ALLERGAN INC
Form 10-Q
November 06, 2012

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 September 30, 2012

or

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

Commission File Number 1-10269
Allergan, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	95-1622442 (I.R.S. Employer Identification No.)
2525 Dupont Drive Irvine, California (Address of Principal Executive Offices)	92612 (Zip Code)
(714) 246-4500 (Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of October 31, 2012, there were 307,534,860 shares of common stock outstanding (including 7,033,964 shares held in treasury).

ALLERGAN, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012
INDEX

2

Table of Contents

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues:				
Product net sales	$1,391.1	$ 1,311.1	$4,224.2	$ 3,964.3
Other revenues	22.8	17.3	73.0	52.5
Total revenues	1,413.9	1,328.4	4,297.2	4,016.8
Operating costs and expenses:				
Cost of sales (excludes amortization of acquired intangible assets)	188.8	188.1	586.3	566.7
Selling, general and administrative	540.8	538.5	1,710.5	1,694.7
Research and development	293.3	221.3	750.3	676.4
Amortization of acquired intangible assets	33.2	31.9	98.1	95.6
Impairment of intangible assets and related costs	—	4.3	—	23.7
Restructuring charges (reversal)	3.8	(0.1)	4.7	4.6
Operating income	354.0	344.4	1,147.3	955.1
Non-operating income (expense):				
Interest income	1.9	1.8	4.8	5.6
Interest expense	(15.9)	(15.2)	(48.8)	(55.1)
Other, net	(9.2)	25.8	(19.3)	10.4
	(23.2)	12.4	(63.3)	(39.1)
Earnings before income taxes	330.8	356.8	1,084.0	916.0
Provision for income taxes	80.2	105.8	306.7	257.6
Net earnings	250.6	251.0	777.3	658.4
Net earnings attributable to noncontrolling interest	1.2	1.2	2.7	3.7
Net earnings attributable to Allergan, Inc.	$249.4	$ 249.8	$774.6	$ 654.7
Earnings per share attributable to Allergan, Inc. stockholders:				
Basic	$0.83	$ 0.82	$2.56	$ 2.15
Diluted	$0.82	$ 0.81	$2.52	$ 2.11

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net earnings	$250.6	$ 251.0	$777.3	$ 658.4
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	14.9	(80.8)	(2.1)	(30.5)
Reclassification adjustment for foreign currency translation gains included in net earnings from the substantially complete liquidation of an investment in a foreign subsidiary	—	—	—	(9.4)
Amortization of deferred holding gains on derivatives designated as cash flow hedges included in net earnings, net of tax benefit of $0.1 million for the three months ended September 30, 2012 and 2011, respectively, and $0.4 million for the nine months ended September 30, 2012 and 2011, respectively	(0.2)	(0.2)	(0.6)	(0.6)
Net gain on remeasurement of postretirement benefit plan liability, net of tax expense of $7.4 million	—	—	—	13.1
Other comprehensive income (loss)	14.7	(81.0)	(2.7)	(27.4)
Total comprehensive income	265.3	170.0	774.6	631.0
Comprehensive income (loss) attributable to noncontrolling interest	2.1	(1.1)	3.4	2.4
Comprehensive income attributable to Allergan, Inc.	$263.2	$ 171.1	$771.2	$ 628.6

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and equivalents	$ 2,655.0	$ 2,406.1
Short-term investments	279.9	179.9
Trade receivables, net	872.6	730.6
Inventories	265.1	249.7
Other current assets	463.2	482.0
Total current assets	4,535.8	4,048.3
Investments and other assets	191.7	247.1
Deferred tax assets	188.3	152.6
Property, plant and equipment, net	822.8	807.0
Goodwill	2,092.9	2,088.4
Intangibles, net	1,079.4	1,165.2
Total assets	$ 8,910.9	$ 8,508.6
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ 40.7	$ 83.9
Accounts payable	210.6	200.4
Accrued compensation	204.9	200.6
Other accrued expenses	596.2	470.1
Income taxes	2.5	—
Total current liabilities	1,054.9	955.0
Long-term debt	1,515.5	1,515.4
Other liabilities	746.2	705.8
Commitments and contingencies		
Equity:		
Allergan, Inc. stockholders' equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued	—	—
Common stock, $.01 par value; authorized 500,000,000 shares; issued 307,534,860 shares as of September 30, 2012 and 307,527,460 shares as of December 31, 2011	3.1	3.1
Additional paid-in capital	2,854.1	2,761.8
Accumulated other comprehensive loss	(244.8)	(241.4)
Retained earnings	3,602.9	2,969.3
	6,215.3	5,492.8
Less treasury stock, at cost (7,153,557 shares as of September 30, 2012 and 2,254,935 shares as of December 31, 2011)	(645.7)	(183.2)
Total stockholders' equity	5,569.6	5,309.6
Noncontrolling interest	24.7	22.8
Total equity	5,594.3	5,332.4
Total liabilities and equity	$ 8,910.9	$ 8,508.6

See accompanying notes to unaudited condensed consolidated financial statements.

5

Table of Contents

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Cash flows from operating activities:		
Net earnings	$777.3	$ 658.4
Non-cash items included in net earnings:		
Depreciation and amortization	191.4	189.4
Amortization of original issue discount and debt issuance costs	1.4	9.2
Amortization of net realized gain on interest rate swaps	(4.2)	(1.0)
Deferred income tax benefit	(40.6)	(50.8)
Loss (gain) on disposal and impairment of assets	5.0	(2.1)
Unrealized loss (gain) on derivative instruments	15.2	(12.0)
Expense of share-based compensation plans	79.7	64.3
Impairment of intangible assets	—	20.4
Expense from changes in fair value of contingent consideration	15.8	2.3
Restructuring charges	4.7	4.6
Gain on investments, net	—	(1.4)
Changes in operating assets and liabilities:		
Trade receivables	(151.1)	(81.7)
Inventories	(12.2)	(19.4)
Other current assets	(19.4)	(26.4)
Other non-current assets	46.5	(13.4)
Accounts payable	13.6	(32.1)
Accrued expenses	114.0	21.9
Income taxes	38.4	(37.9)
Other liabilities	24.5	9.2
Net cash provided by operating activities	1,100.0	701.5
Cash flows from investing activities:		
Purchases of short-term investments	(704.6)	(391.2)
Acquisitions, net of cash acquired	(3.1)	(98.9)
Additions to property, plant and equipment	(98.1)	(75.4)
Additions to capitalized software	(7.5)	(7.9)
Additions to intangible assets	(4.1)	(0.3)
Proceeds from maturities of short-term investments	604.7	1,073.9
Proceeds from sale of equity investments	—	1.4
Proceeds from sale of property, plant and equipment	1.3	1.1
Net cash (used in) provided by investing activities	(211.4)	502.7
Cash flows from financing activities:		
Repayments of convertible borrowings	—	(808.9)
Dividends to stockholders	(45.4)	(45.8)
Payments to acquire treasury stock	(723.3)	(374.0)
Payments of contingent consideration	(5.1)	(3.0)
Net (repayments) borrowings of notes payable	(43.1)	25.7

Sale of stock to employees	153.9	205.7
Excess tax benefits from share-based compensation	24.5	20.8
Net cash used in financing activities	(638.5)	(979.5)
Effect of exchange rate changes on cash and equivalents	(1.2)	(3.9)
Net increase in cash and equivalents	248.9	220.8
Cash and equivalents at beginning of period	2,406.1	1,991.2
Cash and equivalents at end of period	$2,655.0	$ 2,212.0
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest, net of amount capitalized	$39.9	$ 46.7
Income taxes, net of refunds	$261.3	$ 307.6

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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, 2011. The Company prepared the unaudited condensed consolidated financial statements following the requirements of the U.S. 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 nine month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or any other period(s).

Reclassifications

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

Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires an entity to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. This guidance became effective for fiscal years beginning after December 15, 2011. In December 2011, the FASB issued an accounting standards update that defers the presentation requirement for other comprehensive income reclassifications on the face of the financial statements. The Company adopted the provisions of the guidance in the first quarter of 2012 and elected to present items of net income and other comprehensive income in two separate but consecutive statements.

In May 2011, the FASB issued an accounting standards update that clarifies and amends the existing fair value measurement and disclosure requirements. This guidance became effective prospectively for interim and annual periods beginning after December 15, 2011. The Company adopted the provisions of the guidance in the first quarter of 2012. The adoption did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Adopted

In July 2012, the FASB issued an accounting standards update that gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. This guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, which will be the Company's fiscal year 2013, with early adoption permitted. The Company does not expect the adoption of the guidance will have a material impact on the Company's consolidated financial statements.

Note 2: Acquisitions and Collaborations

Purchase of Distributor's Business in Russia

On February 1, 2012, the Company terminated its existing distributor agreement in Russia and completed the purchase from its distributor of all assets related to the selling and distribution of the Company's products in Russia. The termination of the existing distributor agreement and purchase of the commercial assets enabled the Company to initiate direct operations for its medical aesthetics and neurosciences businesses in Russia.

The purchase of the commercial assets was accounted for as a business combination. In connection with the purchase of the assets, the Company paid $3.1 million, net of a $6.6 million pre-existing net receivable from the distributor, and is also required to pay additional contingent consideration based on certain contractual obligations of the former distributor over a two year period from the acquisition date. The estimated fair value of the contingent consideration as of the acquisition date was $4.7 million. The Company acquired assets with a fair value of $14.4 million, consisting of inventories of $2.0 million, intangible assets of $8.6

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

million and goodwill of $3.8 million. No liabilities were assumed in connection with the purchase. The intangible assets relate to customer relationships that have an estimated useful life of three years and other contractual rights that have an estimated useful life of two years. As of September 30, 2012, the total estimated fair value of the contingent consideration was $4.8 million, of which $2.9 million was included in "Other accrued expenses" and $1.9 million was included in “Other liabilities.”

Precision Light Acquisition

On August 8, 2011, the Company completed the acquisition of Precision Light, Inc. (Precision Light), a privately-held medical device company based in the United States focused on developing breast, facial and body imaging systems to simulate the outcome of aesthetic medical procedures, including breast surgery, for an upfront payment of $11.7 million, net of cash acquired. The Company is also required to pay additional contingent consideration based on the achievement of certain commercial milestones. The estimated fair value of the contingent consideration as of the acquisition date was $6.2 million. In connection with the acquisition, the Company acquired assets with a fair value of $28.0 million, consisting of an intangible asset of $20.2 million, non-current deferred tax assets of $1.2 million and goodwill of $6.6 million, and assumed liabilities of $10.1 million, consisting of current liabilities of $2.6 million and non-current deferred tax liabilities of $7.5 million. The intangible asset relates to distribution rights that have an estimated useful life of five years. As of September 30, 2012, the total estimated fair value of the contingent consideration was $6.8 million, of which $1.0 million was included in "Other accrued expenses" and $5.8 million was included in “Other liabilities.”

Vicept Acquisition

On July 22, 2011, the Company completed the acquisition of Vicept Therapeutics, Inc. (Vicept), a privately-held dermatology company based in the United States focused on developing a novel compound to treat erythema (redness) associated with rosacea, for an upfront payment of $74.1 million, net of cash acquired, plus up to an aggregate of $200.0 million in payments contingent upon achieving certain future development and regulatory milestones plus additional payments contingent upon acquired products achieving certain sales milestones. The estimated fair value of the contingent consideration as of the acquisition date was $163.0 million. In connection with the acquisition, the Company acquired assets with a fair value of $343.8 million, consisting of an in-process research and development asset of $287.0 million, non-current deferred tax assets of $7.6 million and goodwill of $49.2 million, and assumed liabilities of $106.7 million, consisting of current liabilities of $2.3 million and non-current deferred tax liabilities of $104.4 million. As of September 30, 2012, the total estimated fair value of the contingent consideration of $174.2 million was included in “Other liabilities.”

Purchase of Distributor’s Business in South Africa

On July 1, 2011, the Company terminated its existing distributor agreement in South Africa and completed the purchase from its distributor of all assets related to the selling and distribution of the Company’s products in South Africa. The termination of the existing distributor agreement and purchase of the commercial assets enabled the Company to initiate direct operations in South Africa.

The purchase of the commercial assets was accounted for as a business combination. In connection with the purchase of the assets, the Company paid $8.6 million, net of a $2.2 million pre-existing receivable from the distributor. The Company acquired assets with a fair value of $11.1 million, consisting of inventories of $5.6 million, an intangible asset of $3.9 million and goodwill of $1.6 million, and assumed accrued liabilities of $0.3 million. The intangible asset relates to distribution rights that have an estimated useful life of ten years.

Alacer Acquisition

On June 17, 2011, the Company completed the acquisition of Alacer Biomedical, Inc. (Alacer), a development stage medical device company focused on tissue reinforcement, for an aggregate purchase price of approximately $7.0 million, net of cash acquired. In connection with the acquisition, the Company acquired assets with a fair value of $12.3 million, consisting of intangible assets of $9.0 million, non-current deferred tax assets of $1.0 million and goodwill of $2.3 million, and assumed liabilities of $5.3 million, consisting of accrued liabilities of $2.0 million and

non-current deferred tax liabilities of $3.3 million.

The Company believes that the fair values assigned to the assets acquired, liabilities assumed and the contingent consideration liabilities were based on reasonable assumptions. The Company's fair value estimates may change during the allowable measurement period, which is up to one year from the acquisition date, if additional information becomes available. The Company does not consider the business combinations noted above to be material, either individually or in the aggregate.

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Molecular Partners AG Collaboration

On August 21, 2012, the Company announced that it entered into two separate agreements with Molecular Partners AG to discover, develop, and commercialize proprietary therapeutic DARPin® products for the treatment of serious ophthalmic diseases. The first agreement is an exclusive license agreement for the design, development and commercialization of a potent dual anti-VEGF-A/PDGF-B DARPin® (MP0260) and its corresponding backups for the treatment of exudative (wet) age-related macular degeneration and related conditions. The second agreement is an exclusive discovery alliance agreement under which the parties are collaborating to design and develop DARPin® products against selected targets that are implicated in causing serious diseases of the eye. Under the terms of the agreements, the Company made combined upfront payments of $62.5 million to Molecular Partners AG in August 2012, which were recorded as research and development (R&D) expense in the third quarter of 2012 because the technology has not yet achieved regulatory approval. The terms of the agreements also include potential future development, regulatory and sales milestone payments to Molecular Partners AG of up to $1.4 billion, as well as potential future royalty payments.

On May 4, 2011, the Company announced a license agreement with Molecular Partners AG pursuant to which the Company obtained exclusive global rights in the field of ophthalmology for MP0112, a Phase II proprietary therapeutic anti-VEGF DARPin® protein under investigation for the treatment of retinal diseases. Under the terms of the agreement, the Company made a $45.0 million upfront payment to Molecular Partners AG in May 2011, which was recorded as R&D expense in the second quarter of 2011 because the technology has not yet achieved regulatory approval. The terms of the agreement also include potential future development, regulatory and sales milestone payments to Molecular Partners AG of up to $375.0 million, as well as potential future royalty payments.

The Company has preliminarily determined that Molecular Partners AG qualifies under the business scope exception and is therefore not a variable interest entity (VIE).

MAP Collaboration

On January 28, 2011, the Company entered into a collaboration agreement and a co-promotion agreement with MAP Pharmaceuticals, Inc. (MAP) for the exclusive development and commercialization by the Company and MAP of Levadex® within the United States to certain headache specialist physicians for the acute treatment of migraine in adults, migraine in adolescents and other indications that may be approved by the parties. Levadex® is a self-administered, orally inhaled therapy consisting of a proprietary formulation of dihydroergotamine administered by using MAP's proprietary Tempo® delivery system. Under the terms of the agreements, the Company made a $60.0 million upfront payment to MAP in February 2011, which was recorded as selling, general and administrative (SG&A) expense in the first quarter of 2011. The terms of the agreements also include up to $97.0 million in additional payments to MAP upon MAP meeting certain development and regulatory milestones. In August 2011, the Company made a $20.0 million milestone payment to MAP for the U.S. Food and Drug Administration (FDA) acceptance of its New Drug Application for Levadex®, which was recorded as SG&A expense in the third quarter of 2011. The upfront and milestone payments were expensed because Levadex® has not yet achieved regulatory approval. If Levadex® receives FDA approval, the Company and MAP will equally share profits from sales of Levadex® generated from its commercialization to neurologists and pain specialists in the United States.

Other Collaborations

In March 2010, the Company and Serenity Pharmaceuticals, LLC (Serenity) entered into an agreement for the license, development and commercialization of a Phase III investigational drug currently in clinical development for the treatment of nocturia, a common urological disorder in adults characterized by frequent urination at night time. In conjunction with the agreement, the Company made an upfront payment to Serenity of $43.0 million. In December 2010, the Company and Serenity executed a letter agreement which specified terms and conditions governing additional development activities for a new Phase III trial which were not set forth in the original agreement. Under the letter agreement, the Company agreed to share 50% of the cost of additional development activities for the new Phase III trial. Since the Company is providing a significant amount of the funding for the new Phase III trial, it

determined that Serenity is a VIE. However, the Company determined that it is not the primary beneficiary of the VIE because it does not possess the power to direct Serenity’s research and development activities, which are the activities that most significantly impact Serenity’s economic performance. The Company’s maximum future exposure to loss is the Company's share of additional development activities.

As of September 30, 2012, the Company has potential future milestone receipts of approximately $459.0 million for the achievement of development, regulatory and sales milestones in connection with certain collaboration agreements, including $373.0 million related to a development and commercialization agreement that the Company entered into in 2010 with Bristol-Myers Squibb Company (Bristol-Myers Squibb) that granted Bristol-Myers Squibb exclusive worldwide rights to develop, manufacture

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

and commercialize an investigational drug for neuropathic pain. Due to the challenges associated with developing and obtaining approval for pharmaceutical products, there is substantial uncertainty whether any of the future milestones will be achieved. The Company evaluates whether milestone payments are substantive based on the facts and circumstances associated with each milestone payment.

Note 3: Restructuring Charges and Integration Costs

2012 Restructuring and Realignment Plan

In 2012, the Company initiated a restructuring and realignment plan to streamline the obesity intervention business and promote organizational efficiency. Specifically, the initiatives primarily involve eliminating a number of positions in the U.S. sales, R&D and support staff functions associated with the obesity intervention business, integrating several customer service departments into a single new call center in Austin, Texas and relocating certain other back-office functions to the Austin facility. As a result, in the third quarter of 2012, the Company recorded $4.0 million of restructuring charges, consisting of $3.9 million of employee severance and other one-time termination benefits for approximately 66 people affected by the workforce reduction and $0.1 million of other related costs. In addition, the Company recorded $0.6 million of SG&A expenses in the third quarter of 2012 and 1.1 million of SG&A expenses and $0.3 million of R&D expenses in the first nine months of 2012 related to the restructuring and realignment initiatives.

Discontinued Development of EasyBand™

In March 2011, the Company decided to discontinue development of the EasyBand™ Remote Adjustable Gastric Band System (EasyBand™), a technology that the Company acquired in connection with its 2007 acquisition of EndoArt SA, and close the related research and development facility in Switzerland. As a result, in the first quarter of 2011 the Company recorded a pre-tax impairment charge of $16.1 million for the intangible assets associated with the EasyBand™ technology, fixed asset impairment charges of $2.3 million and a gain of $9.4 million from the substantially complete liquidation of the Company's investment in a foreign subsidiary. In addition, the Company recorded $4.6 million of restructuring charges, consisting of $3.0 million of employee severance and other one-time termination benefits for approximately 30 people affected by the facility closure, $1.5 million of contract termination costs and $0.1 million of other related costs. In the second quarter of 2011, the Company recorded an additional $0.1 million of restructuring charges primarily related to contract termination costs and a reversal of fixed asset impairment charges of $0.1 million. In the third quarter of 2012, the Company recorded a $0.1 million restructuring charge reversal primarily related to employee severance and other one-time termination benefits.

Other Restructuring Activities and Integration Costs

Included in the three and nine month periods ended September 30, 2012 are a $0.1 million restructuring charge reversal and $0.8 million of restructuring charges, respectively, related to restructuring activities initiated in prior years. Included in the three and nine month periods ended September 30, 2011 are a $0.1 million restructuring charge reversal related to restructuring activities initiated in prior years.

Included in the three month period ended September 30, 2012 are $0.1 million of SG&A expenses and included in the nine month period ended September 30, 2012 are $0.1 million of cost of sales and $0.6 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and licensing and collaboration agreements. Included in the three and nine month periods ended September 30, 2011 are $0.6 million and $2.2 million, respectively, of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and licensing, collaboration and co-promotion agreements.

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 4: Intangibles and Goodwill

Intangibles

At September 30, 2012 and December 31, 2011, the components of intangibles and certain other related information were as follows:

	September 30, 2012			December 31, 2011		
	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period
	(in millions)		(in years)	(in millions)		(in years)
Amortizable Intangible Assets:						
Developed technology	$1,113.9	$(501.1)	13.5	$1,111.0	$(435.1)	13.5
Customer relationships	3.8	(0.9)	3.0	42.3	(42.3)	3.1
Licensing	185.9	(152.7)	9.3	185.8	(137.2)	9.3
Trademarks	27.3	(25.2)	6.3	26.7	(25.0)	6.2
Core technology	181.0	(80.3)	15.2	181.3	(71.4)	15.2
Other	43.5	(11.8)	6.5	38.5	(5.4)	6.9
	1,555.4	(772.0)	12.8	1,585.6	(716.4)	12.6
Unamortizable Intangible Assets:						
In-process research and development	296.0	—		296.0	—	
	$1,851.4	$(772.0)		$1,881.6	$(716.4)	

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, obesity intervention products, dermal fillers, skin care products and eye care products acquired in connection with business combinations, asset acquisitions and initial licensing transactions for products previously approved for marketing. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of proprietary technology associated with silicone gel breast implants, gastric bands and intragastric balloon systems acquired in connection with the Company's 2006 acquisition of Inamed Corporation, dermal filler technology acquired in connection with the Company’s 2007 acquisition of Groupe Cornéal Laboratoires and a drug delivery technology acquired in connection with the Company’s 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist primarily of acquired product registration rights, distributor relationships, distribution rights, government permits and non-compete agreements. The in-process research and development assets consist of an intangible asset associated with technology that has not yet achieved regulatory approval acquired in connection with the Company’s acquisition of Vicept in July 2011 and an intangible asset associated with technology acquired in connection with the Company’s acquisition of Alacer in June 2011 that is not yet commercialized.

In the first quarter of 2011, the Company recorded a pre-tax charge of $16.1 million related to the impairment of the developed technology and core technology associated with EasyBand™ as a result of the discontinued development of the technology.

In the third quarter of 2011, the Company recorded a pre-tax charge of $4.3 million related to the impairment of an in-process research and development asset associated with a tissue reinforcement technology that has not yet achieved regulatory approval acquired in connection with the Company’s 2010 acquisition of Serica Technologies, Inc. The impairment charge was recognized because estimates of the anticipated future undiscounted cash flows of the asset were not sufficient to recover its carrying amount.

11

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table provides amortization expense by major categories of acquired amortizable intangible assets for the three and nine month periods ended September 30, 2012 and 2011, respectively:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Developed technology	$22.6	$ 22.4	$66.5	$ 67.4
Customer relationships	0.3	—	0.8	—
Licensing	5.1	5.1	15.3	15.3
Trademarks	0.1	0.1	0.3	1.3
Core technology	3.0	3.0	9.0	9.3
Other	2.1	1.3	6.2	2.3
	$33.2	$ 31.9	$98.1	$ 95.6

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 $131.4 million for 2012, $113.1 million for 2013, $106.0 million for 2014, $99.6 million for 2015 and $89.8 million for 2016.

Goodwill

Changes in the carrying amount of goodwill by operating segment through September 30, 2012 were as follows:

	Specialty Pharmaceuticals	Medical Devices	Total
	(in millions)		
Balance at December 31, 2011	$150.1	$1,938.3	$2,088.4
Purchase of distributor's business in Russia	3.8	—	3.8
Foreign exchange translation effects and other	1.7	(1.0)	0.7
Balance at September 30, 2012	$155.6	$1,937.3	$2,092.9

Note 5: Inventories

Components of inventories were:

	September 30, 2012	December 31, 2011
	(in millions)	
Finished products	$174.6	$ 167.1
Work in process	38.7	37.5
Raw materials	51.8	45.1
Total	$265.1	$ 249.7

At September 30, 2012 and December 31, 2011, approximately $9.8 million and $7.8 million, respectively, of the Company's finished goods inventories, primarily breast implants, were held on consignment at a large number of doctors' offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant.

Note 6: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the

12

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was $14.9 million as of September 30, 2012 and December 31, 2011.

The total amount of unrecognized tax benefits was $62.3 million and $53.0 million as of September 30, 2012 and December 31, 2011, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $54.0 million and $44.5 million as of September 30, 2012 and December 31, 2011, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $11.0 million to $13.0 million due to the settlement of income tax audits, Appeals proceedings and Competent Authority negotiations in the United States and certain foreign jurisdictions.

During the second quarter of 2012, the Company settled its federal income tax audit with the U.S. Internal Revenue Service (IRS) for the Company's acquired subsidiary, Inamed, for tax years 2003, 2004 and 2006 and partially settled its federal income tax audit with the IRS for tax year 2005, which resulted in a total settlement of $1.1 million. In the third quarter of 2012, the Company partially settled its federal income tax audit with the IRS for tax years 2005 and 2006, which resulted in a total settlement of $1.5 million.

Total interest accrued related to uncertain tax positions included in the Company’s unaudited condensed consolidated balance sheets was $10.4 million and $8.1 million as of September 30, 2012 and December 31, 2011, respectively.

The Company has not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because it has currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2011, the Company had approximately $2,505.1 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 earnings were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company's U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 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 and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

The fair value of stock option awards that vest based on a service condition is estimated using the Black-Scholes option-pricing model. The fair value of share-based awards that contain a market condition is generally estimated using a Monte Carlo simulation model, and the fair value of modifications to share-based awards is generally

estimated using a lattice model.

The determination of fair value using the Black-Scholes, Monte Carlo simulation and lattice models 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 historical average over the expected life of the award and the average implied volatility of at-the-money options traded in the open market. The Company estimates employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

For the three and nine month periods ended September 30, 2012 and 2011, share-based compensation expense was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Cost of sales	$1.7	$ 1.3	$5.0	$ 4.2
Selling, general and administrative	18.7	15.5	53.7	43.4
Research and development	6.5	5.6	21.0	16.7
Pre-tax share-based compensation expense	26.9	22.4	79.7	64.3
Income tax benefit	8.6	7.0	25.5	21.1
Net share-based compensation expense	$18.3	$ 15.4	$54.2	$ 43.2

As of September 30, 2012, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $202.9 million, which is expected to be recognized over the next 53 months (32 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of September 30, 2012.

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.

Components of net periodic benefit cost for the three and nine month periods ended September 30, 2012 and 2011, respectively, were as follows:

	Three Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Service cost	$6.4	$ 5.9	$0.4	$ 0.5
Interest cost	10.8	10.6	0.5	0.8
Expected return on plan assets	(10.8)	(11.0)	—	—
Amortization of prior service costs	—	—	(0.7)	(0.1)
Recognized net actuarial losses	6.7	4.3	0.4	0.3
Net periodic benefit cost	$13.1	$ 9.8	$0.6	$ 1.5

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Nine Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Service cost	$19.3	$ 17.9	$1.2	$ 1.6
Interest cost	32.9	32.0	1.5	2.4
Expected return on plan assets	(32.6)	(33.2)	—	—
Amortization of prior service costs	—	—	(2.0)	(0.2)
Recognized net actuarial losses	20.2	12.9	1.0	0.7
Net periodic benefit cost	$39.8	$ 29.6	$1.7	$ 4.5

In 2012, the Company expects to pay contributions of between $45.0 million and $55.0 million for its U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for its other postretirement plan.

Note 9: Legal Proceedings

The following supplements and amends the discussion set forth in Note 13 “Legal Proceedings” in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and Note 9 “Legal Proceedings” in the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2012 and June 30, 2012 and is limited to certain recent developments concerning the Company's legal proceedings.

Clayworth v. Allergan, et al.

In August 2012, the Court of Appeal of the State of California affirmed the Superior Court's orders granting motions for summary judgment in favor of defendants. In September 2012, plaintiff filed a petition for rehearing with the Court of Appeal, which was denied. In October 2012, plaintiff filed a petition for review with the California Supreme Court seeking review of the Court of Appeal's decision affirming the Superior Court's granting of summary judgment.

Stockholder Derivative Litigation

Louisiana Municipal Police Employees' Retirement System Action

In October 2012, the Supreme Court of Delaware scheduled oral argument before the Court en banc for February 5, 2013.

The Company is involved in various other lawsuits and claims arising in the ordinary course of business. The Company believes 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. In view of the unpredictable nature of such matters, the Company cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which the Company is a party or the impact on the Company of an adverse ruling in such matters.

Note 10: Contingencies

In 2009, the Company established a reserve for a contingent liability associated with regulation changes resulting from a final rule issued by the U.S. Department of Defense (DoD) that placed retroactive and prospective pricing limits on certain branded pharmaceuticals under the TRICARE Retail Pharmacy Program, even though such branded pharmaceuticals have not historically been subject to a contract with the Company. As of September 30, 2012, the reserve for the contingent liability is $20.8 million and is included in “Other accrued expenses.”

As of June 1, 2012 the Company is largely self-insured for future product liability losses related to all of its products. Future product liability losses are, by their nature, uncertain and are based upon complex judgments and probabilities. The Company accrues for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. The Company estimates these accruals for potential losses based primarily on

historical claims experience and data regarding product usage. The total value of self-insured product liability claims settled in the third quarter and the first nine months of 2012 and 2011, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

liability claims pending as of September 30, 2012 are not material.
The Company has provided reserves for contingencies related to various lawsuits, claims and contractual disputes that management believes are probable and reasonably estimable. The amount reserved for these contingencies as of September 30, 2012 is not material.

Note 11: Guarantees
The Company's Amended and Restated Certificate of Incorporation provides that the Company will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each person that is involved in or is, or is threatened to be, made a party to any action, suit or proceeding by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise. The Company has also entered into contractual indemnity agreements with each of its directors and executive officers pursuant to which, among other things, the Company has agreed to indemnify such directors and executive officers against any payments they are required to make as a result of a claim brought against such executive officer or director in such capacity, excluding claims (i) relating to the action or inaction of a director or executive officer that resulted in such director or executive officer gaining illegal personal profit or advantage, (ii) for an accounting of profits made from the purchase or sale of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law or (iii) that are based upon or arise out of such director's or executive officer's knowingly fraudulent, deliberately dishonest or willful misconduct. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors' and officers' liability insurance policies intended to reduce the Company's monetary exposure and to enable the Company to 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, but makes no assurance that such amounts will not be paid in the future. The Company currently believes the estimated fair value of these indemnification arrangements is minimal.
The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators in its drug, biologics and medical device development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements involving parties performing services for the Company in the ordinary course of business, and in its real estate leases. The Company also customarily agrees to certain indemnification provisions in its acquisition agreements and discovery and development collaboration agreements. With respect to the Company's clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator's institution relating to personal injury or property damage, violations of law or certain breaches of the Company's contractual obligations arising out of the research or clinical testing of the Company's products, compounds or drug candidates. With respect to real estate lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company's contractual obligations. The indemnification provisions appearing in the Company's acquisition agreements and collaboration agreements are similar, but in addition often provide indemnification for the collaborator in the event of third party claims alleging infringement of intellectual property rights. In each of the above cases, the terms of these indemnification provisions generally survive the termination of the agreement. The maximum potential amount of future payments that the Company could be required to make under these provisions is generally unlimited. The Company has purchased insurance policies covering personal injury, property damage and general liability intended to reduce the Company's exposure for indemnification and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification

provisions. As a result, the Company believes the estimated fair value of these indemnification arrangements is minimal.

Note 12: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets. The U.S. programs include the ConfidencePlus® and ConfidencePlus® Premier warranty programs. The ConfidencePlus® program currently provides lifetime product replacement, $1,200 of financial assistance for surgical procedures within ten years of implantation and contralateral implant replacement. The ConfidencePlus® Premier program, which normally requires a low additional enrollment fee, generally provides lifetime product replacement, $2,400 of financial assistance for saline breast implants

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

and $3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The enrollment fee is deferred and recognized as income over the ten year warranty period for financial assistance. The warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product. The following table provides a reconciliation of the change in estimated product warranty liabilities through September 30, 2012:

	(in millions)
Balance at December 31, 2011	$ 32.6
Provision for warranties issued during the period	7.4
Settlements made during the period	(5.9)
Balance at September 30, 2012	$ 34.1
Current portion	$ 6.6
Non-current portion	27.5
Total	$ 34.1

Note 13: Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions, except per share amounts)			
Net earnings attributable to Allergan, Inc.	$ 249.4	$ 249.8	$ 774.6	$ 654.7
Weighted average number of shares outstanding	300.1	304.2	302.1	304.4
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	5.2	5.6	5.6	5.5
Dilutive effect of assumed conversion of convertible notes outstanding	—	—	—	0.4
Diluted shares	305.3	309.8	307.7	310.3
Earnings per share attributable to Allergan, Inc. stockholders:				
Basic	$ 0.83	$ 0.82	$ 2.56	$ 2.15
Diluted	$ 0.82	$ 0.81	$ 2.52	$ 2.11

For the three and nine month periods ended September 30, 2012, options to purchase 4.5 million and 5.9 million shares of common stock at exercise prices ranging from $76.98 to $92.90 and $75.58 to $92.90 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 and nine month periods ended September 30, 2011, options to purchase 4.8 million shares of common stock at exercise prices ranging from $73.04 to $81.06 and $62.71 to $81.06 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.

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 14: Financial Instruments

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

To ensure the adequacy and effectiveness of its interest rate and foreign exchange hedge positions, the Company continually monitors its interest rate swap positions and foreign exchange forward and option positions both on a stand-alone basis and in conjunction with its underlying interest rate and foreign currency exposures, from an accounting and economic perspective.

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

Interest Rate Risk Management

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

On January 31, 2007, the Company entered into a nine-year, two month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap received interest at a fixed rate of 5.75% and paid interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converted $300.0 million of the Company’s $800.0 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) to a variable interest rate. Based on the structure of the hedging relationship, the hedge met the criteria for using the short-cut method for a fair value hedge. The investment in the derivative and the related long-term debt were recorded at fair value. The differential to be paid or received as interest rates change was accrued and recognized as an adjustment to interest expense related to the 2016 Notes. In September 2012, the Company terminated the interest rate swap and received $54.7 million, which included accrued interest of $3.7 million. Upon termination of the interest rate swap, the Company added the net fair value received of $51.0 million to the carrying value of the 2016 Notes. The amount received for the termination of the interest rate swap will be amortized as a reduction to interest expense over the remaining life of the debt, which effectively fixes the interest rate for the remaining term of the 2016 Notes at 3.94%. At December 31, 2011, the Company recognized in its consolidated balance sheet an asset reported in “Investments and other assets” and a corresponding increase in “Long-term debt” associated with the fair value of the derivative of $48.1 million. During the three and nine month periods ended September 30, 2012, the Company recognized $3.2 million and $10.6 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap. During the three and nine month periods ended September 30, 2011, the Company recognized $3.7 million and $11.4 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap.

In February 2006, the Company entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of $800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest

expense over a 10 year period to match the term of the 2016 Notes. During the three and nine month periods ended September 30, 2012 and 2011, the Company recognized $0.3 million and $1.0 million, respectively, as a reduction of interest expense due to the amortization of deferred holding gains on derivatives designated as cash flow hedges. These amounts were reclassified from accumulated other comprehensive loss. As of September 30, 2012, the remaining unrecognized gain of $4.6 million ($2.7 million, net of tax) is recorded as a component of accumulated other comprehensive loss. The Company expects to reclassify an estimated pre-tax amount of $1.3 million from accumulated other comprehensive loss as a reduction in interest expense during fiscal year 2012 due to the amortization of deferred holding gains on derivatives designated as cash flow hedges.

No portion of amounts recognized from contracts designated as cash flow hedges was considered to be ineffective during

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the three and nine month periods ended September 30, 2012 and 2011, respectively.

Foreign Exchange Risk Management

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

From time to time, the Company enters into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. The Company enters into foreign currency option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed 18 months. The Company does not designate these derivative instruments as accounting hedges.

The Company uses foreign currency option contracts, which provide for the sale or purchase of foreign currencies to economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of the Company's business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Korean won, Turkish lira, Polish zloty and Swiss franc. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

Changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2012, the Company recognized realized gains on settled foreign currency option contracts of $3.8 million and $10.8 million, respectively, and net unrealized losses on open foreign currency option contracts of $7.1 million and $15.2 million, respectively. During the three and nine month periods ended September 30, 2011, the Company recognized realized gains on settled foreign currency option contracts of $0.5 million and $1.2 million, respectively, and net unrealized gains on open foreign currency option contracts of $16.8 million and $12.0 million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in "Other current assets" and amortized to "Other, net" over the life of the options.

All of the Company's outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2012, the Company recognized total realized and unrealized losses from foreign exchange forward contracts of $0.7 million and $1.9 million, respectively. During the three and nine month periods ended September 30, 2011, the Company recognized total realized and unrealized (losses) gains from foreign exchange forward contracts of $(1.0) million and $0.1 million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in "Other current assets" and "Accounts payable." At September 30, 2012 and December 31, 2011, foreign currency derivative assets associated with the foreign exchange option contracts of $11.4 million and $26.3 million, respectively, were included in "Other current assets." At September 30, 2012 and December 31, 2011, net foreign currency derivative liabilities associated with the foreign exchange forward contracts of $0.4 million and $0.7 million, respectively, were included in "Accounts payable."

19

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

At September 30, 2012 and December 31, 2011, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows:

	September 30, 2012		December 31, 2011	
	Notional Principal	Fair Value	Notional Principal	Fair Value
	(in millions)			
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$47.2	$0.2	$35.4	$(0.4)
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	39.2	(0.6)	39.1	(0.3)
Foreign currency sold — put options	396.1	11.4	404.7	26.3

The notional principal amounts provide one measure of the transaction volume outstanding as of September 30, 2012 and December 31, 2011, and do not represent the amount of the Company's exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of September 30, 2012 and December 31, 2011. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Other Financial Instruments

At September 30, 2012 and December 31, 2011, the Company's other financial instruments included cash and equivalents, short-term investments, trade receivables, non-marketable equity investments, accounts payable and borrowings. The carrying amount of cash and equivalents, short-term investments, trade receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The fair value of non-marketable equity investments, which represent investments in start-up technology companies, are estimated based on information provided by these companies. The fair value of notes payable and long-term debt are estimated based on quoted market prices and interest rates.

The carrying amount and estimated fair value of the Company's other financial instruments at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents	$2,655.0	$2,655.0	$2,406.1	$2,406.1
Short-term investments	279.9	279.9	179.9	179.9
Non-current non-marketable equity investments	9.0	9.0	9.0	9.0
Notes payable	40.7	40.7	83.9	84.3
Long-term debt	1,515.5	1,694.2	1,515.4	1,689.9

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk principally consist of trade receivables. Wholesale distributors, major retail chains and managed care organizations account for a substantial portion of trade receivables. This risk is limited due to the number of customers comprising the Company's customer base, and their geographic dispersion. At September 30, 2012, no single customer represented more than 10% of trade receivables, net. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. The Company has purchased an insurance policy intended to reduce the Company's exposure to potential credit risks associated with certain U.S. customers. To date, no claims have been made against the insurance policy. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not historically exceeded management's estimates.

Note 15: Fair Value Measurements

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2012 and December 31, 2011, the Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include cash equivalents, short-term investments, foreign exchange derivatives, deferred executive compensation investments and liabilities and contingent consideration liabilities. As of December 31, 2011, the Company also had a $300.0 million notional amount interest rate swap that was required to be measured at fair value. In September 2012, the Company terminated the interest rate swap. These assets and liabilities are classified in the table below in one of the three categories of the fair value hierarchy described above.

	September 30, 2012			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$1,975.9	$—	$1,975.9	$—
Foreign time deposits	257.2	—	257.2	—
Other cash equivalents	475.7	—	475.7	—
Foreign exchange derivative assets	11.4	—	11.4	—
Deferred executive compensation investments	79.9	65.6	14.3	—
	$2,800.1	$65.6	$2,734.5	$—
Liabilities				
Foreign exchange derivative liabilities	$0.4	$—	$0.4	$—
Deferred executive compensation liabilities	71.6	57.3	14.3	—
Contingent consideration liabilities	232.0	—	—	232.0
	$304.0	$57.3	$14.7	$232.0

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$1,171.9	$—	$1,171.9	$—
Foreign time deposits	189.1	—	189.1	—
Other cash equivalents	1,078.9	—	1,078.9	—
Foreign exchange derivative assets	26.3	—	26.3	—
Interest rate swap derivative asset	48.1	—	48.1	—
Deferred executive compensation investments	70.9	58.0	12.9	—
	$2,585.2	$58.0	$2,527.2	$—
Liabilities				
Foreign exchange derivative liabilities	$0.7	$—	$0.7	$—
Interest rate swap derivative liability	48.1	—	48.1	—
Deferred executive compensation liabilities	62.3	49.4	12.9	—
Contingent consideration liabilities	214.6	—	—	214.6
	$325.7	$49.4	$61.7	$214.6

Cash equivalents consist of commercial paper, foreign time deposits and other cash equivalents. Other cash equivalents consist primarily of money-market fund investments. Short-term investments consist of commercial

paper. Cash equivalents and

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

short-term investments are valued at cost, which approximates fair value due to the short-term maturities of these instruments. Foreign currency derivative assets and liabilities are valued using quoted forward foreign exchange prices and option volatility at the reporting date. The interest rate swap derivative asset and liability were valued using LIBOR yield curves at December 31, 2011. The Company believes the fair values assigned to its derivative instruments as of September 30, 2012 and December 31, 2011 are based upon reasonable estimates and assumptions. Assets and liabilities related to deferred executive compensation consist of actively traded mutual funds classified as Level 1 and money-market funds classified as Level 2.

Contingent consideration liabilities represent future amounts the Company may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales performance and the achievement of certain future development, regulatory and sales milestones and other contractual performance conditions. The Company evaluates its estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded as SG&A expense.

The Company estimates the fair value of the contingent consideration liabilities related to sales performance using the income approach, which involves forecasting estimated future net cash flows and discounting the net cash flows to their present value using a risk-adjusted rate of return. The Company estimates the fair value of the contingent consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. The Company estimates the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestone payments and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. The fair value of other contractual performance conditions is measured by assigning an achievement probability to each payment and discounting the payment to its present value using the Company's estimated cost of borrowing. The unobservable inputs to the valuation models that have the most significant effect on the fair value of the Company's contingent consideration liabilities are the probabilities that certain in-process development projects will meet specified development milestones, including ultimate approval by the FDA. The Company currently estimates that the probabilities of success in meeting the specified development milestones are between 40% and 75%.

The following table provides a reconciliation of the change in the contingent consideration liabilities through September 30, 2012:

	(in millions)
Balance at December 31, 2011	$214.6
Additions during the period related to a business combination	4.7
Change in the estimated fair value of the contingent consideration liabilities	15.8
Payments made during the period	(5.1)
Foreign exchange translation effects	2.0
Balance at September 30, 2012	$232.0

Note 16: Business Segment Information

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 dry eye, glaucoma, inflammation, infection, allergy and retinal disease; Botox® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis, eyelash growth and other prescription and over-the-counter skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery and tissue expanders; obesity intervention products; and facial aesthetics products. 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 product net sales and operating income basis exclusive of general and administrative expenses and other indirect costs, impairment of intangible assets and related costs, restructuring charges, amortization of certain identifiable intangible assets related to business combinations and asset acquisitions and related capitalized licensing costs 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

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

or expenses associated with the Company's core business activities. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does the Company's chief operating decision maker evaluate operating segments using discrete asset information.

Operating Segments

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Product net sales:				
Specialty pharmaceuticals	$1,178.5	$ 1,089.7	$3,530.6	$ 3,273.4
Medical devices	212.6	221.4	693.6	690.9
Total product net sales	1,391.1	1,311.1	4,224.2	3,964.3
Other revenues	22.8	17.3	73.0	52.5
Total revenues	$1,413.9	$ 1,328.4	$4,297.2	$ 4,016.8
Operating income:				
Specialty pharmaceuticals	$503.4	$ 433.5	$1,449.8	$ 1,286.3
Medical devices	59.8	68.8	203.0	214.2
Total segments	563.2	502.3	1,652.8	1,500.5
General and administrative expenses, other indirect costs and other adjustments	178.0	127.7	420.4	439.2
Amortization of acquired intangible assets (a)	27.4	26.0	80.4	77.9
Impairment of intangible assets and related costs	—	4.3	—	23.7
Restructuring charges (reversal)	3.8	(0.1)	4.7	4.6
Total operating income	$354.0	$ 344.4	$1,147.3	$ 955.1

(a) Represents amortization of certain identifiable intangible assets related to business combinations and asset acquisitions and related capitalized licensing costs, as applicable.

Product net sales for the Company's various global product portfolios are presented below. The Company's principal geographic 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 represented 62.1% and 59.3% of the Company's total consolidated product net sales for the three month periods ended September 30, 2012 and 2011, respectively. U.S. sales represented 60.9% and 59.6% of the Company's total consolidated product net sales for the nine month periods ended September 30, 2012 and 2011, respectively.

Sales to two customers in the Company's specialty pharmaceuticals segment each generated over 10% of the Company's total consolidated product net sales. Sales to McKesson Drug Company for the three month periods ended September 30, 2012 and 2011 were 13.7% and 13.1%, respectively, of the Company's total consolidated product net sales, and 14.5% and 13.1%, respectively, of the Company's total consolidated product net sales for the nine month periods ended September 30, 2012 and 2011. Sales to Cardinal Health, Inc. for the three month periods ended September 30, 2012 and 2011 were 15.9% and 13.5%, respectively, of the Company's total consolidated product net sales, and 14.4% and 13.6%, respectively, of the Company's total consolidated product net sales for the nine month periods ended September 30, 2012 and 2011. No other country or single customer generates over 10% of the Company's total consolidated 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.

23

Table of Contents
ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Product Net Sales by Product Line

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	$663.2	$ 611.6	$1,986.1	$ 1,861.1
Botox®/Neuromodulators	431.6	396.7	1,291.7	1,179.6
Skin Care	74.0	66.4	221.0	190.4
Urologics	9.7	15.0	31.8	42.3
Total Specialty Pharmaceuticals	1,178.5	1,089.7	3,530.6	3,273.4
Medical Devices:				
Breast Aesthetics	86.1	83.3	285.7	262.9
Obesity Intervention	37.4	49.7	122.7	156.2
Facial Aesthetics	89.1	88.4	285.2	271.8
Total Medical Devices	212.6	221.4	693.6	690.9
Total product net sales	$1,391.1	$ 1,311.1	$4,224.2	$ 3,964.3

Geographic Information

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(in millions)		(in millions)	
Product net sales:				
United States	$863.2	$ 777.6	$2,571.5	$ 2,362.7
Europe	252.0	261.0	836.3	825.9
Latin America	97.0	106.9	292.1	293.2
Asia Pacific	113.7	109.1	330.9	306.0
Other	65.2	56.5	193.4	176.5
Total product net sales	$1,391.1	$ 1,311.1	$4,224.2	$ 3,964.3

	September 30, 2012	December 31, 2011
	(in millions)	
Long-lived assets:		
United States	$3,406.6	$ 3,500.9
Europe	524.3	502.0
Latin America	55.9	59.4
Asia Pacific	53.5	53.3
Other	2.4	2.8
Total long-lived assets	$4,042.7	$ 4,118.4

Table of Contents

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 nine month periods ended September 30, 2012 and 2011, and our financial condition at September 30, 2012. 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 Part II, Item 1A 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 nine month periods ended September 30, 2012 included in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2011 included in our 2011 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Critical Accounting Policies, Estimates and Assumptions

The preparation and presentation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, 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, skin care and urologics 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 $6.6 million and $4.5 million at September 30, 2012 and December 31, 2011, respectively. Provisions for cash discounts deducted from consolidated sales in the third quarter of 2012 and 2011 were $17.6 million and $15.4 million, respectively. Provisions for cash discounts deducted from consolidated sales in the first nine months of 2012 and 2011 were $51.4 million and $45.6 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 product returns matched against sales, 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 September 30, 2012 and December 31, 2011 were $69.6 million and $68.5 million, respectively, and are recorded in "Other accrued expenses" and "Trade receivables, net" in our consolidated balance sheets. Provisions for sales returns deducted from consolidated sales were $92.9 million and $95.1 million in the third quarter of 2012 and 2011, respectively. Provisions for sales returns deducted from consolidated sales were $304.1 million and $307.8 million in the first nine months of 2012 and 2011, respectively. The small increase in the amount of allowances for sales returns at September 30, 2012 compared to December 31, 2011 is primarily due to increased overall product sales volume, partially offset by a decrease in estimated product sales return rates. The decrease in the provisions for sales returns in the third quarter of 2012 compared to the third quarter of 2011 is primarily due to a decrease in estimated product

sales return rates for breast aesthetics products. The decrease in the provisions for sales returns in the first nine months of 2012 compared to the first nine months of 2011 is primarily due to a decrease in estimated product sales return rates for our skin care products and breast aesthetics products. Historical allowances for cash discounts and product returns have been consistent with the amounts reserved or accrued.

We participate in various managed care sales rebate and other incentive programs, the largest of which relates to Medicaid, Medicare and the U.S. Department of Veterans Affairs. Sales rebate and other incentive programs also include contractual volume rebate programs and chargebacks, which are contractual discounts given primarily to federal government agencies, health

Table of Contents

maintenance organizations, pharmacy benefits managers and group purchasing organizations. We also offer rebate and other incentive programs for our aesthetic products and certain therapeutic products, including Botox® Cosmetic, Juvéderm®, Latisse®, Acuvail®, Aczone®, Sanctura XR® and Restasis®, and for certain other skin care products. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in "Other accrued expenses" in our consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $297.3 million and $249.1 million at September 30, 2012 and December 31, 2011, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $242.0 million and $199.0 million in the third quarter of 2012 and 2011, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $710.2 million and $555.7 million in the first nine months of 2012 and 2011, respectively. The increases in the amounts accrued at September 30, 2012 compared to December 31, 2011 and the provisions for sales rebates and other incentive programs in the third quarter and the first nine months of 2012 compared to the third quarter and the first nine months of 2011 are primarily due to an increase in activity under previously established rebate and incentive programs, principally related to our eye care pharmaceuticals, Botox® Cosmetic, urology, skin care and facial aesthetics products, an increase in the number of incentive programs offered and increased overall product sales volume. In addition, an increase in our published list prices in the United States for pharmaceutical products, which occurred for several of our products in each of 2012 and 2011, 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; actual utilization and reimbursement rates under government rebate programs may differ from those estimated; and actual movements of the U.S. Consumer Price Index for All Urban Consumers, or 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 $7.0 million to $8.0 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 recognize contingent consideration earned from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. We defer income under contractual agreements when we have further obligations that indicate that a separate earnings process has not been completed.

Contingent Consideration

Contingent consideration liabilities represent future amounts we may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales performance and the achievement of certain future development, regulatory and sales milestones and other contractual performance conditions. We estimate the fair value of the contingent consideration liabilities related to sales

performance using the income approach, which involves forecasting estimated future net cash flows and discounting the net cash flows to their present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestone payments and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. The fair value of other contractual performance conditions is measured by assigning an achievement probability to each payment and discounting the payment to its present value using our estimated cost of borrowing. We evaluate our estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded through earnings as “Selling, general and administrative” in the accompanying unaudited condensed consolidated statements of earnings. The total estimated fair value of contingent consideration liabilities was

Table of Contents

$232.0 million and $214.6 million at September 30, 2012 and December 31, 2011, respectively, and was included in "Other accrued expenses" and "Other liabilities" in our consolidated balance sheets.

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. funded pension plan for determining the net periodic benefit cost is 6.75% and 7.25% for 2012 and 2011, respectively. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. funded pension plans are 4.80% and 5.70% for 2012 and 2011, respectively. For our U.S. funded pension plan, we determine, based upon recommendations from our pension plan's investment advisors, the expected rate of return using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Our investment advisors study historical market returns and preserve long-term historical relationships between equities and fixed income in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. They also evaluate market factors such as inflation and interest rates before long-term capital market assumptions are determined. For our non-U.S. funded pension plans, the expected rate of return was determined based on asset distribution and assumed long-term rates of return on fixed income instruments and equities. 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 plan assets. The expected rate of return is applied to the market-related value of plan assets. As a sensitivity measure, the effect of a 0.25% decline in our rate of return on assets assumptions for our U.S. and non-U.S. funded pension plans would increase our expected 2012 pre-tax pension benefit cost by approximately $1.8 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2011 were 4.63% and 5.14%, respectively. The weighted average discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2012 were 4.63% and 5.14%, respectively, and for 2011, 5.51% and 5.57%, respectively. We determine the discount rate based upon a 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 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 2012 pre-tax pension benefit costs by approximately $4.6 million and increase our pension plans' projected benefit obligations at December 31, 2011 by approximately $42.8 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 and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

The fair value of stock option awards that vest based on a service condition is estimated using the Black-Scholes option-pricing model. The fair value of share-based awards that contain a market condition is generally estimated using a Monte Carlo simulation model, and the fair value of modifications to share-based awards is generally estimated using a lattice model.

The determination of fair value using the Black-Scholes, Monte Carlo simulation and lattice models 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 historical average over the expected life of the award 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 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. Compensation expense for share-based awards based on a service condition is recognized using the straight-line single option method.

Table of Contents

Product Liability Self-Insurance

As of June 1, 2012, we are largely self-insured for future product liability losses related to all of our products. We have historically been and continue to be self-insured for any product liability losses related to our breast implant products. We maintain third party insurance coverage that we believe is adequate to cover potential product liability losses for injuries alleged to have occurred prior to June 1, 2011 related to Botox® and Botox® Cosmetic and prior to June 1, 2012 related to all of our other products. In addition, as a part of our current self-insurance product liability practice, we maintain a layer of insurance coverage for potential product liability losses, excluding breast implant products, above a minimum self-insured amount. Future product liability losses are, by their nature, uncertain and are based upon complex judgments and probabilities. The factors to consider in developing product liability reserves include the merits and jurisdiction of each claim, the nature and the number of other similar current and past claims, the nature of the product use and the likelihood of settlement. In addition, we accrue for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. We estimate these accruals for potential losses based primarily on historical claims experience and data regarding product usage. The total value of self-insured product liability claims settled in the third quarter and the first nine months of 2012 and 2011, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of September 30, 2012 are not expected to have a material effect on our results of operations or liquidity.

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, or R&D, tax credits available in California and other foreign jurisdictions and deductions available in the United States for domestic production activities. We currently expect the U.S. R&D tax credit to be renewed in the fourth quarter of 2012, with retroactive effect to January 1, 2012; however, until appropriate legislation is enacted in the United States to renew the R&D tax credit, our estimated annual effective tax rate for fiscal year 2012 must exclude any potential benefit for this credit. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected 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. The valuation allowance against deferred tax assets was $14.9 million at September 30, 2012 and December 31, 2011.

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, 2011, we had approximately $2,505.1 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 earnings 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.

Acquisitions

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed. Additionally, we must determine whether an acquired entity is considered to be a business or a set of net

assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination.

On June 17, 2011, we acquired Alacer Biomedical, Inc., or Alacer, for an aggregate purchase price of approximately $7.0 million, net of cash acquired. On July 1, 2011, we purchased the commercial assets related to the selling and distribution of our products from our distributor in South Africa for $8.6 million, net of a $2.2 million pre-existing receivable from the distributor. On July 22, 2011, we acquired Vicept Therapeutics, Inc., or Vicept, for $74.1 million in cash and estimated contingent consideration of $163.0 million as of the acquisition date. On August 8, 2011, we acquired Precision Light, Inc., or Precision Light, for $11.7 million in cash and estimated contingent consideration of $6.2 million as of the acquisition date. On February 1, 2012, we purchased the commercial assets related to the selling and distribution of our products from our distributor in Russia for $3.1 million in cash, net of a $6.6 million pre-existing net receivable from the distributor, and estimated contingent consideration of $4.7 million as of the acquisition date. We accounted for these acquisitions as business combinations. The tangible and intangible assets acquired

Table of Contents

and liabilities assumed in connection with these acquisitions were recognized based on their estimated fair values at the acquisition dates. The determination of estimated fair values 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.

Impairment Evaluations for Goodwill and Intangible Assets

We evaluate goodwill for impairment on an annual basis, or more frequently if we believe indicators of impairment exist. We have identified two reporting units, specialty pharmaceuticals and medical devices, and perform our annual evaluation as of October 1 each year.

For our specialty pharmaceuticals reporting unit, we performed the qualitative assessment to determine whether it is more likely than not that its fair value is less than its carrying amount. For our medical devices reporting unit, we evaluated goodwill for impairment by comparing its carrying value to its estimated fair value. We primarily use the income approach and the market approach to valuation that include the discounted cash flow method, the guideline company method, as well as other generally accepted valuation methodologies to determine the fair value.

Upon completion of the October 2011 annual impairment assessment, we determined that no impairment was indicated. As of September 30, 2012, we are not aware of any significant indicators of impairment that exist for our goodwill that would require additional analysis.

We also review intangible assets for impairment when events or changes in circumstances indicate that the carrying value of our intangible assets may not be recoverable. An impairment in the carrying value of an intangible asset is recognized whenever anticipated future undiscounted cash flows from an intangible asset are estimated to be less than its carrying value.

In March 2011, we decided to discontinue development of the EasyBand™ Remote Adjustable Gastric Band System, or EasyBand,™ a technology that we acquired in connection with our 2007 acquisition of EndoArt SA, or EndoArt. As a result, in the first quarter of 2011 we recorded a pre-tax impairment charge of $16.1 million for the intangible assets associated with the EasyBand™ technology.

In the third quarter of 2011, we recorded a pre-tax charge of $4.3 million related to the impairment of an in-process research and development asset associated with a tissue reinforcement technology that has not yet achieved regulatory approval acquired in connection with our 2010 acquisition of Serica Technologies, Inc., or Serica. The impairment charge was recognized because estimates of the anticipated future undiscounted cash flows of the asset were not sufficient to recover its carrying amount.

Significant management judgment is required in the forecasts of future operating results that are used in our impairment evaluations. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur future impairment charges.

Operations

Headquartered in Irvine, California, we are a multi-specialty health care company focused on developing and commercializing innovative pharmaceuticals, biologics, medical devices and over-the-counter products that enable people to live life to its full potential — to see more clearly, move more freely and express themselves more fully. We discover, develop and commercialize a diverse range of products for the ophthalmic, neurological, medical aesthetics, medical dermatology, breast aesthetics, obesity intervention, urological and other specialty markets in more than 100 countries around the world.

We are also a pioneer in specialty pharmaceutical, biologic and medical device research and development. Our research and development efforts are focused on products and technologies related to the many specialty areas in which we currently operate as well as new specialty areas where unmet medical needs are significant. We supplement our own research and development activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions. At September 30, 2012, we employed approximately 10,500 persons around the world. Our principal geographic markets are the United States, Europe, Latin America and Asia Pacific.

Results of Operations

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 dry eye, glaucoma, inflammation, infection, allergy and retinal disease; Botox® for certain therapeutic and aesthetic indications; skin

Table of Contents

care products for acne, psoriasis, eyelash growth and other prescription and over-the-counter skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery and tissue expanders; obesity intervention products; and facial aesthetics products. 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 net sales basis, which is presented below in accordance with GAAP. We also report sales performance using the non-GAAP financial measure of constant currency sales. Constant currency sales represent current period reported sales, adjusted for the translation effect of changes in average foreign exchange rates between the current period and the corresponding period in the prior year. We calculate the currency effect by comparing adjusted current period reported sales, calculated using the monthly average foreign exchange rates for the corresponding period in the prior year, to the actual current period reported sales. We routinely evaluate our net sales performance at constant currency so that sales results can be viewed without the impact of changing foreign currency exchange rates, thereby facilitating period-to-period comparisons of our sales. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the growth at constant currency rates will be higher or lower, respectively, than growth reported at actual exchange rates.

The following tables compare net sales by product line within each reportable segment and certain selected pharmaceutical products for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended							
	September 30, 2012	September 30, 2011	Change in Product Net Sales			Percent Change in Product Net Sales		
			Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$663.2	$611.6	$51.6	$76.2	$(24.6)	8.4 %	12.5 %	(4.1)%
Botox®/Neuromodulator	431.6	396.7	34.9	45.8	(10.9)	8.8 %	11.5 %	(2.7)%
Skin Care	74.0	66.4	7.6	7.8	(0.2)	11.4 %	11.7 %	(0.3)%
Urologics	9.7	15.0	(5.3)	(5.3)	—	(35.3)%	(35.3)%	— %
Total Specialty Pharmaceuticals	1,178.5	1,089.7	88.8	124.5	(35.7)	8.1 %	11.4 %	(3.3)%
Medical Devices:								
Breast Aesthetics	86.1	83.3	2.8	5.9	(3.1)	3.4 %	7.1 %	(3.7)%
Obesity Intervention	37.4	49.7	(12.3)	(11.0)	(1.3)	(24.7)%	(22.1)%	(2.6)%
Facial Aesthetics	89.1	88.4	0.7	4.4	(3.7)	0.8 %	5.0 %	(4.2)%
Total Medical Devices	212.6	221.4	(8.8)	(0.7)	(8.1)	(4.0)%	(0.3)%	(3.7)%
Total product net sales	$1,391.1	$1,311.1	$80.0	$123.8	$(43.8)	6.1 %	9.4 %	(3.3)%
Domestic product net sales	62.1 %	59.3 %						
International product net sales	37.9 %	40.7 %						
Selected Product Net Sales (a):								
Alphagan® P, Alphagan® and Combigan®	$111.3	$100.5	$10.8	$14.3	$(3.5)	10.8 %	14.3 %	(3.5)%
Lumigan® Franchise	152.0	147.0	5.0	12.0	(7.0)	3.4 %	8.2 %	(4.8)%
Restasis®	198.3	166.1	32.2	32.7	(0.5)	19.4 %	19.7 %	(0.3)%
Latisse®	23.4	21.8	1.6	1.8	(0.2)	7.2 %	7.9 %	(0.7)%

30

Table of Contents

	Nine Months Ended		Change in Product Net Sales			Percent Change in Product Net Sales		
	September 30, 2012	September 30, 2011	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$1,986.1	$1,861.1	$125.0	$ 190.2	$ (65.2)	6.7 %	10.2 %	(3.5)%
Botox®/Neuromodulator	1,291.7	1,179.6	112.1	140.9	(28.8)	9.5 %	11.9 %	(2.4)%
Skin Care	221.0	190.4	30.6	31.1	(0.5)	16.1 %	16.3 %	(0.2)%
Urologics	31.8	42.3	(10.5)	(10.5)	—	(24.8)%	(24.8)%	— %
Total Specialty Pharmaceuticals	3,530.6	3,273.4	257.2	351.7	(94.5)	7.9 %	10.7 %	(2.8)%
Medical Devices:								
Breast Aesthetics	285.7	262.9	22.8	31.1	(8.3)	8.7 %	11.8 %	(3.1)%
Obesity Intervention	122.7	156.2	(33.5)	(30.5)	(3.0)	(21.4)%	(19.5)%	(1.9)%
Facial Aesthetics	285.2	271.8	13.4	23.7	(10.3)	4.9 %	8.7 %	(3.8)%
Total Medical Devices	693.6	690.9	2.7	24.3	(21.6)	0.4 %	3.5 %	(3.1)%
Total product net sales	$4,224.2	$3,964.3	$259.9	$ 376.0	$ (116.1)	6.6 %	9.5 %	(2.9)%
Domestic product net sales	60.9 %	59.6 %						