ALLERGAN INC
Form 10-Q
November 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-10269

Allergan, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

(714) 246-4500

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

As of October 31, 2008, there were 307,511,888 shares of common stock outstanding (including 3,604,550 shares held in treasury).

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

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
Revenues:				
Product net sales	$ 1,081.9	$ 978.7	$ 3,298.7	$ 2,803.9
Other revenues	16.3	15.0	48.1	44.4
Total revenues	1,098.2	993.7	3,346.8	2,848.3
Operating costs and expenses:				
Cost of sales (excludes amortization of acquired intangible assets)	194.7	173.5	574.4	493.4
Selling, general and administrative	440.4	395.6	1,429.5	1,215.1
Research and development	186.6	164.4	582.9	528.4
Amortization of acquired intangible assets	39.3	28.7	110.0	86.1
Restructuring charges (reversal)	(0.2)	11.0	37.6	24.3
Operating income	237.4	220.5	612.4	501.0
Non-operating income (expense):				
Interest income	6.5	18.4	28.0	48.6
Interest expense	(14.5)	(17.5)	(44.7)	(53.5)
Unrealized gain (loss) on derivative instruments, net	7.9	0.4	4.4	(1.3)
Other, net	2.0	(10.5)	(9.1)	(15.9)
	1.9	(9.2)	(21.4)	(22.1)
Earnings from continuing operations before income taxes and minority interest	239.3	211.3	591.0	478.9
Provision for income taxes	69.4	55.3	161.8	138.7
Minority interest expense	0.6		1.2	0.4
Earnings from continuing operations	169.3	156.0	428.0	339.8
Discontinued operations				
Earnings (loss) from discontinued operations, net of applicable income tax expense (benefit) of $0.8 million and $(0.4) million for the three and nine month periods ended September 28, 2007, respectively		1.4		(0.8)
Gain on sale of discontinued operations, net of applicable income tax expense of $0.9 million for the three and nine month periods ended September 28, 2007				
Discontinued operations		1.4		(0.8)
Net earnings	$ 169.3	$ 157.4	$ 428.0	$ 339.0

Basic earnings per share:				
Continuing operations	$ 0.56	$ 0.51	$ 1.41	$ 1.11
Discontinued operations				
Net basic earnings per share	$ 0.56	$ 0.51	$ 1.41	$ 1.11
Diluted earnings per share:				
Continuing operations	$ 0.55	$ 0.50	$ 1.39	$ 1.10
Discontinued operations		0.01		
Net diluted earnings per share	$ 0.55	$ 0.51	$ 1.39	$ 1.10

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and equivalents	$ 1,013.3	$ 1,157.9
Trade receivables, net	584.2	463.1
Inventories	269.5	224.7
Other current assets	266.1	278.5
Total current assets	2,133.1	2,124.2
Investments and other assets	267.5	249.9
Property, plant and equipment, net	738.0	686.4
Goodwill	1,995.0	2,082.1
Intangibles, net	1,532.1	1,436.7
Total assets	$ 6,665.7	$ 6,579.3
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 3.6	$ 39.7
Accounts payable	163.5	208.7
Accrued compensation	142.7	155.3
Other accrued expenses	364.3	295.7
Income taxes	3.5	16.3
Total current liabilities	677.6	715.7
Long-term debt	845.1	840.2
Long-term convertible notes	750.0	750.0
Deferred tax liabilities	76.3	220.6
Other liabilities	320.1	312.7
Commitments and contingencies		
Minority interest	2.4	1.5
Stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 500,000,000 shares; issued 307,512,000 shares as of September 30, 2008 and December 31, 2007	3.1	3.1
Additional paid-in capital	2,498.7	2,450.4
Accumulated other comprehensive loss	(53.5)	(34.8)
Retained earnings	1,756.4	1,423.5
	4,204.7	3,842.2
Less treasury stock, at cost (3,693,000 shares as of September 30, 2008 and 1,605,000 shares as of December 31, 2007)	(210.5)	(103.6)
Total stockholders equity	3,994.2	3,738.6
Total liabilities and stockholders equity	$ 6,665.7	$ 6,579.3

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine months ended	
	September 30, 2008	**September 28, 2007**
Cash flows provided by operating activities:		
Net earnings	$ 428.0	$ 339.0
Non-cash items included in net earnings:		
In-process research and development charge		72.0
Depreciation and amortization	195.2	155.3
Settlement of a pre-existing distribution agreement in a business combination		2.3
Amortization of original issue discount and debt issuance costs	3.0	3.5
Amortization of net realized gain on interest rate swap	(1.0)	(0.6)
Deferred income tax benefit	(52.2)	(30.3)
Loss on disposal of fixed assets	0.6	4.2
Unrealized (gain) loss on derivative instruments	(4.4)	1.3
Expense of share-based compensation plans	69.6	60.2
Minority interest expense	1.2	0.4
Restructuring charges	37.6	24.3
Changes in assets and liabilities:		
Trade receivables	(144.7)	(69.3)
Inventories	(44.2)	(14.6)
Other current assets	10.1	(8.3)
Other non-current assets	(0.8)	(11.5)
Accounts payable	(46.4)	33.9
Accrued expenses	46.5	12.7
Income taxes	(15.0)	(26.3)
Other liabilities	(2.1)	26.5
Net cash provided by operating activities	481.0	574.7
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(150.1)	(312.9)
Additions to property, plant and equipment	(123.8)	(73.6)
Additions to capitalized software	(42.1)	(18.7)
Additions to intangible assets	(63.0)	(5.0)
Issuance of notes receivable		(74.8)
Proceeds from sale of business and assets	6.1	16.7
Proceeds from sale of property, plant and equipment	0.8	8.9
Net cash used in investing activities	(372.1)	(459.4)
Cash flows from financing activities:		
Dividends to stockholders	(45.5)	(45.6)
Payments to acquire treasury stock	(230.1)	(61.7)
Net repayments of notes payable	(35.5)	(107.8)
Sale of stock to employees	50.5	110.3
Excess tax benefits from share-based compensation	9.7	25.1

Net cash used in financing activities	(250.9)	(79.7)
Effect of exchange rate changes on cash and equivalents	(2.6)	8.3
Net (decrease) increase in cash and equivalents	(144.6)	43.9
Cash and equivalents at beginning of period	1,157.9	1,369.4
Cash and equivalents at end of period	$ 1,013.3	$ 1,413.3
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of amount capitalized)	$ 33.5	$ 32.3
Income taxes, net of refunds	$ 221.8	$ 166.5

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2007. The Company prepared the unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008 or any other period(s).

Reclassifications

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

Recently Adopted Accounting Standards

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

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

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

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

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). The Company adopted the balance sheet recognition and reporting provisions of SFAS No. 158 during the fourth fiscal quarter of 2006. In the first fiscal quarter of

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008, the Company adopted the measurement date provision of SFAS No. 158, which requires the Company to change its measurement date for pension and other postretirement plans from September 30 to December 31. As a result, the Company recognized an increase of $5.2 million in its net pension liability, an increase of $1.6 million in related deferred income tax assets, a reduction of $4.6 million in its beginning retained earnings and an increase of $1.0 million in accumulated other comprehensive income.

New Accounting Standards Not Yet Adopted

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), which clarifies the accounting for convertible debt instruments that may be settled fully or partially in cash upon conversion. FSP APB 14-1 requires entities to separately measure and account for the liability and equity components of qualifying convertible debt and amortize the value of the equity component to interest cost over the estimated life of the convertible debt instrument. By amortizing the value of the equity component, an entity will effectively recognize interest cost at its non-convertible debt borrowing rate. FSP APB 14-1 also requires re-measurement of the liability and equity components upon extinguishment of a convertible debt instrument, which may result in a gain or loss recognized in the financial statements for the extinguishment of the liability component. FSP APB 14-1 requires retrospective application for all instruments that were outstanding during any periods presented. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, which will be the Company s fiscal year 2009. The Company has determined that FSP APB 14-1 will affect the accounting for its 1.50% Convertible Senior Notes due 2026, but has not yet evaluated the impact on the Company s consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 allows an entity to use its own historical experience in renewing or extending similar arrangements, adjusted for specified entity-specific factors, in developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset and will be effective for fiscal years and interim periods beginning after December 15, 2008, which will be the Company s fiscal year 2009. Additional disclosures are required to enable financial statement users to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent and/or ability to renew or extend the arrangement. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The Company does not expect that the adoption of FSP FAS 142-3 will have a material impact on the Company s consolidated financial statements.

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

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised), *Business Combinations* (SFAS No. 141R) and Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). These two standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141R is required to be adopted concurrently with SFAS No. 160 and will be effective for business combination transactions occurring in fiscal years beginning after December 15, 2008, which will be the Company s fiscal year 2009. The impact of adopting SFAS No. 141R on the Company s consolidated financial statements will depend on the economic terms of any future business combination transactions and changes in estimated unrecognized tax benefit liabilities for pre-existing business combination transactions. The Company does not expect that the adoption of SFAS No. 160 will have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1), which defines collaborative arrangements and requires that transactions with third

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parties that do not participate in the arrangement be reported in the appropriate income statement line items pursuant to the guidance in EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. Income statement classification of payments made between participants of a collaborative arrangement are to be based on other applicable authoritative accounting literature. If the payments are not within the scope or analogy of other authoritative accounting literature, a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company s fiscal year 2009, and applied as a change in accounting principle to all prior periods retrospectively for all collaborative arrangements existing as of the effective date. The Company does not expect that the adoption of EITF 07-1 will have a material impact on the Company s consolidated financial statements.

Note 2: Acquisitions

Aczone® Asset Purchase

On July 11, 2008, the Company completed the acquisition of assets related to *Aczone®* (dapsone) Gel 5%, a topical treatment for acne vulgaris, from QLT USA, Inc. (QLT) for approximately $150 million. The acquisition was funded from cash and equivalents balances. The Company acquired QLT s right, title and interest in and to the intellectual property, assigned contracts, registrations and inventories related to *Aczone®*, which is approved for sale in both the United States and Canada for the treatment of certain dermatological conditions. The Company accounted for the acquisition as a purchase of net assets.

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

Esprit Acquisition

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

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

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

Purchase Price Allocation

The Esprit purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The goodwill acquired

in the Esprit acquisition is not deductible for federal income tax purposes.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	(in millions)
Current assets	$ 40.8
Identifiable intangible asset	358.8
Goodwill	37.7
Deferred tax assets non-current	88.5
Other non-current assets	0.1
Accounts payable and accrued liabilities	(24.5)
Deferred tax liabilities current and non-current	(122.2)
Other non-current liabilities	(8.4)
	$ 370.8

In 2008, the Company adjusted the fair value assigned to the assets acquired and liabilities assumed primarily due to an increase in the expected utilization of net operating loss carryforwards of Esprit, the amount of Esprit deferred tax liabilities attributable to state income taxes, and an increase in unrecognized tax benefits, which resulted in a net decrease of $84.9 million to goodwill.

Pro Forma Results of Operations

The following unaudited *pro forma* operating results for the three and nine month periods ended September 28, 2007, respectively, assume the Esprit acquisition had occurred on January 1, 2007, and exclude any *pro forma* charges for inventory fair value adjustments.

	Three months ended September 28, 2007	Nine months ended September 28, 2007
	(in millions, except per share amounts)	
Product net sales	$ 991.1	$2,836.8
Total revenues	$1,006.1	$2,881.2
Earnings from continuing operations	$ 145.7	$ 301.6
Earnings per share from continuing operations basic	$ 0.48	$ 0.99
Earnings per share from continuing operations diluted	$ 0.47	$ 0.98

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

EndoArt SA Acquisition

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

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

Cornéal Acquisition

On January 2, 2007, the Company completed the acquisition of Groupe Cornéal Laboratoires (Cornéal), a health care company that develops, manufactures and markets dermal fillers, viscoelastics and a range of ophthalmic surgical device products, for an aggregate purchase price of approximately $209.2 million, net of $2.3 million associated with the settlement of a pre-existing unfavorable distribution agreement. The Company recorded the $2.3 million charge at the acquisition date to effectively settle the pre-existing unfavorable distribution agreement between Cornéal and one of the Company s subsidiaries, primarily related to distribution rights for *Juvéderm*in the United States. Prior to the acquisition, the Company also had a $4.4 million payable to Cornéal outstanding for products purchased under the distribution agreement, which was effectively settled upon the acquisition. In connection with the Cornéal acquisition, the Company acquired assets with a fair

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of $284.8 million and assumed liabilities of $75.6 million. As a result of the acquisition, the Company obtained the technology, manufacturing process and worldwide distribution rights for *Juvéderm*, *Surgiderm*® and certain other hyaluronic acid-based dermal fillers. The acquisition was funded from the Company s cash and equivalents balances and its committed long-term credit facility.

Note 3: Discontinued Operations

On July 2, 2007, the Company completed the sale of the ophthalmic surgical device business that it acquired as a part of the Cornéal acquisition in January 2007, for net proceeds of $28.6 million. The net assets of the disposed business consisted of current assets of $24.3 million, non-current assets of $9.8 million and current liabilities of $4.2 million. As of September 28, 2007, the Company recorded a pre-tax gain of $0.9 million (zero net of tax) associated with the sale. During the fourth quarter of 2007, the Company recorded certain adjustments to the sales proceeds and reported a cumulative pre-tax loss for the 2007 fiscal year of $1.3 million ($1.0 million net of tax) associated with the sale.

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

The following table sets forth selected financial data of the Company s discontinued operations for the three and nine month periods ended September 28, 2007.

Selected Financial Data for Discontinued Operations

	Three months ended September 28, 2007	Nine months ended September 28, 2007
	(in millions)	
Product net sales	$	$ 20.0
Earnings (loss) from discontinued operations before income taxes	$ 2.2	$ (1.2)
Net earnings (loss) from discontinued operations	$ 1.4	$ (0.8)

The earnings from discontinued operations before income taxes of $2.2 million in the three month period ended September 28, 2007 primarily relate to an adjustment to the estimated fair value of ophthalmic surgical inventory associated with the Cornéal acquisition that was sold during the first six months of 2008. This change in estimated fair value occurred during the allowable allocation period.

Note 4: Restructuring Charges and Integration and Transition Costs

Restructuring and Phased Closure of Arklow Facility

On January 30, 2008, the Company announced the phased closure of its breast implant manufacturing facility at Arklow, Ireland and the transfer of production to the Company s manufacturing plant in Costa Rica. The Arklow facility was acquired by the Company in connection with its acquisition of Inamed Corporation (Inamed) in 2006 and employs approximately 360 people. Production at the facility is expected to be phased out by early 2009. Based on current foreign currency exchange rates, the Company estimates that the total pre-tax restructuring and other transition related costs associated with the closure of the Arklow manufacturing facility will be between $65 million and $70 million, consisting

primarily of employee severance and other one-time termination benefits of $31 million to $33 million, asset impairments and accelerated depreciation of $17 million to $18 million, and contract termination and other costs of $17 million to $19 million. The Company expects that $48 million to $52 million of the pre-tax charges will be cash expenditures. Certain employee retention termination benefits and accelerated depreciation costs related to inventory production in Arklow will be capitalized to inventory as incurred and recognized as cost of sales in the periods the related products are sold.

The Company began to record costs associated with the closure of the Arklow manufacturing facility in the first quarter

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of 2008 and expects to continue to incur costs through the fourth quarter of 2009. During the three and nine month periods ended September 30, 2008, the Company recorded a $0.7 million restructuring charge reversal and $26.9 million of pre-tax restructuring charges, respectively. During the three and nine month periods ended September 30, 2008, the Company recognized as cost of sales the rollout of $4.6 million and $4.7 million, respectively, of capitalized employee retention termination benefits and accelerated depreciation costs related to inventory production. During the three and nine month periods ended September 30, 2008, the Company also recognized $0.1 million and $0.8 million, respectively, of selling, general and administrative (SG&A) expenses and $0.1 million and $0.3 million, respectively, of R&D expenses related to one-time termination benefits and asset impairments.

At September 30, 2008, $9.1 million of capitalized employee retention termination benefits and accelerated depreciation costs are included in Inventories in the accompanying unaudited condensed consolidated balance sheet.

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

	Employee Severance	Contract Termination Costs	Other	Total
		(in millions)		
Net charge during the nine month period ended September 30, 2008	$ 20.4	$ 5.6	$ 0.9	$ 26.9
Spending	(1.9)	(0.4)	(0.8)	(3.1)
Foreign exchange translation effects	(1.7)	(0.5)		(2.2)
Balance at September 30, 2008 (included in Other accrued expenses)	$ 16.8	$ 4.7	$ 0.1	$ 21.6

Restructuring and Integration of Cornéal Operations

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

The Company began to record costs associated with the restructuring and integration of the former Cornéal facial aesthetics business in the first quarter of 2007 and substantially completed all restructuring and integration activities in the second quarter of 2008. As of September 30, 2008, the Company has recorded cumulative pre-tax restructuring charges of $23.2 million and cumulative pre-tax integration and transition costs of $9.8 million. The restructuring charges primarily consist of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and other costs related to the restructuring of the Cornéal operations. During the nine month period ended September 30, 2008, the Company recorded pre-tax restructuring charges of $6.6 million related to the restructuring of the Cornéal operations. During the three and nine month periods ended September 28, 2007, the Company recorded pre-tax restructuring charges of $11.2 million and $13.2 million, respectively, related to the restructuring of the Cornéal operations. The integration and transition costs primarily consist of salaries, travel, communications, recruitment and consulting costs. During the three month period ended September 30, 2008, the Company recorded pre-tax integration and transition costs of $0.2 million as SG&A expenses. During the nine month period ended September 30, 2008, the Company recorded pre-tax integration and transition costs of $1.3 million, consisting of $0.1 million in cost of sales and $1.2 million in SG&A expenses. During the three month period ended September 28, 2007, the Company recorded pre-tax integration and transition costs of $1.3 million, consisting of $0.1 million in cost of sales and $1.2 million in SG&A expenses. During the nine month period ended September 28, 2007, the Company recorded pre-tax integration and transition costs of $6.9 million, consisting of $0.1 million in cost of sales and $6.8 million

in SG&A expenses.

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

	Employee Severance	Contract Termination Costs	Total
		(in millions)	
Net charge during 2007	$ 3.8	$ 12.8	$ 16.6
Spending	(1.0)	(4.9)	(5.9)
Balance at December 31, 2007	2.8	7.9	10.7
Net charge during the nine month period ended September 30, 2008	0.4	6.2	6.6
Spending	(2.2)	(9.7)	(11.9)
Balance at September 30, 2008 (included in Other accrued expenses)	$ 1.0	$ 4.4	$ 5.4

Restructuring and Integration of Inamed Operations

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

As of December 31, 2007, the Company substantially completed all activities related to the restructuring and operational integration of the former Inamed operations and recorded cumulative pre-tax restructuring charges of $21.0 million, cumulative pre-tax integration and transition costs of $26.0 million, and $1.6 million for income tax costs related to intercompany transfers of trade businesses and net assets related to the global restructuring and integration plan to merge Inamed s operations with the Company s operations. The restructuring charges primarily consisted of employee severance, one-time termination benefits, employee relocation, termination of duplicative distributor agreements and other costs related to restructuring the former Inamed operations. The integration and transition costs primarily consisted of salaries, travel, communications, recruitment and consulting costs. The Company did not incur any restructuring charges or integration and transition costs during the three and nine month periods ended September 30, 2008. During the three and nine month periods ended September 28, 2007, the Company recorded a $0.3 million restructuring charge reversal and $8.2 million of restructuring charges, respectively. During the three month period ended September 28, 2007, the Company recorded $0.8 million of pre-tax integration and transition costs associated with the global restructuring and integration of the former Inamed operations, consisting of $0.1 million in cost of sales and $0.7 million in SG&A expenses. During the nine month period ended September 28, 2007, the Company recorded $4.4 million of pre-tax integration and transition costs, consisting of $0.1 million in cost of sales and $4.3 million in SG&A expenses. As of September 30, 2008, remaining accrued expenses of $0.6 million for the global restructuring and integration of the former Inamed operations are included in Other accrued expenses.

On January 30, 2007, the Company s Board of Directors approved an additional plan to restructure and eventually sell or close the collagen manufacturing facility in Fremont, California that the Company acquired in the Inamed acquisition. This plan is the result of a reduction in anticipated future market demand for human and bovine collagen products. The Company estimates that total pre-tax restructuring charges for severance, lease termination and contract settlement costs will be between $6.0 million and $8.0 million, all of which are expected to be cash expenditures. The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 59 positions, consisting principally of manufacturing positions at the facility, that are expected to result in estimated total employee severance costs of approximately $1.5 million to $2.0 million. Estimated charges for contract and lease termination costs are expected to total approximately $4.5 million to $6.0 million. The Company began to record these costs in the first quarter of 2007 and expects to continue to incur them up through and including the fourth quarter of 2008. Prior to the closure of the collagen manufacturing facility, the Company intends to

manufacture a sufficient quantity of collagen products to meet estimated market demand through 2010.

As of September 30, 2008, the Company has recorded cumulative pre-tax restructuring charges of $2.6 million related to the restructuring of the collagen manufacturing facility. During the three and nine month periods ended September 30, 2008, the Company recorded pre-tax restructuring charges of $0.5 million and $0.9 million, respectively. During the nine month period ended September 28, 2007, the Company recorded pre-tax restructuring charges of $1.7 million related to employee

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severance costs of the collagen manufacturing facility. As of September 30, 2008, accrued expenses of $2.0 million for the restructuring of the collagen manufacturing facility are included in Other accrued expenses.

Other Restructuring Activities and Integration Costs

Included in the first nine months of 2008 is $0.1 million of restructuring charges related to the EndoArt acquisition. Included in the third quarter and first nine months of 2007 are $0.1 million and $0.2 million, respectively, of restructuring charges related to the EndoArt acquisition. Included in the first nine months of 2008 and 2007 are $3.1 million and $1.0 million, respectively, of restructuring charges for an abandoned leased facility related to the Company s restructuring and streamlining of its European operations. In the third quarter and first nine months of 2008, SG&A expenses include a $0.1 million reversal and $0.7 million of expenses, respectively, related to the integration of the Esprit operations.

Note 5: Intangibles

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

Intangibles

	September 30, 2008			December 31, 2007		
	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period (in years)
	(in millions)			(in millions)		
Amortizable Intangible Assets:						
Developed technology	$ 1,390.8	$ (181.8)	14.4	$ 1,247.8	$ (111.8)	15.1
Customer relationships	42.3	(34.4)	3.1	42.3	(24.1)	3.1
Licensing	222.4	(78.7)	9.8	159.6	(63.2)	8.2
Trademarks	27.4	(13.9)	6.3	28.2	(10.9)	6.4
Core technology	190.5	(33.4)	15.2	191.9	(24.0)	15.2
	1,873.4	(342.2)	13.5	1,669.8	(234.0)	14.0
Unamortizable Intangible Assets:						
Business licenses	0.9			0.9		
	$ 1,874.3	$ (342.2)		$ 1,670.7	$ (234.0)	

Developed technology consists primarily of current product offerings, primarily saline and silicone gel breast implants, obesity intervention products, dermal fillers, skin care and urologics products acquired in connection with business combinations and asset acquisitions. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with the Inamed acquisition, primarily in the breast implant market in the United States. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of proprietary technology associated with silicone gel breast implants and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Cornéal acquisition, gastric band technology acquired in connection with the EndoArt acquisition, and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc.

The increase in developed technology in 2008 is primarily due to the *Aczone*® asset acquisition. The increase in licensing assets in 2008 is primarily due to a buyout payment of contingent licensing obligations related to *Sanctura*® products and a milestone payment recorded in 2008 related to expected annual *Restasis*® net sales.

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The following table provides amortization expense by major categories of acquired amortizable intangible assets for the three and nine month periods ended September 30, 2008 and September 28, 2007, respectively:

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Developed technology	$ 25.7	$ 16.3	$ 71.3	$ 48.7
Customer relationships	3.4	3.4	10.2	10.2
Licensing	5.8	4.7	15.2	14.4
Trademarks	1.2	1.2	3.6	3.6
Core technology	3.2	3.1	9.7	9.2
	$ 39.3	$ 28.7	$ 110.0	$ 86.1

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 $149.3 million for 2008, $148.4 million for 2009, $144.2 million for 2010, $137.8 million for 2011 and $132.5 million for 2012.

Note 6: Inventories

Components of inventories were:

	September 30, 2008	December 31, 2007
	(in millions)	
Finished products	$ 170.7	$ 137.4
Work in process	40.0	46.0
Raw materials	58.8	41.3
Total	$ 269.5	$ 224.7

At September 30, 2008 and December 31, 2007, approximately $12.4 million and $13.3 million, respectively, of the Company s finished goods medical device inventories, primarily breast implants, were held on consignment at a large number of doctors offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant.

Note 7: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, R&D tax credits available in California and other foreign jurisdictions and deductions available in the United States for domestic production activities. As of September 30, 2008, the U.S. federal R&D tax credit was

expired. In October 2008, the U.S. federal R&D tax credit was reinstated for two years with retroactive effect to the beginning of the Company s 2008 fiscal year. The Company s estimated annual effective tax rate for 2008 will reflect this reinstated tax credit beginning in the fourth quarter of 2008. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers. The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. Reductions to valuation allowances related to net operating loss carryforwards of acquired businesses will be treated as adjustments to purchased goodwill up through and until the end of the Company s 2008 fiscal year.

Valuation allowances against deferred tax assets were $19.0 million and $99.9 million as of September 30, 2008 and December 31, 2007, respectively. The decrease in the valuation allowance against deferred tax assets primarily occurred

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during the second quarter of 2008 and relates to an increase in the expected utilization of net operating loss carryforwards of Esprit, which the Company acquired in October 2007, and is treated as a reduction of purchased goodwill.

In connection with the final stage of the Inamed and Esprit legal entity integration, the Company realigned its U.S. operations during the second quarter of 2008. The state and federal deferred tax assets and deferred tax liabilities have been re-determined to reflect a true-up to the resulting tax rate. The impact of the true-up was a decrease to the provision for income taxes of $2.4 million, which was reflected in the second quarter of 2008.

The total amount of unrecognized tax benefits was $51.2 million and $59.6 million as of September 30, 2008 and December 31, 2007, respectively. The decrease in the total amount of unrecognized tax benefits is primarily attributable to $21.8 million in payments accounted for during the first quarter of 2008 in connection with the completion and settlement of a federal income tax audit by the U.S. Internal Revenue Service for tax years 2003 and 2004. Of the $21.8 million in payments, $14.0 million was on deposit as an advance payment and the remaining $7.8 million was paid during the first quarter of 2008. In addition, the total amount of unrecognized tax benefits decreased by $1.2 million mainly as a result of amended state income tax return filings in the second and third quarters of 2008 due to the completion and settlement of the federal income tax audit for tax years 2003 and 2004. These decreases to the total amount of unrecognized tax benefits were partially offset by increases of $14.6 million resulting from tax positions taken during a prior period and changes in estimates to various issues under audit. These increases also include unrecognized tax benefits attributable to the acquisition of Esprit, which are currently treated as adjustments to purchased goodwill.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $20.9 million and $39.9 million as of September 30, 2008 and December 31, 2007, respectively. Upon the adoption of SFAS No. 141R on January 1, 2009, the Company estimates that the total amount of unrecognized tax benefits affecting the effective tax rate, if recognized, would be $41.4 million based on the unrecognized tax benefits balance as of September 30, 2008.

Total interest accrued related to uncertainty in income taxes included in the Company s unaudited condensed consolidated balance sheet was $10.0 million and $10.9 million as of September 30, 2008 and December 31, 2007, respectively.

The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $17.5 million due to the settlement of an income tax audit in the United States.

The Company has not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because it has currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2007, the Company had approximately $1,007.0 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these funds were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company s U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 8: Share-Based Compensation

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

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

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

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estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

For the three and nine month periods ended September 30, 2008 and September 28, 2007, share-based compensation expense was as follows:

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Cost of sales	$ 1.6	$ 1.3	$ 5.8	$ 4.3
Selling, general and administrative	15.1	13.6	46.5	41.3
Research and development	5.7	4.1	17.3	14.6
Pre-tax share-based compensation expense	22.4	19.0	69.6	60.2
Income tax benefit	8.3	7.6	25.2	22.3
Net share-based compensation expense	$ 14.1	$ 11.4	$ 44.4	$ 37.9

As of September 30, 2008, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $158.7 million, which is expected to be recognized over the next 48 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, 2008.

Note 9: Employee Retirement and Other Benefit Plans

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

Components of net periodic benefit cost for the three and nine month periods ended September 30, 2008 and September 28, 2007, respectively, were as follows:

	Three months ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Service cost	$ 6.3	$ 6.2	$ 0.3	$ 0.7
Interest cost	8.6	7.6	0.5	0.5
Expected return on plan assets	(10.5)	(9.1)		
Amortization of prior service cost				(0.2)
Recognized net actuarial loss	1.6	2.8		

Net periodic benefit cost	$ 6.0	$ 7.5	$ 0.8	$ 1.0

	Nine months ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Service cost	$ 19.1	$ 18.8	$ 1.1	$ 2.1
Interest cost	26.2	23.2	1.7	1.5
Expected return on plan assets	(31.9)	(27.7)		
Amortization of prior service cost			(0.2)	(0.6)
Recognized net actuarial loss	4.8	8.6		
Net periodic benefit cost	$ 18.2	$ 22.9	$ 2.6	$ 3.0

In 2008, the Company expects to pay contributions of between $55.0 million and $65.0 million for its U.S. and non-U.S. pension plans and between $0.9 million and $1.0 million for its other postretirement plan. The increase in expected contributions from the Company s previous estimates is due to the negative impact on the value of assets in the Company s funded pension plans due to the recent decline in the fair value of global equity and debt securities.

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Note 10: Legal Proceedings

The following supplements and amends the discussion set forth under Part I, Item 3, Legal Proceedings in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and Part II, Item 1, Legal Proceedings in the Company s Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2008 and June 30, 2008.

In August 2004, James Clayworth, R.Ph., doing business as Clayworth Pharmacy, filed a complaint entitled Clayworth v. Allergan, et al. in the Superior Court of the State of California for the County of Alameda. The complaint, as amended, named the Company and 12 other defendants and alleged unfair business practices, including a price fixing conspiracy relating to the reimportation of pharmaceuticals from Canada. The complaint sought damages, equitable relief, attorneys fees and costs. On January 8, 2007, the court entered a notice of entry of judgment of dismissal against the plaintiffs dismissing the plaintiffs complaint. On the same date, the plaintiffs filed a notice of appeal with the Court of Appeal of the State of California, First Appellate District. On April 14, 2007, the plaintiffs filed an opening brief with the Court of Appeal of the State of California. The defendants filed their joint opposition on July 5, 2007, and the plaintiffs filed their reply on August 24, 2007. On May 14, 2008, the court heard oral arguments and took the matter under submission. On July 25, 2008, the Court of Appeal of the State of California affirmed the Superior Court of the State of California for the County of Alameda s ruling granting the Company s motion for summary judgment. On August 11, 2008, the plaintiffs filed a petition for rehearing with the Court of Appeal of the State of California. On August 19, 2008, the court denied the plaintiffs petition for rehearing. On September 3, 2008, the plaintiffs filed a petition for review with the Supreme Court of the State of California. On September 25, 2008, the defendants filed an answer to plaintiffs petition for review. On October 6, 2008, the plaintiffs filed a reply in answer to the petition for review with the Supreme Court of the State of California.

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

In November 2007, the Company filed a complaint captioned Allergan, Inc. v. Cayman Chemical Company, Jan Marini Skin Research, Inc., Athena Cosmetics Corporation, Dermaquest, Inc., Intuit Beauty, Inc., Civic Center Pharmacy and Photomedex, Inc. in the U.S. District Court for the Central District of California. In its complaint, the Company alleges that the defendants are infringing U.S. Patent No. 6,262,105 (the 105 patent), licensed to the Company by Murray A. Johnstone, M.D. On January 7, 2008, Photomedex, Inc. (Photomedex) filed a motion to dismiss the Company s complaint. On January 23, 2008, the Company filed a motion for leave to file a second amended complaint to add Murray A. Johnstone, the holder of the 105 patent, as a plaintiff and to add Global MDRx and ProCyte Corporation (ProCyte) as defendants. On March 3, 2008, the U.S. District Court for the Central District of California denied Photomedex s motion to dismiss and granted the Company s motion for leave to file a second amended complaint. On April 28, 2008, the Company filed a motion for leave to file a third amended complaint to add patent infringement claims relating to U.S. Patent No. 7,351,404 against the defendants, and to add Athena Bioscience, LLC and Cosmetic Alchemy, LLC as additional defendants. On July 17, 2008, the Company and Jan Marini Skin Research, Inc. (Jan Marini) entered into a settlement agreement under which Jan Marini agreed to acknowledge the validity of the Company s patents in exchange for the Company dismissing all claims against Jan Marini. On August 11, 2008, the U.S. District Court for the Central District of California dismissed Jan Marini with prejudice. On July 21, 2008, the Company and Intuit Beauty, Inc. (Intuit) entered into a settlement agreement under which Intuit agreed to acknowledge the validity of the Company s patents in exchange for the Company dismissing all claims against Intuit. On August 6, 2008, the court dismissed Intuit with prejudice. On July 28, 2008, the court entered a default judgment against Global MDRx for failure to defend against the summons. On September 27, 2008, the Company and Cayman Chemical Company (Cayman) entered into a settlement agreement under which Cayman agreed to cease selling certain compounds to be used in particular types of products in exchange for the Company dismissing all claims against Cayman. On October 16, 2008, Global MDRx filed a motion to set aside the default judgment. The court scheduled the hearing

on Global MDRx s motion to set aside the default judgment for November 17, 2008. On October 27, 2008, the court dismissed Cayman without prejudice. On November 4, 2008, the Company, Photomedex and ProCyte entered into a settlement agreement under which Photomedex and ProCyte agreed to acknowledge the validity of the Company s patents in exchange for the Company dismissing all claims against Photomedex and ProCyte. The court has scheduled a trial date for November 3, 2009 for the remaining defendants.

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On July 9, 2008, a complaint entitled Kramer, Bryant, Spears, Doolittle, Clark, Whidden, Powell, Moore, Hennessy, Sody, Breeding, Downey, Underwood-Boswell, Reed-Momot, Purdon & Hahn v. Allergan, Inc. was filed in the Superior Court for the State of California for the County of Orange. The complaint makes allegations against the Company relating to *Botox*® and *Botox*® Cosmetic including failure to warn, manufacturing defects, negligence, breach of implied and express warranties, deceit by concealment and negligent misrepresentation and seeks damages, attorneys fees and costs. On July 17, 2008, the plaintiffs filed a first amended complaint. On September 29, 2008, the Company filed an answer to the first amended complaint. The court has scheduled a status conference for February 17, 2009.

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

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

Note 11: Contingencies

On March 3, 2008, the Company received service of a Subpoena Duces Tecum from the DOJ. The subpoena requests the production of documents relating to the Company s sales and marketing practices in connection with *Botox*®. During the second and third quarters of 2008, the Company incurred $9.0 million and $6.7 million, respectively, of costs associated with the DOJ investigation. Costs associated with responding to the DOJ investigation are expected to total approximately $25 million to $35 million during fiscal year 2008. Estimated costs include attorneys fees and costs associated with document production, imaging and information services support. Because of the uncertainties related to the incurrence, amount and range of loss, if any, that might be incurred related to this investigation, management is currently unable to predict the ultimate outcome or determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome associated with this investigation.

Note 12: Guarantees

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

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note 13: Product Warranties

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

The following table provides a reconciliation of the change in estimated product warranty liabilities through September 30, 2008:

	(in millions)
Balance at December 31, 2007	$ 28.0
Provision for warranties issued during the period	4.9
Settlements made during the period	(4.5)
Increases in warranty estimates	0.4
Balance at September 30, 2008	$ 28.8
Current portion	$ 6.0
Non-current portion	22.8

Total	$ 28.8

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14: Earnings Per Share

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

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions, except per share amounts)			
Net earnings				
Earnings from continuing operations	$ 169.3	$ 156.0	$ 428.0	$ 339.8
Earnings (loss) from discontinued operations		1.4		(0.8)
Net earnings	$ 169.3	$ 157.4	$ 428.0	$ 339.0
Weighted average number of shares issued	303.8	305.9	304.4	304.9
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	2.5	3.4	2.8	3.4
Diluted shares	306.3	309.3	307.2	308.3
Basic earnings per share:				
Continuing operations	$ 0.56	$ 0.51	$ 1.41	$ 1.11
Discontinued operations				
Net basic earnings per share	$ 0.56	$ 0.51	$ 1.41	$ 1.11
Diluted earnings per share:				
Continuing operations	$ 0.55	$ 0.50	$ 1.39	$ 1.10
Discontinued operations		0.01		
Net diluted earnings per share	$ 0.55	$ 0.51	$ 1.39	$ 1.10

For the three and nine month periods ended September 30, 2008, options to purchase 11.4 million and 11.3 million shares of common stock, respectively, at exercise prices ranging from $48.07 to $65.63 per share were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company s 1.50% Convertible Senior Notes due 2026 for the three and nine month periods ended September 30, 2008, as the Company s average stock price for the respective periods was less than the conversion price of the notes.

For the three and nine month periods ended September 28, 2007, options to purchase 3.9 million and 7.6 million shares of common stock at exercise prices ranging from $49.94 to $64.43 and $48.07 to $64.43 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company s 1.50% Convertible Senior Notes due

2026 for the three and nine month periods ended September 28, 2007, as the Company s average stock price for the respective periods was less than the conversion price of the notes.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15: Comprehensive Income

The following table summarizes the components of comprehensive income for the three and nine month periods ended September 30, 2008 and September 28, 2007:

	Three months ended					
	September 30, 2008			September 28, 2007		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
	(in millions)					
Foreign currency translation adjustments	$ (55.5)	$	$ (55.5)	$ 22.7	$	$ 22.7
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.3)	0.1	(0.2)	(0.3)	0.1	(0.2)
Unrealized holding (loss) gain on available-for-sale securities	(0.7)	0.3	(0.4)	0.3	(0.1)	0.2
Other comprehensive (loss) income	$ (56.5)	$ 0.4	(56.1)	$ 22.7	$	22.7
Net earnings			169.3			157.4
Total comprehensive income			$ 113.2			$ 180.1

	Nine months ended					
	September 30, 2008			September 28, 2007		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
	(in millions)					
Foreign currency translation adjustments	$ (16.2)	$	$ (16.2)	$ 38.3	$	$ 38.3
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(1.0)	0.4	(0.6)	(1.0)	0.4	(0.6)
Unrealized holding (loss) gain on available-for-sale securities	(4.8)	1.9	(2.9)	2.7	(1.1)	1.6
Other comprehensive (loss) income	$ (22.0)	$ 2.3	(19.7)	$ 40.0	$ (0.7)	39.3
Net earnings			428.0			339.0
Total comprehensive income			$ 408.3			$ 378.3

Note 16: Fair Value Measurements

As disclosed in Note 1, Basis of Presentation, the Company adopted SFAS No. 159 on January 1, 2008. The Company did not elect the fair value option as allowed by SFAS No. 159 for its financial assets and liabilities that were not previously carried at fair value. Therefore, material financial assets and liabilities that are not carried at fair value, such as short-term and long-term debt obligations and trade accounts receivable and payable, are still reported at their historical carrying values.

The Company adopted the methods of measuring fair value described in SFAS No. 157 on January 1, 2008. As defined in SFAS No. 157, fair value is 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. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as 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, 2008, the Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include commercial paper and foreign time deposits classified as cash equivalents, other cash equivalents, available-for-sale securities, foreign exchange derivatives and an interest rate swap with a $300.0 million notional amount that receives interest at a fixed rate of 5.75% and pays interest at a variable interest rate equal to 3-month LIBOR plus 0.368%. These assets and liabilities are classified in the table below in one of the three categories of the fair value hierarchy described above.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Total	Level 1	Level 2	Level 3
		(in millions)		
Assets				
Commercial paper	$ 579.3	$ 579.3	$	$
Foreign time deposits	110.1	110.1		
Other cash equivalents	239.8	239.8		
Available-for-sale securities	1.6	1.6		
Foreign exchange derivative assets	22.8		22.8	
Interest rate swap derivative asset	21.8		21.8	
	$ 975.4	$ 930.8	$ 44.6	$
Liabilities				
Foreign exchange derivative liabilities	$ 0.4	$	$ 0.4	$
Interest rate swap derivative liability	21.8		21.8	
	$ 22.2	$	$ 22.2	$

Commercial paper, foreign time deposits and other cash equivalents are valued at cost, which approximates fair value due to the short-term maturities of these instruments. Available-for-sale securities are valued using quoted stock prices from the National Association of Securities Dealers Automated Quotation System at the reporting date. Foreign exchange 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 are valued using LIBOR yield curves at the reporting date. The Company currently believes that any counterparty credit risk associated with foreign exchange derivatives and the interest rate swap is negligible.

Note 17: 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 glaucoma therapy, ocular inflammation, infection, allergy and chronic dry eye; *Botox*® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis and other prescription and over-the-counter dermatological products; and, beginning in the fourth quarter of 2007, urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery; obesity intervention products, including the *Lap-Band*® System and the *BIB BioEnterics*® Intragastric Balloon; 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 revenue and operating income basis exclusive of general and administrative expenses and other indirect costs, restructuring charges, in-process research and development expenses, amortization of identifiable intangible assets related to business combinations and asset acquisitions and certain other adjustments, which are not allocated to the Company s segments for performance assessment by the Company s chief operating decision maker. Other adjustments excluded from the Company s segments for performance assessment represent income or expenses that do not reflect, according to established Company-defined criteria, operating income or expenses associated with the Company s core business activities. Because operating segments are generally defined by the products they design and sell, they do not make sales to 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.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating Segments

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Product net sales:				
Specialty pharmaceuticals	$ 872.5	$ 783.9	$ 2,656.5	$ 2,246.8
Medical devices	209.4	194.8	642.2	557.1
Total product net sales	1,081.9	978.7	3,298.7	2,803.9
Other corporate and indirect revenues	16.3	15.0	48.1	44.4
Total revenues	$ 1,098.2	$ 993.7	$ 3,346.8	$ 2,848.3
Operating income:				
Specialty pharmaceuticals	$ 310.0	$ 277.1	$ 886.8	$ 751.2
Medical devices	62.4	52.8	170.0	163.9
Total segments	372.4	329.9	1,056.8	915.1
General and administrative expenses, other indirect costs and other adjustments	101.4	74.9	312.6	247.8
In-process research and development				72.0
Amortization of acquired intangible assets (a)	33.8	23.5	94.2	70.0
Restructuring charges	(0.2)	11.0	37.6	24.3
Total operating income	$ 237.4	$ 220.5	$ 612.4	$ 501.0

(a) Represents amortization of 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 markets are the United States, Europe, Latin America and Asia Pacific. The U.S. information is presented separately as it is the Company s headquarters country. U.S. sales, including manufacturing operations, represented 64.1% and 65.4% of the Company s total consolidated product net sales for the three month periods ended September 30, 2008 and September 28, 2007, respectively, and 63.8% and 65.7% of the Company s total consolidated product net sales for the nine month periods ended September 30, 2008 and September 28, 2007, respectively.

Sales to two customers in the Company s specialty pharmaceuticals segment generated over 10% of the Company s total consolidated product net sales. Sales to McKesson Drug Company for the three month periods ended September 30, 2008 and September 28, 2007 were 12.0% and 11.0% of the Company s total consolidated product net sales, respectively, and 12.1% and 11.2% of the Company s total consolidated product net sales for the nine month periods ended September 30, 2008 and September 28, 2007, respectively. Sales to Cardinal Health for the three month periods ended September 30, 2008 and September 28, 2007 were 13.2% and 11.0% of the Company s total consolidated product net sales, respectively, and 11.7% and 11.2% of the Company s total consolidated product net sales for the nine month periods ended September 30, 2008 and September 28, 2007, respectively. 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.

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

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Product Net Sales by Product Line

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	$ 510.4	$ 457.7	$ 1,542.2	$ 1,292.1
Botox®/Neuromodulators	318.4	296.7	981.7	872.0
Skin Care	26.7	29.5	81.0	82.7
Urologics	17.0		51.6	
Total Specialty Pharmaceuticals	872.5	783.9	2,656.5	2,246.8
Medical Devices:				
Breast Aesthetics	72.1	69.7	239.1	217.8
Obesity Intervention	79.0	74.0	227.5	195.9
Facial Aesthetics	58.3	49.3	175.6	141.6
Core Medical Devices	209.4	193.0	642.2	555.3
Other		1.8		1.8
Total Medical Devices	209.4	194.8	642.2	557.1
Total product net sales	$ 1,081.9	$ 978.7	$ 3,298.7	$ 2,803.9

Geographic Information

Product Net Sales

	Three months ended		Nine months ended	
	September 30, 2008	September 28, 2007	September 30, 2008	September 28, 2007
	(in millions)		(in millions)	
United States	$ 687.3	$ 638.3	$ 2,092.9	$ 1,836.4
Europe	214.7	190.4	687.6	559.8
Latin America	71.8	59.4	203.6	157.8
Asia Pacific	59.1	52.4	175.0	140.8
Other	42.4	36.1	128.8	103.8
	1,075.3	976.6	3,287.9	2,798.6
Manufacturing operations	6.6	2.1	10.8	5.3
Total product net sales	$ 1,081.9	$ 978.7	$ 3,298.7	$ 2,803.9

Long-Lived Assets

	September 30, 2008	December 31, 2007
	(in millions)	
United States	$ 3,430.0	$ 3,379.5
Europe	257.9	278.2
Latin America	21.6	22.9
Asia Pacific	8.9	7.1
Other	1.1	0.1
	3,719.5	3,687.8
Manufacturing operations	395.7	348.7
General corporate	229.2	223.0
Total	$ 4,344.4	$ 4,259.5

The increase in long-lived assets at September 30, 2008 compared to December 31, 2007 is primarily due to the Company s *Aczone*® asset acquisition and an increase in intangible licensing assets related to *Sanctura*® and *Restasis*® products, partially offset by a decrease in goodwill related to the Esprit acquisition, all of which are reflected in the United States balance above.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18: Subsequent Event

On October 28, 2008, the Company entered into a license, development, supply and distribution agreement (License Agreement) with Spectrum Pharmaceuticals, Inc. (Spectrum) to jointly develop and commercialize apaziquone, an antineoplastic agent currently being investigated for the treatment of non-muscle invasive bladder cancer.

Pursuant to the License Agreement, the Company will make an upfront payment of $41.5 million to Spectrum in the fourth quarter of 2008 and will make additional payments to Spectrum of up to $304 million based on the achievement of certain development, regulatory and commercialization milestones. In addition, the Company will pay royalties to Spectrum on all sales of apaziquone outside of the United States. In the United States, the Company and Spectrum plan to co-promote apaziquone and share in the resulting profits, losses and expenses.

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ALLERGAN, INC.

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

This financial review presents our operating results for the three and nine month periods ended September 30, 2008 and September 28, 2007, and our financial condition at September 30, 2008. Except for the historical information contained herein, the following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the caption Risk Factors in Item 1A of Part II below. The following review should be read in connection with the information presented in our unaudited condensed consolidated financial statements and related notes for the three and nine month periods ended September 30, 2008 included in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2007 included in our 2007 Annual Report on Form 10-K filed with the 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 of America, 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 $3.3 million and $1.8 million at September 30, 2008 and December 31, 2007, respectively. Provisions for cash discounts deducted from consolidated sales in the third quarter of 2008 and the third quarter of 2007 were $10.6 million and $8.7 million, respectively. Provisions for cash discounts deducted from consolidated sales in the first nine months of 2008 and the first nine months of 2007 were $31.4 million and $25.2 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, 2008 and December 31, 2007 were $22.0 million and $29.8 million, respectively, and are recorded in Other accrued expenses and Trade receivables, net in our consolidated balance sheet. The decrease in the amount of allowances for sales returns at September 30, 2008 compared to December 31, 2007 was primarily due to a reduction in the rate of returns for medical device products. Provisions for sales returns deducted from consolidated sales were $74.7 million and $72.5 million in the third quarter of 2008 and the third quarter of 2007, respectively. Provisions for sales returns deducted from consolidated sales were $240.6 million and $224.2 million in the first nine months of 2008 and the first nine months of 2007, respectively. The increase in the provision for sales returns in the third quarter and first nine months of 2008 compared to the third quarter and first nine months of 2007 was primarily due to growth in net sales of medical device products, primarily breast implants, which generally have a significantly higher rate of return than specialty pharmaceutical products. Historical allowances for cash discounts and product returns have been within the amounts reserved or accrued.

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

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organizations, pharmacy benefits managers and group purchasing organizations. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in Other accrued expenses in our consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $113.5 million and $82.0 million at September 30, 2008 and December 31, 2007, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $76.9 million and $52.0 million in the third quarter of 2008 and the third quarter of 2007, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $224.6 million and $160.1 million in the first nine months of 2008 and the first nine months of 2007, respectively. The increases in the amounts accrued at September 30, 2008 compared to December 31, 2007 and the provisions for sales rebates and other incentive programs in the third quarter and first nine months of 2008 compared to the third quarter and first nine months of 2007 are primarily due to an increase in U.S. sales of products subject to such rebate and incentive programs, principally eye care pharmaceuticals, *Botox*® and medical device products. In addition, an increase in our published list prices in the United States for pharmaceutical products, which occurred for several of our products in both 2008 and 2007, generally results in higher provisions for sales rebates and other incentive programs deducted from consolidated sales.

Our procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management s judgment with respect to many factors, including but not limited to, current market dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, we use historical sales, product utilization and rebate data and apply forecasting techniques in order to estimate our liability amounts. Qualitatively, management s judgment is applied to these items to modify, if appropriate, the estimated liability amounts. There are inherent risks in this process. For example, customers may not achieve assumed utilization levels; customers may misreport their utilization to us; and actual movements of the U.S. Consumer Price Index Urban, 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 $5.0 million to $6.0 million. The sensitivity of our estimates can vary by program and type of customer. Additionally, there is a significant time lag between the date we determine the estimated liability and when we actually pay the liability. Due to this time lag, we record adjustments to our estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods. Material differences may result in the amount of revenue we recognize from product sales if the actual amount of rebates and incentives differ materially from the amounts estimated by management.

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

Pensions

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

Our assumption for the weighted average expected long-term rate of return on assets in our U.S. funded pension plans for determining the net periodic benefit cost is 8.25% for 2008, which is the same rate used for 2007. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. funded pension plans are 6.81% and 6.43% for 2008 and 2007, respectively. For our U.S. funded pension plan, we determine, based upon recommendations from our pension plans investment advisors, the expected rate of return using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Our investment advisors study historical market returns and preserve long-term historical relationships between equities and fixed income in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. They also evaluate market factors such as inflation and interest rates before long-term capital market assumptions are determined. 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

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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 2008 pre-tax pension benefit cost by approximately $1.3 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2007 were 6.25% and 5.50%, respectively. The weighted average discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2008 are 6.25% and 5.50%, respectively, and for 2007 were 5.90% and 4.65%, respectively. We determine the discount rate largely based upon an index of high-quality fixed income investments (for our U.S. plans, we use the U.S. Moody s Aa Corporate Long Bond Index and for our non-U.S. plans, we use the iBoxx Corporate AA 10+ Year Index and the iBoxx £ Corporate AA 15+ Year Index) and, for our U.S. plans, a constructed hypothetical portfolio of high quality fixed income investments with maturities that mirror the pension benefit obligations at the plans measurement date. Market conditions and other factors can vary over time and could significantly affect our estimates for the discount rates used to calculate our pension benefit obligations and net periodic 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 2008 pre-tax pension benefit costs by approximately $3.3 million and increase our pension plans projected benefit obligations at December 31, 2007 by approximately $27.8 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 using the Black-Scholes option-pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period using the straight-line single option method.

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

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

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, research and development, or R&D, tax credits available in California and other foreign jurisdictions and deductions available in the United States for domestic production activities. As of September 30, 2008, the U.S. federal R&D tax credit was expired. In October 2008, the U.S. federal R&D tax credit was reinstated for two years with retroactive effect to the beginning of our 2008 fiscal year. Our estimated annual effective tax rate for 2008 will reflect this reinstated tax credit beginning in the fourth quarter of 2008. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions we use to estimate our annual effective tax rate, including factors such as our mix of pre-tax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers. We record a valuation allowance against our deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce the valuation allowance against our deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period such determination is made. Reductions to valuation allowances related to net operating loss carryforwards of acquired businesses will be treated as adjustments to purchased goodwill up through and until the end of our 2008 fiscal year.

Valuation allowances against deferred tax assets were $19.0 million and $99.9 million as of September 30, 2008 and December 31, 2007, respectively. The decrease in the valuation allowance against deferred tax assets primarily occurred during the second quarter of 2008 and relates to an increase in the expected utilization of net operating loss carryforwards of Esprit Pharma Holding Company, Inc, or Esprit, which we acquired in October 2007, and is treated as a reduction of purchased goodwill. Changes in the valuation allowances, when they are recognized in the provision for income taxes, are included as a component of the estimated annual effective tax rate.

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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, 2007, we had approximately $1,007.0 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these funds were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against our U.S. tax liability, if any. We annually update our estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Purchase Price Allocation

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

On July 11, 2008, we acquired all assets relating to *Aczone*® (dapsone) Gel 5% for approximately $150 million. We accounted for the acquisition as a purchase of net assets and not as a business combination. On October 16, 2007, we acquired Esprit for an aggregate purchase price of approximately $370.8 million, net of cash acquired. On February 22, 2007, we acquired EndoArt SA, or EndoArt, for an aggregate purchase price of approximately $97.1 million, net of cash acquired. On January 2, 2007, we acquired Groupe Cornéal Laboratoires, or Cornéal, for an aggregate purchase price of approximately $209.2 million, net of cash acquired. We accounted for the acquisitions of Esprit, EndoArt and Cornéal as business combinations. The purchase prices for the acquisitions were allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition dates. 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.

Discontinued Operations

On July 2, 2007, we completed the sale of the ophthalmic surgical device business that we acquired as a part of the Cornéal acquisition in January 2007, for net proceeds of $28.6 million. The net assets of the disposed business consisted of current assets of $24.3 million, non-current assets of $9.8 million and current liabilities of $4.2 million. As of September 28, 2007, we recorded a pre-tax gain of $0.9 million (zero net of tax) associated with the sale. During the fourth quarter of 2007, we recorded certain adjustments to the sales proceeds and reported a cumulative pre-tax loss for the 2007 fiscal year of $1.3 million ($1.0 million net of tax) associated with the sale.

The following amounts related to the ophthalmic surgical device business have been segregated from continuing operations and reported as discontinued operations through the date of disposition. We did not account for our ophthalmic surgical device business as a separate legal entity. Therefore, the following selected financial data for the discontinued operations is presented for informational purposes only and does not necessarily reflect what the net sales or earnings would have been had the business operated as a stand-alone entity. The financial information for the discontinued operations includes allocations of certain expenses to the ophthalmic surgical device business. These amounts have been allocated to the discontinued operations on the basis that is considered by management to reflect most fairly or reasonably the utilization of the services provided to, or the benefit obtained by, the ophthalmic surgical device business.

The following table sets forth selected financial data of our discontinued operations for the three and nine month periods ended September 28, 2007.

Selected Financial Data for Discontinued Operations

	Three months ended September 28, 2007	Nine months ended September 28, 2007
	(in millions)	

Product net sales	$	$ 20.0
Earnings (loss) from discontinued operations before income taxes	$ 2.2	$ (1.2)
Net earnings (loss) from discontinued operations	$ 1.4	$ (0.8)

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The earnings from discontinued operations before income taxes of $2.2 million in the three month period ended September 28, 2007 primarily relate to an adjustment to the estimated fair value of ophthalmic surgical inventory associated with the Cornéal acquisition that was sold during the first six months of 2008. This change in estimated fair value occurred during the allowable allocation period.

Continuing Operations

Headquartered in Irvine, California, we are a multi-specialty health care company focused on discovering, developing and commercializing innovative pharmaceuticals, biologics and medical devices that enable people to see more clearly, move more freely and express themselves more fully. Our diversified approach enables us to follow our research and development into new specialty areas where unmet needs are significant.

We discover, develop and commercialize specialty pharmaceutical, medical device and over-the-counter products for the ophthalmic, neurological, medical aesthetics, dermatological, breast aesthetics, obesity intervention, urological and other specialty markets in more than 100 countries around the world. We are a pioneer in specialty pharmaceutical research, targeting products and technologies related to specific disease areas such as glaucoma, retinal disease, chronic dry eye, psoriasis, acne, movement disorders, neuropathic pain and genitourinary diseases. Additionally, we are a leader in discovering, developing and marketing therapeutic and aesthetic biologic, pharmaceutical and medical device products, including saline and silicone gel breast implants, cosmetic injections, dermal fillers and obesity intervention products. At September 30, 2008, we employed approximately 8,812 persons around the world. Our principal markets are the United States, Europe, Latin America and Asia Pacific.

Results of Continuing 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 glaucoma therapy, ocular inflammation, infection, allergy and chronic dry eye; *Botox*® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis and other prescription and over-the-counter dermatological products; and, beginning in the fourth quarter of 2007, urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery; obesity intervention products, including the *Lap-Band*® System and the *BIB BioEnterics*® Intragastric Balloon; 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 revenue 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.

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The following table compares net sales by product line within each reportable segment and certain selected pharmaceutical products for the three and nine month periods ended September 30, 2008 and September 28, 2007:

	Three months ended September 30, 2008	September 28, 2007	Change in Product Net Sales Total	Performance	Currency	Percent Change in Product Net Sales Total	Performance	Currency
			(in millions)					
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$ 510.4	$ 457.7	$ 52.7	$ 41.7	$ 11.0	11.5%	9.1%	2.4%
Botox®/Neuromodulator	318.4	296.7	21.7	16.8	4.9	7.3%	5.7%	1.6%
Skin Care	26.7	29.5	(2.8)	(2.8)		(9.5)%	(9.5)%	%
Urologics	17.0		17.0	17.0		%	%	%
Total Specialty Pharmaceuticals	872.5	783.9	88.6	72.7	15.9	11.3%	9.3%	2.0%
Medical Devices:								
Breast Aesthetics	72.1	69.7	2.4	1.1	1.3	3.4%	1.6%	1.8%
Obesity Intervention	79.0	74.0	5.0	4.1	0.9	6.8%	5.5%	1.3%
Facial Aesthetics	58.3	49.3	9.0	8.0	1.0	18.3%	16.2%	2.1%
Core Medical Devices	209.4	193.0	16.4	13.2	3.2	8.5%	6.8%	1.7%
Other (a)		1.8	(1.8)	(1.8)		(100.0)%	(100.0)%	%
Total Medical Devices	209.4	194.8	14.6	11.4	3.2	7.5%	5.9%	1.6%
Total product net sales	$ 1,081.9	$ 978.7	$ 103.2	$ 84.1	$ 19.1	10.5%	8.6%	1.9%
Domestic product net sales	64.1%	65.4%						
International product net sales	35.9%	34.6%						
Selected Product Net Sales (b):								
Alphagan® P, *Alphagan®* and *Combigan*	$ 107.1	$ 89.8	$ 17.3	$ 14.9	$ 2.4	19.3%	16.6%	2.7%
Lumigan® Franchise	107.8	100.4	7.4	4.4	3.0	7.3%	4.3%	3.0%
Other Glaucoma	3.7	3.9	(0.2)	(0.4)	0.2	(4.3)%	(9.4)%	5.1%
Restasis®	107.1	88.2	18.9	18.8	0.1	21.4%	21.4%	%
Sanctura® Franchise	17.0		17.0	17.0		%	%	%

	Nine months ended September 30, 2008	September 28, 2007	Change in Product Net Sales Total	Performance	Currency	Percent Change in Product Net Sales Total	Performance	Currency
			(in millions)					
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$ 1,542.2	$ 1,292.1	$ 250.1	$ 200.0	$ 50.1	19.4%	15.5%	3.9%
Botox®/Neuromodulator	981.7	872.0	109.7	80.5	29.2	12.6%	9.2%	3.4%
Skin Care	81.0	82.7	(1.7)	(1.7)		(2.1)%	(2.1)%	%
Urologics	51.6		51.6	51.6		%	%	%
Total Specialty Pharmaceuticals	2,656.5	2,246.8	409.7	330.4	79.3	18.2%	14.7%	3.5%

Medical Devices:								
Breast Aesthetics	239.1	217.8	21.3	12.6	8.7	9.8%	5.8%	4.0%
Obesity Intervention	227.5	195.9	31.6	26.7	4.9	16.1%	13.6%	2.5%
Facial Aesthetics	175.6	141.6	34.0	26.4	7.6	24.0%	18.6%	5.4%
Core Medical Devices	642.2	555.3	86.9	65.7	21.2	15.6%	11.8%	3.8%
Other (a)		1.8	(1.8)	(1.8)		(100.0)%	(100.0)%	%
Total Medical Devices	642.2	557.1	85.1	63.9	21.2	15.3%	11.5%	3.8%
Total product net sales	$ 3,298.7	$ 2,803.9	$ 494.8	$ 394.3	$ 100.5	17.6%	14.1%	3.5%