ALLERGAN INC
Form 10-Q
August 07, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2007

OR

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

COMMISSION FILE NUMBER 1-10269

ALLERGAN, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	95-1622442
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2525 DUPONT DRIVE, IRVINE, CALIFORNIA	92612
(Address of Principal Executive Offices)	(Zip Code)

(714) 246-4500
(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of July 30, 2007, there were 307,511,888 shares of common stock outstanding (including 1,574,409 shares held in treasury).

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Allergan, Inc.
Unaudited Condensed Consolidated Statements of Operations
(in millions, except per share amounts)

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
Revenues				
Product net sales	$972.8	$787.0	$1,845.2	$1,402.2
Other revenues	15.3	14.7	29.4	25.2
Total revenues	988.1	801.7	1,874.6	1,427.4
Operating costs and expenses				
Cost of sales (excludes amortization of acquired intangible assets)	174.5	168.2	333.9	265.5
Selling, general and administrative	437.8	337.5	827.2	611.4
Research and development	155.0	140.3	365.7	809.7
Amortization of acquired intangible assets	29.0	24.8	57.4	29.9
Restructuring charges	10.1	5.7	13.3	8.5
Operating income (loss)	181.7	125.2	277.1	(297.6)
Non-operating income (expense)				
Interest income	14.8	12.3	30.2	21.5
Interest expense	(17.5)	(20.5)	(36.0)	(28.3)
Unrealized loss on derivative instruments, net	(0.4)	(0.2)	(1.7)	(1.2)
Gain on investments				0.2
Other, net	(4.3)	(4.5)	(5.4)	(5.4)
	(7.4)	(12.9)	(12.9)	(13.2)
Earnings (loss) before income taxes and minority interest	174.3	112.3	264.2	(310.8)
Provision for income taxes	36.0	37.8	82.2	59.7
Minority interest expense	0.5	0.3	0.4	0.1
Net earnings (loss)	$137.8	$ 74.2	$ 181.6	$ (370.6)
Earnings (loss) per share:				
Basic	$ 0.45	$ 0.25	$ 0.60	$ (1.30)

Diluted	$ 0.45	$ 0.24	$ 0.59	$ (1.30)

See accompanying notes to unaudited condensed consolidated financial statements.

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Allergan, Inc.
Unaudited Condensed Consolidated Balance Sheets
(in millions, except share data)

	June 29, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and equivalents	$1,228.6	$1,369.4
Trade receivables, net	468.2	386.9
Inventories	202.2	168.5
Other current assets	232.0	205.5
Total current assets	2,131.0	2,130.3
Investments and other assets	165.4	148.2
Property, plant and equipment, net	639.1	611.4
Goodwill	1,955.1	1,833.6
Intangibles, net	1,127.8	1,043.6
Total assets	$6,018.4	$5,767.1
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 40.6	$ 102.0
Accounts payable	194.3	142.4
Accrued compensation	109.4	124.8
Other accrued expenses	265.3	235.2
Income taxes		53.7
Total current liabilities	609.6	658.1
Long-term debt	817.4	856.4
Long-term convertible notes	750.0	750.0
Deferred tax liabilities	129.5	84.8
Other liabilities	326.6	273.2
Commitments and contingencies		
Minority interest	1.7	1.5
Stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 500,000,000 shares; issued 307,512,000 shares as of June 29, 2007 and December 31, 2006	3.1	3.1
Additional paid-in capital	2,394.7	2,358.0
Accumulated other comprehensive loss	(110.8)	(127.4)
Retained earnings	1,187.7	1,065.7
	3,474.7	3,299.4
	(91.1)	(156.3)

Less treasury stock, at cost (1,645,000 shares as of June 29, 2007 and 2,974,000 shares as of December 31, 2006, respectively)		
Total stockholders equity	3,383.6	3,143.1
Total liabilities and stockholders equity	$6,018.4	$5,767.1

See accompanying notes to unaudited condensed consolidated financial statements.

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Allergan, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in millions)

	Six months ended	
	June 29, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	$ 181.6	$ (370.6)
Non-cash items included in net earnings (loss):		
In-process research and development charge	72.0	579.3
Depreciation and amortization	102.5	65.7
Settlement of a pre-existing distribution agreement in a business combination	2.3	
Amortization of original issue discount and debt issuance costs	2.3	7.6
Amortization of net realized gain on interest rate swap	(0.4)	(0.3)
Deferred income tax benefit	(27.3)	(13.7)
Loss on disposal of fixed assets and investments	3.3	3.4
Unrealized loss on derivative instruments	1.7	1.2
Expense of share-based compensation plans	41.2	32.0
Minority interest expense	0.4	0.1
Restructuring charge	13.3	8.5
Changes in assets and liabilities:		
Trade receivables	(54.3)	(32.3)
Inventories	(9.9)	16.9
Other current assets	(9.1)	4.4
Other non-current assets	(8.2)	(1.0)
Accounts payable	40.0	8.4
Accrued expenses	1.1	(10.0)
Income taxes	(30.7)	4.5
Other liabilities	9.0	18.2
Net cash provided by operating activities	330.8	322.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(313.0)	(1,328.3)
Additions to property, plant and equipment	(49.0)	(49.3)
Additions to capitalized software	(10.3)	(9.0)
Additions to intangible assets	(5.0)	(11.0)
Proceeds from sale of property, plant and equipment	8.9	3.2
Proceeds from sale of investments		0.3
Net cash used in investing activities	(368.4)	(1,394.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends to stockholders	(30.3)	(28.3)
Debt issuance costs		(19.3)
Repayments of convertible borrowings		(521.9)

Payments to acquire treasury stock	(61.7)	(307.8)
Net repayments of notes payable	(107.4)	(110.5)
Bridge credit facility borrowings		825.0
Bridge credit facility repayments		(825.0)
Proceeds from issuance of senior notes		797.7
Proceeds from issuance of convertible senior notes		750.0
Sale of stock to employees	83.8	79.0
Net proceeds from settlement of interest rate swap		13.0
Excess tax benefits from share-based compensation	12.4	15.0
Net cash (used in) provided by financing activities	(103.2)	666.9
Effect of exchange rate changes on cash and equivalents		3.8
Net decrease in cash and equivalents	(140.8)	(401.1)
Cash and equivalents at beginning of period	1,369.4	1,296.3
Cash and equivalents at end of period	$1,228.6	$ 895.2
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of capitalization)	$ 32.3	$ 9.4
Income taxes, net of refunds	$ 125.7	$ 73.4

On February 22, 2007, the Company completed the acquisition of EndoArt SA for approximately $97.1 million in cash, net of cash acquired. In connection with the EndoArt SA acquisition, the Company acquired assets with a fair value of $101.9 million and assumed liabilities of $4.8 million.

On January 2, 2007, the Company completed the acquisition of Groupe Cornéal Laboratoires for $215.9 million in cash, net of cash acquired. In connection with the Groupe Cornéal Laboratoires acquisition, the Company acquired assets with a fair value of $288.6 million and assumed liabilities of $79.4 million.

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, based on a final measurement of the purchase price as of December 31, 2006.

See accompanying notes to unaudited condensed consolidated financial statements.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2006. The Company prepared the condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the three and six month periods ended June 29, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or any other period(s).

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation. Beginning with the second fiscal quarter of 2006, the Company reports amortization of acquired intangible assets on a separate line in its statements of operations. Previously, amortization of intangible assets was reported in cost of sales, selling, general and administrative expenses, and research and development (R&D) expenses. Intangible asset amortization for the six month period ended June 30, 2006 includes a total reclassification of $5.1 million, representing the reclassification of $4.3 million, $0.1 million and $0.7 million from cost of sales, selling, general and administrative expenses, and research and development expenses, respectively, previously reported for the three month period ended March 31, 2006.

Common Stock Split

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

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

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (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 the recognition of the over-funded or under-funded status of a defined benefit pension and other postretirement plan as an asset or liability in the balance sheet, the recognition of changes in that funded status through other comprehensive income in the year in which the changes occur, and the measurement of a plan s assets and obligations that determine its funded status as of the end of the employer s fiscal year. The Company adopted the balance sheet recognition and reporting provisions of SFAS No. 158 during the 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.

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. Historically, the Company s policy has been to account for uncertainty in income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, which considered whether the tax benefit from an uncertain tax position was probable of being sustained. Under FIN 48,

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

the tax benefit from uncertain tax positions may be recognized only if it is more likely than not that the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. After initial adoption of FIN 48, 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 carryovers are recognized only for tax positions that meet the more likely than not recognition criteria. Additionally, recognition and derecognition of tax benefits from uncertain tax positions are recorded as discrete tax adjustments in the first interim period that the more likely than not threshold is met. The Company adopted FIN 48 as of the beginning of the first quarter of 2007, which resulted in an increase to total income taxes payable of $2.8 million and interest payable of $0.5 million and a decrease to total deferred tax assets of $1.0 million and beginning retained earnings of $4.3 million. In addition, the Company reclassified $27.0 million of net unrecognized tax benefit liabilities from current to non-current liabilities.

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 an entity s first fiscal year that begins after September 15, 2006. The Company adopted the provisions of SFAS No. 155 in the first fiscal quarter of 2007. The adoption did not have a material effect on the Company s consolidated financial statements.

New Accounting Standards Not Yet Adopted

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

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which allows an entity to voluntarily choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007, which will be the Company s fiscal year 2008. The Company has not yet evaluated the potential impact of adopting SFAS No. 159 on the Company s 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 will be the Company s fiscal year 2008. The Company has not yet evaluated the potential impact of adopting SFAS No. 157 on the Company s consolidated financial statements.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Note 2: Acquisitions

Cornéal Acquisition

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

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

	(in millions)
Cash consideration, net of cash acquired	$212.0
Transaction costs	3.9
Cash paid	215.9
Less relief from a previously existing third-party payable	(4.4)
Less settlement of a pre-existing distribution agreement	(2.3)
	$209.2

Purchase Price Allocation

The Cornéal purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The goodwill acquired in the Cornéal acquisition is not deductible for tax purposes.

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

	(in millions)
Current assets	$ 40.0
Property, plant and equipment	19.8
Identifiable intangible assets	115.7
Goodwill	111.6
Other non-current assets	1.5
Accounts payable and accrued liabilities	(19.3)
Current portion of long-term debt	(11.6)
Deferred tax liabilities non-current	(45.9)
Other non-current liabilities	(2.6)
	$209.2

The Company s fair value estimates for the Cornéal 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 Cornéal acquisition, the Company determined that the research and development efforts related to Cornéal products did not give rise to identifiable in-process research and development assets with anticipated future economic value that could be reasonably estimated.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Identifiable Intangible Assets

Acquired identified intangible assets include product rights for approved indications of currently marketed products, core technology and trademarks. The amount 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	$ 72.4	8.3 years
Core technology	39.4	13.0 years
Trademarks	3.9	9.5 years
	$ 115.7	

Acquired developed technology assets primarily consist of the following currently marketed Cornéal products:

		Value of Intangible Assets Acquired (in millions)
Juvéderm	worldwide	$ 56.1
Surgiderm®	worldwide	13.1
Other		3.2
		$ 72.4

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 among the United States, the European Union, Canada, Australia, and the rest of the world, which were the markets used to originally value the intangible assets.

The Company determined that the Cornéal assets acquired included proprietary technology which has alternative future use in the development of aesthetics products. These assets were separately valued and capitalized as core technology. Trademarks acquired are primarily related to *Juvéderm* and *Surgiderm*®.

Goodwill

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

Control over the Manufacturing Process and Future Development. The acquisition will allow the Company to control product quality and availability and to gain additional expertise and intellectual property to further develop the next generation of dermal fillers.

Expanded Distribution Rights. The Company has expanded its exclusive distribution rights for *Juvéderm* from the United States, Canada and Australia to all countries worldwide.

Enhanced Product Mix. The complementary nature of the Company s facial aesthetics products with those of Cornéal should benefit current customers of both companies.

Operating Efficiencies. The combination of the Company and Cornéal provides the opportunity for product cost savings due to manufacturing efficiencies.

The Company believes that these primary factors support the amount of goodwill recognized as a result of the purchase price paid for Cornéal in relation to other acquired tangible and intangible assets.

Effective July 2, 2007, the Company completed the sale of the ophthalmic surgical devices business that it acquired as a part of the Cornéal acquisition in January 2007.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

EndoArt SA Acquisition

On February 22, 2007, the Company completed the acquisition of EndoArt SA (EndoArt), a provider of telemetrically-controlled (or remote-controlled) implants used in the treatment of morbid obesity and other conditions. Under the terms of the purchase agreement, the Company acquired all of the outstanding capital stock of EndoArt for an aggregate purchase price of approximately $97.1 million, net of cash acquired. The acquisition consideration was all cash, funded from the Company s cash and equivalents balances.

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

	(in millions)
Cash consideration, net of cash acquired	$ 96.6
Transaction costs	0.5
	$ 97.1

Purchase Price Allocation

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

The Company believes the fair values assigned to the EndoArt 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	$ 0.8
Property, plant and equipment	0.7
Identifiable intangible assets	17.6
In-process research and development	72.0
Goodwill	10.8
Accounts payable and accrued liabilities	(0.8)
Deferred tax liabilities	(4.0)
	$ 97.1

The Company s fair value estimates for the EndoArt 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 EndoArt acquisition, the Company recorded an in-process research and development expense of $72.0 million related to EndoArt s *EASYBAND*® Remote Adjustable Gastric Band System in the United States, which had not received approval by the U.S. Food and Drug Administration (FDA) as of the EndoArt acquisition date of February 22, 2007 and had no alternative future use.

As of the EndoArt acquisition date, the *EASYBAND*® Remote Adjustable Gastric Band System was expected to be approved by the FDA in 2011. Additional research and development expenses needed prior to expected FDA approval are expected to range from $20 million to $25 million. This range represents management s best estimate as to the additional R&D expenses required to obtain FDA approval to market the product in the United States. 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 a discount rate of 28%. At the time of the EndoArt acquisition, material net cash inflows were estimated to begin in 2011.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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. No assurance can be given that the underlying assumptions used to forecast 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 and core technology. 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	$ 12.3	11.8 years
Core technology	5.3	15.8 years
Total	$ 17.6	

The acquired developed technology asset represents the *EASYBAND*® Remote Adjustable Gastric Band System, which has been approved in Europe and is pending approval in Australia. The Company determined that there are no substantive risks remaining in order to obtain approval in Australia.

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, Europe and Australia, which were used to originally value the intangible assets.

The Company determined that the EndoArt assets acquired included proprietary technology which has alternative future use in the development of remote adjustable gastric band products. 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.

Goodwill

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

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

Enhanced Product Mix. The complementary nature of the Company s obesity intervention products with those of EndoArt should benefit the Company s current target group of patients and customers and provide the Company with the ability to access new patients and physician customers.

The Company believes that these primary factors support the amount of goodwill recognized as a result of the purchase price paid for EndoArt, in relation to other acquired tangible and intangible assets, including in-process research and development.

The Company does not consider the acquisitions of Cornéal or EndoArt to be material business combinations, either individually or in the aggregate. Accordingly, the Company has not provided any supplemental *pro forma* operating results, which would not be materially different from historical financial statements.

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Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Inamed Acquisition

On March 23, 2006, the Company completed the acquisition of Inamed Corporation, 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, for approximately $3.3 billion, consisting of approximately $1.4 billion in cash and 34,883,386 shares of the Company s common stock.

In connection with the Inamed acquisition, the Company recorded a total in-process research and development expense of $579.3 million in 2006 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. The Company recorded a $562.8 million expense for in-process research and development during the first fiscal quarter of 2006 and an additional charge of $16.5 million during the second fiscal quarter of 2006. The acquired 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 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 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.

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

(in millions, except per share amounts)	Three months ended June 30, 2006	Six months ended June 30, 2006
Product net sales	$ 787.0	$ 1,501.6
Total revenues	$ 801.7	$ 1,526.8
Net earnings	$ 108.0	$ 211.3
Basic earnings per share	$ 0.36	$ 0.70
Diluted earnings per share	$ 0.35	$ 0.69

The *pro forma* information is not necessarily indicative of the actual results that would have been achieved had the acquisition occurred as of January 1, 2006, 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 Cornéal Operations

In connection with the January 2007 Cornéal acquisition, the Company initiated a restructuring and integration plan to merge the Cornéal facial aesthetics business operations with the Company s operations. Specifically, the restructuring and integration activities involve moving key business functions to Company locations, integrating Cornéal s distributor operations with the Company s existing distribution network and integrating Cornéal s information systems with the Company s information systems. The Company currently estimates that the total pre-tax charges resulting from the restructuring and integration of the Cornéal facial aesthetics business operations will be between $28.0 million and $34.0 million, consisting primarily of contract termination costs, salaries, travel and consulting costs, 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 26 positions, principally general and administrative positions at Cornéal locations. 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 $3.0 million to $5.0 million. Estimated charges include estimates for contract termination costs, including the termination of duplicative distribution arrangements. Contract termination costs are expected to total approximately $16.0 million to $20.0 million.

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The Company began to record costs associated with the restructuring and integration of the Cornéal facial aesthetics business in the first quarter of 2007 and expects to continue to incur costs up through and including the second quarter of 2008. During the three and six month periods ended June 29, 2007, the Company recorded pre-tax restructuring charges of $2.0 million associated with the termination of duplicative distribution arrangements. During the three and six month periods ended June 29, 2007, the Company recorded pre-tax integration and transition costs of $2.1 million and $5.6 million, respectively, as selling, general and administrative 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 $50.0 million and $61.0 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 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.

The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 60 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 end 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 $11.0 million to $13.0 million. Estimated charges include estimates for contract and lease termination costs, including the termination of duplicative distribution arrangements. Contract and lease termination costs are expected to total approximately $13.0 million to $17.0 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.

On January 30, 2007, the Company s Board of Directors approved an additional plan to restructure and eventually sell or close the collagen manufacturing facility in Fremont, California that the Company acquired in the Inamed acquisition. This plan is the result of a reduction in anticipated future market demand for human and bovine collagen products. In connection with the restructuring and eventual sale or closure of the collagen manufacturing facility, the Company estimates 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 the facility, that are expected to result in estimated total employee severance costs of approximately $1.5 million to $2.0 million. Estimated charges for contract and lease termination costs are expected to total approximately $4.5 million to $6.0 million. The Company began to record these costs in the first quarter of 2007 and expects to continue to incur them up through and including the fourth quarter of 2008. Prior to any closure or sale of the collagen manufacturing facility, the Company intends to manufacture a sufficient quantity of inventories of collagen products to meet estimated market demand through 2010.

As of June 29, 2007, the Company has recorded cumulative pre-tax restructuring charges of $23.7 million, cumulative pre-tax integration and transition costs of $24.3 million, and $1.6 million for income tax costs related to

intercompany transfers of trade businesses and net assets. The restructuring charges primarily consist of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and

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other costs related to the restructuring of the Inamed operations. The integration and transition costs primarily consist of salaries, travel, communications, recruitment and consulting costs. During the three and six month periods ended June 29, 2007, the Company recorded $7.1 million and $10.2 million, respectively, of restructuring charges. Integration and transition costs included in selling, general and administrative expenses were $1.7 million and $3.6 million for the three and six month periods ended June 29, 2007, respectively.

During the three and six month periods ended June 30, 2006, the Company recorded pre-tax restructuring charges of $1.7 million related to the restructuring of the Inamed operations. For the three month period ended June 30, 2006, the Company recorded $5.3 million of integration and transition costs associated with the Inamed integration, consisting of $0.4 million in cost of sales, $4.7 million in selling, general and administrative expenses and $0.2 million in research and development expenses. For the six month period ended June 30, 2006, the Company recorded $10.4 million of integration and transition costs associated with the Inamed integration, consisting of $0.5 million in cost of sales, $9.7 million in selling, general and administrative expenses and $0.2 million in research and development expenses.

The following table presents the cumulative restructuring activities related to the Inamed operations through June 29, 2007:

	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	4.0	4.9	8.9
Net charge during the six month period ended June 29, 2007	4.6	5.6	10.2
Spending	(3.1)	(8.3)	(11.4)
Balance at June 29, 2007 (included in Other accrued expenses)	$ 5.5	$ 2.2	$ 7.7

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 and commercial activities. Specifically, the restructuring involved moving key European research and development 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. As of December 31, 2006, the Company 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 second quarter and first six months of 2007, the Company recorded an additional $1.0 million of restructuring charges for an abandoned leased facility related to its European operations. During the three and six month periods ended June 30, 2006, the Company recorded $3.2 million and $6.1 million, respectively, of restructuring charges related to its European operations. As of June 29, 2007, remaining accrued expenses of

$6.9 million for restructuring charges related to the restructuring and streamlining of the Company s European operations are included in Other accrued expenses and Other liabilities in the amount of $3.2 million and $3.7 million, respectively.

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 in connection with the European restructuring activities. For the three month period ended June 30, 2006, the Company recorded $0.6 million of transition and duplicate operating expenses, consisting of $0.4 million in selling, general and administrative expenses and $0.2 million in research and development expenses. For the six

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month period ended June 30, 2006, the Company recorded $2.5 million of transition and duplicate operating expenses, consisting of $2.1 million in selling, general and administrative expenses and $0.4 million in research and development expenses. Additionally, during the six month period ended June 30, 2006, the Company recorded a $3.4 million loss related to the sale of its Mougins, France facility, which was included in selling, general and administrative expenses. There were no transition and duplicate operating expenses related to the restructuring and streamlining of the Company s European operations recorded in the first six months of 2007.

Other Restructuring Activities

Included in the first six months of 2007 are $0.1 million in restructuring charges related to the Company s February 2007 EndoArt acquisition. Included in the second quarter and first six months of 2006 are $0.8 million and $1.1 million, respectively, of restructuring charges related to the scheduled June 2005 termination of the Company s manufacturing and supply agreement with Advanced Medical Optics, which the Company spun-off in June 2002. Also included in the first six months of 2006 is a $0.4 million restructuring charge reversal related to the streamlining of the Company s operations in Japan.

Note 4: Intangibles and Goodwill

At June 29, 2007 and December 31, 2006, the components of amortizable and unamortizable intangibles and goodwill and certain other related information were as follows:

Intangibles

	June 29, 2007			December 31, 2006		
	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	$ 883.0	$ (72.3)	14.8	$ 796.4	$ (39.9)	15.4
Customer relationships	42.3	(17.2)	3.1	42.3	(10.3)	3.1
Licensing	154.5	(53.8)	8.0	149.4	(44.2)	8.0
Trademarks	27.8	(8.3)	7.0	23.5	(5.7)	6.5
Core technology	188.4	(17.5)	15.2	142.6	(11.4)	15.8
	1,296.0	(169.1)	13.5	1,154.2	(111.5)	13.9
Unamortizable Intangible Assets:						
Business licenses	0.9			0.9		
	$1,296.9	$(169.1)		$1,155.1	$(111.5)	

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, Cornéal and EndoArt acquisitions. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with the Inamed acquisition, primarily in the breast implant market in the United States. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of proprietary technology associated

with silicone breast implants and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Cornéal acquisition, gastric band technology acquired in connection with the EndoArt acquisition, and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc. The increase in developed technology, trademarks and core technology at June 29, 2007 compared to December 31, 2006 is primarily due to the Cornéal and EndoArt acquisitions. The increase in licensing assets is primarily due to a milestone payment incurred in 2007 related to expected annual *Restasis*® net sales.

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The following table provides amortization expense by major categories of acquired amortizable intangible assets for the three and six month periods ended June 29, 2007 and June 30, 2006, respectively:

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Developed technology	$16.4	$13.3	$32.4	$13.3
Customer relationships	3.4	3.4	6.8	3.4
Licensing	4.9	4.7	9.7	9.2
Trademarks	1.2	1.1	2.4	1.2
Core technology	3.1	2.3	6.1	2.8
	$29.0	$24.8	$57.4	$29.9

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

Estimated amortization expense is $114.8 million for 2007, $113.2 million for 2008, $103.2 million for 2009, $98.8 million for 2010 and $92.4 million for 2011.

Goodwill

	June 29, 2007	December 31, 2006
	(in millions)	
Specialty Pharmaceuticals	$ 9.8	$ 9.4
Medical Devices	1,945.3	1,824.2
	$1,955.1	$1,833.6

Goodwill related to the Inamed, Cornéal and EndoArt acquisitions are reflected in the Medical Devices balance above.

Note 5: Inventories

Components of inventories were:

	June 29, 2007	December 31, 2006
	(in millions)	
Finished products	$119.6	$ 107.1
Work in process	35.9	31.2
Raw materials	46.7	30.2
Total	$202.2	$ 168.5

At June 29, 2007, approximately $11.2 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.

Note 6: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, research and development tax credits available in the United States and other jurisdictions, and deductions available in the United States for domestic production activities. The Company s effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions management uses to estimate the annual effective tax rate, including factors such as the Company s mix of pre-tax earnings in the various tax jurisdictions in which it operates, valuation allowances against deferred tax assets, the recognition or derecognition

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of tax benefits related to uncertain tax positions, utilization of research and development tax credits and changes in or the interpretation of tax laws in jurisdictions where the Company conducts operations. The Company recognizes interest on income taxes payable as interest expense and penalties related to income taxes payable as income tax expense in its consolidated statements of operations. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and 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 deferred tax assets, its provision for income taxes will increase or decrease, respectively, in the period such determination is made.

Valuation allowances against deferred tax assets were $26.3 million and $20.8 million at June 29, 2007 and December 31, 2006, respectively. Changes in the valuation allowances are generally a component of the estimated annual effective tax rate. The increase in the amount of valuation allowances at June 29, 2007 compared to December 31, 2006 is primarily due to the EndoArt acquisition.

In the first fiscal quarter of 2007, the Company adopted FIN 48, which resulted in an increase in total income taxes payable of $2.8 million and interest payable of $0.5 million and a decrease in total deferred tax assets of $1.0 million and beginning retained earnings of $4.3 million. In addition, the Company reclassified $27.0 million of net unrecognized tax benefit liabilities from current to non-current liabilities. The Company s total unrecognized tax benefit liabilities recorded under FIN 48 as of the date of adoption were $61.7 million, including $37.1 million of uncertain tax positions that were previously recognized as income tax expense and $18.7 million relating to uncertain tax positions of acquired subsidiaries that existed at the time of acquisition. Total interest accrued on income taxes payable was $7.6 million as of the date of adoption and no income tax penalties were recorded. There have been no material changes in these balances as of June 29, 2007.

The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities related to research credits, AMT credits and transfer pricing will decrease by approximately $25.9 million due to the settlement of a U.S. Internal Revenue Service (IRS) tax audit.

The following tax years remain subject to examination:

Major Jurisdictions	Open Years	
U.S. Federal	2003	2005
California	2000	2005
Brazil	2001	2005
Canada	2000	2005
France	2004	2005
Germany	2002	2005
Italy	2002	2005
Ireland	2002	2005
Spain	2002	2005
United Kingdom	2004	2005

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 such operations, or such earnings will be offset by appropriate credits for foreign income taxes paid. 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. 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. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 7: Share-Based Compensation

The Company recognizes compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date using the Black-Scholes option-pricing model and the

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portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period using the straight-line single option method.

The determination of fair value using the Black-Scholes option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. The Company currently estimates stock price volatility based upon an equal weighting of the five year historical average and the average implied volatility of at-the-money options traded in the open market. The Company estimates employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, 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.

For the three and six month periods ended June 29, 2007 and June 30, 2006, share-based compensation expense was as follows:

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Cost of sales	$ 1.6	$ 1.3	$ 3.0	$ 2.4
Selling, general and administrative	13.6	11.5	27.7	21.8
Research and development	4.7	3.8	10.5	7.8
Pre-tax share-based compensation expense	19.9	16.6	41.2	32.0
Income tax benefit	7.0	5.9	14.7	11.5
Net share-based compensation expense	$12.9	$10.7	$26.5	$20.5

As of June 29, 2007, total compensation cost related to non-vested stock options and restricted stock not yet recognized was $144.5 million, which is expected to be recognized over the next 48 months (34 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.

Note 8: Employee Retirement and Other Benefit Plans

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

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Components of net periodic benefit cost for the three and six month periods ended June 29, 2007 and June 30, 2006, respectively, were as follows:

	Three months ended			
	Pension Benefits		Other Postretirement Benefits	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Service cost	$ 6.3	$ 5.7	$ 0.7	$ 0.7
Interest cost	7.8	6.8	0.5	0.4
Expected return on plan assets	(9.3)	(8.1)		
Amortization of prior service cost			(0.2)	(0.1)
Plans acquired in business combination	(0.9)			
Recognized net actuarial loss	2.9	3.3		
Net periodic benefit cost	$ 6.8	$ 7.7	$ 1.0	$ 1.0

	Six months ended			
	Pension Benefits		Other Postretirement Benefits	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Service cost	$ 12.6	$ 11.4	$ 1.4	$ 1.5
Interest cost	15.6	13.6	1.0	0.9
Expected return on plan assets	(18.6)	(16.2)		
Amortization of prior service cost			(0.4)	(0.3)
Plans acquired in business combination	0.5			
Recognized net actuarial loss	5.8	6.5		
Net periodic benefit cost	$ 15.9	$ 15.3	$ 2.0	$ 2.1

In the six months ended June 29, 2007, the Company recorded $0.5 million in pension expense to recognize the pension liability of two non-U.S. defined benefit pension plans acquired in connection with the Inamed acquisition that were determined to be material during the period. In 2007, the Company expects to contribute between $20.0 million and $21.0 million to its U.S. and non-U.S. pension plans and between $0.8 million and $0.9 million to its other postretirement plan.

Note 9: Litigation

The following supplements and amends the discussion set forth under Part I, Item 3, Legal Proceedings in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 and Part II, Item 1, Legal Proceedings in the Company s Quarterly Report on Form 10-Q for the period ended March 30, 2007.

In June 2001, after receiving paragraph 4 invalidity and noninfringement Hatch-Waxman Act certifications from Apotex, Inc. indicating that Apotex had filed an Abbreviated New Drug Application (ANDA) with the FDA for a

generic form of *Acular*®, the Company and Roche Palo Alto, LLC, 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 (the 493 patent), 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. On April 9, 2007, the United States Court of Appeals for the Federal Circuit affirmed the district court s ruling in all respects

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and on April 17, 2007 entered a Judgment Per Curiam. On May 3, 2007, Apotex filed a Motion to Recall and Stay the Mandate and a Combined Petition for Panel Rehearing and Rehearing En Banc with the United States Court of Appeals for the Federal Circuit. On June 5, 2007, the United States Court of Appeals for the Federal Circuit denied Apotex s motions. On July 9, 2007, Apotex filed a Petition for Writ of Certiorari in the Supreme Court of the United States. In June 2001, the Company filed a separate lawsuit in Canada against Apotex similarly relating to a generic version of *Acular*®. On April 27, 2007, the court set a trial date in the Canadian lawsuit for February 2, 2009.

In May 2005, after receiving a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex indicating that Apotex had filed an ANDA with the FDA for a generic form of *Acular LS*®, the Company and Roche Palo Alto, LLC, formerly known as Syntex (U.S.A.) LLC, the holder of the 493 patent, filed a lawsuit entitled Roche Palo Alto LLC, formerly known as 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. In the complaint, the Company and Roche asked the court to find that the 493 patent is valid, enforceable and infringed by Apotex s proposed generic drug. Apotex filed an answer to the complaint and a counterclaim against the Company and Roche. On July 30, 2007, the Company and Roche moved for summary judgment, which motion will be heard by the court on August 31, 2007.

In February 2007, the Company received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Exela PharmSci, Inc. indicating that Exela had filed an ANDA with the FDA for a generic form of *Alphagan*® *P*. In the certification, Exela contends that U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, all of which are assigned to the Company and are listed in the Orange Book under *Alphagan*® *P*, are invalid and/or not infringed by the proposed Exela product. In March 2007, the Company filed a complaint against Exela in the United States District Court for the Central District of California entitled Allergan, Inc. v. Exela PharmSci, Inc., et al. (the Exela Action). In its complaint, the Company alleges that Exela s proposed product infringes U.S. Patent No. 6,641,834. In April 2007, the Company filed an amended complaint adding Paddock Laboratories, Inc. and PharmaForce, Inc. as defendants. In April 2007, Exela filed a complaint for declaratory judgment in the United States District Court for the Eastern District of Virginia, Alexandria Division, entitled Exela PharmSci, Inc. v. Allergan, Inc. Exela s complaint seeks a declaration of noninfringement, unenforceability, and/or invalidity of U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337. In June 2007, Exela filed a voluntary dismissal without prejudice in the Virginia action.

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

In May 2007, the Company filed a motion with the multidistrict litigation panel to consolidate the Exela Action and the Apotex Action in the District of Delaware. In June 2007, Exela and Apotex filed their responses and oppositions to the motion. A hearing on the Company s motion took place on July 26, 2007 and the court took the matter under advisement.

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

In connection with its purchase of Collagen Aesthetics, Inc. (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

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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, 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 38 Spanish Trilucent explantees. To date, approximately 65 women in Spain have commenced individual legal proceedings in court against Inamed, of which approximately 9 were still pending as of July 31, 2007. 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 June 29, 2007, the Company had an accrual for future Trilucent claims, costs, and expenses of $2.8 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

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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. A mediation was held on June 19, 2007, at which time the parties reached a settlement and entered into a confidential settlement agreement. On June 29, 2007, the court dismissed the matter.

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 10: 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, among other things, the Company has agreed to indemnify such directors and executive officers against any payments they are required to make as a result of a claim brought against such executive officer or director in such capacity, excluding claims (i) relating to the action or inaction of a director or executive officer that resulted in such director or executive officer gaining personal profit or advantage, (ii) for an accounting of profits made from the purchase or sale of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934 or similar provisions of any state law or (iii) that are based upon or arise out of such director s or executive officer s knowingly fraudulent, deliberately dishonest or willful misconduct. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors and officers liability insurance policies intended to reduce the Company s monetary exposure and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification arrangements is minimal.

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators in its drug 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

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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.

Note 11: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe, and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities on the Company s consolidated balance sheet. The U.S. programs include the *ConfidencePlus* and *ConfidencePlus* Premier warranty programs. The *ConfidencePlus* program currently provides lifetime product replacement and $1,200 of financial assistance for surgical procedures within ten years of implantation. The *ConfidencePlus* Premier program, which 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 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 June 29, 2007:

	(in millions)
Balance at December 31, 2006	$ 24.8
Provision for warranties issued during the period	3.0
Settlements made during the period	(2.4)
Balance at June 29, 2007	$ 25.4
Current portion	$ 6.2
Non-current portion	19.2
Total	$ 25.4

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Note 12: Earnings Per Share

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

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions, except per share amounts)			
Net earnings (loss)	$137.8	$ 74.2	$181.6	$(370.6)
Weighted average number of shares issued	304.7	300.0	304.3	285.1
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	3.5	2.8	3.5	
Dilutive effect of assumed conversion of convertible notes outstanding		1.7		
Diluted shares	308.2	304.5	307.8	285.1
Earnings (loss) per share:				
Basic	$ 0.45	$ 0.25	$ 0.60	$ (1.30)
Diluted	$ 0.45	$ 0.24	$ 0.59	$ (1.30)

For the three and six month periods ended June 29, 2007, options to purchase 6.1 million and 8.8 million shares of common stock at exercise prices ranging from $49.94 to $63.76 and $48.07 to $63.76 per share, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

For the three month period ended June 30, 2006, options to purchase 6.7 million shares of common stock at exercise prices ranging from $37.64 to $63.76 per share were outstanding, but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. Stock options outstanding during the six month period ended June 30, 2006 were not included in the computation of diluted earnings per share because the Company incurred a loss from continuing operations and, as a result, the impact would be antidilutive. Options to purchase 23.2 million shares of common stock at exercise prices ranging from $6.50 to $63.76 per share were outstanding as of June 30, 2006. Additionally, for the six month period ended June 30, 2006, the effect of approximately 3.3 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 continuing operations and, as a result, the impact would be antidilutive.

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Note 13: Comprehensive Income (Loss)

The following table summarizes the components of comprehensive income (loss) for the three and six month periods ended June 29, 2007 and June 30, 2006:

	Three months ended					
(in millions)	June 29, 2007			June 30, 2006		
	Before-tax Amount	Tax Benefit	Net-of-tax Amount	Before-tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
Foreign currency translation adjustments	$ 4.3	$	$ 4.3	$10.3	$	$10.3
Deferred holding gains on derivatives designated as cash flow hedges				0.4	(0.1)	0.3
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.4)	0.2	(0.2)	(0.3)	0.1	(0.2)
Unrealized holding loss on available-for-sale securities	(0.7)	0.2	(0.5)	(4.5)	1.8	(2.7)
Other comprehensive income	$ 3.2	$0.4	3.6	$ 5.9	$ 1.8	7.7
Net earnings			137.8			74.2
Total comprehensive income			$141.4			$81.9

	Six months ended					
(in millions)	June 29, 2007			June 30, 2006		
	Before-tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount	Before-tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
Foreign currency translation adjustments	$15.6	$	$ 15.6	$13.8	$	$ 13.8
Deferred holding gains on derivatives designated as cash flow hedges				13.0	(5.1)	7.9
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.7)	0.3	(0.4)	(0.3)	0.1	(0.2)
Unrealized holding gain (loss) on available-for-sale securities	2.4	(1.0)	1.4	(1.0)	0.4	(0.6)

Other comprehensive income	$17.3	$(0.7)	16.6	$25.5	$(4.6)	20.9
Net earnings (loss)			181.6			(370.6)
Total comprehensive income (loss)			$198.2			$(349.7)

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. Due to the Inamed acquisition, beginning with the second fiscal quarter of 2006, the Company operates its 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 cosmetic indications. The medical devices segment produces breast implants for aesthetic augmentation and reconstructive surgery; facial aesthetics products; the *LAP-BAND*® System designed to treat severe and morbid obesity and the *BIB* System for the treatment of obesity; and ophthalmic surgical devices. 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, Cornéal and EndoArt acquisitions and certain other adjustments, which are not allocated to the Company s segments for performance assessment by the Company s chief operating decision maker. Other adjustments excluded from the Company s segments for 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

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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

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Product net sales:				
Specialty pharmaceuticals	$765.5	$658.7	$1,462.9	$1,273.9
Medical devices	207.3	128.3	382.3	128.3
Total product net sales	972.8	787.0	1,845.2	1,402.2
Other corporate and indirect revenues	15.3	14.7	29.4	25.2
Total revenues	$988.1	$801.7	$1,874.6	$1,427.4

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Operating income (loss):				
Specialty pharmaceuticals	$251.5	$208.2	$474.1	$ 406.3
Medical devices	56.2	51.9	110.8	51.9
Total segments	307.7	260.1	584.9	458.2
General and administrative expenses, other indirect costs and other adjustments	92.4	93.2	176.0	148.5
In-process research and development		16.5	72.0	579.3
Amortization of acquired intangible assets (a)	23.5	19.5	46.5	19.5
Restructuring charges	10.1	5.7	13.3	8.5
Total operating income (loss)	$181.7	$125.2	$277.1	$(297.6)

(a) Represents amortization of identifiable intangible assets related to the Inamed, Cornéal and EndoArt acquisitions.

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 64.6% and 67.2% of the Company s total consolidated product net sales for the three month periods ended June 29, 2007 and June 30, 2006, respectively, and 65.1% and 67.3% of the Company s total consolidated product net sales for the six month periods ended June 29, 2007 and June 30, 2006, 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 McKesson Drug Company for the three month periods ended June 29, 2007 and June 30, 2006 were 10.9% and 12.6% of the Company s total consolidated product net sales, respectively, and 11.2% and 14.2% of the Company s total consolidated product net sales for the six month periods ended June 29, 2007 and June 30, 2006, respectively. Sales to Cardinal Healthcare for the three month periods ended June 29, 2007 and June 30, 2006 were 10.1% and 12.0% of the Company s total consolidated product net sales, respectively, and 11.2% and 13.2% of the Company s total consolidated product net sales for the six month periods ended June 29, 2007 and June 30, 2006, respectively. No other country or single customer generates over 10% of total product net sales. 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.

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Long-lived assets are assigned to geographic regions based upon management responsibility for such items.

Product Net Sales by Product Line

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	$431.4	$379.2	$ 834.4	$ 741.1
Botox®/Neuromodulators	307.4	248.4	575.3	471.4
Skin Care	26.7	31.1	53.2	61.4
Total Specialty Pharmaceuticals	765.5	658.7	1,462.9	1,273.9
Medical Devices:				
Breast Aesthetics	78.9	64.6	148.1	64.6
Obesity Intervention	68.9	45.8	121.9	45.8
Facial Aesthetics	49.3	17.9	92.3	17.9
Core Medical Devices	197.1	128.3	362.3	128.3
Ophthalmic Surgical Devices	10.2		20.0	
Total Medical Devices	207.3	128.3	382.3	128.3
Total product net sales	$972.8	$787.0	$1,845.2	$1,402.2

Geographic Information

Product Net Sales by Geographic Region

	Three months ended		Six months ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
	(in millions)		(in millions)	
United States (a)	$626.8	$527.5	$1,198.1	$ 942.0
Europe	206.2	149.9	389.4	262.2
Latin America	52.6	39.3	98.4	75.6
Asia Pacific	48.1	38.9	88.4	66.9
Other	37.2	30.4	67.7	54.3
	970.9	786.0	1,842.0	1,401.0
Manufacturing operations (a)	1.9	1.0	3.2	1.2
Total product net sales	$972.8	$787.0	$1,845.2	$1,402.2

(a)

As a result of integrating and merging the acquired Inamed operations, amounts reported in the three and six month periods ended June 30, 2006 reflect certain reclassifications between United States and manufacturing operations, compared to amounts previously reported in the Company s notes to its unaudited condensed consolidated financial statements for the three and six month periods ended June 30, 2006.

Long-Lived Assets

	June 29, 2007	December 31, 2006
	(in millions)	
United States	$2,935.1	$2,986.4
Europe	293.8	16.0
Latin America	20.7	18.7
Asia Pacific	6.9	6.6
Other	0.2	0.2
	3,256.7	3,027.9
Manufacturing operations	296.0	279.8
General corporate	212.0	215.3
Total	$3,764.7	$3,523.0

The increase in long-lived assets at June 29, 2007 compared to December 31, 2006 was primarily due to the Company s 2007 Cornéal and EndoArt acquisitions. Long-lived assets related to the Cornéal and EndoArt acquisitions, including goodwill and intangible assets, are reflected in the Europe balance above. Goodwill and intangible assets

related to the Inamed acquisition are reflected in the United States balance above.

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ALLERGAN, INC.

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

This financial review presents our operating results for the three and six month periods ended June 29, 2007 and June 30, 2006, and our financial condition at June 29, 2007. 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 the caption Risk Factors in Item 1A of Part II below. The following review should be read in connection with the information presented in our unaudited condensed consolidated financial statements and related notes for the three and six month periods ended June 29, 2007 and our audited consolidated financial statements and related notes for the year ended December 31, 2006.

Critical Accounting Policies

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 $2.1 million and $2.3 million at June 29, 2007 and December 31, 2006, respectively. Provisions for cash discounts deducted from consolidated sales in the second quarter of 2007 and the second quarter of 2006 were $8.3 million and $7.7 million, respectively. Provisions for cash discounts deducted from consolidated sales in the first six months of 2007 and the first six months of 2006 were $16.5 million and $15.1 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. 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 June 29, 2007 and December 31, 2006 were $26.2 million and $20.1 million, respectively. Provisions for sales returns deducted from consolidated sales were $80.6 million and $50.3 million in the second quarter of 2007 and the second quarter of 2006, respectively. Provisions for sales returns deducted from consolidated sales were $151.7 million and $58.0 million in the first six months of 2007 and the first six months of 2006, respectively. The increase in the allowance for sales returns at June 29, 2007 compared to December 31, 2006 and the increase in the provision for sales returns in the second quarter and first six months of 2007 compared to the second quarter and first six months of 2006 were primarily due to growth in net sales of 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

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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 at June 29, 2007 and December 31, 2006 were $76.0 million and $71.2 million, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $52.6 million and $108.1 million in the second quarter and first six months of 2007, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $39.9 million and $93.1 million in the second quarter and first six months of 2006, respectively. The $4.8 million increase in the amounts accrued for sales rebates and other incentive programs at June 29, 2007 compared to December 31, 2006 is primarily due to a difference in the timing of when payments were made against accrued amounts at June 29, 2007 compared to December 31, 2006, and an increase in the ratio of 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 each of 2007 and 2006, 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 $4.0 million to $5.0 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 indicating that a separate earnings process has not been completed.

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 2007, which is the same rate used for 2006. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. pension plans were 6.43% and 6.19% for 2007 and 2006, 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.

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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. Market conditions and other factors can vary over time and could significantly affect our estimates of the weighted average expected long-term rate of return on our 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 and our net periodic benefit costs for 2007 were 5.90% and 4.65%, respectively. The discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2006 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. Market conditions and other factors can vary over time and could significantly affect our estimates for the discount rates used to calculate our pension benefit obligations and net periodic pension benefit costs for future years. 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.

Share-Based Compensation

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

The determination of fair value using the Black-Scholes option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. We currently estimate stock price volatility based upon an equal weighting of the five 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.

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and we have applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will 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.

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, research and development (R&D) tax credits available in the United States and other jurisdictions, and deductions available in the United States for domestic production activities. 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, the recognition or derecognition of tax benefits related to uncertain tax positions, utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where we conduct business. 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 carryovers. 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 provision for income taxes will increase or decrease, respectively, in the period such

determination is made.

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Valuation allowances against our deferred tax assets were $26.3 million and $20.8 million at June 29, 2007 and December 31, 2006, 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 increase in the amount of valuation allowances at June 29, 2007 compared to December 31, 2006 is primarily due to our February 2007 acquisition of EndoArt SA, or EndoArt. 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.

In the first quarter of 2007, we adopted 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. Historically, our policy has been to account for uncertainty in income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, which considered whether the tax benefit from an uncertain tax position was probable of being sustained. Under FIN 48, the tax benefit from uncertain tax positions may be recognized only if it is more likely than not that the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. After initial adoption of FIN 48, 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 carryovers are recognized only for tax positions that meet the more likely than not recognition criteria. Additionally, recognition and derecognition of tax benefits from uncertain tax positions are recorded as discrete tax adjustments in the first interim period that the more likely than not threshold is met. Due to the inherit risks in the estimates and assumptions used in determining the sustainability of our tax positions and in the measurement of the related tax, our provision for income taxes and our effective tax rate may vary significantly from our estimates and from amounts reported in future or prior periods. We discuss this change in accounting principle and its effect on our consolidated financial statements in Note 6, *Income Taxes*, in the financial statements under Item 1(D) of Part I of this report.

Purchase Price Allocation

The purchase price allocation 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, 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 January 2, 2007, we acquired Groupe Cornéal Laboratoires, or Cornéal, for an aggregate purchase price of approximately $209.2 million, net of cash acquired. On February 22, 2007, we acquired EndoArt for an aggregate purchase price of approximately $97.1 million, net of cash acquired. The purchase prices for the acquisitions were allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition dates. 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. 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. We believe the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. However, the fair value estimates for the purchase price allocations may change during the allowable allocation period, which is up to one year from the acquisition dates, if

additional information becomes available.

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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, aesthetic-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 employ approximately 7,526 persons around the world. Our principal markets are the United States, Europe, Latin America and Asia Pacific.

Results of Operations

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 operate 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; the *LAP-BAND*® System designed to treat severe and morbid obesity and the *BIB* System for the treatment of obesity; and ophthalmic surgical devices. 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 ot