systems acquired in connection with the Inamed acquisition, and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc. The increase in developed technology, customer relationships, trademarks and core technology at December 31, 2006 compared to December 31, 2005 is primarily due to the Inamed acquisition. The increase in licensing assets is primarily due to milestone payments incurred in 2006 related to the approvals of *Juvéderm*[tm] in the United States and Australia.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides amortization expense by major categories of acquired amortizable intangible assets for the year ended December 31, 2006, 2005 and 2004, respectively:

	2006	2005	2004
		(in millions)	
Developed technology	$ 39.9	$	$
Customer relationships	10.3		
Licensing	18.6	15.1	5.7
Trademarks	3.4	0.4	0.4
Core technology	7.4	2.0	2.0
Other			0.1
	$ 79.6	$ 17.5	$ 8.2

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 $98.7 million for 2007, $96.8 million for 2008, $86.8 million for 2009, $82.4 million for 2010 and $79.1 million for 2011.

Goodwill

	December 31,	
	2006	2005
	(in millions)	
Goodwill:		
United States	$ 1,828.9	$ 4.6
Latin America	3.9	3.6
Europe and other	0.8	0.8
	$ 1,833.6	$ 9.0

The increase in goodwill at December 31, 2006 compared to December 31, 2005 was primarily due to the Inamed acquisition. Goodwill related to the Inamed acquisition is reflected in the United States balance above. The Company s management has not completed its analysis of goodwill related to the Inamed acquisition. Once the analysis is

complete, goodwill will be reflected in the geographical locations to which it relates.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6: Notes Payable and Long-Term Debt

	2006 Average Effective Interest Rate	December 31, 2006 (in millions)	2005 Average Effective Interest Rate	December 31, 2005 (in millions)
Bank loans	5.46%	$ 102.0	4.63%	$ 169.6
Medium term notes; 6.91% - 7.47%; maturing 2008 - 2012	7.15%	58.5	7.15%	57.5
Senior notes due 2016	5.79%	797.9		
		958.4		227.1
Less current maturities		102.0		169.6
Total long-term debt		$ 856.4		$ 57.5

As of December 31, 2006, the Company had a committed long-term credit facility, a commercial paper program, a medium term note program, an unused debt shelf registration statement that the Company may use for a new medium term note program and other issuances of debt securities, and various foreign bank facilities. In March 2006, the Company amended its committed long-term credit facility to provide for borrowings of up to $800 million through March 2011 and amended its commercial paper program to provide for up to $600 million in borrowings. The commitment fees under the domestic and foreign credit facilities are minimal. The current medium term note program allows the Company to issue up to an additional $6.5 million in registered notes on a non-revolving basis. The debt shelf registration statement provides for up to $350 million in additional debt securities. Borrowings under the committed long-term credit facility and medium-term note program are subject to certain financial and operating covenants that include, among other provisions, maintaining maximum leverage ratios and minimum interest coverage ratios. Certain covenants also limit subsidiary debt. The Company was in compliance with these covenants at December 31, 2006. As of December 31, 2006, the Company had $102.0 million in borrowings under its committed long-term credit facility, $58.5 million in borrowings outstanding under the medium term note program and no borrowings under the commercial paper program.

On April 12, 2006, the Company completed concurrent private placements of $800 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) and $750 million in aggregate principal amount of 1.50% Convertible Senior Notes due 2026 (2026 Convertible Notes). The 2016 Notes were sold in a private placement to qualified institutional buyers and non-U.S. persons pursuant to Rule 144A and Regulation S under the Securities Act of 1933, and the 2026 Convertible Notes were sold in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. (See Note 7, Convertible Notes, for a description of the 2026 Convertible Notes.)

The 2016 Notes, which were sold at 99.717% of par value with an effective interest rate of 5.79%, are unsecured and pay interest semi-annually at a rate of 5.75% per annum, and are redeemable at any time at the Company s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2016 Notes will be due and payable on April 1, 2016, unless earlier redeemed by Allergan. The original discount of approximately $2.3 million is amortized using the effective interest method over the stated term of 10 years.

In February 2006, the Company entered into interest rate swap contracts based on the 3-month LIBOR rate with an aggregate notional amount of $800 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest expense over the same 10 year period to match the term of the 2016 Notes.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the first quarter of 2006 and prior to the Inamed acquisition date, the Company obtained a bridge credit facility that provided for borrowings of up to $1.1 billion through March 2007. On March 23, 2006, the Company borrowed $825 million under the bridge credit facility to fund part of the cash portion of the Inamed purchase price. In April 2006, the Company used the proceeds from the issuance of the 2016 Notes to repay borrowings under the bridge credit facility. The Company subsequently terminated the bridge credit facility in April 2006.

The aggregate maturities of total long-term debt for each of the next five years and thereafter are as follows: $102.0 million in 2007; $33.5 million in 2008; zero in 2009, 2010 and 2011; and $822.9 million thereafter. Interest incurred of $0.4 million in 2006, $1.0 million in 2005 and $1.4 million in 2004 has been capitalized and included in property, plant and equipment.

Note 7: Convertible Notes

The 2026 Convertible Notes are unsecured and pay interest semi-annually at a rate of 1.50% per annum. The 2026 Convertible Notes will be convertible into cash and, if applicable, shares of Allergan s common stock based on an initial conversion rate of 7.8952 shares of Allergan s common stock per $1,000 principal amount of the 2026 Convertible Notes, subject to adjustment, only under the following circumstances: (i) during any fiscal quarter beginning after June 30, 2006 (and only during such fiscal quarter), if the closing price of the Company s common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 120% of the applicable conversion price per share, which is $1,000 divided by the then applicable conversion rate; (ii) the Company calls the 2026 Convertible Notes for redemption; (iii) if specified distributions to holders of the Company s common stock are made, or specified corporate transactions occur; or (iv) at any time on or after February 1, 2026 through the business day immediately preceding the maturity date. Upon conversion, a holder will receive an amount in cash equal to the lesser of (i) the principal amount of the 2026 Convertible Note or (ii) the conversion value, determined in the manner set forth in the 2026 Convertible Note Indenture. If the conversion value of the 2026 Convertible Notes exceeds their principal amount at the time of conversion, the Company will also deliver at its election, cash or Allergan s common stock or a combination of cash and Allergan s common stock for the conversion value in excess of the principal amount. As of December 31, 2006, the conversion criteria had not been met. The Company will not be 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 amortizes deferred debt issuance costs associated with the 2026 Convertible Notes over the five year period from date of issuance in April 2006 to the first noteholder put date in April 2011.

On November 6, 2002, the Company issued zero coupon convertible senior notes due 2022 (2022 Notes) in a private placement with an aggregate principal amount at maturity of $641.5 million. The 2022 Notes, which were issued at a discount of $141.5 million, were unsecured, accrued interest at 1.25% annually and were scheduled to mature on November 6, 2022. The 2022 Notes were convertible into 11.41 shares of Allergan s common stock for each $1,000 principal amount at maturity if the closing price of Allergan s common stock exceeded certain levels, the credit ratings

assigned to the 2022 Notes were reduced below specified levels, or the Company called the 2022 Notes for redemption, made specified distributions to its stockholders or became a party to certain consolidation, merger or binding share exchange agreements. As of December 31, 2005 and March 31, 2006, the conversion criteria were met.

During March 2006 and April 2006, holders of the 2022 Notes began to exercise the conversion feature of the 2022 Notes. In May 2006, the Company announced its intention to redeem the 2022 Notes. Most holders elected to exercise the conversion feature of the 2022 Notes prior to redemption. Upon their conversion, the Company was

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

required to pay the accreted value of the 2022 Notes in cash and had the option to pay the remainder of the conversion value in cash or shares of Allergan common stock. The Company exercised its option to pay the remainder of the conversion value in shares of Allergan common stock. In connection with the conversion, Allergan paid approximately $505.3 million in cash for the accreted value of the 2022 Notes and issued 2.1 million shares of Allergan common stock for the remainder of the conversion value. In addition, holders of approximately $20.3 million of aggregate principal at maturity of the 2022 Notes did not exercise the conversion feature, and in May 2006, the Company paid the accreted value (approximately $16.6 million) in cash to redeem these 2022 Notes.

The Company amortized deferred debt issuance costs associated with the 2022 Notes over the five year period from date of issuance in November 2002 to the first noteholder put date in November 2007. For the year ended December 31, 2006, the Company recorded as interest expense a charge of approximately $4.4 million for the write-off of unamortized deferred debt issuance costs due to the redemption of the 2022 Notes. Interest expense of approximately $1.8 million, $6.4 million and $6.4 million for the years ended December 31, 2006, 2005 and 2004, respectively, was recognized representing the amortization of discount on the 2022 Notes. The discount was amortized using the effective interest method over the stated term of 20 years.

Note 8: Income Taxes

The components of earnings (loss) before income taxes and minority interest were:

	Year Ended December 31,		
	2006	2005	2004
		(in millions)	
U.S.	$ (232.4)	$ 455.7	$ 343.9
Non-U.S.	212.9	143.5	188.2
Total	$ (19.5)	$ 599.2	$ 532.1

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2006	2005	2004
		(in millions)	
Current			
U.S. federal	$ 115.2	$ 159.3	$ 151.8
Non-U.S.	30.2	32.1	26.4
U.S. state	15.3	24.9	10.3
Total current	160.7	216.3	188.5

Deferred			
U.S. federal	(34.0)	(2.6)	(10.7)
Non-U.S.	(5.9)	(17.0)	(5.4)
U.S. state	(13.3)	(4.3)	(18.4)
Total deferred	(53.2)	(23.9)	(34.5)
Total	$ 107.5	$ 192.4	$ 154.0

The current provision for income taxes does not reflect the tax benefit of $41.6 million, $31.8 million and $28.2 million for the years ended December 31, 2006, 2005 and 2004, respectively, related to the exercise of employee stock options recorded directly to Additional paid-in capital in the consolidated statements of stockholders equity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliations of the U.S. federal statutory tax rate to the combined effective tax rate follow:

	2006	2005	2004
Statutory rate of tax expense (benefit)	(35.0)%	35.0%	35.0%
State taxes, net of U.S. tax benefit	44.8	3.7	1.7
Tax differential on foreign earnings	(238.9)	(11.0)	(9.0)
U.S. tax effect of foreign earnings and dividends, net of foreign tax credits	11.9	10.4	3.3
Other credits (R&D)	(118.9)	(2.6)	(1.5)
In-process R&D	1,039.8		
Intangible write-offs	(0.6)	(0.4)	(0.5)
Tax audit settlements/adjustments	(12.9)	(1.1)	2.4
Change in valuation allowance	(130.2)	(0.6)	(4.1)
Other	(8.7)	(1.3)	1.6
Effective tax rate	551.3%	32.1%	28.9%

Withholding and U.S. taxes have not been provided on approximately $725.5 million of unremitted earnings of certain non-U.S. subsidiaries because the Company has currently reinvested these earnings indefinitely in such operations, or such earnings will be offset by appropriate credits for foreign income taxes paid. Such earnings would become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon the remittance of dividends. 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.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was enacted in the United States. The Act s repatriation provisions allowed the Company to elect to deduct 85% of certain cash dividends received from its foreign corporations during calendar year 2005. In order for the Company to be eligible for the 85% deduction, the cash dividends were required to meet a number of criteria including, but not limited to, reinvestment in the United States pursuant to a domestic reinvestment plan approved by the Company s Board of Directors. In addition, the provisions required that certain foreign tax credits and other deductions associated with the dividend payments be reduced commensurate with the level of tax benefit received by the Company from the 85% deduction.

In connection with the Act, the Company repatriated $674.0 million in extraordinary dividends, as defined by the Act, in the year ended December 31, 2005 from unremitted foreign earnings that were previously considered indefinitely reinvested by certain non-U.S. subsidiaries and recorded a corresponding tax liability of $29.9 million. The $674.0 million amount of extraordinary dividends is the qualified amount above a $53.4 million base amount determined based on the Company s historical repatriation levels, as defined by the Act. In 2005 the Company also repatriated approximately $85.8 million in additional dividends above the base and extraordinary dividend amounts from prior and current years unremitted foreign earnings that were previously considered indefinitely reinvested and

recorded a corresponding tax liability of $19.7 million. During 2006, the Company recorded a $2.8 million reduction in income taxes payable previously estimated for the 2005 repatriation of foreign earnings.

During the year ended December 31, 2006, the Company reduced its estimated income taxes payable for uncertain tax positions and related provision for income taxes by $14.5 million, primarily due to a change in estimate resulting from the resolution of several significant and previously uncertain income tax audit issues associated with the completion of an audit by the U.S. Internal Revenue Service for tax years 2000 to 2002. This reduction was partially offset by an increase in estimated income taxes payable of $3.9 million for a previously filed income tax return currently under examination. During 2006, the Company also increased its estimate by $1.2 million for the expected income tax benefit for previously paid state income taxes, which became recoverable due to a favorable state court decision that became final during 2004, and incurred income tax

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expenses of $1.6 million related to intercompany transfers of trade businesses and net assets associated with the Inamed acquisition.

During the year ended December 31, 2005, the Company reduced its estimated income taxes payable for uncertain tax positions and related provision for income taxes by $24.1 million, primarily due to a change in estimate resulting from the resolution of several significant uncertain income tax audit issues, including the resolution of certain transfer pricing issues for which an Advance Pricing Agreement (APA) was executed with the U.S. Internal Revenue Service during the third quarter of 2005. The APA covers tax years 2002 through 2008. The $24.1 million reduction in estimated income taxes payable also includes beneficial changes associated with other transfer price settlements for a discontinued product line, which was not covered by the APA, the deductibility of transaction costs associated with the 2002 spin-off of AMO and intangible asset issues related to certain assets of Allergan Specialty Therapeutics, Inc. and Bardeen Sciences Company, LLC, which the Company acquired in 2001 and 2003, respectively. This change in estimate relates to tax years currently under examination or not yet settled through expiry of the statute of limitations.

The Company and its domestic subsidiaries file a consolidated U.S. federal income tax return. Such returns have either been audited or settled through statute expiration through the year 2002. The Company and its consolidated subsidiaries (excluding Inamed) are currently under examination by the U.S. Internal Revenue Service for years 2003 through 2005. The Company believes the additional tax liability, if any, for such years and subsequent years, will not have a material effect on the financial position of the Company. The Company s recently acquired subsidiary, Inamed, is currently under examination by the U.S. Internal Revenue Service for years 2003 through 2006. The additional tax liability, if any, for such years will be treated as an adjustment to the Inamed purchased goodwill.

At December 31, 2006, the Company has net operating loss carryforwards in certain non-U.S. subsidiaries, with various expiration dates, of approximately $28.3 million. The Company s subsidiary, Inamed, has net operating loss carryforwards of approximately $10.0 million in various U.S. states with various expiration dates, and a U.S. Federal net operating loss carryback of approximately $52.6 million. Any under- or over-utilization of the estimated realizable Inamed net operating losses at the time of acquisition will be treated as an adjustment to purchased goodwill.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Temporary differences and carryforwards/carrybacks which give rise to a significant portion of deferred tax assets and liabilities at December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
		(in millions)	
Deferred tax assets			
Net operating loss carryforwards/carrybacks	$ 29.1	$ 9.8	$ 10.4
Accrued expenses	43.5	25.2	21.4
Manufacturing/warranty reserves	14.3		
Capitalized expenses	19.6	18.3	9.7
Deferred compensation	24.9	20.6	16.3
Medicare, Medicaid and other accrued healthcare rebates	25.4	25.2	20.0
Postretirement medical benefits	14.5	11.2	9.7
Capitalized intangible assets	75.5	130.2	123.1
Deferred revenue	25.2	2.1	4.2
Other credit carryforwards			1.0
Total inventories	27.1	16.6	11.9
Share-based compensation awards	15.4		
Manufacturing, AMT and research credit carryforwards/carrybacks	17.0	4.9	10.6
Capital loss carryforwards	12.0	12.0	11.5
Unbilled costs	15.2	14.9	11.1
Pension plans	18.2		
All other	24.0	27.5	22.0
	400.9	318.5	282.9
Less: valuation allowance	(20.8)	(44.1)	(51.9)
Total deferred tax assets	380.1	274.4	231.0
Deferred tax liabilities			
Pension plans		32.4	21.2
Depreciation	22.3	24.4	13.1
Developed technology intangible assets	323.6		
All other	6.0	3.3	9.0
Total deferred tax liabilities	351.9	60.1	43.3
Net deferred tax assets	$ 28.2	$ 214.3	$ 187.7

The balances of net current deferred tax assets and net non-current deferred tax liabilities at December 31, 2006 were $113.0 million and $84.8 million, respectively. The balances of net current deferred tax assets and net non-current deferred tax assets at December 31, 2005 were $91.1 million and $123.2 million, respectively. Net current deferred tax assets are included in Other current assets in the Company s consolidated balance sheets. The net change in the amount of the valuation allowance at December 31, 2006 compared to December 31, 2005 consists primarily of a decrease in the amount of valuation allowances due to a $17.2 million reversal of the valuation allowance against a deferred tax asset that the Company has determined is now realizable. As a result of this determination, the Company has filed a refund claim for a prior year with the U.S. Internal Revenue Service. This refund claim relates to the deductibility of certain capitalized intangible assets associated with the Company s retinoid portfolio that was transferred to a third party in 2004. The balance of the net decrease in the valuation

allowance is primarily due to a decrease in the valuation allowance related to deferred tax assets for certain capitalized intangible assets that became realizable due to the completion of a federal tax audit in the United States, and the abandonment of certain intangible assets for tazarotene oral technologies that will result in a current tax deduction. The net change in the amount of the valuation allowance at December 31, 2005 compared to December 31, 2004 consists primarily of a decrease in the valuation allowance due to a change in the estimate of the amount of realizable deferred tax assets in Japan stemming from the licensing agreement with GlaxoSmithKline, partially offset by an increase in the valuation allowance related to deferred tax assets for certain capitalized intangible assets.

Based on the Company s historical pre-tax earnings, management believes it is more likely than not that the Company will realize the benefit of the existing net deferred tax assets at December 31, 2006. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income; however, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Certain tax planning or other strategies could be implemented, if necessary, to supplement income from operations to fully realize recorded tax benefits.

Note 9: Employee Retirement and Other Benefit Plans

Pension and Postretirement 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. U.S. pension benefits are based on years of service and compensation during the five highest consecutive earnings years. Foreign pension benefits are based on various formulas that consider years of service, average or highest earnings during specified periods of employment and other criteria.

The Company also has one retiree health plan that covers U.S. retirees and dependents. Retiree contributions are required depending on the year of retirement and the number of years of service at the time of retirement. Disbursements exceed retiree contributions and the plan currently has no assets. The accounting for the retiree health care plan anticipates future cost-sharing changes to the written plan that are consistent with the Company s past practice and management s intent to manage plan costs. The Company s history of retiree medical plan modifications indicates a consistent approach to increasing the cost sharing provisions of the plan.

Adoption of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In the fourth quarter of 2006, the Company adopted the balance sheet recognition and reporting provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 requires employers to recognize on their balance sheet an asset or liability equal to the over- or under-funded benefit obligation of each defined benefit pension and other postretirement plan and to recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the actuarial gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of (i) Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions* (SFAS No. 87) and (ii)

Statement of Financial Accounting Standards No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The incremental effects of adopting the recognition provisions of SFAS No. 158 on the Company s consolidated balance sheet as of December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company s consolidated statement of operations for the year ended December 31, 2006, or for any prior period presented. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effects of recognizing the additional minimum liability are included in the table below in the column labeled Prior to Adopting SFAS No. 158.

	Pension Plans			Other Postretirement Benefits		
	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at December 31, 2006	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at December 31, 2006
	(in millions)					
Prepaid (accrued) pension costs	$ 86.3	$ (157.9)	$ (71.6)	$ (31.1)	$ (5.6)	$ (36.7)
Deferred income tax assets	1.7	51.6	53.3		2.2	2.2
Accumulated other comprehensive loss	2.5	106.3	108.8		3.4	3.4

Included in accumulated other comprehensive loss at December 31, 2006 are unrecognized actuarial losses of $162.1 million, or $108.8 million net of tax, related to the Company s pension plans that have not yet been recognized in net periodic pension cost. Of this amount, the Company expects to recognize in net periodic pension cost during 2007 approximately $11.3 million, or $7.2 million net of tax. Also included in accumulated other comprehensive loss at December 31, 2006 are unrecognized prior service credits of $2.5 million, or $1.5 million net of tax, and unrecognized actuarial losses of $8.1 million, or $4.9 million net of tax, related to the Company s retiree health plan that have not yet been recognized in net periodic benefit cost. Of these amounts, the Company expects to recognize $0.3 million, or $0.2 million net of tax, of the unrecognized prior service credits and $0.3 million, or $0.2 million net of tax, of the unrecognized actuarial losses in net periodic benefit cost during 2007.

The funded status of the pension plans and retiree health plan were measured as of September 30, 2006 and 2005. Under the provisions of SFAS No. 158, the Company must change its measurement date for its pension and retiree health plans to the date of the Company s year-end financial statements effective with the Company s fiscal year ended December 31, 2008. The impact of this change is not expected to be material to the Company s consolidated financial statements.

Components of net periodic benefit cost, change in projected benefit obligation, change in plan assets, asset allocation, funded status and estimated future payments are summarized below for the Company s U.S. and major non-U.S. pension plans and retiree health plan.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Periodic Benefit Cost

Components of net periodic benefit cost and the weighted-average assumptions used to determine net periodic benefit cost for the years ended 2006, 2005, and 2004 were as follows:

Net Periodic Benefit Cost

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
	(in millions)					
Service cost	$ 23.1	$ 17.6	$ 14.7	$ 1.8	$ 1.6	$ 1.3
Interest cost	27.4	24.7	21.6	2.0	1.8	1.2
Expected return on plan assets	(32.3)	(27.4)	(25.4)			
Gain on settlement	(0.8)					
Amortization of prior service costs (credits)			0.1	(0.2)	(0.3)	(0.2)
Recognized net actuarial losses	13.0	9.5	6.7	0.5	0.3	
Net periodic benefit cost	$ 30.4	$ 24.4	$ 17.7	$ 4.1	$ 3.4	$ 2.3

The Company terminated and settled one of its non-U.S. pension plans as part of its restructuring and streamlining of operations in Japan. As a result, the Company recognized a gain of $0.8 million upon plan settlement that was recorded as a restructuring charge reversal in the consolidated statement of operations for the year ended December 31, 2006.

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
U.S. Pension Plans:						
Discount rate	5.60%	5.95%	6.10%	5.60%	5.95%	6.10%
Expected return on plan assets	8.25%	8.25%	8.25%			
Rate of compensation increase	4.25%	3.75%	3.50%			
Non-U.S. Pension Plans:						
Discount rate	4.24%	5.05%	5.20%			
Expected return on plan assets	6.19%	6.89%	6.88%			
Rate of compensation increase	4.00%	4.32%	3.91%			

In 2006, for the U.S. qualified pension plan, the Company determined the expected rate of return on plan assets to be 8.25%. This expected rate of return was determined using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Historical market returns are studied and long-term historical relationships between equities and fixed income are preserved in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are also evaluated before long-term capital market assumptions are determined.

In 2006, for non-U.S. funded pension plans, the Company determined the expected rate of return on plan assets to be 6.19%. This expected rate of return was determined based on asset distribution and assumed long-term rates of returns on fixed income instruments and equities.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Benefit Obligation

The tables below present components of the change in projected benefit obligation and the weighted-average assumptions used to determine the benefit obligation at December 31, 2006 and 2005.

Change in Projected Benefit Obligation

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(in millions)			
Projected benefit obligation, beginning of year	$ 504.3	$ 433.8	$ 36.2	$ 25.0
Service cost	23.1	17.6	1.8	1.6
Interest cost	27.4	24.8	2.1	1.7
Participant contributions	1.2	1.2		
Actuarial (gains) losses	(5.3)	57.0	(2.2)	8.6
Benefits paid	(8.8)	(8.3)	(1.2)	(0.7)
Plan settlement	(2.2)			
Special termination benefits		(7.8)		
Impact of foreign currency translation	14.6	(14.0)		
Projected benefit obligation, end of year	$ 554.3	$ 504.3	$ 36.7	$ 36.2

The accumulated benefit obligation for the Company s U.S. and major non-U.S. pension plans was $468.2 million and $429.1 million at December 31, 2006 and 2005, respectively.

Weighted Average Assumptions Used to Determine Projected Benefit Obligation

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
U.S. Pension Plans:				
Discount rate used	5.90%	5.60%	5.90%	5.60%
Rate of compensation increase	4.25%	4.25%		
Non-U.S. Pension Plans:				
Discount rate used	4.65%	4.24%		

Rate of compensation increase	4.24%	4.09%

Assumed health care cost trend rates have a significant effect on the amounts reported as other postretirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
	(in millions)	
Effect on total service and interest cost components	$ 0.9	$ (0.7)
Effect on postretirement benefit obligation	7.3	(5.8)

The assumed annual health care cost trend rate for the retiree health plan was 9.0% for 2006, gradually decreasing to 5.0% in 2011 and remaining at that level thereafter.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan Assets

The table below presents components of the change in plan assets at December 31, 2006 and 2005.

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(in millions)			
Fair value of plan assets, beginning of year	$ 427.5	$ 346.7	$	$
Actual return on plan assets	34.9	49.2		
Company contributions	13.0	49.6	1.2	0.7
Participant contributions	1.2	1.2		
Benefits paid	(8.8)	(8.3)	(1.2)	(0.7)
Plan settlement	(1.4)			
Impact of foreign currency translation	12.1	(10.9)		
Fair value of plan assets, end of year	$ 478.5	$ 427.5	$	$

Beginning in 2006, the Company changed its funding policy for its funded pension plans to be based upon the greater of: (i) annual service cost, administrative expenses, and a seven year amortization of any funded deficit or surplus relative to the projected pension benefit obligations or (ii) a 90% minimum funded status for the accumulated benefit obligations. Prior to 2006, the Company s funding policy for its funded pension plans was to provide currently for accumulated benefit obligations. The Company s funding policy is subject to certain statutory regulations with respect to annual minimum and maximum company contributions. Plan benefits for the nonqualified plans are paid as they come due. Employer contributions include $1.5 million and $1.2 million of benefits paid directly from the Company s assets in 2006 and 2005, respectively, under the Company s U.S. and major non-U.S. pension plans. Employer contributions and benefits paid under the retiree health plan include $1.2 million and $0.7 million paid from the Company s assets in 2006 and 2005, respectively.

The asset allocation for the Company s U.S. and non-U.S. funded pension plans follows:

	2007 Target Allocation	Percent of Plan Assets	
		2006	2005
U.S. Pension Plans:			
Equity securities	60.0%	62.0%	60.0%
Debt securities	35.0	38.0	40.0

Real estate	5.0		
Total	100.0%	100.0%	100.0%
Non-U.S. Pension Plans:			
Equity securities	60.0%	63.5%	61.4%
Debt securities	40.0	36.5	38.6
Total	100.0%	100.0%	100.0%

The Company s U.S. pension plan assets are managed by outside investment managers using a total return investment approach whereby a mix of equities, real estate investment trusts and debt securities investments are used to maximize the long-term rate of return on plan assets. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. The Company s overall expected long-term rate of return on assets for 2007 is 8.25% for its U.S. pension plan. Risk tolerance is established through careful consideration of plan

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and debt securities investments. Furthermore, equity investments are diversified across geography and market capitalization through investments in U.S. large cap stocks, U.S. small cap stocks, and international securities. Investment risk is measured and monitored on an ongoing basis through annual liability measures, periodic asset/liability studies, and quarterly investment portfolio reviews.

The Company s non-U.S. pension plans assets are also managed by outside investment managers using a total return investment approach using a mix of equities and debt securities investments to maximize the long-term rate of return on the plans assets. The Company s overall expected long-term rate of return on assets for 2007 is 6.43% for its non-U.S. funded pension plans.

Funded Status

The table below presents components of the funded status at December 31, 2006 and 2005.

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(in millions)			
Fair value of plan assets	$ 478.5	$ 427.5	$	$
Benefit obligation	554.3	504.3	36.7	36.2
Funded status of plans	(75.8)	(76.8)	(36.7)	(36.2)
Unrecognized net actuarial losses		178.4		10.9
Unrecognized prior service credits				(2.8)
Fourth quarter contributions	4.2	1.4		
(Accrued) prepaid benefit costs, net	$ (71.6)	$ 103.0	$ (36.7)	$ (28.1)

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(in millions)			
Prepaid benefit cost	$	$ 135.8	$	$
Accrued benefit cost	(71.6)	(32.8)	(36.7)	(28.1)
Minimum pension liability		(6.1)		
Deferred tax asset		2.3		

Accumulated other comprehensive income		3.8		
Net amount recognized	$ (71.6)	$ 103.0	$ (36.7)	$ (28.1)

The unfunded status of the pension plans of $71.6 million at December 31, 2006 was recognized as $1.7 million of Accrued compensation and $69.9 million of Other liabilities in the Company s consolidated balance sheet. The unfunded status for the retiree health plan of $36.7 million at December 31, 2006 was recognized as $0.9 million of Accrued compensation and $35.8 million of Other liabilities in the Company s consolidated balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets and pension plans with accumulated benefit obligations in excess of plan assets at December 31, 2006 and 2005 were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2006	2005	2006	2005
	(in millions)			
Projected benefit obligation	$ 554.3	$ 504.3	$ 53.5	$ 50.1
Accumulated benefit obligation	468.2	429.1	42.3	39.0
Fair value of plan assets	478.5	427.5		

In 2007, the Company expects to pay contributions of between $17.0 million and $18.0 million for its U.S. and non-U.S. pension plans and between $0.8 million and $0.9 million for its other postretirement plan (unaudited).

Estimated Future Benefit Payments

Estimated benefit payments over the next 10 years for the Company s U.S. and major non-U.S. pension plans and retiree health plan are as follows:

	Pension Benefits	Other Postretirement Benefits
	(in millions)	
2007	$ 11.7	$ 0.9
2008	13.2	1.0
2009	15.0	1.1
2010	16.9	1.2
2011	19.0	1.4
2012 - 2016	134.3	9.7
	$ 210.1	$ 15.3

Medicare Prescription Drug, Improvement and Modernization Act of 2003

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) expands Medicare, primarily by adding a voluntary prescription drug benefit for Medicare-eligibles starting in 2006. The Medicare Act provides employers currently sponsoring prescription drug programs for Medicare-eligibles with a range of options for coordinating with the new government-sponsored program to potentially reduce program costs. These options include supplementing the government program on a secondary payer basis or accepting a direct subsidy from the government to support a portion of the cost of the employer s program. Financial Accounting Standards Board Position 106-1 (FASB Staff Position 106-1) allows the Company to begin recognizing any potential impact of the Medicare Act in its first quarter 2004 consolidated financial statements or to defer recognizing the potential impact until more definitive accounting guidance was provided. The Company chose to defer the implementation of FASB Staff Position 106-1 until more definitive accounting guidance was provided.

In May 2004, the Financial Accounting Standards Board released Financial Accounting Standards Board Position 106-2 (FASB Staff Position 106-2) to supercede FASB Staff Position 106-1 and to provide guidance on accounting and disclosure requirements related to the Medicare Act. FASB Staff Position 106-2 was effective for financial reporting periods beginning after June 15, 2004. The Company adopted FASB Staff Position 106-2

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effective the beginning of its second quarter 2004 on a retroactive application to date of enactment basis as allowed by FASB Staff Position 106-2. In conjunction with the implementation of FASB Staff Position 106-2, the Company s net periodic benefit cost was reduced by $0.2 million for the year ended December 31, 2004 and its accumulated projected benefit obligation was reduced by $2.3 million. The reduction in accumulated benefit obligation will be accounted for as an actuarial experience gain as required by FASB Staff Position 106-2.

Savings and Investment Plan

The Company has a Savings and Investment Plan, which allows all U.S. employees to become participants upon employment. In general, participants contributions, up to 4% of compensation, qualify for a 100% Company match. Company contributions are generally used to purchase Allergan common stock, although such amounts may be immediately transferred by the participants to other investment fund alternatives. The Company s cost of the plan was $10.3 million in 2006, $8.1 million in 2005 and $7.6 million in 2004.

In addition, the Company has a Company sponsored retirement contribution program under the Savings and Investment Plan, which provides all employees hired after September 30, 2002 with at least six months of service and certain other employees who previously elected to participate in the Company sponsored retirement contribution program under the Savings and Investment Plan, a Company provided retirement contribution of 5% of annual pay if they are employed on the last day of each calendar year. Participating employees who receive the 5% Company retirement contribution do not accrue benefits under the Company s defined benefit pension plan. The Company s cost of the retirement contribution program under the Savings and Investment Plan was $7.1 million, $5.0 million and $3.7 million in 2006, 2005 and 2004, respectively.

Note 10: Employee Stock Plans

Premium Priced Stock Option Plan

The Company has a premium priced stock option plan that provides for the granting of non-qualified premium priced stock options to officers and key employees. On July 30, 2001, the Company granted non-qualified stock options to purchase up to 2,500,000 shares of its common stock with a weighted average exercise price of $107.44 per share and a weighted average fair value of $17.02 per share to participants, including the Company s executive officers, under the premium priced stock option plan. The options were issued in three tranches:

The first tranche has an exercise price equal to $88.55;
The second tranche has an exercise price equal to $106.26; and
The third tranche has an exercise price equal to $127.51.

The 2001 Premium Priced Stock Option Plan provided that each tranche of options would vest and become exercisable upon the earlier of (i) the date on which the fair value of a share of the Company s common stock equals or exceeds the applicable exercise price or (ii) five years from the grant date (July 30, 2006). The options expire six years from the grant date (July 30, 2007). The first tranche of the options vested and became exercisable on March 1, 2004 as a result of the fair value of the Company s common stock exceeding $88.55.

In response to SFAS No. 123R, on April 25, 2005, the Organization and Compensation Committee of the Company s Board of Directors approved an acceleration of the vesting of the options issued under the Allergan, Inc. 2001 Premium Priced Stock Option Plan that are held by the Company s current employees, including the Company s executive officers, and certain former employees of the Company who received grants while employees prior to the June 2002 AMO spin-off. As a result of the acceleration, the second and third tranches of each option became immediately vested and exercisable effective as of May 10, 2005. Unlike typical stock options that vest over a predetermined period, the options, pursuant to their original terms, automatically vest as soon as they are in the money. Consequently, as soon as the options have any value to the participant, they would vest according to their

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

original terms. Therefore, early vesting does not provide any immediate benefit to participants, including the Company s executive officers.

The acceleration of the options eliminated compensation expense that the Company would otherwise recognize in its income statement with respect to the vesting of such options following the effectiveness of SFAS No. 123R. The expense that was eliminated was approximately $1.0 million, net of tax (of which approximately $0.1 million, net of tax, was attributable to options held by executive officers). This amount was reflected in the Company s *pro forma* footnote disclosure for the year ended December 31, 2005. This treatment is permitted under the transition guidance provided by SFAS No. 123R.

At December 31, 2006, approximately 697,000 of stock options are available for future grant under the premium priced stock option plan.

Incentive Compensation Plan

The Company has an incentive compensation plan that provides for the granting of non-qualified stock options, incentive stock options, stock appreciation rights, performance shares, restricted stock and restricted stock units to officers and key employees. Options granted under this incentive compensation plan are granted at an exercise price equal to the fair market value at the date of grant, have historically become vested and exercisable at a rate of 25% per year beginning twelve months after the date of grant, generally expire ten years after their original date of grant, and provide that an employee holding a stock option may exchange stock that the employee has owned for at least six months as payment against the exercise of their option. These provisions apply to all options outstanding at December 31, 2006.

Restricted share awards under the incentive compensation plan are subject to restrictions as to sale or other disposition of the shares and to restrictions that require continuous employment with the Company. The restrictions generally expire, and the awards become fully vested, four years from the date of grant; provided, however, restrictions on share awards made pursuant to the Company s management bonus plan expire and the awards become fully vested, two years from the date of grant.

At December 31, 2006, approximately 2,812,000 of aggregate stock options, shares of restricted stock and restricted stock units are available for future grant under the incentive compensation plan.

Non-employee Director Equity Incentive Plan

The Company has a non-employee director equity incentive plan that provides for the issuance of restricted stock and non-qualified stock options to non-employee directors. Under the terms of the non-employee director equity incentive plan, each eligible non-employee director receives, upon election, reelection or appointment to the Board of Directors, an award consisting of 1,800 shares of restricted stock multiplied by the number of years, including treating any partial year as a full year, in that non-employee director s remaining term of service on the Board of Directors. In addition, each eligible non-employee director is granted a non-qualified stock option to purchase 4,500 shares of stock on the date of each regular annual meeting of stockholders at which the directors are to be elected. From 2003 to 2005, eligible non-employee directors were granted a non-qualified stock option to purchase 2,500 shares of stock on the date of each regular annual meeting of stockholders under a prior amendment to the director equity incentive plan.

Non-qualified stock options are granted at an exercise price equal to the fair market value at the date of grant, become fully vested and exercisable one year from the date of grant and expire 10 years after the date of grant. Restrictions on restricted stock awards generally expire when the awards vest. Vesting occurs at the rate of 331/3% per year beginning twelve months after the date of grant.

At December 31, 2006, approximately 494,000 of aggregate stock options and shares of restricted stock are available for future grant under the non-employee director equity incentive plan.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock option activity under the Company s premium priced stock option plan, incentive compensation plan and non-employee director equity incentive plan is summarized below:

	2006		2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	(in thousands, except option price data)					
Outstanding, beginning of year	10,782	$ 72.86	11,750	$ 70.98	11,874	$ 64.64
Options granted	2,259	111.04	2,071	73.07	2,103	82.92
Options exercised	(2,662)	68.60	(2,424)	61.72	(1,919)	43.56
Options cancelled	(258)	90.04	(615)	81.70	(308)	78.84
Outstanding, end of year	10,121	82.06	10,782	72.86	11,750	70.98
Exercisable, end of year	5,452	74.48	6,221	73.09	5,578	60.11
Weighted average fair value of options granted during the year		$ 35.68		$ 24.98		$ 26.53

The total pre-tax intrinsic value of options exercised during 2006 was $114.1 million. Upon exercise, the Company generally issues shares from treasury.

The following table summarizes stock options outstanding at December 31, 2006:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/06 (in thousands)	Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Number Exercisable at 12/31/06 (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
$ 12.75 - $ 51.00	513	2.1	$ 33.44	$ 44.3	513	$ 33.44	$ 44.3
$ 51.01 - $ 63.76	1,595	5.0	57.68	99.0	1,193	56.83	75.1
$ 63.77 - $ 76.51	2,595	6.8	69.62	130.1	1,324	67.05	69.8
$ 76.52 - $ 89.26	2,326	5.6	82.12	87.5	1,489	81.77	56.5

$ 89.27 - $114.76	2,507	8.0	109.77	25.0	363	104.44	5.6
$114.77 - $127.51	585	0.8	127.32		570	127.51	

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on the Company s closing stock price of $119.74 as of December 31, 2006, which would have been received by the option holders had all the option holders exercised their options as of that date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of restricted shares is based on the market value of the Company s shares on the date of grant. The following table summarizes the Company s restricted share activity under the Company s incentive compensation plan and non-employee director equity incentive plan for 2006, 2005 and 2004, respectively:

	2006		2005		2004	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
	(in thousands, except share price data)					
Restricted share awards, beginning of year	189	$ 74.23	104	$ 74.72	81	$ 64.30
Shares granted	110	109.29	118	74.37	55	85.40
Shares vested	(26)	90.81	(20)	78.41	(22)	66.75
Shares cancelled	(10)	93.27	(13)	72.92	(10)	66.92
Restricted share awards, end of year	263	86.53	189	74.23	104	74.72

Valuation and Expense Recognition of Share-Based Awards

On January 1, 2006, the Company adopted SFAS No. 123R, which requires the measurement and recognition of compensation expense for all share-based awards made to the Company s employees and directors based on the estimated fair value of the awards. The Company adopted SFAS No. 123R using the modified prospective application method, under which prior periods are not retrospectively revised for comparative purposes. Accordingly, no compensation expense for stock options was recognized for the periods prior to January 1, 2006.

Pre-tax share-based compensation expense recognized under SFAS No. 123R for the year ended December 31, 2006 was $69.6 million, which consisted of compensation related to employee and director stock options of $48.6 million, employee and director restricted share awards of $9.2 million, and $11.8 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended December 31, 2005 was $13.6 million, which consisted of compensation related to employee and director restricted share awards of $4.1 million and $9.5 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the year ended December 31, 2004 was $11.5 million, which consisted of compensation related to employee and director restricted share awards of $2.3 million and $9.2 million related to stock contributed to employee benefit plans. There was no share-based compensation expense recognized during 2005 and 2004 related to employee or director stock options. The income tax benefit related to recognized share-based compensation was $25.3 million, $4.9 million and $3.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. Basic and diluted loss per share for the year ended December 31, 2006 include a $0.21 per share expense related to employee and director stock options recognized under SFAS No. 123R.

The following table summarizes pre-tax share-based compensation recognized for stock option awards for 2006, 2005 and 2004, respectively.

	2006	2005	2004
		(in millions)	
Cost of sales	$ 3.0	$	$
Selling, general and administrative expense	34.6		
Research and development	11.0		

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based awards. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. The weighted average estimated fair value of employee and director stock options granted during 2006 was $35.68 per share using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006
Expected volatility	30.00%
Risk-free interest rate	4.48%
Expected dividend yield	0.50%
Expected option life (in years)	4.75

Upon adoption of SFAS No. 123R, the Company changed its estimated volatility calculation to an equal weighting of the Company s ten year historical average and the average implied volatility of at-the-money options traded in the open market. Prior to the adoption of SFAS No. 123R, the Company used an estimated stock price volatility based on the Company s five year historical average.

The risk-free interest rate assumption is based on observed interest rates for the appropriate term of the Company s stock options. The Company does not target a specific dividend yield for its dividend payments but is required to assume a dividend yield as an input to the Black-Scholes option-pricing model. The dividend yield assumption is based on the Company s history and an expectation of future dividend amounts. The expected option life assumption is estimated based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

Share-based compensation expense under SFAS No. 123R is recognized only for those awards that are ultimately expected to vest. An estimated annual forfeiture rate of 6.3% has been applied to unvested awards for the purpose of calculating compensation cost. Forfeitures were estimated based on historical experience. SFAS No. 123R requires these estimates to be revised, if necessary, 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.

As of December 31, 2006, total compensation cost related to non-vested stock options and restricted stock not yet recognized was $107.6 million, which is expected to be recognized over the 48 month period after December 31, 2006 (32 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 December 31, 2006.

Prior to adopting the provisions of SFAS No. 123R, the Company recorded estimated compensation expense for employee and director stock options based on their intrinsic value on the date of grant pursuant to APB No. 25 and provided the *pro forma* disclosures required by SFAS No. 123. Because the Company has historically granted at-the-money stock options that have no intrinsic value upon grant, no expense was recorded for stock options prior to adopting SFAS No. 123R. For purposes of *pro forma* disclosures under SFAS No. 123, compensation expense

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

under the fair value method and the effect on net income and earnings per common share for 2005 and 2004 were as follows:

	2005	2004
	(in millions, except per share amounts)	
Net earnings, as reported	$ 403.9	$ 377.1
Add stock-based compensation expense included in reported net earnings, net of tax	8.7	7.6
Deduct stock-based compensation expense determined under fair value based method, net of tax	(42.4)	(45.4)
Pro forma net earnings	$ 370.2	$ 339.3
Earnings per share:		
As reported basic	$ 3.08	$ 2.87
As reported diluted	$ 3.01	$ 2.82
Pro forma basic	$ 2.82	$ 2.58
Pro forma diluted	$ 2.76	$ 2.53

The fair value of stock options granted during 2005 and 2004 was estimated at grant date using the following weighted average assumptions: expected volatility of 33.4% for 2005 and 2004; risk-free interest rate of 3.8% in 2005 and 3.1% in 2004; expected dividend yield of 0.50% in 2005 and 2004; and expected life of five years for 2005 and 2004 grants.

Pro forma amounts for the year ended December 31, 2005 include a deduction of approximately $1.0 million, net of tax ($0.01 *pro forma* basic and diluted earnings per share) due to the acceleration of the vesting of 1,159,626 premium priced stock options granted under the Company s 2001 Premium Priced Stock Option Plan.

Note 11: Financial Instruments

In the normal course of business, operations of the Company are exposed to risks associated with fluctuations in foreign currency exchange rates. The Company addresses these risks through controlled risk management that includes the use of derivative financial instruments to economically hedge or reduce these exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company enters into derivative financial instruments with major, high credit quality financial institutions. The Company has not experienced any losses on its derivative financial instruments to date due to credit risk, and management believes that such risk is remote.

Interest Rate Risk

The Company s interest income and expense is more sensitive to fluctuations in the general level of U.S. interest rates than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on cash and equivalents, interest expense on debt as well as costs associated with foreign currency contracts.

At December 31, 2006, the Company had approximately $102.0 million of variable rate debt. If the interest rates on the variable rate debt were to increase or decrease by 1% for the year, annual interest expense would increase or decrease by approximately $1.0 million based on the amount of outstanding variable rate debt at December 31, 2006.

In February 2006, the Company entered into interest rate swap contracts based on the 3-month LIBOR with an aggregate notional amount of $800 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for its

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$800 million aggregate principal amount Senior Notes due 2016 issued in April 2006. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. As of December 31, 2006, the remaining unrecognized gain, net of tax, of $7.3 million is recorded as a component of accumulated other comprehensive loss. At December 31, 2006, there are no outstanding interest rate swap contracts.

Foreign Exchange Risk Management

Overall, the Company is a net recipient of currencies other than the U.S. dollar and, as such, benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect the Company s consolidated revenues or operating costs and expenses as expressed in U.S. dollars.

From time to time, the Company enters into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into contracts which change in value as foreign exchange rates change to economically offset the effect of changes in value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. The Company enters into foreign currency forward and option contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed one year. The Company does not designate these derivative instruments as accounting hedges.

The Company uses foreign currency option contracts, which provide for the sale or purchase of foreign currencies to offset foreign currency exposures expected to arise in the normal course of the Company s business. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures. The principal currencies subject to this process are the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Japanese yen, Swedish krona, Swiss franc and U.K. Pound.

All of the Company s outstanding foreign exchange forward contracts are entered into to protect the value of intercompany receivables denominated in currencies other than the lender s functional currency. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables are recorded through Other, net in the accompanying consolidated statements of operations.

Probable but not firmly committed transactions are comprised of sales of our products and purchases of raw material in currencies other than the U.S. dollar. A majority of these sales are made through the Company s subsidiaries in Europe, Asia, Canada and Brazil. The Company purchases foreign exchange option contracts to economically hedge the currency exchange risks associated with these probable but not firmly committed transactions. The duration of foreign exchange hedging instruments, whether for firmly committed transactions or for probable but not firmly committed transactions, currently does not exceed one year.

All of the Company s outstanding foreign currency options are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Japanese yen, Swedish krona, Swiss franc and U.K. Pound. Current changes in the fair value of open foreign currency option contracts are recorded through earnings as Unrealized gain (loss) on derivative instruments, net while any realized gains (losses) on settled contracts are recorded through

earnings as Other, net in the accompanying consolidated statements of operations. The premium costs of purchased foreign exchange option contracts are recorded in Other current assets and amortized to Other, net over the life of the options.

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At December 31, 2006 and 2005, the notional principal and fair value of the Company s outstanding foreign currency derivative financial instruments were as follows (in millions):

	2006		2005	
	Notional Principal	Fair Value	Notional Principal	Fair Value
Foreign currency forward exchange contracts	$ 153.2	$ (0.7)	$ 38.6	$ 0.7
Foreign currency sold put options	178.0	3.8	98.5	2.9
Foreign currency purchased call options	15.3	0.2	17.0	0.2

The notional principal amounts provide one measure of the transaction volume outstanding as of year end, and do not represent the amount of the Company s exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of December 31, 2006 and 2005. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments. The impact of foreign exchange risk management transactions on pre-tax earnings from operations resulted in net realized losses (gains) of $2.0 million in 2006, $(0.2) million in 2005, and $1.5 million in 2004, which are included in Other, net in the accompanying consolidated statements of operations.

Fair Value of Financial Instruments

At December 31, 2006 and 2005, the Company s financial instruments included cash and equivalents, trade receivables, investments, accounts payable, borrowings and foreign exchange forward and option contracts. The carrying amount of cash and equivalents, trade receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The fair value of marketable equity investments, notes payable, long-term debt and foreign currency contracts were estimated based on quoted market prices at year-end. The fair value of non-marketable equity investments which represent investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value and other information provided by these ventures.

The carrying amount and estimated fair value of the Company s financial instruments at December 31, 2006 and 2005 were as follows (in millions):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	$ 1,369.4	$ 1,369.4	$ 1,296.3	$ 1,296.3
Non-current investments:				
Marketable equity	6.9	6.9	8.1	8.1

Non-marketable equity	0.2	0.2	0.2	0.2
Notes payable	102.0	102.0	169.6	169.6
Convertible notes, net of discount			520.0	789.1
Long-term debt	856.4	873.7	57.5	62.1
Long-term convertible notes	750.0	813.0		

Marketable equity amounts include an unrealized holding gain net of tax of $1.2 million and $1.8 million at December 31, 2006 and 2005, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk principally consist of trade receivables. Wholesale distributors, major retail chains, and managed care organizations account for a

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substantial portion of trade receivables. This risk is limited due to the number of customers comprising the Company s customer base, and their geographic dispersion. At December 31, 2006, no single customer represented more than 10% of trade receivables, net. Ongoing credit evaluations of customers financial condition are performed and, generally, no collateral is required. The Company has purchased an insurance policy intended to reduce the Company s exposure to potential credit risks associated with certain U.S. customers. To date, no claims have been made against the insurance policy. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management s estimates.

Note 12: Commitments and Contingencies

Operating Lease Obligations

The Company leases certain facilities, office equipment and automobiles and provides for payment of taxes, insurance and other charges on certain of these leases. Rental expense was $30.6 million in 2006, $23.6 million in 2005 and $25.5 million in 2004.

Future minimum rental payments under non-cancelable operating lease commitments with a term of more than one year as of December 31, 2006 are as follows: $30.7 million in 2007, $22.6 million in 2008, $17.1 million in 2009, $13.5 million in 2010, $9.7 million in 2011 and $64.1 million thereafter.

Legal Proceedings

The Company is involved in various lawsuits and claims arising in the ordinary course of business.

In June 2001, after receiving paragraph 4 invalidity and noninfringement Hatch-Waxman Act certifications from Apotex, Inc. (Apotex) indicating that Apotex had filed an Abbreviated New Drug Application with the FDA for a generic form of *Acular*®, the Company and Roche Palo Alto, LLC, formerly known as Syntex (U.S.A.) LLC, the holder of the *Acular*® patent, filed a lawsuit entitled Syntex (U.S.A.) LLC and Allergan, Inc. v. Apotex, Inc., et al. in the United States District Court for the Northern District of California. Following a trial, the court entered final judgment in the Company s favor in January 2004, holding that the patent at issue is valid, enforceable and infringed by Apotex s proposed generic drug. Following an appeal by Apotex, the United States Court of Appeals for the Federal Circuit issued an opinion in May 2005, affirming the lower court s ruling on inequitable conduct and claim construction and reversing and remanding the issue of obviousness. On remand, in June 2006, the District Court ruled that the Defendants ANDA infringes U.S. Patent No. 5,110,493, which is owned by Syntex and licensed by Allergan, and that the patent is valid and enforceable. The District Court further ruled that the effective date of any approval of the Defendants ANDA may not occur before the patent expires in 2009 and that the defendants, and all persons and entities acting in concert with them, are enjoined from making any preparations to make, sell, or offer for sale ketorolac tromethamine ophthalmic solution 0.5% in the United States. In June 2006, Apotex filed a notice of appeal with the United States Court of Appeals for the Federal Circuit. On August 18, 2006, the District Court entered a permanent injunction. In August 2006, the defendants filed an Emergency Motion for Stay of Permanent Injunction Pending Appeal with the United States Court of Appeals for the Federal Circuit. On September 1, 2006, the defendants filed their opening appellate brief with the Untied States Court of Appeals for the Federal Circuit. On October 12, 2006, the United States Court of Appeals for the Federal Circuit issued an order denying defendants Emergency Motion for Stay of Permanent Injunction Pending Appeal. In October 2006, all parties filed appellate

briefs with the United States Court of Appeals for the Federal Circuit. Apotex has not received final approval from the FDA to market its generic product. In June 2001, the Company filed a separate lawsuit in Canada against Apotex similarly relating to a generic version of *Acular*®. A mediation in the Canadian lawsuit was held in January 2005 and a settlement conference previously scheduled for July 21, 2006 was taken off calendar by the court and has not yet been rescheduled.

Falcon Pharmaceuticals, Ltd., an affiliate of Alcon Laboratories, Inc., attempted to obtain FDA approval for and to launch a brimonidine product to compete with the Company s *Alphagan® P* product. However, pursuant to

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the Company s March 2006 settlement with Alcon, Alcon agreed not to sell, offer for sale or distribute its brimonidine product until September 30, 2009, or earlier if specified market conditions occur. The primary market condition will have occurred if the extent to which prescriptions of *Alphagan® P* have been converted to other brimonidine-containing products the Company markets has increased to a specified threshold.

In June 2003, a complaint entitled Klein-Becker usa, LLC v. Allergan, Inc. was filed in the United States District Court for the District of Utah Central Division. The complaint, as later amended, contained claims against the Company for intentional interference with contractual and economic relations and unfair competition under federal and Utah law. The complaint sought declaratory and injunctive relief, based on allegations that the Company interfered with Klein-Becker s contractual and economic relations by dissuading certain magazines from running Klein-Becker s advertisements for its anti-wrinkle cream. In July 2003, the Company filed a reply and counterclaims against Klein-Becker, asserting, as later amended, claims for false advertising, unfair competition under federal and Utah law, trade libel, trademark infringement and dilution, and seeking declaratory relief in connection with Klein-Becker s advertisements for its anti-wrinkle cream that use the heading Better than BOTOX® On July 31, 2003, the court denied Klein-Becker s application for a temporary restraining order to restrain the Company from, among other things, contacting magazines regarding Klein-Becker s advertisements. In October 2003, the court granted in part and denied in part the Company s motion to dismiss Klein-Becker s complaint, dismissing Klein-Becker s claims for unfair competition under federal and Utah law and its motion for injunctive relief, and in August 2004, the court denied in its entirety Klein-Becker s motion to dismiss the Company s claims. In March 2005, Klein-Becker filed a motion to amend the scheduling order and a motion for leave to amend the first amended complaint. In August 2005, Klein-Becker filed a Motion for Partial Summary Judgment. On August 24, 2005, the court granted Klein-Becker s motion to amend the scheduling order and Klein-Becker s motion for leave to amend the first amended complaint. In September 2005, Klein-Becker filed a second amended complaint asserting claims for cancellation of registered trademark, false advertising and unfair competition, intentional interference with potential and existing contractual relations, and seeking declaratory relief. In October 2005, the Company filed its response to the second amended complaint and a motion to dismiss certain claims in Klein-Becker s second amended complaint. On October 25, 2005, the Company filed a Motion for Partial Summary Judgment and a Motion for Preliminary Injunction. In response to the Company s Motion for Partial Summary Judgment, Klein-Becker requested that it be permitted to take additional discovery, which request was granted. The hearing on Klein-Becker s Motion for Partial Summary Judgment was heard on December 19, 2005 and the court took the motion under submission, but denied the Company s motion for Preliminary Injunction. Subsequently, the court granted the Company s motion to submit additional evidence in response to Klein-Becker s Motion for Partial Summary Judgment. On February 22, 2006, the court granted the Company s motion to dismiss Klein-Becker s claims for cancellation of registered trademark and unfair competition under state law. The court denied the Company s motion to dismiss Klein-Becker s federal false advertising and unfair competition claims. The court also denied Klein-Becker s motion to file a Third Amended Complaint, in which Klein-Becker attempted to add Elizabeth Arden as a party and include a claim against Elizabeth Arden and the Company regarding the Company s *Prevage®* product. The court granted the Company s motion as to a separate Motion for Partial Summary Judgment that Klein-Becker filed. Trial was scheduled for June 4, 2007. On December 8, 2006, Allergan and Klein-Becker entered into a confidential binding settlement agreement. The parties currently are attempting to agree upon additional settlement terms.

In August 2004, a complaint entitled Clayworth, et al. v. Allergan, Inc., et al. was filed in the Superior Court of the State of California for the County of Alameda. The complaint, as amended, names the Company and 12 other defendants and alleges unfair business practices based upon a price fixing conspiracy in connection with the reimportation of pharmaceuticals from Canada. The complaint seeks damages, equitable relief, attorney s fees and

costs. In November 2004, the pharmaceutical defendants jointly filed a demurrer to the first amended complaint. In February 2005, the court issued an order sustaining the pharmaceutical defendants demurrer and granting plaintiffs leave to further amend the first amended complaint. In February 2005, the plaintiffs filed a second amended complaint to which the pharmaceutical defendants filed a demurrer. In April 2005, the court sustained the

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pharmaceutical defendants demurrer and granted the plaintiffs leave to further amend the second amended complaint. In May 2005, the plaintiffs filed a third amended complaint and the pharmaceutical defendants filed a demurrer. On July 1, 2005, the court overruled in part and sustained without leave to amend in part the pharmaceutical defendants demurrer, dismissing the portion of plaintiffs third amended complaint alleging that the pharmaceutical defendants violated California s Unfair Competition Law by charging plaintiffs more for pharmaceuticals than they charged others outside of the United States for the same pharmaceuticals. The court overruled the pharmaceutical defendants demurrer with respect to plaintiffs claim under the Cartwright Law that the pharmaceutical defendants conspired to maintain high, non-competitive prices for pharmaceuticals in the United States and sought to restrict the importation of lower-priced pharmaceuticals into the United States. The pharmaceutical defendants response to the third amended complaint was filed on July 15, 2005. The court heard arguments on the pharmaceutical defendants joint motion for summary judgment on December 15, 2006 and, on December 19, 2006, issued an order granting the motion and vacating the existing trial date and discovery deadlines. On January 4, 2007, the court filed a judgment of dismissal in favor of the pharmaceutical defendants and against the plaintiffs. The court entered a notice of entry of judgment of dismissal on January 8, 2007. On the same date, the plaintiffs filed a notice of appeal with the Court of Appeal of the State of California, First Appellate District.

Inamed Related Litigation Matters Assumed in the Company s Acquisition of Inamed

In connection with its purchase of Collagen in September 1999, the Company s subsidiary Inamed assumed certain liabilities relating to the Trilucent breast implant, a soybean oil-filled breast implant, which had been manufactured and distributed by various subsidiaries of Collagen between 1995 and November 1998. In November 1998, Collagen announced the sale of its LipoMatrix, Inc. subsidiary, manufacturer of the Trilucent implant to Sierra Medical Technologies, Inc. Collagen retained certain liabilities for Trilucent implants sold prior to November 1998.

In March 1999, the United Kingdom Medical Devices Agency, or MDA, announced the voluntary suspension of marketing and withdrawal of the Trilucent implant in the United Kingdom as a precautionary measure. The MDA did not identify any immediate hazard associated with the use of the product but stated that it sought the withdrawal because it had received reports of local complications in a small number of women who had received those implants, involving localized swelling. The same notice stated that there has been no evidence of permanent injury or harm to general health as a result of these implants. In March 1999, Collagen agreed with the U.K. National Health Service that, for a period of time, it would perform certain product surveillance with respect to U.K. patients implanted with the Trilucent implant and pay for explants for any U.K. women with confirmed Trilucent implant ruptures. Subsequently, LipoMatrix s notified body in Europe suspended the product s CE Mark pending further assessment of the long-term safety of the product. Sierra Medical has since stopped sales of the product. Subsequent to acquiring Collagen, Inamed elected to continue the voluntary program.

In June 2000, the MDA issued a hazard notice recommending that surgeons and their patients consider explanting the Trilucent implants even if the patient is asymptomatic. The MDA also recommended that women avoid pregnancy and breast-feeding until the explantation as a precautionary measure stating that although there have been reports of breast swelling and discomfort in some women with these implants, there has been no clinical evidence of any serious health problems, so far.

Concurrently with the June 2000 MDA announcement, Inamed announced that, through its AEI, Inc. subsidiary, it had undertaken a comprehensive program of support and assistance for women who have received Trilucent breast implants, under which it was covering medical expenses associated with the removal and replacement of those

implants for women in the European Community, the United States and other countries. After consulting with competent authorities in each affected country, Inamed terminated this support program in March 2005 in all countries other than the United States and Canada. Notwithstanding the termination of the general program, Inamed continued to pay for explantations and related expenses in certain cases if a patient justified her delay in having her Trilucent implants removed on medical grounds or owing to lack of notice. Under this program,

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Inamed may pay a fee to any surgeon who conducts an initial consultation with any Trilucent implantee. Inamed also pays for the explantation procedure and related costs, and for replacement (non-Trilucent) implants for women who are candidates for and who desire them. To date, virtually all of the U.K. residents and more than 95% of the non-U.K. residents who have requested explantations as a result of an initial consultation have had them performed. However, there may be other U.K. residents and non-U.K. residents who have not come forth that may request explantation.

A Spanish consumer union has commenced a single action in the Madrid district court in which the consumer union, Avinesa, alleges that it represents 41 Spanish Trilucent explantees. To date, approximately 65 women in Spain have commenced individual legal proceedings in court against Inamed, of which approximately 27 were still pending as of December 31, 2006. Prior to the issuance of a decision by an Appellate Court sitting in Madrid in the second quarter of 2005, Inamed won approximately one-third, and lost approximately two-thirds of its Trilucent cases in the lower courts. The average damages awarded in cases the Company lost were approximately $18,000. In the second quarter of 2005, in a case called Gomez Martin v. AEI, for the first time an appellate court in Spain issued a decision holding that Trilucent breast implants were not defective within the meaning of applicable Spanish product liability law and dismissed a 60,000 (approximately $78,000) award issued by the lower court. While this ruling is a positive development for Inamed, it may not be followed by other Spanish appellate courts or could be modified or found inapplicable to other cases filed in the Madrid district. Since the ruling in Gomez Martin v. AEI, Inamed has had greater success in winning the Spanish cases than before the ruling. In 2006, the Company settled nine Spanish litigated matters; the average compensation paid per case was under 12,000 (approximately $16,000).

As of December 31, 2006, the Company had an accrual for future Trilucent claims, costs, and expenses of $4.7 million.

In May 2002, Ernest Manders filed a lawsuit against Inamed and other defendants entitled Ernest K. Manders, M.D. v. McGhan Medical Corporation, et al. , in the United States District Court for the Western District of Pennsylvania, Case No. 02-CV-1341. Manders amended complaint seeks damages for alleged infringement of a patent allegedly held by Manders in the field of tissue expanders. In February 2003, Inamed answered the complaint, denying its material allegations and counterclaiming against Manders for declarations of invalidly as well as noninfringement. Following fact discovery and expert discovery, Manders elected to limit his claim for infringement to twelve of the forty-six claims in his patent. In September 2004 and October 2004, the court held a Markman hearing on claim construction under the patent and in February 2006, the court issued its Memorandum Opinion on claim construction. The court held a status conference on April 21, 2006 and another status conference on May 5, 2006, at which time the court indicated that it would refer the case to a magistrate for mediation. On June 20, 2006, the parties participated in mediation but were unable to reach a settlement. On August 15, 2006, the court denied the defendants motion for reconsideration of the claim construction order. On September 22, 2006, the court entered a Case Management Order scheduling the close of discovery for November 3, 2006 and scheduling a new status conference for November 8, 2006. At the November 8, 2006 status conference, the court set the schedule for expert discovery and scheduled a further status conference for December 8, 2006. At the December 8, 2006 status conference, the court scheduled a further status conference for April 10, 2007.

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 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 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 13: Guarantees

The Company s 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 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 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 drug 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 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.

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Note 14: Business Segment Information

Through the first fiscal quarter of 2006, the Company operated its business on the basis of a single reportable segment specialty pharmaceuticals. Beginning with the second fiscal quarter of 2006, the Company operated its business on the basis of two reportable segments specialty pharmaceuticals and medical devices, due to the Inamed acquisition. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products including: ophthalmic products for glaucoma therapy, ocular inflammation, infection, allergy and dry eye; skin care products for acne, psoriasis and other prescription and over-the-counter dermatological products; and *Botox*® for certain therapeutic and cosmetic indications. The medical devices segment produces breast implants for aesthetic augmentation and reconstructive surgery, facial aesthetics, the *LAP-BAND*® System designed to treat severe and morbid obesity and the *BIB*™ System for the treatment of obesity. The Company provides global marketing strategy teams to ensure development and execution of a consistent marketing strategy for its products in all geographic regions that share similar distribution channels and customers.

The Company evaluates segment performance on a revenue and operating income (loss) basis exclusive of general and administrative expenses and other indirect costs, restructuring charges, in-process research and development expenses, amortization of identifiable intangible assets related to the Inamed acquisition and certain other adjustments, which are not allocated to segments for performance assessment by the Company s chief operating decision maker. Other adjustments excluded from segments for purposes of performance assessment represent income or expenses that do not reflect, according to established company-defined criteria, operating income or expenses associated with the Company s core business activities. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does the Company s chief operating decision maker evaluate operating segments using discrete asset information.

Operating Segments

	2006	2005	2004
		(in millions)	
Product net sales:			
Specialty pharmaceuticals	$ 2,638.5	$ 2,319.2	$ 2,045.6
Medical devices	371.6		
Total product net sales	3,010.1	2,319.2	2,045.6
Other corporate and indirect revenues	53.2	23.4	13.3
Total revenues	$ 3,063.3	$ 2,342.6	$ 2,058.9

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	2006	2005	2004
		(in millions)	
Operating income (loss):			
Specialty pharmaceuticals	$ 888.8	$ 762.9	$ 684.7
Medical devices	119.9		
Total segments	1,008.7	762.9	684.7
General and administrative expenses, other indirect costs and other adjustments	351.7	148.2	150.3
In-process research and development	579.3		
Amortization of acquired intangible assets(a)	58.6		
Restructuring charges	22.3	43.8	7.0
Total operating (loss) income	$ (3.2)	$ 570.9	$ 527.4

(a) Represents amortization of identifiable intangible assets related to the Inamed acquisition.

Product net sales for the Company s various global product portfolios are presented below. The Company s principal markets are the United States, Europe, Latin America and Asia Pacific. The U.S. information is presented separately as it is the Company s headquarters country. U.S. sales, including manufacturing operations, represented 67.4%, 67.5% and 69.1% of the Company s total consolidated product net sales in 2006, 2005 and 2004, respectively.

Sales to two customers in the Company s specialty pharmaceuticals segment generated over 10% of the Company s total consolidated product net sales. Sales to Cardinal Healthcare for the years ended December 31, 2006, 2005 and 2004 were 13.0%, 14.9%, and 14.1%, respectively, of the Company s total consolidated product net sales. Sales to McKesson Drug Company for the years ended December 31, 2006, 2005 and 2004 were 13.0%, 14.2% and 13.0%, respectively, of the Company s total consolidated product net sales. No other country or single customer generates over 10% of the Company s total consolidated product net sales. Other specialty pharmaceutical product net sales primarily represent sales to AMO pursuant to the manufacturing and supply agreement entered into as part of the June 2002 AMO spin-off that terminated as scheduled in June 2005. Net sales for the Europe region also include sales to customers in Africa and the Middle East, and net sales in the Asia Pacific region include sales to customers in Australia and New Zealand.

Long-lived assets, depreciation and amortization and capital expenditures are assigned to geographic regions based upon management responsibility for such items. The Company estimates that total long-lived assets located in the United States, including manufacturing operations and general corporate assets, are approximately $3,279.0 million, $470.7 million and $360.7 million as of December 31, 2006, 2005 and 2004, respectively.

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Sales by Product Line

	2006	2005	2004
		(in millions)	
Specialty Pharmaceuticals:			
Eye Care Pharmaceuticals	$ 1,530.6	$ 1,321.7	$ 1,137.1
Botox®/Neuromodulators	982.2	830.9	705.1
Skin Care	125.7	120.2	103.4
	2,638.5	2,272.8	1,945.6
Other		46.4	100.0
Total specialty pharmaceuticals	2,638.5	2,319.2	2,045.6
Medical Devices:			
Breast Aesthetics	177.2		
Obesity Intervention	142.3		
Facial Aesthetics	52.1		
Total medical devices	371.6		
Total product net sales	$ 3,010.1	$ 2,319.2	$ 2,045.6

Geographic Information

	Product Net Sales		
	2006	2005	2004
		(in millions)	
United States	$ 2,023.6	$ 1,521.7	$ 1,332.2
Europe	548.5	395.0	334.6
Latin America	172.5	129.8	102.1
Asia Pacific	145.7	141.4	122.4
Other	114.5	88.5	60.9
	3,004.8	2,276.4	1,952.2
Manufacturing operations	5.3	42.8	93.4
Total product net sales	$ 3,010.1	$ 2,319.2	$ 2,045.6

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Long-lived Assets			Depreciation and Amortization			Capital Expenditures		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
	(in millions)								
United States	$ 2,986.4	$ 209.2	$ 76.6	$ 111.0	$ 38.2	$ 28.9	$ 44.8	$ 21.7	$ 15.2
Europe	16.0	21.3	24.5	2.2	2.4	3.2	6.2	3.3	0.7
Latin America	18.7	18.0	17.1	3.8	3.9	3.6	2.6	2.9	2.8
Asia Pacific	6.6	2.0	3.3	0.9	1.1	1.4	0.3	0.4	0.6
Other	0.2	0.4	0.5	0.1	0.2				
	3,027.9	250.9	122.0	118.0	45.8	37.1	53.9	28.3	19.3
Manufacturing operations	279.8	214.2	208.0	16.9	15.8	16.4	35.7	21.0	36.0
General corporate	215.3	204.9	227.9	17.5	17.3	14.8	41.8	29.2	41.1
Total	$ 3,523.0	$ 670.0	$ 557.9	$ 152.4	$ 78.9	$ 68.3	$ 131.4	$ 78.5	$ 96.4

The increase in long-lived assets located in the United States at December 31, 2006 compared to December 31, 2005 was primarily due to the Inamed acquisition. Goodwill and intangible assets related to the Inamed acquisition are reflected in the United States balance above. The Company s management has not completed its analysis of goodwill and intangible assets related to the Inamed acquisition or assigned regional management responsibility for these assets. Once management responsibility is assigned, the assets will be reflected in their respective geographical locations. The increase in United States depreciation and amortization for the year ended December 31, 2006 compared to the year ended December 31, 2005 primarily relates to amortization of acquired intangible assets associated with the Inamed acquisition.

Note 15: Earnings Per Share

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

	Year Ended December 31,		
	2006	2005	2004
	(in millions, except per share amounts)		
Net (loss) earnings	$ (127.4)	$ 403.9	$ 377.1
Weighted average number of shares issued	146.9	131.1	131.3
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		1.7	1.6

Dilutive effect of assumed conversion of convertible notes outstanding		1.2	1.0
Diluted shares	146.9	134.0	133.9
(Loss) earnings per share:			
Basic	$ (0.87)	$ 3.08	$ 2.87
Diluted	$ (0.87)	$ 3.01	$ 2.82

For the year ended December 31, 2006, outstanding stock options to purchase approximately 10.1 million shares of common stock at exercise prices ranging from $13.01 to $127.51 per share were not included in the computation of diluted earnings per share because the Company incurred a loss from operations and, as a result, the

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

impact would be antidilutive. Additionally, for the year ended December 31, 2006, the effect of approximately 0.8 million common shares related to the Company s convertible subordinated notes was not included in the computation of diluted earnings per share because the Company incurred a loss from operations and, as a result, the impact would be antidilutive. For the years ended December 31, 2005 and 2004, options to purchase 1.8 million and 4.0 million shares of common stock at exercise prices ranging from $85.50 to $127.51, and $82.48 to $127.51, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of common shares during the year and, therefore, the effect would be anti-dilutive.

Note 16: Comprehensive Income (Loss)

The following table summarizes the components of comprehensive income (loss) for the years ended December 31:

	2006			2005			2004		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	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	$ 24.9	$	$ 24.9	$ (3.9)	$	$ (3.9)	$ 9.9	$	$ 9.9
Deferred holding gains, net of amortized amounts, on derivatives designated as cash flow hedges	12.1	(4.8)	7.3						
Minimum pension liability adjustment	2.3	(1.0)	1.3	(1.0)	0.4	(0.6)	(1.8)	0.7	(1.1)
Unrealized holding (loss) gain on available-for-sale securities	(0.9)	0.3	(0.6)	(0.2)	(0.2)	(0.4)	0.6	(0.2)	0.4
Other comprehensive income (loss)	$ 38.4	$ (5.5)	32.9	$ (5.1)	$ 0.2	(4.9)	$ 8.7	$ 0.5	9.2
Net (loss) earnings			(127.4)			403.9			377.1
Total comprehensive (loss) income			$ (94.5)			$ 399.0			$ 386.3

Note 17: Product Warranties

As a result of the Inamed acquisition, the Company assumed estimated liabilities of $21.3 million at the acquisition date for 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 the current and long-term liabilities on the Company s consolidated balance sheet. The U.S. programs include the *ConfidencePlus*tm and *ConfidencePlus*tm Premier warranty programs. The *ConfidencePlus*tm program currently provides lifetime product replacement and $1,200 of financial assistance for surgical procedures within ten years of implantation. The *ConfidencePlus*tm Premier program, which 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 implantation surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis

ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and the Company s estimated liabilities. Substantially all 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 December 31, 2006:

	(in millions)
Balance assumed at Inamed acquisition date	$ 21.3
Provision for warranties issued during the period	8.1
Settlements made during the period	(4.6)
Balance at December 31, 2006	$ 24.8
Current portion	$ 4.4
Non-current portion	20.4
Total	$ 24.8

Note 18: Subsequent Event

On January 2, 2007, the Company consummated the acquisition of all of the outstanding capital stock of Groupe Cornéal Laboratoires and its subsidiaries (Cornéal) pursuant to a Stock Sale and Purchase Agreement (Purchase Agreement) dated October 31, 2006, by and among the Company, its indirect wholly owned subsidiary Allergan Holdings France, SAS, and Waldemar Kita, the controlling stockholder of Cornéal, the European Pre-Floatation Fund II and the other minority stockholders of Cornéal. Under the Purchase Agreement, the Company purchased the outstanding capital stock of Cornéal for an aggregate purchase price of approximately $233.9 million, subject to possible post-closing adjustments based on a final determination of Cornéal s debt and cash levels. The acquisition consideration was all cash, funded from current cash and equivalents balances and the Company s committed long-term credit facility.

On February 21, 2007, the Company completed the acquisition of EndoArt SA. Under the terms of the agreement, the Company purchased all the outstanding capital stock of EndoArt SA for an aggregate purchase price of approximately $97.0 million, net of excess cash. The acquisition consideration was all cash, funded from current cash and equivalents balances.

ALLERGAN, INC.

QUARTERLY RESULTS (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in millions, except per share data)				
2006(a)					
Product net sales	$ 615.2	$ 787.0	$ 791.7	$ 816.2	$ 3,010.1
Total revenues	625.7	801.7	806.8	829.1	3,063.3
Operating (loss) income	(422.8)	125.2	121.2	173.2	(3.2)
(Loss) earnings before income taxes and minority interest(c)	(423.1)	112.3	120.7	170.6	(19.5)
Net (loss) earnings	(444.8)	74.2	106.4	136.8	(127.4)
Basic (loss) earnings per share	(3.29)	0.49	0.71	0.90	(0.87)
Diluted (loss) earnings per share	(3.29)	0.49	0.70	0.89	(0.87)
2005(b)					
Product net sales	$ 527.2	$ 591.0	$ 606.1	$ 594.9	$ 2,319.2
Total revenues(d)	530.1	596.5	613.4	602.6	2,342.6
Operating income	113.4	136.2	159.8	161.5	570.9
Earnings before income taxes and minority interest(e)	119.0	138.1	172.6	169.5	599.2
Net earnings(f)	79.9	33.4	150.5	140.1	403.9
Basic earnings per share	0.61	0.26	1.15	1.06	3.08
Diluted earnings per share	0.60	0.25	1.12	1.03	3.01

(a) Fiscal quarters in 2006 ended on March 31, June 30, September 29 and December 31.

(b) Fiscal quarters in 2005 ended on March 25, June 24, September 30 and December 31.

(c) Includes 2006 pre-tax charges (income) for the following items:

	Quarter				
	First	Second	Third	Fourth	Total
	(in millions)				
In-process research and development charge	$ 562.8	$ 16.5	$	$	$ 579.3
Amortization of acquired intangible assets	5.1	24.8	24.9	24.8	79.6
Inamed fair-market value inventory adjustment roll out		24.0	23.9		47.9
Restructuring charges	2.8	5.7	8.6	5.2	22.3
Integration costs and transition and duplicate operating expenses	9.5	6.8	5.4	5.2	26.9
Contribution to The Allergan Foundation			28.5		28.5

(d) Beginning in 2006, the Company reports other revenues on a separate line in its consolidated statements of operations, which primarily include royalties and reimbursement income in connection with various contractual agreements. These other revenue amounts were previously included in selling, general and administrative expenses. The amount of other revenues previously included as part of selling, general and administrative expenses in 2005 was $23.4 million, consisting of $2.9 million, $5.5 million, $7.3 million and $7.7 million in the first, second, third and fourth fiscal quarters of 2005, respectively. Other revenues of $1.9 million in the second and third fiscal quarters of 2005, respectively, were reclassified from amounts previously reported in selling, general and administrative expenses in our quarterly reports on Form 10-Q for the quarters ended June 30, 2006 and September 29, 2006.

ALLERGAN, INC.

QUARTERLY RESULTS (UNAUDITED) (Continued)

(e) Includes 2005 pre-tax charges (income) for the following items:

	Quarter				
	First	**Second**	**Third**	**Fourth**	**Total**
			(in millions)		
Restructuring charge (reversal), net	$ 27.4	$ 10.3	$ (0.1)	$ 6.2	$ 43.8
Amortization of acquired intangible assets	2.1	5.1	5.1	5.2	17.5
Transition and duplicate operating expenses	0.3	1.3	1.5	2.5	5.6
Interest related to previously paid income taxes and income tax settlements			(8.6)	(0.8)	(9.4)
Gain on sale of distribution business in India			(7.9)		(7.9)
(Gain) loss on sale of assets primarily used for AMO contract manufacturing			(5.8)	0.1	(5.7)

(f) Includes estimated income tax provision (benefit) of $60.4 million, $(6.2) million and $(4.6) million in the second, third and fourth quarters, respectively, related to the repatriation of foreign earnings that had been previously permanently reinvested outside the United States.

SCHEDULE II

ALLERGAN, INC.

VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2006, 2005 and 2004

Allowance for Doubtful Accounts Deducted from Trade Receivables	Balance at Beginning of Year	Additions(a)	Deductions(b) (in millions)	Other(c)	Balance at End of Year
2006	$ 4.4	$ 7.6	$ (2.6)	$ 6.4	$ 15.8
2005	5.7	0.4	(1.7)		4.4
2004	5.3	1.2	(0.8)		5.7

(a) Provision charged to earnings.

(b) Accounts written off, net of recoveries.

(c) Allowance for doubtful accounts acquired as part of the Inamed acquisition.

INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Allergan, Inc., as filed with the State of Delaware on May 22, 1989 (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Registration Statement on Form S-1 No. 33-28855, filed on May 24, 1989)
3.2	Certificate of Amendment of Certificate of Incorporation of Allergan, Inc. (incorporated by reference to Exhibit 3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 30, 2000)
3.3	Certificate of Amendment of Restated Certificate of Incorporation of Allergan, Inc. (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Current Report on Form 8-K filed on September 20, 2006)
3.4	Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 30, 1995)
3.5	First Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.1 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)
3.6	Second Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.5 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
3.7	Third Amendment to Allergan, Inc. Bylaws (incorporated by reference to Exhibit 3.6 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)
4.1	Certificate of Designations of Series A Junior Participating Preferred Stock, as filed with the State of Delaware on February 1, 2000 (incorporated by reference to Exhibit 4.1 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 1999)
4.2	Rights Agreement, dated January 25, 2000, between Allergan, Inc. and First Chicago Trust Company of New York (incorporated by reference to Exhibit 4 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)
4.3	Amendment to Rights Agreement, dated as of January 2, 2002, between First Chicago Trust Company of New York, Allergan, Inc. and EquiServe Trust Company, N.A., as successor Rights Agent (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Annual Report on Form 10-K for the year ended December 31, 2001)
4.4	Second Amendment to Rights Agreement, dated as of January 30, 2003, between First Chicago Trust Company of New York, Allergan, Inc. and EquiServe Trust Company, N.A., as successor Rights Agent (incorporated by reference to Exhibit 1 to Allergan, Inc. s amended Form 8-A filed on February 14, 2003)
4.5	Third Amendment to Rights Agreement, dated as of October 7, 2005, between Wells Fargo Bank, National Association and Allergan, Inc., as successor Right Agent (incorporated by reference to Exhibit 4.11 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
4.6	Amended and Restated Indenture, dated as of July 28, 2004, between Allergan, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.11 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 2004)
4.7	Form of Zero Coupon Convertible Senior Note Due 2022 (incorporated by reference to Exhibit 4.2 (included in Exhibit 4.1) to Allergan, Inc. s Registration Statement on Form S-3 dated January 9, 2003, Registration No. 333-102425)
4.8	Registration Rights Agreement, dated as of November 6, 2002, by and between Allergan, Inc. and Banc of America Securities LLC, Salomon Smith Barney Inc., J.P. Morgan Securities Inc. and Banc One Capital Markets, Inc. (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Registration Statement on Form S-3 dated January 9, 2003, Registration No. 333-102425)
4.9	Indenture, dated as of April 12, 2006, between Allergan, Inc. and Wells Fargo, National Association relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to

Exhibit 4.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)

4.10 Indenture, dated as of April 12, 2006, between Allergan, Inc. and Wells Fargo, National Association relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)

4.11 Form of 1.50% Convertible Senior Note due 2026 (incorporated by reference (and included in) the Indenture dated as of April 12, 2006 between Allergan, Inc. and Wells Fargo, National Association at Exhibit 4.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)

Exhibit Number	Description
4.12	Form of 5.75% Senior Note due 2016 (incorporated by reference to (and included in) the Indenture dated as of April 12, 2006 between Allergan, Inc. and Wells Fargo, National Association at Exhibit 4.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.13	Registration Rights Agreement, dated as of April 12, 2006, among Allergan, Inc. and Banc of America Securities LLC and Citigroup Global Markets Inc., as representatives of the Initial Purchasers named therein, relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit 4.3 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
4.14	Registration Rights Agreement, dated as of April 12, 2006, among Allergan, Inc. and Morgan Stanley & Co., Incorporated, as representative of the Initial Purchasers named therein, relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.4 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
10.1	Form of Director and Executive Officer Indemnity Agreement
10.2	Form of Allergan, Inc. Change in Control Agreement 11E Grade (applicable to certain employees hired before December 4, 2006) *
10.3	Form of Allergan, Inc. Change in Control Agreement 11E Grade (applicable to certain employees hired after December 4, 2006) *
10.4	First Amendment to Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Appendix A to Allergan, Inc. s Proxy Statement filed on March 21, 2006)*
10.5	Amended Form of Restricted Stock Award Agreement under Allergan, Inc. s 2003 Nonemployee Director Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.60 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 2006)
10.6	Amended Form of Non-Qualified Stock Option Award Agreement under Allergan, Inc. s 2003 Nonemployee Director Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.61 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 2006)
10.7	Allergan, Inc. Deferred Directors Fee Program, amended and restated as of November 15, 1999 (incorporated by reference to Exhibit 4 to Allergan, Inc. s Registration Statement on Form S-8 dated January 6, 2000, Registration No. 333-94155)*
10.8	Allergan, Inc. 1989 Incentive Compensation Plan, as amended and restated November 2000 and as adjusted for 1999 split (incorporated by reference to Exhibit 10.5 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2000)
10.9	First Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.51 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.10	Second Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.7 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.11	Form of Certificate of Restricted Stock Award Terms and Conditions under Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.8 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.12	Form of Restricted Stock Units Terms and Conditions under Allergan, Inc. 1989 Incentive Compensation Plan (as amended and restated November 2000) (incorporated by reference to Exhibit 10.9 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.13	Allergan, Inc. Employee Stock Ownership Plan (Restated 2003) (incorporated by reference to Exhibit 10.6 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
10.14	

	First Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.52 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.15	Second Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.9 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)
10.16	Third Amendment to Allergan, Inc. Employee Stock Ownership Plan (as Restated 2003) (incorporated by reference to Exhibit 10.13 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)

Exhibit Number	Description
10.17	Allergan, Inc. Employee Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.7 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
10.18	First Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.53 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.19	Second Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.12 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)
10.20	Third Amendment to Allergan, Inc. Savings and Investment Plan (Restated 2003) (incorporated by reference to Exhibit 10.17 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.21	Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.8 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)
10.22	First Amendment to Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.50 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.23	Second Amendment to Allergan, Inc. Pension Plan (Restated 2003) (incorporated by reference to Exhibit 10.20 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.24	Restated Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.5 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 1996)*
10.25	First Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.4 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)*
10.26	Second Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.12 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)*
10.27	Third Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.46 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)*
10.28	Fourth Amendment to Allergan, Inc. Supplemental Retirement Income Plan (incorporated by reference to Exhibit 10.13 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.29	Restated Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.6 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 31, 1996)*
10.30	First Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.3 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 24, 1999)*
10.31	Second Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.11 to Allergan, Inc. s Current Report on Form 8-K filed on January 28, 2000)*
10.32	Third Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.45 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)*
10.33	Fourth Amendment to Allergan, Inc. Supplemental Executive Benefit Plan (incorporated by reference to Exhibit 10.18 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.34	Allergan, Inc. 2006 Executive Bonus Plan (incorporated by reference to Appendix B to Allergan, Inc. s Proxy Statement filed on March 21, 2006)*
10.35	Allergan, Inc. 2007 Executive Bonus Plan Performance Objectives
10.36	Allergan, Inc. 2007 Management Bonus Plan*
10.37	Allergan, Inc. Executive Deferred Compensation Plan (amended and restated effective January 1, 2003) (incorporated by reference to Exhibit 10.22 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2002)*
10.38	

	First Amendment to Allergan, Inc. Executive Deferred Compensation Plan (amended and restated effective January 1, 2003) (incorporated by reference to Exhibit 10.29 to Allergan, Inc. s Report on Form 10-K for the Fiscal Year ended December 31, 2003)*
10.39	Allergan, Inc. Premium Priced Stock Option Plan (incorporated by reference to Exhibit B to Allergan, Inc. s Proxy Statement filed on March 23, 2001)*
10.40	Acceleration of Vesting of Premium Priced Stock Options (incorporated by reference to Exhibit 10.57 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 25, 2005)

Exhibit Number	Description
10.41	Distribution Agreement, dated March 4, 1994, between Allergan, Inc. and Merrill Lynch & Co. and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 10.14 to Allergan, Inc. s Report on Form 10-K for the fiscal year ended December 31, 1993)
10.42	Credit Agreement, dated as of October 11, 2002, among Allergan, Inc., as Borrower and Guarantor, the Eligible Subsidiaries Referred to Therein, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.47 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 27, 2002)
10.43	First Amendment to Credit Agreement, dated as of October 30, 2002, among Allergan, Inc., as Borrower and Guarantor, the Eligible Subsidiaries Referred to Therein, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.48 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 27, 2002)
10.44	Second Amendment to Credit Agreement, dated as of May 16, 2003, among Allergan, Inc., as Borrower and Guarantor, the Banks listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.49 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 27, 2003)
10.45	Third Amendment to Credit Agreement, dated as of October 15, 2003, among Allergan, Inc., as Borrower and Guarantor, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.54 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.46	Fourth Amendment to Credit Agreement, dated as of May 26, 2004, among Allergan, Inc., as Borrower and Guarantor, the Banks Listed Therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Document Agent (incorporated by reference to Exhibit 10.56 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 25, 2004)
10.47	Amended and Restated Credit Agreement, dated as of March 31, 2006, among Allergan, Inc. as Borrower and Guarantor, the Banks listed therein, JPMorgan Chase Bank, as Administrative Agent, Citicorp USA Inc., as Syndication Agent and Bank of America, N.A., as Document Agent (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 4, 2006)
10.48	Purchase Agreement, dated as of April 6, 2006, among Allergan, Inc. and Banc of America Securities LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, as representatives of the initial purchasers named therein, relating to the $750,000,000 1.50% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
10.49	Purchase Agreement, dated as of April 6, 2006, among Allergan, Inc. and Banc of America Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 10.2 to Allergan, Inc. s Current Report on Form 8-K filed on April 12, 2006)
10.50	Stock Sale and Purchase Agreement, dated as of October 31, 2006, by and among Allergan, Inc., Allergan Holdings France, SAS, Waldemar Kita, the European Pre-Floatation Fund II and the other minority stockholders of Groupe Cornéal Laboratories and its subsidiaries (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on November 2, 2006)
10.51	Contribution and Distribution Agreement, dated as of June 24, 2002, by and among Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.35 to Allergan, Inc. s Report on

Form 10-Q for the Quarter ended June 28, 2002)

10.52 Transitional Services Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.36 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)

10.53 Employee Matters Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.37 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)

10.54 Tax Sharing Agreement, dated as of June 24, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.38 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)

Exhibit Number	Description
10.55	Manufacturing and Supply Agreement, dated as of June 30, 2002, between Allergan, Inc. and Advanced Medical Optics, Inc. (incorporated by reference to Exhibit 10.39 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended June 28, 2002)
10.56	Agreement and Plan of Merger, dated as of December 20, 2005, by and among Allergan, Inc., Banner Acquisition, Inc., a wholly-owned subsidiary of Allergan, and Inamed Corporation (incorporated by reference to Exhibit 99.2 to Allergan, Inc. s Current Report on Form 8-K filed on December 13, 2005)
10.57	Transition and General Release Agreement, effective as of August 6, 2004, by and between Allergan, Inc. and Lester J. Kaplan (incorporated by reference to Exhibit 10.55 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended March 26, 2004)
10.58	Transfer Agent Services Agreement, dated as of October 7, 2005, by and among Allergan, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.57 to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.59	*Botox*® China License Agreement, dated as of September 30, 2005, by and among Allergan, Inc. Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.51** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.60	*Botox*® Japan License Agreement, dated as of September 30, 2005, by and among Allergan, Inc. Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.52** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.61	Co-Promotion Agreement, dated as of September 30, 2005, by and among Allergan, Inc., Allergan Sales, LLC and SmithKline Beecham Corporation d/b/a GlaxoSmithKline (incorporated by reference to Exhibit 10.53** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.62	*Botox*® Global Strategic Support Agreement, dated as of September 30, 2005, by and among Allergan, Inc., Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.54** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.63	China *Botox*® Supply Agreement, dated as of September 30, 2005, by and among Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.55** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.64	Japan *Botox*® Supply Agreement, dated as of September 30, 2005, by and between Allergan Pharmaceuticals Ireland and Glaxo Group Limited (incorporated by reference to Exhibit 10.56** to Allergan, Inc. s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.65	Severance and General Release Agreement between Allergan, Inc. and Roy J. Wilson, dated as of October 6, 2006 (incorporated by reference to Exhibit 10.1 to Allergan, Inc. s Current Report on Form 8-K filed on October 10, 2006)
21	List of Subsidiaries of Allergan, Inc.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm
23.2	Report and consent of KPMG LLP, independent registered public accounting firm
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350

* Management contract or compensatory plan or arrangement.

** Confidential treatment was requested with respect to the omitted portions of this Exhibit, which portions have been filed separately with the Securities and Exchange Commission and which portions were granted confidential treatment on December 13, 2005.

All current directors and executive officers of Allergan, Inc. have entered into the Indemnity Agreement with Allergan, Inc.

All vice president level employees, including executive officers, of Allergan, Inc., grade level 11E and above, hired before December 4, 2006, are eligible to be party to the Allergan, Inc. Change in Control Agreement.

All employees of Allergan, Inc., grade level 11E and below, hired after December 4, 2006, are eligible to be party to the Allergan, Inc. Change in Control Agreement.

(b) *Item 601 Exhibits*

Reference is hereby made to the Index of Exhibits under Item 15 of Part IV of this report, Exhibits and Financial Statement Schedules.