ALLERGAN INC
Form 10-Q
August 06, 2010

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 June 30, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer 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 July 31, 2010, there were 307,511,888 shares of common stock outstanding (including 4,093,406 shares held in treasury).

ALLERGAN, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010

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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		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Product net sales	$ 1,231.7	$ 1,118.7	$ 2,337.5	$ 2,113.3
Other revenues	15.5	12.1	64.4	24.7
Total revenues	1,247.2	1,130.8	2,401.9	2,138.0
Operating costs and expenses:				
Cost of sales (excludes amortization of acquired intangible assets)	191.3	198.3	361.5	376.1
Selling, general and administrative	499.0	441.9	972.8	926.4
Research and development	187.6	161.6	410.3	343.7
Amortization of acquired intangible assets	37.3	35.5	74.4	74.1
Restructuring charges	0.1	1.0	0.7	43.1
Operating income	331.9	292.5	582.2	374.6
Non-operating income (expense):				
Interest income	1.2	1.5	2.5	4.2
Interest expense	(13.9)	(18.5)	(30.5)	(37.9)
Other, net	14.3	(18.5)	11.3	(20.5)
	1.6	(35.5)	(16.7)	(54.2)
Earnings before income taxes	333.5	257.0	565.5	320.4
Provision for income taxes	92.0	80.2	155.0	98.6
Net earnings	241.5	176.8	410.5	221.8
Net earnings attributable to noncontrolling interest	1.4	0.7	2.5	1.0
Net earnings attributable to Allergan, Inc.	$ 240.1	$ 176.1	$ 408.0	$ 220.8
Earnings per share attributable to Allergan, Inc. stockholders:				
Basic	$ 0.79	$ 0.58	$ 1.34	$ 0.73
Diluted	$ 0.78	$ 0.58	$ 1.33	$ 0.72

See accompanying notes to unaudited condensed consolidated financial statements.

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and equivalents	$ 2,219.6	$ 1,947.1
Trade receivables, net	601.3	576.6
Inventories	201.9	213.9
Other current assets	331.4	368.7
Total current assets	3,354.2	3,106.3
Investments and other assets	273.4	266.7
Deferred tax assets	17.1	
Property, plant and equipment, net	785.9	808.1
Goodwill	1,996.6	1,998.3
Intangibles, net	1,360.4	1,357.2
Total assets	$ 7,787.6	$ 7,536.6
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ 13.1	$ 18.1
Convertible notes	629.7	
Accounts payable	198.9	204.0
Accrued compensation	148.2	164.3
Other accrued expenses	386.9	382.7
Income taxes	43.2	42.5
Total current liabilities	1,420.0	811.6
Long-term debt	888.7	874.0
Long-term convertible notes		617.3
Deferred tax liabilities		1.4
Other liabilities	369.2	388.4
Commitments and contingencies		
Equity:		
Allergan, Inc. stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 500,000,000 shares; issued 307,512,000 shares as of June 30, 2010 and December 31, 2009	3.1	3.1
Additional paid-in capital	2,751.7	2,730.3
Accumulated other comprehensive loss	(166.3)	(102.8)
Retained earnings	2,723.0	2,356.7
	5,311.5	4,987.3
Less treasury stock, at cost (3,842,000 shares as of June 30, 2010 and 3,079,000 shares as of December 31, 2009)	(223.5)	(164.5)
Total stockholders equity	5,088.0	4,822.8
Noncontrolling interest	21.7	21.1

Total equity	5,109.7	4,843.9
Total liabilities and equity	$ 7,787.6	$ 7,536.6

See accompanying notes to unaudited condensed consolidated financial statements.

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six months ended	
	June 30, 2010	**June 30, 2009**
Cash flows from operating activities:		
Net earnings	$ 410.5	$ 221.8
Non-cash items included in net earnings:		
Depreciation and amortization	132.6	132.2
Amortization of original issue discount and debt issuance costs	13.9	14.0
Amortization of net realized gain on interest rate swap	(0.7)	(0.7)
Deferred income tax benefit	(5.9)	(43.8)
Loss on disposal and impairment of assets	0.7	2.9
Loss on extinguishment of convertible debt		5.3
Unrealized (gain) loss on derivative instruments	(8.2)	14.5
Expense of share-based compensation plans	35.3	116.4
Restructuring charges	0.7	43.1
Changes in assets and liabilities:		
Trade receivables	(47.9)	(32.6)
Inventories	8.4	35.5
Other current assets	14.6	21.8
Other non-current assets	(2.5)	0.3
Accounts payable	(22.2)	7.0
Accrued expenses	1.5	(55.4)
Income taxes	0.7	(33.8)
Other liabilities	(20.2)	0.7
Net cash provided by operating activities	511.3	449.2
Cash flows from investing activities:		
Acquisition, net of cash acquired	(63.7)	
Additions to property, plant and equipment	(30.0)	(27.4)
Additions to capitalized software	(6.7)	(17.4)
Contractual purchase price adjustment to prior acquisition	(1.7)	11.6
Net cash used in investing activities	(102.1)	(33.2)
Cash flows from financing activities:		
Dividends to stockholders	(30.3)	(30.3)
Repayments of convertible borrowings		(98.3)
Payments to acquire treasury stock	(135.7)	(30.9)
Net (repayments) borrowings of notes payable	(8.4)	7.8
Sale of stock to employees	56.8	10.4
Excess tax benefits from share-based compensation	1.0	
Net cash used in financing activities	(116.6)	(141.3)
Effect of exchange rate changes on cash and equivalents	(20.1)	3.0

Net increase in cash and equivalents	272.5	277.7
Cash and equivalents at beginning of period	1,947.1	1,110.4
Cash and equivalents at end of period	$ 2,219.6	$ 1,388.1
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of amount capitalized)	$ 24.2	$ 30.9
Income taxes, net of refunds	$ 161.9	$ 168.3

In the first six months of 2009, the Company acquired an office building contiguous to its main facility in Irvine, California for approximately $20.7 million. The Company assumed a mortgage of $20.0 million and paid $0.7 million in cash.

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, 2009. 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 six month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010 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 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires companies to perform a qualitative analysis to determine whether a variable interest in another entity represents a controlling financial interest in a variable interest entity. A controlling financial interest in a variable interest entity is characterized by having both the power to direct the most significant activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity. This guidance also requires ongoing reassessments of variable interests based on changes in facts and circumstances. This guidance became effective for fiscal years beginning after November 15, 2009. The Company adopted the provisions of the guidance in the first quarter of 2010 and determined that none of the entities with which the Company currently conducts business and collaborations are variable interest entities.

New Accounting Standards Not Yet Adopted

In April 2010, the FASB issued an accounting standards update that provides guidance on the milestone method of revenue recognition for research and development arrangements. This guidance allows an entity to make an accounting policy election to recognize revenue that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This guidance will be effective for fiscal years beginning on or after June 15, 2010, which will be the Company s fiscal year 2011, and may be applied prospectively to milestones achieved after the adoption date or retrospectively for all periods presented, with earlier application permitted. The Company has not yet evaluated the potential impact of adopting this guidance on the Company s consolidated financial statements.

In October 2009, the FASB issued an accounting standards update that requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices, eliminates the use of the residual method of allocation, and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue of an arrangement with multiple deliverables. This guidance will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which will be the Company s fiscal year 2011, with earlier application permitted. The Company has not yet evaluated the potential impact of adopting this guidance on the Company s consolidated financial statements.

Note 2: Acquisitions and Collaborations

Serica Acquisition

On January 15, 2010, the Company completed the acquisition of Serica Technologies, Inc. (Serica), a development stage medical device company based in the United States focused on developing biodegradable silk-based scaffolds for use in tissue regeneration, for an aggregate purchase price of approximately $63.7 million, net of cash acquired. In connection with the acquisition, the Company acquired assets with a fair value of $95.6 million and assumed liabilities of $31.9 million. The acquisition was funded from current cash and equivalents balances. The Serica acquisition provides the Company with an approved technology that has potential future application in breast augmentation, revision, and reconstructive surgeries, as well as potential bariatric applications.

The Company recognized tangible and intangible assets acquired and liabilities assumed in connection with the Serica acquisition based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was recognized as goodwill. The goodwill acquired in the Serica acquisition is not deductible for federal income tax purposes.

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

	(in millions)
Identifiable intangible assets	$ 71.4
Goodwill	14.1
Property, plant and equipment	0.7
Deferred tax assets non-current	9.4
Accounts payable and accrued liabilities	(3.1)
Notes payable	(3.4)
Deferred tax liabilities non-current	(25.4)
	$ 63.7

The Company s fair value estimates for the assets acquired and liabilities assumed in connection with the Serica acquisition may change during the allowable measurement period, which is currently up to one year from the acquisition date, if additional information that would result in a difference in the fair value estimates becomes available.

The acquired identifiable intangible assets consist of $67.1 million in developed technology related to a medical device approved in the United States that aids in the repair and reinforcement of human soft tissue and an in-process research and development asset of $4.3 million related to a dermal filler technology that has not yet achieved regulatory approval. The useful life of the developed technology was determined to be approximately 11.8 years. Future impairment evaluations for the developed technology will occur at a consolidated cash flow level within the Company s medical devices segment in the United States, the market used to originally value the intangible asset. The in-process research and development asset is classified as an indefinite-lived intangible asset until the successful completion and commercialization or abandonment of the associated research and development efforts.

Samil Acquisition

On July 7, 2009, the Company and Samil Pharmaceutical Co. Ltd. entered into a joint venture, Samil Allergan Ophthalmic Joint Venture Company (Samil), in Korea by integrating the Samil Eyecare division with the Company s Korean ophthalmology products. In addition, the Company paid approximately $16.3 million ($14.8 million, net of cash acquired) to Samil Pharmaceutical Co. Ltd. to acquire the Company s joint venture investment and received a 50.001% stockholder interest in the joint venture. The acquisition was funded from cash and equivalents balances. The Company accounted for the Samil acquisition as a business combination.

In connection with the Samil acquisition, the Company acquired assets with a fair value of $40.8 million, including goodwill of $24.7 million, intangible assets of $5.1 million, cash of $1.5 million and other assets of $9.5 million, and assumed liabilities of $8.1 million. The Company believes the fair values assigned to the assets acquired and liabilities assumed were based on reasonable assumptions. In the first quarter of 2010, the Company increased goodwill by $1.7 million due to a contractual purchase price adjustment.

Collaborations

In March 2010, the Company and Serenity Pharmaceuticals, LLC (Serenity) entered into an agreement for the license, development and commercialization of a Phase 3 investigational drug currently in clinical development for the treatment of nocturia, a common urological disorder in adults characterized by frequent urination at night time. Under the terms of the agreement, the Company receives exclusive worldwide rights to develop, manufacture and commercialize the investigational drug for all potential indications except Primary Nocturnal Enuresis (pediatric bedwetting). In conjunction with the agreement, the Company agreed to make an upfront payment to Serenity of $43.0 million, which was paid in the second quarter of 2010. The terms of the agreement also include potential future development and regulatory milestone payments to Serenity of up to $122.0 million, as well as potential future sales milestone and royalty payments. Because the

technology has not yet achieved regulatory approval, the Company recorded the upfront payment of $43.0 million as research and development (R&D) expense in the first quarter of 2010.

In March 2010, the Company and Bristol-Myers Squibb Company (Bristol-Myers Squibb) entered into an agreement for the development and commercialization of an investigational drug for neuropathic pain. Under the terms of the agreement, the Company granted to Bristol-Myers Squibb exclusive worldwide rights to develop, manufacture, and

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commercialize the investigational drug for neuropathic pain and backup compounds. In conjunction with the agreement, the Company agreed to receive a net upfront payment of $36.0 million, which was collected in the second quarter of 2010. The terms of the agreement also include potential future development and regulatory milestone payments to the Company of up to $373.0 million, as well as potential future royalty payments. The Company recorded the net upfront receipt of $36.0 million as other revenue in the first quarter of 2010.

In March 2010, the Company amended its existing license agreements with GlaxoSmithKline (GSK) to reacquire the distribution rights to *Botox*® for all current and future cosmetic indications in Japan and China for $18.5 million. The Company capitalized the payment for these reacquired rights as an intangible asset and the related liability is included in Accounts payable as of June 30, 2010.

Note 3: Restructuring Charges and Integration Costs

2009 Restructuring Plan

On February 4, 2009, the Company announced a restructuring plan that involved a workforce reduction of approximately 460 employees, primarily in the United States and Europe. The majority of the employees affected by the restructuring plan were U.S. urology sales and marketing personnel as a result of the Company s decision to focus on the urology specialty and to seek a partner to promote *Sanctura XR*® to general practitioners, and furthermore marketing personnel in the United States and Europe as the Company adjusted its back-office structures to a reduced short-term sales outlook for some businesses. The restructuring plan also included modest workforce reductions in other functions as the Company re-engineered its processes to increase efficiency and productivity.

As part of the restructuring plan, the Company modified the outstanding stock options issued in its February 2008 full-round employee stock option grant. The stock options were originally granted with an exercise price of $64.47 with a standard four year graded vesting term, a ten year contractual term, and standard 90 day expiration upon termination of employment provisions. These options were modified to be immediately vested in full and to remove the 90 day expiration upon termination of employment provision. Because the modified awards became fully vested and there was no future derived service period, all unamortized compensation expense related to the original grant and the additional compensation expense attributable to the modification of the awards was recognized in full on the modification date.

In addition, the contractual provisions of outstanding stock options, other than the February 2008 full-round employee stock option grant, held by employees impacted by the workforce reduction were modified to extend the stock option expiration dates. Under the original contractual provisions, outstanding stock options held by employees involved in a workforce reduction automatically become fully vested upon termination of employment and the stock options expire after the earlier of 90 days from termination of employment or the remaining stock option contractual term. Under the modified terms, stock options for the impacted employees will expire after the earlier of three years from termination of employment or the remaining contractual term. All unamortized compensation expense related to the original stock option awards plus the incremental compensation expense associated with the modifications was recognized ratably from the modification date to the employees expected termination date. The fair value of the modifications to all share-based awards was generally estimated using a lattice model. The total incremental pre-tax compensation expense associated with the modifications attributable to the 2009 restructuring plan was $11.0 million.

The Company began to record costs associated with the 2009 restructuring plan in the first quarter of 2009 and substantially completed all activities related to the restructuring plan in the second quarter of 2009. The restructuring charges primarily consist of employee severance and other one-time termination benefits. During 2009, the Company recorded pre-tax restructuring charges of $42.2 million and recognized a total of $78.6 million related to employee stock option modifications, consisting of $5.0 million of cost of sales, $52.6 million in selling, general and administrative (SG&A) expenses and $21.0 million in R&D expenses, and recognized $2.3 million of asset write-offs and accelerated depreciation costs in SG&A expenses. During the six month period ended June 30, 2010, the Company recorded pre-tax restructuring charges of $0.1 million. During the three and six month periods ended June 30, 2009, the Company recorded pre-tax restructuring charges of $0.7 million and $39.1 million, respectively. As of June 30, 2010, remaining accrued expenses of $1.6 million related to the 2009 restructuring plan are included in Other accrued expenses. During the three month period ended June 30, 2009, the Company also recognized a total of $0.6 million related to employee stock option modifications, consisting of $0.3 million in SG&A expenses and $0.3 million in R&D expenses. During the six month period ended June 30, 2009, the Company recognized a total of $77.6 million related to employee stock option modifications, consisting of $5.0 million of cost of sales, $52.0 million in SG&A expenses and $20.6 million in R&D expenses, and recognized $2.2 million of asset write-offs in SG&A expenses.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2006 acquisition of Inamed Corporation (Inamed) and employed approximately 360 people. As of March 31, 2009, all production activities at the Arklow facility had ceased. Certain employee retention termination benefits and accelerated depreciation costs related to inventory production in Arklow were capitalized to inventory as incurred and recognized as cost of sales in the periods the related products were sold.

The Company began to record costs associated with the closure of the Arklow manufacturing facility in the first quarter of 2008 and substantially completed all activities related to the restructuring and phased closure of the Arklow facility in the third quarter of 2009. As of December 31, 2009, the Company had recorded cumulative pre-tax restructuring charges of $35.6 million, cumulative costs for the rollout of capitalized employee termination benefits and accelerated depreciation costs related to inventory production of $23.2 million and cumulative costs related to one-time termination benefits and asset impairments of $1.3 million. The restructuring charges primarily consist of employee severance, one-time termination benefits, contract termination costs and other costs related to the closure of the Arklow manufacturing facility. During the three and six month periods ended June 30, 2010, the Company recorded a $0.3 million restructuring charge reversal. The Company did not incur any costs for the rollout of capitalized employee termination benefits and accelerated depreciation costs related to inventory production during the three and six month periods ended June 30, 2010. During the three and six month periods ended June 30, 2009, the Company recorded $0.2 million and $4.2 million of pre-tax restructuring charges, respectively. During the three and six month periods ended June 30, 2009, the Company recognized $7.2 million and $11.6 million, respectively, of cost of sales for the rollout of capitalized employee retention termination benefits and accelerated depreciation costs related to inventory production. During the six month period ended June 30, 2009, the Company also recognized $0.1 million of R&D expenses related to one-time termination benefits. As of June 30, 2010, remaining accrued expenses of $0.6 million for the restructuring and phased closure of the Arklow facility are included in Other accrued expenses.

Other Restructuring Activities and Integration Costs

Included in the three and six month periods ended June 30, 2010 are $0.4 million and $0.8 million, respectively, of restructuring charges primarily for employee severance related to the Serica acquisition. Included in the six month period ended June 30, 2010 are $0.1 million of restructuring charges for an abandoned leased facility related to the Company s fiscal year 2005 restructuring and streamlining of its European operations.

Included in the three and six month periods ended June 30, 2010 are $0.4 million and $0.6 million, respectively, of SG&A expenses related to transaction costs associated with an agreement between the Company and its distributor in Turkey to establish direct operations in Turkey. Included in the three and six month periods ended June 30, 2010 are $0.1 million and $0.4 million, respectively, of SG&A expenses related to transaction costs associated with the license, development and commercialization agreement with Serenity. Included in the six month period ended June 30, 2010 are $0.5 million of SG&A expenses related to integration and transaction costs associated with the Serica acquisition.

Included in the three and six month periods ended June 30, 2009 are $0.1 million of restructuring charges and a $0.3 million restructuring charge reversal, respectively, related to the Company s closure of its collagen manufacturing facility in Fremont, California, which was substantially completed in the fourth quarter of 2008. Included in the six month period ended June 30, 2009 are $0.1 million of restructuring charges for an abandoned leased facility related to the Company s fiscal year 2005 restructuring and streamlining of its European operations.

Included in the three and six month periods ended June 30, 2009 are $0.2 million of SG&A expenses related to transaction costs associated with the Company s joint venture investment in Korea completed in July 2009 and $0.4 million of SG&A expenses related to integration costs associated with the Company s 2007 acquisition of Groupe Cornéal Laboratoires (Cornéal).

Note 4: Intangibles and Goodwill

Intangibles

At June 30, 2010 and December 31, 2009, the components of intangibles and certain other related information were as follows:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	June 30, 2010			December 31, 2009		
	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	$ 1,451.5	$ (365.2)	14.2	$ 1,396.4	$ (317.2)	14.3
Customer relationships	42.3	(42.3)	3.1	42.3	(42.0)	3.1
Licensing	243.1	(114.1)	10.8	224.7	(102.3)	10.0
Trademarks	26.9	(21.7)	6.2	27.5	(19.6)	6.3
Core technology	185.2	(54.1)	15.2	191.7	(49.5)	15.2
Other	5.3	(0.8)	7.2	5.6	(0.4)	7.1
	1,954.3	(598.2)	13.5	1,888.2	(531.0)	13.5
Unamortizable Intangible Assets:						
In-process research and development	4.3					
	$ 1,958.6	$ (598.2)		$ 1,888.2	$ (531.0)	

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, 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 Company s 2006 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, gastric bands and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Company s 2007 acquisition of Cornéal, gastric band technology acquired in connection with the Company s 2007 acquisition of EndoArt SA (EndoArt), and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist of acquired product registration rights and distributor relationships. The in-process research and development asset consists of a dermal filler technology that has not yet achieved regulatory approval acquired in connection with the Company s 2010 acquisition of Serica. The increase in developed technology at June 30, 2010 compared to December 31, 2009 is primarily due to the Serica acquisition. The increase in licensing assets at June 30, 2010 compared to December 31, 2009 is primarily due to a licensing payment for the reacquisition of *Botox*® Cosmetic distribution rights in Japan and China.

The following table provides amortization expense by major categories of amortizable intangible assets for the three and six month periods ended June 30, 2010 and 2009, respectively:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Developed technology	$ 26.8	$ 25.2	$ 53.4	$ 50.4
Customer relationships		0.2	0.3	3.6
Licensing	6.1	5.8	11.9	11.6
Trademarks	1.1	1.1	2.2	2.2
Core technology	3.1	3.2	6.2	6.3
Other	0.2		0.4	
	$ 37.3	$ 35.5	$ 74.4	$ 74.1

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 $148.1 million for 2010, $145.2 million for 2011, $140.5 million for 2012, $126.2 million for 2013 and $121.3 million for 2014.

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Goodwill

Changes in the carrying amount of goodwill by operating segment through June 30, 2010 were as follows:

	Specialty Pharmaceuticals	Medical Devices	Total
		(in millions)	
Balance at December 31, 2009	$ 73.2	$ 1,925.1	$ 1,998.3
Serica acquisition		14.1	14.1
Samil acquisition contractual purchase price adjustment	1.7		1.7
Foreign exchange translation effects	(1.5)	(16.0)	(17.5)
Balance at June 30, 2010	$ 73.4	$ 1,923.2	$ 1,996.6

Note 5: Inventories

Components of inventories were:

	June 30, 2010	December 31, 2009
	(in millions)	
Finished products	$ 133.1	$ 137.9
Work in process	27.5	34.9
Raw materials	41.3	41.1
Total	$ 201.9	$ 213.9

At June 30, 2010 and December 31, 2009, approximately $5.9 million and $5.6 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 6: Convertible Notes

In 2006, the Company issued its 1.50% Convertible Senior Notes due 2026 (2026 Convertible Notes) for an aggregate principal amount of $750.0 million. The 2026 Convertible Notes are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 1.50% per annum. The 2026 Convertible Notes will be convertible into cash and, if applicable, shares of the Company s common stock based on an initial conversion rate of 15.7904 shares of the Company s common stock per $1,000 principal amount of the 2026 Convertible Notes if the Company s stock price reaches certain specified thresholds. As of June 30, 2010, the conversion criteria had not been met. The Company is permitted to redeem the 2026 Convertible Notes from and after April 5, 2009 to April 4, 2011 if the closing price of its common stock reaches a specified threshold, and will be permitted to redeem the 2026 Convertible Notes at any time on or after April 5, 2011. Holders of the 2026 Convertible Notes will also be able to require the Company to redeem the 2026 Convertible Notes on April 1, 2011, April 1, 2016 and April 1, 2021 or upon a change in control of the Company. The 2026 Convertible Notes mature on April 1, 2026, unless previously redeemed by the Company or earlier converted by the note holders. At June 30, 2010, the Company reported the 2026 Convertible Notes as a current liability due to the note holders ability to require the Company to redeem the 2026 Convertible Notes on April 1, 2011.

The Company separately measures and accounts for the liability and equity components of the 2026 Convertible Notes. As of June 30, 2010, the carrying value of the liability component is $629.7 million with an effective interest rate of 5.59%. The difference between the carrying value of

the liability component and the principal amount of the 2026 Convertible Notes of $649.7 million is recorded as debt discount and is being amortized to interest expense through the first note holder put date in April 2011.

In the first quarter of 2009, the Company paid $98.3 million to repurchase $100.3 million principal amount of the 2026 Convertible Notes with a carrying value of $92.3 million and a calculated fair value of approximately $97.0 million. The Company recognized a $4.7 million loss on extinguishment of the convertible debt. In addition, the Company wrote off $0.6 million of related unamortized deferred debt issuances costs as loss on extinguishment of the convertible debt. The difference between the amount paid to repurchase the 2026 Convertible Notes and the calculated fair value of the liability component was recognized as a reduction to additional paid in capital, net of the effect of deferred taxes.

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was $4.6 million as of June 30, 2010 and December 31, 2009, respectively.

The total amount of unrecognized tax benefits was $20.8 million and $39.3 million as of June 30, 2010 and December 31, 2009, respectively. The decrease in unrecognized tax benefits at June 30, 2010 compared to December 31, 2009 is primarily attributable to income tax audits that were partially settled during the second quarter of 2010 with the U.S. Internal Revenue Service for tax years 2005 to 2006 for the Company and tax years 2003 to 2006 for the Company s acquired subsidiary, Inamed. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $18.0 million and $35.5 million as of June 30, 2010 and December 31, 2009, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $6.0 million to $8.0 million due to the settlement of income tax audits in the United States and certain foreign jurisdictions.

The Company has disagreed with certain positions taken by the U.S. Internal Revenue Service in the audit cycles noted above and has entered into Appeals proceedings and Competent Authority negotiations with respect to those positions in order to seek resolution. The Company believes that it has provided adequate accruals for any tax deficiencies or reductions in tax benefits that could result. In addition, the Company executed an Advance Pricing Agreement with the U.S. Internal Revenue Service for certain transfer pricing issues covering tax years 2007 through 2025.

Total interest accrued related to uncertainty in income taxes included in the Company s unaudited condensed consolidated balance sheet was $3.9 million and $11.1 million as of June 30, 2010 and December 31, 2009, respectively. The decrease in the amount of accrued interest at June 30, 2010 compared to December 31, 2009 is primarily attributable to the partial settlement of income tax audits with the U.S. Internal Revenue Service and other changes to various unrecognized tax benefits.

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, 2009, the Company had approximately $2,184.5 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these funds were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company s U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

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 fair value of modifications to share-based awards is generally estimated using a lattice model.

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

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and the

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

For the three and six month periods ended June 30, 2010 and 2009, share-based compensation expense was as follows:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Cost of sales	$ 1.1	$ 1.5	$ 2.2	$ 8.2
Selling, general and administrative	11.7	12.2	24.6	78.1
Research and development	4.3	4.5	8.5	30.1
Pre-tax share-based compensation expense	17.1	18.2	35.3	116.4
Income tax benefit	5.6	6.1	11.2	37.9
Net share-based compensation expense	$ 11.5	$ 12.1	$ 24.1	$ 78.5

Share-based compensation expense for the three month period ended June 30, 2009 includes $0.6 million of pre-tax compensation expense from stock option modifications related to the 2009 restructuring plan, consisting of $0.3 million in SG&A expenses and $0.3 million in R&D expenses. Share-based compensation expense for the six month period ended June 30, 2009 includes $77.6 million of pre-tax compensation expense from stock option modifications related to the 2009 restructuring plan, consisting of $5.0 million of cost of sales, $52.0 million in SG&A expenses and $20.6 million in R&D expenses.

As of June 30, 2010, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $165.7 million, which is expected to be recognized over the next 48 months (36 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of June 30, 2010.

Note 9: Employee Retirement and Other Benefit Plans

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

Components of net periodic benefit cost for the three and six month periods ended June 30, 2010 and 2009, respectively, were as follows:

	Three months ended			
	Pension Benefits		Other Postretirement Benefits	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Service cost	$ 5.0	$ 5.7	$ 0.5	$ 0.4
Interest cost	9.7	9.3	0.9	0.6
Expected return on plan assets	(11.5)	(10.7)		
Amortization of prior service cost				

Recognized net actuarial loss	2.6	3.2	0.2	
Net periodic benefit cost	$ 5.8	$ 7.5	$ 1.6	$ 1.0

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six months ended			
	Pension Benefits		Other Postretirement Benefits	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Service cost	$ 10.1	$ 11.3	$ 1.1	$ 0.8
Interest cost	19.5	18.5	1.7	1.2
Expected return on plan assets	(23.1)	(21.3)		
Amortization of prior service cost			(0.1)	(0.1)
Recognized net actuarial loss	5.1	6.3	0.5	
Net periodic benefit cost	$ 11.6	$ 14.8	$ 3.2	$ 1.9

In 2010, the Company expects to pay contributions of between $20.0 million and $30.0 million for its U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for its other postretirement plan.

Note 10: Legal Proceedings

The following supplements and amends the discussion set forth in Note 10 Legal Proceedings in the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 and in Note 14 Legal Proceedings in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Clayworth v. Allergan, et al.

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. In January 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. In April 2007, the plaintiffs filed an opening brief with the court of appeal. The defendants filed their joint opposition in July 2007, and the plaintiffs filed their reply in August 2007. In May 2008, the court of appeal heard oral arguments and took the matter under submission. In July 2008, the court of appeal affirmed the superior court s ruling, granting the Company s motion for summary judgment. In August 2008, the plaintiffs filed a petition for rehearing with the court of appeal, which the court denied. In September 2008, the plaintiffs filed a petition for review with the Supreme Court of the State of California, which the supreme court granted in November 2008. In February 2009, the plaintiffs filed their opening brief on the merits with the supreme court and defendants filed their answer brief in May 2009. In June 2009, the plaintiffs filed their reply brief on the merits with the supreme court. In May 2010, the supreme court heard oral arguments. In July 2010, the supreme court reversed the court of appeal s judgment and remanded the case to the superior court for further proceedings.

Kramer et al. v. Allergan, Inc.

In July 2008, a complaint entitled Kramer, Bryant, Spears, Doolittle, Clark, Whidden, Powell, Moore, Hennessey, 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. In 2009, the plaintiffs Hennessey, Hahn, Underwood-Boswell, Purdon, Moore, Clark, Reed-Momot and Whidden were dismissed without prejudice. In October 2009, the Company filed a motion for summary judgment against plaintiff Dee Spears, which the court denied in December 2009. The trial related to plaintiff Dee Spears began in January 2010. In March 2010, the jury returned a verdict in the Company s favor and the court entered a judgment on the special verdict. In April 2010, plaintiff Dee Spears filed a motion for a new trial which the court denied in May 2010. In June 2010, the Company and plaintiff Dee Spears entered into a settlement agreement under which the Company agreed to waive costs in exchange for plaintiff Dee Spears

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agreeing not to appeal the judgment. The court has scheduled a trial date for September 13, 2010 for the Sonya Bryant matter only. Trial dates have not been set for the remaining plaintiffs.

Government Investigations

In March 2008, the Company received service of a Subpoena Duces Tecum from the U.S. Attorney, U.S. Department of Justice (DOJ), Northern District of Georgia. The subpoena requests the production of documents relating to the Company s sales and marketing practices in connection with *Botox*®. In December 2009, the DOJ for the Northern District of Georgia served the Company with a Supplemental Subpoena Duces Tecum requesting the production of additional documents relating to certain of the Company s speaker bureau programs.

In September 2009, the Company received service of process of an Investigative Demand from the DOJ for the State of Oregon. The subpoena requests the production of documents relating to the Company s sales and marketing practices in connection with *Aczone*®.

The Company is involved in various other lawsuits and claims arising in the ordinary course of business. These other matters are, in the opinion of management, immaterial both individually and in the aggregate with respect to the Company s consolidated financial position, liquidity or results of operations. Because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation, investigation, inquiry or claim, management is currently unable to predict the ultimate outcome of any litigation, investigation, inquiry 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 inquiry being conducted by the DOJ related to *Botox*® discussed herein and 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 the Company s 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, inquiry or claim to which it is party or the impact on the Company of an adverse ruling in such matters.

Note 11: Contingencies

During 2009, the Company incurred approximately $32.2 million of costs associated with the DOJ s inquiry related to *Botox*® discussed in Note 10, Legal Proceedings. During the three and six month periods ended June 30, 2010, the Company incurred $4.0 and $8.5 million, respectively, of costs associated with the DOJ s inquiry. Costs associated with responding to the DOJ investigation during fiscal year 2010 are expected to total approximately $30.0 million to $40.0 million. Estimated costs include attorneys fees and costs associated with document production, imaging and information services support. The Company believes there is a reasonable possibility that a loss may be incurred. The Company continues to cooperate with the DOJ and to discuss resolution of the matters to which the investigation relates, and the Company believes it is making progress, although no assurances can be given that a resolution will occur. Settlements of these investigations have commonly resulted in the payment of substantial fines to the government for alleged civil and criminal violations, including a corresponding plea agreement, and the entry of a Corporate Integrity Agreement with the federal government. Because of the uncertainties related to the incurrence, amount and range of loss, if any, that might result, 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 inquiry.

In 2009, the Company established a reserve for a contingent liability associated with regulation changes resulting from a final rule issued by the U.S. Department of Defense (DoD) that placed retroactive and prospective pricing limits on certain branded pharmaceuticals under the TRICARE Retail Pharmacy Program, even though such branded pharmaceuticals have not historically been subject to a contract with the Company. The Company is currently in negotiations with the DoD to seek a waiver of retroactive rebates. As of June 30, 2010, the reserve for the contingent liability is $11.6 million and is included in Other accrued expenses.

Note 12: Guarantees

The Company s Amended and Restated Certificate of Incorporation provides that the Company will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each person that is involved in or is, or is threatened to be, made a party to any action, suit or proceeding by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or was serving at the request of the Company as a director,

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

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators in its drug, 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, $1,200 of financial assistance for surgical procedures within ten years of implantation and contralateral implant replacement. The *ConfidencePlus*® Premier program, which normally requires a low additional enrollment fee, generally provides lifetime product replacement, $2,400 of financial assistance for saline breast implants and $3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The enrollment fee is deferred and recognized as income over the ten year warranty period for financial assistance. The warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company s estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities through June 30, 2010:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	(in millions)
Balance at December 31, 2009	$ 29.4
Provision for warranties issued during the period	4.0
Settlements made during the period	(3.9)
Increases in warranty estimates	0.6
Balance at June 30, 2010	$ 30.1
Current portion	$ 6.5
Non-current portion	23.6
Total	$ 30.1

Note 14: Earnings Per Share

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions, except per share amounts)			
Net earnings attributable to Allergan, Inc.	$ 240.1	$ 176.1	$ 408.0	$ 220.8
Weighted average number of shares outstanding	303.3	303.7	303.4	303.7
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	4.0	1.7	3.8	1.4
Diluted shares	307.3	305.4	307.2	305.1
Earnings per share attributable to Allergan, Inc. stockholders:				
Basic	$ 0.79	$ 0.58	$ 1.34	$ 0.73
Diluted	$ 0.78	$ 0.58	$ 1.33	$ 0.72

For the three and six month periods ended June 30, 2010, options to purchase 9.1 million and 10.1 million shares of common stock at exercise prices ranging from $55.60 to $65.63 and $47.10 to $65.63 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company s 2026 Convertible Notes for the three and six month periods ended June 30, 2010, as the Company s average stock price for the respective periods was less than the conversion price of the notes.

For the three and six month periods ended June 30, 2009, options to purchase 17.2 million and 18.3 million shares of common stock at exercise prices ranging from $39.67 to $65.63 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company s 2026 Convertible Notes for the three and six month periods ended June 30, 2009, as the Company s average stock price for the respective periods was less than the conversion price of the notes.

Note 15: Comprehensive Income

The following table summarizes the components of comprehensive income for the three and six month periods ended June 30, 2010 and 2009:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three months ended					
	June 30, 2010			June 30, 2009		
	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	$ (44.8)	$	$ (44.8)	$ 39.2	$	$ 39.2
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.4)	0.2	(0.2)	(0.4)	0.2	(0.2)
Unrealized holding gain on available-for-sale securities				0.7	(0.3)	0.4
Other comprehensive (loss) income	$ (45.2)	$ 0.2	(45.0)	$ 39.5	$ (0.1)	39.4
Net earnings			241.5			176.8
Total comprehensive income			196.5			216.2
Comprehensive (loss) income attributable to noncontrolling interest			(0.2)			0.8
Comprehensive income attributable to Allergan, Inc.			$ 196.7			$ 215.4

	Six months ended					
	June 30, 2010			June 30, 2009		
	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	$ (64.0)	$	$ (64.0)	$ 14.0	$	$ 14.0
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(0.7)	0.3	(0.4)	(0.7)	0.3	(0.4)
Unrealized holding gain on available-for-sale securities				0.9	(0.7)	0.2
Other comprehensive (loss) income	$ (64.7)	$ 0.3	(64.4)	$ 14.2	$ (0.4)	13.8
Net earnings			410.5			221.8
Total comprehensive income			346.1			235.6
Comprehensive income attributable to noncontrolling interest			1.6			1.0
Comprehensive income attributable to Allergan, Inc.			$ 344.5			$ 234.6

Note 16: Financial Instruments

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

The Company has not experienced any losses to date on its derivative financial instruments due to counterparty credit risk.

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

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

Interest Rate Risk Management

The Company s interest income and expense is more sensitive to fluctuations in the general level of U.S. interest rates

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on cash and equivalents and interest expense on debt, as well as costs associated with foreign currency contracts.

On January 31, 2007, the Company entered into a nine-year, two-month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap 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%, and effectively converts $300.0 million of the Company s $800.0 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) to a variable interest rate. Based on the structure of the hedging relationship, the hedge meets the criteria for using the short-cut method for a fair value hedge. The investment in the derivative and the related long-term debt are recorded at fair value. At June 30, 2010 and December 31, 2009, the Company recognized in its consolidated balance sheets an asset reported in Investments and other assets and a corresponding increase in Long-term debt associated with the fair value of the derivative of $45.0 million and $30.4 million, respectively. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the 2016 Notes. During the three and six month periods ended June 30, 2010, the Company recognized $3.7 million and $7.5 million, respectively, as a reduction of interest expense due to the differential to be received. During the three and six month periods ended June 30, 2009, the Company recognized $3.6 million and $6.7 million, respectively, as a reduction of interest expense due to the differential to be received.

In February 2006, the Company entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of $800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. During the three and six month periods ended June 30, 2010 and 2009, the Company recognized $0.4 million and $0.7 million, respectively, as a reduction of interest expense due to the amortization of deferred holding gains on derivatives designated as cash flow hedges. These amounts were reclassified from accumulated other comprehensive loss. As of June 30, 2010, the remaining unrecognized gain of $7.5 million ($4.5 million, net of tax) is recorded as a component of accumulated other comprehensive loss. The Company expects to reclassify an estimated pre-tax amount of $1.3 million from accumulated other comprehensive loss as a reduction in interest expense during fiscal year 2010 due to the amortization of deferred holding gains on derivatives designated as cash flow hedges.

No portion of amounts recognized from contracts designated as cash flow hedges were considered to be ineffective during the three and six month periods ended June 30, 2010 and 2009, respectively.

Foreign Exchange Risk Management

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

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

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

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

not firmly committed transactions, generally does not exceed 18 months.

All of the Company s outstanding foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso,

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Australian dollar, Brazilian real, euro and Korean won. Current changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as Other, net in the accompanying unaudited condensed consolidated statements of earnings. During the three and six month periods ended June 30, 2010, the Company recognized realized gains on settled foreign currency option contracts of $5.8 million and $7.8 million, respectively, and net unrealized gains on open foreign currency option contracts of $8.9 million and $8.2 million, respectively. During the three and six month periods ended June 30, 2009, the Company recognized realized gains on settled foreign currency option contracts of $4.1 million and $9.4 million, respectively, and net unrealized losses on open foreign currency option contracts of $11.7 million and $14.5 million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in Other current assets and amortized to Other, net over the life of the options.

All of the Company s outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through Other, net in the accompanying unaudited condensed consolidated statements of earnings. During the three and six month periods ended June 30, 2010, the Company recognized total realized and unrealized gains from foreign exchange forward contracts of $3.5 million and $4.2 million, respectively. During the three and six month periods ended June 30, 2009, the Company recognized total realized and unrealized losses from foreign exchange forward contracts of $6.6 million and $5.9 million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in Other current assets. At June 30, 2010 and December 31, 2009, foreign currency derivative assets associated with the foreign exchange option contracts of $21.1 million and $14.0 million, respectively, were included in Other current assets. At June 30, 2010 and December 31, 2009, net foreign currency derivative assets associated with the foreign exchange forward contracts of $0.3 million and $1.0 million, respectively, were included in Other current assets.

At June 30, 2010 and December 31, 2009, the notional principal and fair value of the Company s outstanding foreign currency derivative financial instruments were as follows:

	June 30, 2010		December 31, 2009	
	Notional Principal	Fair Value	Notional Principal	Fair Value
	(in millions)			
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$ 42.5	$ 0.4	$ 86.7	$ 0.8
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	36.8	(0.1)	47.9	0.2
Foreign currency sold put options	215.8	21.1	296.2	14.0

The notional principal amounts provide one measure of the transaction volume outstanding as of June 30, 2010 and December 31, 2009, and do not represent the amount of the Company s exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of June 30, 2010 and December 31, 2009. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Other Financial Instruments

At June 30, 2010 and December 31, 2009, the Company s other financial instruments included cash and equivalents, trade receivables, equity investments, accounts payable and borrowings. The carrying amount of cash and equivalents, trade receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The fair value of non-marketable equity investments which represent investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value and other information provided by these ventures. The fair value of notes payable, convertible notes and long-term debt are estimated based on quoted market prices and interest rates.

The carrying amount and estimated fair value of the Company s other financial instruments at June 30, 2010 and December 31, 2009 were as follows:

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	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents	$ 2,219.6	$ 2,219.6	$ 1,947.1	$ 1,947.1
Non-current non-marketable equity investments	5.1	5.1	5.1	5.1
Notes payable	13.1	13.1	18.1	18.1
Convertible notes	629.7	653.5	617.3	651.4
Long-term debt	888.7	1,017.8	874.0	926.3

During the three and six month periods ended June 30, 2009, the Company recognized unrealized pre-tax holding gains related to changes in the fair value of marketable equity investments of $0.7 million and $0.9 million, respectively, as a component of Other comprehensive income (loss). The Company sold all of its marketable equity investments in the third quarter of 2009 and recognized a pre-tax loss of $0.7 million.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk principally consist of trade receivables. Wholesale distributors, major retail chains and managed care organizations account for a substantial portion of trade receivables. This risk is limited due to the number of customers comprising the Company s customer base, and their geographic dispersion. At June 30, 2010, no single customer represented more than 10% of trade receivables, net. Ongoing credit evaluations of customers financial condition are performed and, generally, no collateral is required. The Company has purchased an insurance policy intended to reduce the Company s exposure to potential credit risks associated with certain U.S. customers. To date, no claims have been made against the insurance policy. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management s estimates.

Note 17: Fair Value Measurements

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as 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 June 30, 2010, the Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include cash equivalents, foreign exchange derivatives and the $300.0 million notional amount interest rate swap. These assets and liabilities are classified in the table below in one of the three categories of the fair value hierarchy described above.

	Total	Level 1	Level 2	Level 3
		(in millions)		
Assets				
Commercial paper	$ 763.7	$	$ 763.7	$
Foreign time deposits	197.2		197.2	
Other cash equivalents	1,160.4		1,160.4	
Foreign exchange derivative assets	21.4		21.4	
Interest rate swap derivative asset	45.0		45.0	
	$ 2,187.7	$	$ 2,187.7	$

Liabilities				
Interest rate swap derivative liability	$ 45.0	$	$ 45.0	$

Cash equivalents consist of commercial paper, foreign time deposits and other cash equivalents and are valued at cost, which approximates fair value due to the short-term maturities of these instruments. Beginning in the second fiscal quarter of 2010, the Company began to classify cash equivalents in Level 2 of the fair value hierarchy instead of Level 1 in order to be consistent with industry practice. Foreign currency derivative assets and liabilities are valued using quoted forward foreign exchange prices and option volatility at the reporting date. The interest rate swap derivative asset and liability are valued using LIBOR yield curves at the reporting date. The Company believes the fair values assigned to its derivative instruments as of June 30, 2010 are based upon reasonable estimates and assumptions.

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Note 18: 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, eyelash growth and other prescription and over-the-counter skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery; obesity intervention products, including the *Lap-Band*® System and the *Orbera* Intragastric Balloon System; 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.

Operating Segments

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Product net sales:				
Specialty pharmaceuticals	$ 1,013.2	$ 921.2	$ 1,920.5	$ 1,748.1
Medical devices	218.5	197.5	417.0	365.2
Total product net sales	1,231.7	1,118.7	2,337.5	2,113.3
Other corporate and indirect revenues	15.5	12.1	64.4	24.7
Total revenues	$ 1,247.2	$ 1,130.8	$ 2,401.9	$ 2,138.0
Operating income:				
Specialty pharmaceuticals	$ 386.6	$ 356.1	$ 698.5	$ 646.0
Medical devices	66.8	56.9	133.9	90.6
Total segments	453.4	413.0	832.4	736.6
General and administrative expenses, other indirect costs and other adjustments	90.1	89.4	186.8	255.7
Amortization of acquired intangible assets (a)	31.3	30.1	62.7	63.2
Restructuring charges	0.1	1.0	0.7	43.1
Total operating income	$ 331.9	$ 292.5	$ 582.2	$ 374.6

(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 63.6% and 65.4% of the Company s total consolidated product net sales for the three month periods ended June 30, 2010 and 2009, respectively, and 63.1% and 66.3% of the Company s total consolidated product net sales for the six month periods ended June 30, 2010 and 2009, respectively.

Sales to two customers in the Company s specialty pharmaceuticals segment each generated over 10% of the Company s total consolidated product net sales. Sales to Cardinal Health, Inc. for the three month periods ended June 30, 2010 and 2009 were 14.2% and 12.8%, respectively, of the Company s total consolidated product net sales, and 13.2% and 12.4%, respectively, of the Company s total consolidated product net sales for the six month periods ended June 30, 2010 and

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2009. Sales to McKesson Drug Company for the three month periods ended June 30, 2010 and 2009 were 10.7% and 12.2%, respectively, of the Company s total consolidated product net sales, and 12.3% and 12.2%, respectively, of the Company s total consolidated product net sales for the six month periods ended June 30, 2010 and 2009. 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.

Product Net Sales by Product Line

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	$ 577.8	$ 526.0	$ 1,089.8	$ 999.6
Botox® /Neuromodulators	360.5	336.8	691.5	634.1
Skin Care	59.3	42.3	109.9	80.6
Urologics	15.6	16.1	29.3	33.8
Total Specialty Pharmaceuticals	1,013.2	921.2	1,920.5	1,748.1
Medical Devices:				
Breast Aesthetics	81.6	74.5	159.5	140.7
Obesity Intervention	61.9	66.3	123.1	126.1
Facial Aesthetics	75.0	56.7	134.4	98.4
Total Medical Devices	218.5	197.5	417.0	365.2
Total product net sales	$ 1,231.7	$ 1,118.7	$ 2,337.5	$ 2,113.3

Geographic Information

Product Net Sales

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
United States	$ 783.1	$ 731.6	$ 1,473.3	$ 1,399.8
Europe	234.7	223.3	459.6	414.9
Latin America	79.7	59.5	143.6	107.8
Asia Pacific	76.9	59.8	155.5	108.7
Other	56.7	43.9	104.3	79.8
	1,231.1	1,118.1	2,336.3	2,111.0

Manufacturing operations	0.6	0.6	1.2	2.3
Total product net sales	$ 1,231.7	$ 1,118.7	$ 2,337.5	$ 2,113.3

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Lived Assets

	June 30, 2010	December 31, 2009
	(in millions)	
United States	$ 3,279.3	$ 3,255.4
Europe	200.0	234.6
Latin America	23.8	25.6
Asia Pacific	54.6	40.3
Other	3.8	4.2
	3,561.5	3,560.1
Manufacturing operations	400.2	421.6
General corporate	262.4	268.9
Total	$ 4,224.1	$ 4,250.6

Intangible assets and goodwill related to the Serica acquisition completed in the first quarter of 2010 are reflected in the United States balance above. Intangible assets related to the acquisition of *Botox*® Cosmetic distribution rights in Japan and China completed in the first quarter of 2010 are reflected in the Asia Pacific balance above.

Note 19: Subsequent Event

Effective July 1, 2010, the Company completed a business combination agreement and effected a revised distribution agreement with its distributor in Turkey that allow the Company to establish direct operations in Turkey. In connection with the business combination agreement, in the beginning of the third quarter of 2010, the Company paid its distributor approximately $34.1 million plus related value-added tax. The Company will also be required to pay its distributor contingent consideration based on specified percentages of revenue over the next five years.

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

This financial review presents our operating results for the three and six month periods ended June 30, 2010 and 2009, and our financial condition at June 30, 2010. The following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the caption Risk Factors in Part II, Item 1A below. The following review should be read in connection with the information presented in our unaudited condensed consolidated financial statements and related notes for the three and six month periods ended June 30, 2010 included in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2009 included in our 2009 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, 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 $3.9 million and $3.3 million at June 30, 2010 and December 31, 2009, respectively. Provisions for cash discounts deducted from consolidated sales in the second quarter of 2010 and 2009 were $13.7 million and $12.2 million, respectively. Provisions for cash discounts deducted from consolidated sales in the first six months of 2010 and 2009 were $26.1 million and $23.0 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 June 30, 2010 and December 31, 2009 were $47.1 million and $41.5 million, respectively, and are recorded in Other accrued expenses and Trade receivables, net in our consolidated balance sheets. Provisions for sales returns deducted from consolidated sales were $104.7 million and $95.4 million in the second quarter of 2010 and 2009, respectively. Provisions for sales returns deducted from consolidated sales were $191.8 million and $181.0 million in the first six months of 2010 and 2009, respectively. The increases in the amount of allowances for sales returns at June 30, 2010 compared to December 31, 2009 and the provisions for sales returns in the second quarter and first six months of 2010 compared to the second quarter and first six months of 2009 are primarily due to increased sales returns related to breast implant products. Historical allowances for cash discounts and product returns have been consistent with the amounts reserved or accrued.

We participate in various managed care sales rebate and other incentive programs, the largest of which relates to Medicaid, Medicare and the Department of Veterans Affairs. Sales rebate and other incentive programs also include contractual volume rebate programs and chargebacks, which are contractual discounts given primarily to federal government agencies, health maintenance organizations, pharmacy benefits managers and group purchasing organizations. We also offer rebate and other incentive programs for our aesthetic products and certain therapeutic products, including *Botox*®