ALLERGAN INC
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

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 Irvine, California	92612
(Address of Principal Executive Offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

As of June 30, 2011, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $25,365 million based on the closing sale price as reported on the New York Stock Exchange.

Common stock outstanding as of February 22, 2012 — 307,527,460 shares (including 3,084,689 shares held in treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates certain information by reference from the registrant’s proxy statement for the annual meeting of stockholders to be held on May 1, 2012, which proxy statement will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2011.

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Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21 of the Securities Exchange Act of 1934, as amended. These forward-looking statements are necessarily estimates reflecting the judgment of our management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as we “believe,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance and rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the caption “Risk Factors” in Item 1A of Part I of this report below. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed below. Except as required under the federal securities laws and the rules and regulations of the U.S. Securities and Exchange Commission, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

PART I

Item 1. Business

General Overview of our Business

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

We are also a pioneer in specialty pharmaceutical, biologic and medical device research and development. Our research and development efforts are focused on products and technologies related to the many specialty areas in which we currently operate as well as new specialty areas where unmet medical needs are significant. In 2011, our research and development expenditures were approximately 16.9% of our product net sales, or approximately $902.8 million. We supplement our own research and development activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions.

Our diversified business model includes products for which patients may be eligible for reimbursement and cash pay products that consumers pay for directly out-of-pocket. Based on internal information and assumptions, we estimate that in fiscal year 2011, approximately 60% of our product net sales were derived from reimbursable products and 40% of our product net sales were derived from cash pay products, including products in emerging markets that would typically be reimbursed in North America and Europe.

We were founded in 1950 and incorporated in Delaware in 1977. Our principal executive offices are located at 2525 Dupont Drive, Irvine, California, 92612, and our telephone number at that location is (714) 246-4500. Our website address is www.allergan.com (the information available at our website address is not incorporated by reference into this report). We make our periodic and current reports available on our website, free of charge, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission, or SEC. The SEC maintains a website at www.sec.gov that contains the reports and other information that we file electronically with the SEC.

Operating Segments

We operate our business on the basis of two reportable segments - specialty pharmaceuticals and medical devices. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products, including: ophthalmic products for dry eye, glaucoma, inflammation, infection, allergy and retinal disease; Botox® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis, eyelash growth and other prescription and over-the-counter skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery and tissue expanders; obesity intervention products; and facial aesthetics products. The following table sets forth, for the periods indicated, product net sales for each of our product lines within our specialty pharmaceuticals and medical devices segments, segment operating income for our specialty pharmaceuticals and medical devices

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segments, domestic and international sales as a percentage of total product net sales, and domestic and international long-lived assets:

	Year Ended December 31,		
	2011	2010	2009
	(dollars in millions)		
Specialty Pharmaceuticals Segment Product Net Sales by Product Line			
Eye Care Pharmaceuticals	$2,520.2	$2,262.0	$2,100.6
Botox®/Neuromodulators	1,594.9	1,419.4	1,309.6
Skin Care	260.1	229.5	208.0
Urologics	56.8	62.5	65.6
Total Specialty Pharmaceuticals Segment Product Net Sales	$4,432.0	$3,973.4	$3,683.8
Medical Devices Segment Product Net Sales by Product Line			
Breast Aesthetics	$349.3	$319.1	$287.5
Obesity Intervention	203.1	243.3	258.2
Facial Aesthetics	362.7	283.8	218.1
Total Medical Devices Segment Product Net Sales	$915.1	$846.2	$763.8
Specialty Pharmaceuticals Segment Operating Income (1)	$1,763.3	$1,501.9	$1,370.8
Medical Devices Segment Operating Income (1)	286.0	284.7	189.2
Consolidated Product Net Sales			
Domestic	60.2 %	62.6 %	65.4 %
International	39.8 %	37.4 %	34.6 %
Consolidated Long-Lived Assets			
Domestic	$3,500.9	$3,222.4	$3,678.3
International	617.5	688.1	572.3

(1) Management evaluates business segment performance on an operating income basis exclusive of general and administrative expenses and other indirect costs, legal settlement expenses, impairment of intangible assets and related costs, restructuring charges, in-process research and development expenses, amortization of certain identifiable intangible assets related to business combinations and asset acquisitions and related capitalized licensing costs and certain other adjustments, which are not allocated to our business segments for performance assessment by our chief operating decision maker. Other adjustments excluded from our business segments for purposes of performance assessment represent income or expenses that do not reflect, according to established company-defined criteria, operating income or expenses associated with our core business activities.

We do not discretely allocate assets to our operating segments, nor does our chief operating decision maker evaluate operating segments using discrete asset information.

See Note 17, “Business Segment Information,” in the notes to the consolidated financial statements listed under Item 15 of Part IV of this report, “Exhibits and Financial Statement Schedules,” for further information concerning our foreign and domestic operations.

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Specialty Pharmaceuticals Segment

Eye Care Pharmaceuticals

We develop, manufacture and market a broad range of prescription and non-prescription products designed to treat diseases and disorders of the eye, including dry eye, glaucoma, inflammation, infection, allergy and retinal disease.

Dry Eye

Restasis® (cyclosporine ophthalmic emulsion) 0.05%, our best selling eye care product, is the largest prescription ophthalmic pharmaceutical by sales value in the United States and is the first, and currently the only, prescription eye drop to help increase tear production, in cases where tear production may be reduced by inflammation due to chronic dry eye. Chronic dry eye is a painful and irritating condition involving abnormalities and deficiencies in the tear film initiated by a variety of causes. The incidence of chronic dry eye increases markedly with age, after menopause in women and in people with systemic diseases. We launched Restasis® in the United States in 2003 and Restasis® is currently approved in approximately 40 countries.

Our Refresh® line of over-the-counter artificial tears products, including Refresh® Optive™ lubricant eye drops, treats dry eye symptoms including irritation and dryness due to pollution, computer use, aging and other causes. We launched Refresh® over 25 years ago and today the Refresh® product line includes a wide range of preserved and non-preserved drops as well as ointments to treat dry eye symptoms. In early 2012, we launched Refresh Optive™ Advanced lubricant eye drops in the United States and as Optive Plus® in some countries in Europe.

Glaucoma

Our Lumigan® (bimatoprost ophthalmic solution) product line is our second best selling eye care product line. Lumigan® 0.03% and Lumigan® 0.01% are topical treatments indicated for the reduction of elevated intraocular pressure in patients with glaucoma or ocular hypertension. Lumigan® 0.01% is an improved reformulation of Lumigan® 0.03% that was approved in 2009 by Health Canada and in 2010 by the U.S. Food and Drug Administration, or FDA, and the European Medicines Agency, or EMA. We currently sell Lumigan® 0.01% and Lumigan® 0.03% in the United States and over 80 countries worldwide. Senju Pharmaceutical Co., Ltd., or Senju, is responsible for the development and commercialization of Lumigan® in Japan pursuant to an exclusive licensing agreement.

Ganfort™ (bimatoprost/timolol maleate ophthalmic solution) is a bimatoprost and timolol maleate combination designed to treat glaucoma and ocular hypertension in patients who are not responsive to treatment with only one medication. We received a license from the EMA to market Ganfort™ in the European Union in 2006 and Ganfort™ is now sold in approximately 65 countries.

Our Alphagan® (brimonidine tartrate ophthalmic solution) products are our third best selling eye care product line. Alphagan® P 0.1%, Alphagan® P 0.15% and Alphagan® P 0.2% are ophthalmic solutions that lower intraocular pressure by reducing aqueous humor production and increasing uveoscleral outflow. Alphagan® P 0.1% was approved by the FDA in 2005 and is an improved reformulation of Alphagan® P 0.15% and Alphagan® 0.2%. Alphagan® P 0.1% is currently approved in approximately 10 countries, Alphagan® P 0.15% is approved in approximately 50 countries and Alphagan® 0.2% is approved in approximately 70 countries. Alphagan® P 0.15% and Alphagan® 0.2% face generic competition in the United States and other parts of the world. Senju is responsible for the development and commercialization of our Alphagan® products in Japan pursuant to an exclusive licensing agreement between us and Kyorin Pharmaceuticals Co., Ltd., or Kyorin, that Kyorin subsequently sublicensed to Senju. In January 2012, Senju received approval from the Japanese Ministry of Health, Labor and Welfare for Aiphagan® P 0.1% for the reduction of intraocular pressure in patients with ocular hypertension or glaucoma.

Combigan® (brimonidine tartrate/timolol maleate ophthalmic solution) 0.2%/0.5% is a brimonidine and timolol combination designed to treat glaucoma and ocular hypertension in patients who are not responsive to treatment with only one medication. The FDA approved Combigan® in 2007 and it is now sold in approximately 70 countries worldwide.

Inflammation

Acuvail® (ketorolac tromethamine ophthalmic solution) 0.45% is a nonsteroidal, anti-inflammatory indicated for the treatment of ocular pain and inflammation following cataract surgery that was approved by the FDA in 2009. Acular

LS® (ketorolac ophthalmic solution) 0.4% is a nonsteroidal anti-inflammatory indicated to reduce ocular pain, burning and stinging following corneal refractive surgery. Acular LS® is a reformulated version of Acular ® that was approved by the FDA in 2007. Acular ® and Acular LS® face generic competition in the United States. Pred Forte® (prednisolone acetate ophthalmic suspension, USP) 1% is a topical steroid that was approved by the FDA over 35 years ago and faces generic competition in the United States.

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Infection

Zymaxid® (gatifloxacin ophthalmic solution) 0.5% is our next-generation anti-infective product indicated for the treatment of bacterial conjunctivitis. The FDA approved Zymaxid® in 2010 and, in February 2011, we announced the discontinuation of Zymar® (gatifloxacin ophthalmic solution) 0.3% in the United States due to strong physician acceptance of Zymaxid®.

Allergy

Lastacaft® (alcaftadine ophthalmic solution) 0.25% is a topical allergy medication for the prevention and treatment of itching associated with allergic conjunctivitis. We acquired the global license to manufacture and commercialize Lastacaft® in 2010 from Vistakon Pharmaceuticals, LLC, Janssen Pharmaceutica N.V. and Johnson & Johnson Vision Care Inc., or, collectively, Vistakon, and launched Lastacaft® in the first quarter of 2011.

Elestat® (epinastine HCL ophthalmic solution) 0.05% is used for the prevention of itching associated with allergic conjunctivitis. We license Elestat® from Boehringer Ingelheim AG, and hold worldwide ophthalmic commercial rights excluding Japan. Elestat®, together with sales under its brand names Relestat® and Purivist®, is currently approved in approximately 50 countries. A generic version of Elestat® was approved by the FDA in the second quarter of 2011 and Elestat® currently faces generic competition in the United States.

Retinal Disease

Ozurdex® (dexamethasone intravitreal implant) 0.7 mg is a novel bioerodable formulation of dexamethasone in our proprietary Novadur® sustained-release drug delivery system that can be used to locally and directly administer medications to the retina. The FDA approved Ozurdex® in 2009 as the first drug therapy indicated for the treatment of macular edema associated with retinal vein occlusion, or RVO, and, in 2010, the EMA granted marketing authorization for Ozurdex® for RVO. Ozurdex® is now approved for RVO in approximately 45 countries, including Argentina, Brazil, Canada, India, Korea and Mexico. In 2010, the FDA approved Ozurdex® for the treatment of non-infectious uveitis affecting the posterior segment of the eye and, in the second quarter of 2011, the EMA granted marketing authorization for Ozurdex® for this additional indication. Ozurdex® is now approved for uveitis in approximately 40 countries.

Neuromodulators

Botox®

Botox® (onabotulinumtoxinA) was first approved by the FDA in 1989 for the treatment of strabismus and blepharospasm, two eye muscle disorders, making it the first botulinum toxin type A product approved in the world. Since its first approval, Botox® has been approved by regulatory authorities worldwide as a treatment for approximately 25 unique indications in approximately 85 countries, benefiting millions of patients. Botox® was first approved for certain aesthetic uses in 2002. In addition to over 20 years of clinical experience, the safety and efficacy of Botox® have been well-established in approximately 65 randomized, placebo-controlled clinical trials and in approximately 15,000 patients treated with Botox® and Botox® Cosmetic in Allergan's clinical trials. Worldwide, approximately 30 million vials of Botox® and Botox® Cosmetic have been distributed and approximately 29 million treatment sessions have been performed in a span of 20 years (1989-2009). There have been approximately 2,500 articles on Botox® or Botox® Cosmetic in scientific and medical journals. Since the FDA's approval of Dysport®, a competing product, in 2009, the FDA has required that all botulinum toxins marketed in the United States include a boxed warning regarding the symptoms associated with the spread of botulinum toxin beyond the injection site along with a corresponding Risk Evaluation and Mitigation Strategies, or REMS, program which addresses the lack of interchangeability of botulinum toxin products.

For the year ended December 31, 2011, therapeutic uses accounted for approximately 51% of Botox® total sales and aesthetic uses accounted for approximately 49% of Botox® total sales. Sales of Botox® represented approximately 30%, 29% and 29% of our total consolidated product net sales in 2011, 2010 and 2009, respectively.

Botox® is used therapeutically for the treatment of certain neuromuscular disorders which are characterized by involuntary muscle contractions or spasms as well for hyperhydrosis and the prophylactic treatment of headaches in

adults with chronic migraine. In the third quarter of 2011, the FDA approved Botox® for the treatment of urinary incontinence due to detrusor overactivity associated with a neurologic condition, such as a spinal cord injury or multiple sclerosis, in adults who have an inadequate response to or are intolerant of an anticholinergic medication. The currently-approved therapeutic indications for Botox® in the United States are as follows:

- urinary incontinence due to detrusor overactivity associated with a neurologic condition in adults who have an inadequate response to or are intolerant of an anticholinergic medication;
- the prophylactic treatment of headaches in adults with chronic migraine;

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- the treatment of increased muscle stiffness in the elbow, wrist and fingers in adults with upper limb spasticity;
- severe primary axillary hyperhidrosis, or underarm sweating, that is inadequately managed with topical agents;
- cervical dystonia, or sustained contractions or spasms of muscles in the shoulders or neck, in adults, and associated neck pain;
- blepharospasm, or the uncontrollable contraction of the eyelid muscles; and
- strabismus, or misalignment of the eyes, in people 12 years of age and over.

Botox® is also available outside the United States for various indications. Botox® is now approved for the prophylactic treatment of adult chronic migraine in approximately 25 countries, including the United Kingdom and almost all other countries in the European Union as well as Australia, Brazil, Canada, India and Korea. Botox® has also been approved for the treatment of urinary incontinence due to detrusor overactivity associated with a neurologic condition in approximately 17 countries, including Brazil, Canada, France, Germany and Spain. Botox® is also approved in many countries outside of the United States for treating hemifacial spasm, cervical dystonia, adult spasticity and spasticity associated with pediatric cerebral palsy.

In 2005, we licensed to GlaxoSmithKline, or GSK, our rights to develop and sell Botox® in Japan and China, but, in 2010, we reacquired from GSK the rights to develop and sell Botox® in Japan and China for all current and future cosmetic indications. GSK retained the rights to develop and sell Botox® in Japan and China for all current and future therapeutic indications. Botox® was approved in Japan for equinus foot due to lower limb spasticity in juvenile cerebral palsy patients in 2009 and for the treatment of upper and lower limb spasticity in 2010.

Botox® Cosmetic

The FDA approved Botox® Cosmetic in 2002 for the temporary improvement in the appearance of moderate to severe glabellar lines in adult men and women age 65 or younger. Depending on the country of approval, this product is referred to as Botox®, Botox® Cosmetic, Vistabel®, Vistabex® or Botox Vista®, and is administered in small injections to temporarily reduce the muscle activity that causes the formation of glabellar lines between the eyebrows that often develop during the aging process. Currently, over 75 countries have approved facial aesthetic indications for Botox®, Botox® Cosmetic, Vistabel®, Vistabex® or Botox Vista®. Botox® is approved for upper facial lines in Australia, Canada, New Zealand, and certain countries in East Asia and Latin America. In 2009, Botox® was approved in Japan and China for glabellar lines.

Skin Care

Our skin care products focus on the acne, psoriasis, physician-dispensed skin care and eyelash growth markets, particularly in the United States and Canada.

Aczone® (dapsone) gel 5% is approved for sale in both the United States and Canada and is indicated for the treatment of acne vulgaris in patients age 12 and older. We launched Aczone® in the United States in 2008. In the first quarter of 2011, we outlicensed our Canadian rights to Aczone® to Biovail Laboratories International SRL, a subsidiary of Valeant Pharmaceuticals, Inc.

Tazorac® (tazarotene) gel is approved for sale in the United States for the treatment of acne and plaque psoriasis, a chronic skin disease characterized by dry red patches. We also market a cream formulation of Tazorac® in the United States for the topical treatment of acne and for the treatment of psoriasis. We have also engaged Pierre Fabre Dermatologie as our promotion partner for Zorac® (tazarotene) in certain parts of Europe, the Middle East and Africa. In 2007, we entered into a strategic collaboration agreement with Stiefel Laboratories, Inc., which was acquired by GSK in 2009, to develop and market new products involving tazarotene for dermatological use worldwide.

Vivité® is an advanced anti-aging skin care line that uses proprietary GLX Technology,™ creating a highly specialized blend of glycolic acid and natural antioxidants. We launched Vivité® in 2007 and market our Vivité® line of skin care products to physicians in the United States.

Latisse® (bimatoprost ophthalmic solution) 0.03%, is the first, and currently the only, FDA-approved prescription treatment for insufficient or inadequate eyelashes. The FDA approved Latisse® in 2008 and we launched Latisse® in the United States in 2009. Latisse® is also approved for sale in Canada, Russia and certain markets in Latin America, Asia Pacific and the Middle East.

Urologics

Sanctura XR® is our once-daily anticholinergic for the treatment of over-active bladder, or OAB. Sanctura XR® was approved by the FDA in 2007 and Health Canada in 2010. In connection with our 2007 acquisition of Esprit Pharma Holdings Company,

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Inc., we obtained an exclusive license to market Sanctura® and Sanctura XR® in the United States and its territories from Indevus Pharmaceuticals, Inc., or Indevus, which was subsequently acquired by Endo Pharmaceuticals. In the United States, we promote Sanctura XR® to the urology specialty channel. We acquired the right to commercialize Sanctura XR® in Canada from Indevus and Madaus GmbH in 2008. Sanctura®, our twice-a-day anticholinergic for OAB, began facing generic competition in the United States in 2010.

Medical Devices Segment

Breast Aesthetics

Our silicone gel and saline breast implants, consisting of a variety of shapes, sizes and textures, have been available to women for more than 30 years and are currently sold in approximately 75 countries for breast augmentation, revision and reconstructive surgery. Our breast implants consist of a silicone elastomer shell filled with either a saline solution or silicone gel with varying degrees of cohesivity. This shell can consist of either a smooth or textured surface. We market our breast implants and tissue expanders under the trade names Natrelle®, Inspira®, and CUI™ and the trademarks BioCell®, MicroCell™ and BioDimensional®. We currently market over 1,000 breast implant product variations worldwide to meet our patients' preferences and needs. In 2006, the FDA and Health Canada lifted a moratorium on the sale of silicone gel breast implants that had been in place since the early 1990's and the majority of the breast implants we now sell are silicone gel breast implants. We also sell a line of tissue expanders primarily for breast reconstruction and also as an aid to skin grafting to cover burn scars and correct birth defects.

Obesity Intervention

Lap-Band®

The Lap-Band® System is designed to provide minimally invasive long-term treatment of severe obesity and is used as an alternative to more invasive procedures such as gastric bypass or sleeve gastrectomy. The Lap-Band® System is an adjustable silicone band that is laparoscopically placed around the upper part of the stomach through a small incision, creating a small pouch at the top of the stomach, which slows the passage of food and creates a sensation of fullness. The FDA approved the Lap-Band® System in 2001 to treat severe obesity in adults who have failed more conservative weight reduction alternatives. In 2007, we launched the Lap-Band AP® System, a next-generation of the Lap-Band® System. The Lap-Band AP® System has proprietary 360-degree Omniform® technology, which is designed to evenly distribute pressure throughout the band's adjustment range. In the first quarter of 2011, the FDA approved the expanded use of the Lap-Band® System for weight reduction in obese adults who have failed more conservative weight reduction alternatives and have a minimum Body Mass Index, or BMI, of 30 and at least one comorbid condition, such as type-2 diabetes or hypertension. The Lap-Band® System was previously only approved for adults with a BMI of at least 35 and at least one comorbid condition as well as adults with a BMI of at least 40.

Orbera™

The Orbera™ Intragastric Balloon System is a non-surgical alternative for the treatment of overweight and obese adults that is approved for sale outside the United States in over 60 countries. The Orbera™ System includes a silicone elastomer balloon that is filled with saline after transoral insertion into the patient's stomach to reduce stomach capacity and create an earlier sensation of fullness. The Orbera™ System is removed endoscopically within six months after placement.

Facial Aesthetics

Our Juvéderm® dermal filler family of products are designed to improve facial appearance by smoothing wrinkles and folds using our proprietary Hylacross™ and Vycross™ technology, which utilize an advanced manufacturing process that results in a cohesive gel. This technology enables the delivery of a homogeneous gel-based hyaluronic acid. The FDA approved Juvéderm® Ultra and Ultra Plus in 2006 for the correction of moderate to severe wrinkles and folds. In 2010, the FDA approved Juvéderm® Ultra XC and Ultra Plus XC, each formulated with lidocaine, an anesthetic that alleviates pain during injections.

In Europe, we market various formulations of Juvéderm®, including Juvéderm Voluma™ and Surgiderm® for wrinkle and fold augmentation as well as volume deficits. In the fourth quarter of 2011, we launched Juvéderm Voluma™ with lidocaine in Europe and Canada. In the first quarter of 2011, Juvéderm® Hydrate and Juvéderm Ultra Smile® were

launched in Europe. The Juvéderm® dermal filler family of products are currently approved or registered in approximately 50 countries, including all major world markets with the exception of Japan and China where we are pursuing approvals.

International Operations

Our international sales represented 39.8%, 37.4% and 34.6% of our total consolidated product net sales for the years ended December 31, 2011, 2010 and 2009, respectively. Our products are sold in over 100 countries. Marketing activities are coordinated

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on a worldwide basis, and resident management teams provide leadership and infrastructure for customer-focused, rapid introduction of new products in the local markets.

Sales and Marketing

We sell our products directly through our own sales subsidiaries in approximately 38 countries and, supplemented by independent distributors, in over 100 countries worldwide. We maintain a global strategic marketing team, as well as regional sales and marketing organizations, to support the promotion and sale of our products. We also engage contract sales organizations to promote certain products. Our sales efforts and promotional activities are primarily aimed at eye care professionals, neurologists, physiatrists, dermatologists, plastic and reconstructive surgeons, aesthetic specialty physicians, bariatric surgeons, urologists and general practitioners who use, prescribe and recommend our products.

We advertise in professional journals, participate in medical meetings and utilize direct mail and internet programs to provide descriptive product literature and scientific information to specialists in the ophthalmic, dermatological, medical aesthetics, bariatric, neurology, movement disorder and urology fields. We have developed training modules and seminars to update physicians regarding evolving technology in our products. We also have utilized direct-to-consumer advertising for Botox® for chronic migraine, Botox® Cosmetic, Juvéderm®, the Lap-Band® System, Latisse®, Natrelle® and Restasis®. We supplement our marketing efforts with exhibits at medical conventions, advertisements in trade journals, sales brochures and national media. In addition, we sponsor symposia and educational programs to familiarize physicians and surgeons with the leading techniques and methods for using our products.

Our products are sold to drug wholesalers, independent and chain drug stores, pharmacies, commercial optical chains, opticians, mass merchandisers, food stores, hospitals, group purchasing organizations, integrated direct hospital networks, ambulatory surgery centers and medical practitioners. We also utilize distributors for our products in smaller international markets. We transferred back sales and marketing rights for our products from our distributors and established direct operations in Poland, Turkey and the Philippines in 2010, South Africa in the third quarter of 2011 and Russia in the first quarter of 2012.

As of December 31, 2011, we employed approximately 3,400 sales representatives throughout the world. U.S. sales, including manufacturing operations, represented 60.2%, 62.6% and 65.4% of our total consolidated product net sales in 2011, 2010 and 2009, respectively. Sales to Cardinal Health, Inc. for the years ended December 31, 2011, 2010 and 2009 were 14.1%, 13.1% and 13.9%, respectively, of our total consolidated product net sales. Sales to McKesson Drug Company for the years ended December 31, 2011, 2010 and 2009 were 12.6%, 12.1% and 12.8%, respectively, of our total consolidated product net sales. No other country, or single customer, generated over 10% of our total consolidated product net sales.

Research and Development

Our global research and development efforts currently focus on eye care, neurology, urology, skin care, medical aesthetics and obesity intervention. Our strategy includes developing innovative products to address unmet medical needs and conditions associated with aging, and otherwise assisting patients in reaching life's potential. Our top priorities include furthering our leadership in ophthalmology, medical aesthetics and neuromodulators, identifying new potential compounds for sight-threatening diseases such as glaucoma, age-related macular degeneration and other retinal disorders and developing novel therapies for chronic dry eye, pain and genitourinary diseases as well as next-generation breast implants, dermal fillers and obesity intervention devices.

We have a fully integrated research and development organization with in-house discovery programs, including medicinal chemistry, high throughput screening and biological sciences. We supplement our own research and development activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions. As of December 31, 2011, we had approximately 2,000 employees involved in our research and development efforts. Our research and development expenditures for 2011, 2010 and 2009 were approximately $902.8 million, $804.6 million and $706.0 million, respectively.

Some of our 2011 research and development highlights are described below, including acquisitions of compounds and products in development and progress under collaborations with third parties.

Ophthalmology. Our research and development efforts for the ophthalmic pharmaceuticals business continue to focus on new therapeutic products for retinal disease, glaucoma and chronic dry eye. In the second quarter of 2011, we entered into a license agreement with Molecular Partners AG pursuant to which we obtained exclusive global rights in the field of ophthalmology for MP0112, a Phase II proprietary therapeutic DARPin® protein targeting vascular endothelial growth factor receptors under investigation for the treatment of retinal diseases. Under the terms of the agreement, we made a $45.0 million upfront payment to Molecular Partners AG and agreed to pay certain contingent development and regulatory milestones as well as certain royalty payments.

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Neurology. We continue to invest heavily in the research and development of neuromodulators, including Botox® and Botox® Cosmetic. We are focused on expanding the approved indications for Botox®, including idiopathic overactive bladder, benign prostatic hyperplasia, adult movement disorders and juvenile cerebral palsy, while also pursuing next-generation neuromodulator-based therapeutics, including a targeted neuromodulator for use in overactive bladder and post-herpetic neuralgia. We are further enhancing biologic process development and manufacturing. In the second quarter of 2011, the FDA and Health Canada approved our fully in vitro, cell-based assay for use in the stability and potency testing of Botox® and Botox® Cosmetic. In early 2012, Allergan received positive opinions for this assay in Europe for both Vistabel® and Botox®. In the first quarter of 2011, we entered into a collaboration agreement and a co-promotion agreement with MAP Pharmaceuticals, Inc., or MAP, for the exclusive development and commercialization by us and MAP of Levadex® within the United States to neurologists for the treatment of acute migraine in adults, migraine in adolescents 12 to 18 years of age and other indications that may be approved. Levadex® is a self-administered, orally inhaled therapy consisting of a proprietary formulation of dihydroergotamine using MAP's proprietary Tempo® delivery system, which has completed Phase III clinical development for the treatment of acute migraine in adults and is currently under review by the FDA.

Urology. In the third quarter of 2011, the FDA approved Botox® for the treatment of urinary incontinence due to detrusor overactivity associated with a neurologic condition, such as spinal cord injury or multiple sclerosis, in adults who have an inadequate response to or are intolerant of an anticholinergic medication. We also continue to collaborate with Serenity Pharmaceuticals, LLC, or Serenity, on the development and commercialization of Ser-120, a Phase III investigational drug in clinical development for the treatment of nocturia, a urological disorder in adults characterized by frequent urination at night time. In 2010, the Phase III clinical trials failed to meet their primary efficacy endpoints and, in 2011, after consultation with the FDA, an additional study was initiated. We are also continuing to collaborate with Spectrum Pharmaceuticals, Inc., or Spectrum, to develop and commercialize apaziquone, an antineoplastic agent being investigated for the treatment of non-muscle invasive bladder cancer following surgery. Under the license, development, supply and distribution agreement that we entered into with Spectrum in 2008, Spectrum is conducting two Phase III clinical trials.

Dermatology. In the third quarter of 2011, we completed the acquisition of Vicept Therapeutics, Inc., a privately-held dermatology company based in the United States focused on developing a novel compound to treat erythema associated with rosacea, for an upfront payment of $74.1 million, net of cash acquired, and agreed to pay certain contingent development and regulatory milestone payments as well as additional payments contingent upon achieving certain sales milestones.

Medical Devices. We continue to invest in the development of biodegradable silk-based scaffolds for use in tissue regeneration, including breast augmentation, revision and reconstruction and general surgical applications. We invest in research and development around our Natrelle® and Inspira® line of products for breast augmentation and reconstruction, and our Juvéderm® family of dermal filler products. Juvéderm Voluma™ with lidocaine is currently under FDA review for correcting age-related mid-face volume deficit.

The continuing introduction of new products supplied by our research and development efforts, including our clinical development projects and in-licensing opportunities are critical to our success. There are intrinsic uncertainties associated with research and development efforts and the regulatory process. We cannot assure you that any of the research projects, clinical development projects, collaborations or pending drug marketing approval applications will result in new products that we can commercialize. Delays or failures in one or more significant research or clinical development projects and pending drug marketing approval applications could have a material adverse effect on our future operations. For a more complete discussion of the risks relating to research and development, see Item 1A of Part I of this report, including “Risk Factors - We may not be successful in developing and obtaining regulatory approval for new products or new indications for existing products.”

Patents, Trademarks and Licenses

We own, or have licenses under, numerous U.S. and foreign patents relating to our products, product uses and manufacturing processes. Our success depends on our ability to obtain patents or rights to patents, protect trade secrets and other proprietary technologies and processes, operate without infringing upon the proprietary rights of others, and

prevent others from infringing on our patents, trademarks, service marks and other intellectual property rights. Upon the expiration or loss of patent protection for a product, we can lose a significant portion of sales of that product in a very short period of time as other companies manufacture and sell generic forms of our previously protected product, without having to incur significant development or marketing costs.

Patents. With the exception of the U.S. and European patents relating to Lumigan® 0.03%, Lumigan® 0.01%, Alphagan® P 0.15%, Alphagan® P 0.1%, Combigan®, Ganfort,™ Ozurdex® and the U.S. patents relating to Restasis®, Zymaxid®, Lastacaft®, Latisse® and Azcone®, no one patent or license is materially important to our specialty pharmaceuticals segment. The U.S. patents covering Lumigan® 0.03% expire in 2012 and 2014 and the European patents expire in various countries between 2013 and 2017. The U.S. marketing exclusivity for Lumigan® 0.01% expires in August 2013. The U.S. patents covering Lumigan® 0.01% expire in 2012, 2014 and 2027 and the European patents expire in 2013, 2017 and 2026. The U.S. patents covering the commercial formulations of Alphagan® P 0.15%, and Alphagan® P 0.1% expire in 2022 . The U.S. patents covering Combigan® expire in

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2022 and 2023, the European patent is pending and the marketing exclusivity period for Combigan® expires in Europe in 2015. The European patents covering Ganfort™ expire in 2013 and 2022. The U.S. patents covering Ozurdex® expire between 2020 and 2024 and the European patent expires in 2021. The U.S. patent covering Restasis® expires in 2014. The U.S. patents covering Zymaxid® expire in 2016 and 2020. The U.S. patent covering Lastacaft® expires in 2012 and a patent term extension is pending. The marketing exclusivity for Lastacaft® expires in July 2015. The U.S. patents covering Latisse® expire in 2012, 2022, 2023 and 2024 and the European patents covering Latisse® expire in 2013 and 2021. The marketing exclusivity period for Latisse® expired in December 2011. The U.S. patent covering Azcone® expires in 2016.

We own, and have rights in, well over 100 issued U.S. and European use and process patents covering various Botox® indications, including the treatment of chronic migraine, overactive bladder and hyperhydrosis, as well as our next-generation neuromodulator-based therapeutics currently in development.

With the exception of certain U.S. and European patents relating to the Lap-Band AP® System and our Inspira® and Natrelle® breast implants products, no one patent or license is materially important to our specialty medical device segment. The patents covering our Lap-Band AP® System expire in 2024 in the United States and in 2023 in Europe. The patents covering our Inspira® and Natrelle® breast implant products expire in 2018 in the United States and 2017 in Europe. We have additional patents pending relating to our breast implant products and tissue expanders in development. We also have patents covering our Juvéderm Voluma™ dermal filler product in late-stage development that expire in 2021 and 2026 in the United States and in 2021 in Europe.

We also own or have rights to patents covering potential products in late-stage development pursuant to certain agreements with third parties described further below under “Licenses” including U.S. patents covering Levadex® that expire in 2028, U.S. patents covering apaziquone that expire in 2022 and 2024 and U.S. patents covering Ser-120 that expire in 2024. For a discussion of the risks relating to late-stage development, please see Item 1A of Part I of this report, including “Risk Factors - Our development efforts may not result in products or indications approved for commercial sale.”

The issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. It is impossible to anticipate the breadth or degree of protection that any such patents will afford. Third parties may challenge, invalidate or circumvent our patents and patent applications relating to our products, product candidates and technologies, which could result in significant harm to our business.

The individual patents associated with and expected to be associated with our products and late-stage development projects extend for varying periods of time depending on the date of filing of the patent application or the date of patent issuance and the legal term of patents in the countries in which they are obtained. The actual protection afforded by a patent varies on a product-by-product basis and country-to-country basis and depends upon many factors, including the type of patent, the scope of its coverage, the availability of regulatory-related extensions, the availability of legal remedies in a particular country and the validity and enforceability of the patents.

Trademarks. We market our products under various trademarks, for which we have both registered and unregistered trademark protection in the United States and certain countries outside the United States. We consider these trademarks to be valuable because of their contribution to the market identification of our products and we regularly prosecute third party infringers of our trademarks in an attempt to limit confusion in the marketplace. Any failure to adequately protect our rights in our various trademarks and service marks from infringement could result in a loss of their value to us. If the marks we use are found to infringe upon the trademark or service mark of another company, we could be forced to stop using those marks and, as a result, we could lose the value of those marks and could be liable for damages caused by infringing those marks. In addition to intellectual property protections afforded to trademarks, service marks and proprietary know-how by the various countries in which our proprietary products are sold, we seek to protect our trademarks, service marks and proprietary know-how through confidentiality agreements with third parties, including our partners, customers, employees and consultants. These agreements may be breached or become unenforceable, and we may not have adequate remedies for any such breach. It is also possible that our trade secrets will become known or independently developed by our competitors, resulting in increased competition for our products.

Licenses. We license certain intellectual property from third parties and are involved in various collaborative ventures to develop and commercialize products. Certain of these arrangements include but are not limited to the following:

- a collaboration agreement and a co-promotion agreement with MAP for the exclusive development and commercialization by us and MAP of Levadex® within the United States to neurologists for the treatment of acute migraine in adults, migraine in adolescents 12 to 18 years of age and other indications that may be approved by the parties;
- a collaboration arrangement with Spectrum to develop and commercialize apaziquone, an antineoplastic agent currently being investigated for the treatment of non-muscle invasive bladder cancer by intravesical instillation;
- an agreement with Serenity to develop and commercialize Ser-120, a nasally administered low dosage formulation of

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desmopressin currently in Phase III clinical trials for the treatment of nocturia, pursuant to which we received an exclusive worldwide license to develop, manufacture and commercialize Ser-120 for all potential indications except, under certain circumstances, primary nocturnal enuresis;

- a license agreement with Molecular Partners AG pursuant to which we obtained exclusive global rights in the field of ophthalmology for MP0112, a Phase II proprietary therapeutic DARPin® protein targeting vascular endothelial growth factor receptors under investigation for the treatment of retinal diseases;
- a license from Merck & Co., formerly Inspire Pharmaceuticals, Inc., pursuant to which we pay royalties based on our net sales of Restasis® and any other human ophthalmic formulations of cyclosporine owned or controlled by us; and
- a royalty-bearing, non-exclusive license from Ethicon Endo-Surgery, Inc. with respect to a portfolio of non-U.S. patents applicable to adjustable gastric bands, pursuant to which we will pay royalties until the expiry of the applicable patents in 2013.

We also license certain of our intellectual property rights to third parties. Certain of these arrangements include but are not limited to the following:

- a royalty-bearing license to GSK for clinical development and commercial rights to Botox® for therapeutic indications in Japan and China;
- an exclusive licensing agreement with Senju pursuant to which Senju is responsible for the development and commercialization of Lumigan® in Japan;
- an exclusive licensing agreement with Kyorin, which Kyorin subsequently sublicensed to Senju, pursuant to which Senju is responsible for the development and commercialization of our Alphagan® P products, including Aiphagan® P 0.1%, in Japan;
- an exclusive license agreement with Bristol-Myers Squibb Company regarding the development and commercialization of an investigational drug for neuropathic pain, pursuant to which we granted to Bristol-Myers Squibb Company worldwide rights to develop, manufacture and commercialize the investigational drug for neuropathic pain and backup compounds;
- a royalty-bearing license to Merz Pharmaceuticals, or Merz, pursuant to which Merz pays royalties with regard to Xeomin® in many countries where we have issued or pending patents;
- a royalty-bearing license to Alcon for brimonidine 0.15% in the United States; and
- a royalty-bearing license to US WorldMeds with regard to MyoBloc®/Neurobloc®.

From time to time, we may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market our products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially exploit such products may be inhibited or prevented.

Manufacturing

We manufacture the majority of our commercialized products in our own plants located at the following locations: Westport, Ireland; Waco, Texas; San José, Costa Rica; Pringy, France; and Guarulhos, Brazil. We also produce clinical supplies of biodegradable silk-based scaffolds at a leased facility in Massachusetts. We maintain sufficient manufacturing capacity at these facilities to support forecasted demand as well as a modest safety margin of additional capacity to meet peaks of demand and sales growth in excess of expectations. We increase our capacity as required in anticipation of future sales increases. In the event of a very large or very rapid unforeseen increase in market demand for a specific product or technology, supply of that product or technology could be negatively impacted until additional capacity is brought on line. Third parties manufacture a small number of commercialized products for us. We are a vertically integrated producer of plastic parts and produce our own bottles, tips and caps for use in the manufacture of our ophthalmic solutions. Additionally, we ferment, purify and characterize the botulinum toxin used in our product Botox®. We purchase all of our active pharmaceutical ingredients, or API, from third parties as well as other significant raw materials and parts for medical devices from qualified domestic and international sources. Where practical, we maintain more than one supplier for each API and other materials, and we have an ongoing alternate program that identifies additional sources of key raw materials. However, in some cases, we are a niche purchaser and

may only have a single source of supply. These sources are identified in filings with regulatory agencies, including the FDA, and cannot be changed without prior regulatory approval. In these cases, we maintain inventories of the raw material itself to mitigate the risk of interrupted supply. A lengthy interruption of the supply of one of these materials and parts for medical devices could adversely affect our ability to manufacture and supply commercial

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products. In addition, a small number of the raw materials required to manufacture certain of our products are derived from biological sources which could be subject to contamination and recall by their suppliers. We use multiple lots of these raw materials at any one time in order to mitigate such risks. However, a shortage, contamination or recall of these products could disrupt our ability to maintain an uninterrupted commercial supply of our finished goods. Manufacturing facilities producing pharmaceutical and medical device products intended for distribution in the United States and internationally are subject to regulation and periodic review by the FDA, international regulatory authorities and European notified bodies for certain of our medical devices. All of our facilities are currently approved by the FDA, the relevant notified bodies and other foreign regulatory authorities to manufacture pharmaceuticals and medical devices for distribution in the United States and international markets. For a discussion of the risks relating to manufacturing and the use of third party manufacturers, see Item 1A of Part I of this report, including “Risk Factors-Disruptions in our supply chain or failure to adequately forecast product demand could result in significant delays or lost sales.”

Competition

The pharmaceutical and medical device industries are highly competitive and require an ongoing, extensive search for technological innovation. They also require, among other things, the ability to effectively discover, develop, test and obtain regulatory approvals for products, as well as the ability to effectively commercialize, market and promote approved products, including communicating the effectiveness, safety and value of products to actual and prospective customers and medical professionals. Numerous companies are engaged in the development, manufacture and marketing of health care products competitive with those that we develop, manufacture and market. Many of our competitors have greater resources than we have. This enables them, among other things, to make greater research and development investments and spread their research and development costs, as well as their marketing and promotion costs, over a broader revenue base. Our competitors may also have more experience and expertise in obtaining marketing approvals from the FDA and other regulatory authorities. In addition to product development, testing, approval and promotion, other competitive factors in the pharmaceutical and medical device industries include industry consolidation, product quality and price, product technology, reputation, customer service and access to technical information. We believe that our products principally compete on the basis of quality, clinical data, product design, an experienced sales force, physicians' and surgeons' familiarity with our products and brand names, effective marketing campaigns, including direct-to-consumer advertising, customer relationship marketing databases, regional warranty programs and our ability to identify and develop or license patented products embodying new technologies. In addition to the information provided below, please see Item 3 of Part I of this report, “Legal Proceedings,” for information concerning current litigation regarding our products and intellectual property.

Specialty Pharmaceuticals Segment

Eye Care Products

Our eye care pharmaceutical products face extensive competition from Alcon Laboratories, Inc./Novartis AG, Abbott Laboratories, Bausch & Lomb, Inc., Genentech/Hoffman La Roche AG, Ista Pharmaceuticals, Inc., Merck & Co./Inspire Pharmaceuticals, Inc., Pfizer Inc., Regeneron Pharmaceuticals, Inc. and Santen Seiyaku. For our eye care products to be successful, we must be able to manufacture and effectively detail them to a sufficient number of eye care professionals such that they use or continue to use our current products and the new products we may introduce. Glaucoma must be treated over an extended period and doctors may be reluctant to switch a patient to a new treatment if the patient's current treatment for glaucoma is effective and well tolerated.

We also face intense competition from generic drug manufacturers in the United States and internationally. For instance, the FDA approved the first generic of Alphagan® in 2003 and Alphagan® P 0.15% and Alphagan® now face generic competition in the United States. A generic form of Elestat® was first approved by the FDA in the second quarter of 2011 and Elestat® now faces generic competition in the United States. A generic form of Zymar® produced by Apotex Inc. was approved by the FDA in the third quarter of 2011, but as of February 2012, a generic product has not been launched in the United States. Acular LS® and Acular® also face generic competition in the United States. In

some cases, we also compete with generic versions of our competitors' products. For instance, Lumigan® now competes indirectly with many generic versions of Pfizer's Xalatan® ophthalmic solution.

In recent years we have received paragraph 4 Hatch-Waxman Act certifications from various generic drug manufacturers, including but not limited to Excela PharmaSci, Inc., Apotex Inc., Barr Laboratories, Inc., Sandoz, Inc., Alcon Research, Ltd., Watson Laboratories, Inc., Lupin Limited and High-Tech Pharmacal Co., Inc., seeking FDA approval of generic forms of certain of our eye care products, including Alphagan® P 0.15%, Alphagan® P 0.1%, Combigan®, Lumigan® 0.3%, Lumigan® 0.1%, Zymar® and Zymaxid®. We expect to continue to receive paragraph 4 Hatch-Waxman Act certifications from these and other companies challenging the validity of our patents.

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Neuromodulators

Botox® was the only neuromodulator approved by the FDA until 2000, when the FDA approved Myobloc® (rimabotulinumtoxinB), a neuromodulator currently marketed by US WorldMeds. In 2009, the FDA approved Dysport® (abobotulinumtoxinA) for the treatment of cervical dystonia and glabellar lines, which is marketed by Ipsen Ltd., or Ipsen, and Medicis Pharmaceutical Corporation, or Medicis. Since the approval of Dysport®, the FDA has required that all botulinum toxins marketed in the United States include a boxed warning regarding the symptoms associated with the spread of botulinum toxin beyond the injection site along with a corresponding REMS program which addresses the lack of interchangeability of botulinum toxin products. In 2006, Ipsen received marketing authorization for a cosmetic indication for Dysport® in Germany. In 2007, Ipsen granted Galderma, a joint venture between Nestle and L'Oréal Group, an exclusive development and marketing license for Dysport® for cosmetic indications in the European Union, Russia, Eastern Europe and the Middle East, and first rights of negotiation for other countries around the world, except the United States, Canada and Japan. In 2008, Galderma became Ipsen's sole distributor for Dysport® in Brazil, Argentina and Paraguay. In 2009, the health authorities of 15 European Union countries approved Dysport® for glabellar lines under the trade name Azzalure®. In 2011, Ipsen and Syntaxin engaged in a research collaboration agreement to develop native and engineered formats of botulinum neurotoxin.

In addition, Merz's botulinum toxin product Xeomin®, is currently approved for therapeutic indications in most countries in the European Union as well as Canada and certain countries in Latin America and Asia. Xeomin® was approved by the FDA in 2010 for cervical dystonia and blepharospasm in adults previously treated with Botox®. In the third quarter of 2011, Xeomin® was approved by the FDA and in Korea for glabellar lines. In 2009, Merz received approval of Bocouture® (rebranded from Xeomin®) for glabellar lines in Germany. In 2010, Bocouture® was approved in significant markets within the European Union. Xeomin® is also approved for glabellar lines in Argentina and Mexico.

Mentor Worldwide LLC, a division of Johnson & Johnson, or Mentor, is conducting clinical trials for a competing neuromodulator for glabellar lines in the United States and Johnson & Johnson has communicated that Mentor will file its Biologics License Application, or BLA, with the FDA in 2013 or later.

In addition, we are aware of competing neuromodulators currently being developed and commercialized in Asia, South America and other markets. A Korean botulinum toxin, Meditoxin®, was approved for sale in Korea in 2006. The company, Medy-Tox Inc., received exportation approval from Korean authorities in early 2005 to ship their product under the trade name Neuronox®. Neuronox® is marketed in Hong Kong, India and Thailand. Meditoxin® is approved in several South American countries under various trade names. A Chinese entity, Lanzhou Biological Institute, received approval to market a botulinum toxin in China in 1997 under the tradename HengLi, and has launched its botulinum toxin product in other lightly regulated markets in Asia, South America and Central America under several trade names. These lightly regulated markets may not require adherence to the FDA's current Good Manufacturing Practice regulations, or cGMPs, or the regulatory requirements of the European Medicines Agency or other regulatory agencies in countries that are members of the Organization for Economic Cooperation and Development. While these products are unlikely to meet stringent U.S. regulatory standards, the companies operating in these markets may be able to produce products at a lower cost than we can.

Our sales of Botox® could be materially and negatively impacted by this competition or competition from other companies that might obtain FDA approval or approval from other regulatory authorities to market a neuromodulator.

Skin Care Products

Our skin care products, including Aczone®, Tazorac®, Vivité® and Latisse®, focus on the acne, psoriasis, physician-dispensed skin care and eyelash growth markets, particularly in the United States and Canada, and compete with many other skin care products from companies, including Galderma, Medicis, Stiefel Laboratories, Inc., a division of GSK, Novartis AG, Merck & Co., Inc., Obagi Medical Products, Inc., L'Oréal Group, SkinMedica, Inc. and Valeant Pharmaceuticals International, many of which have greater resources than us. We also compete with mass retail products that are designed to treat skin care issues similar to those for which our products are indicated. For example, Aczone® faces competition from several generic and over-the-counter products, which provide lower-priced options for the treatment of acne.

Urology

Our products for the treatment of OAB, Sanctura® and Sanctura XR®, compete with several other OAB treatment products, many of which have been on the market for a longer period of time, including Pfizer Inc.'s Detrol®, Detrol® LA and Toviaz,™ Watson Pharmaceuticals, Inc.'s Oxytrol® and Gelnique,™ Warner Chilcott PLC's Enablex® and Astellas Pharma US, Inc. and GSK's Vesicare® and certain generic OAB products. We also face competition from generic urologic drug manufacturers in the United States and internationally. In 2009, we received paragraph 4 Hatch-Waxman Act certifications from Watson Pharmaceuticals, Inc. seeking FDA approval of a generic form of Sanctura XR®. In 2010, a generic version of Sanctura® was launched in the United States. For our urologics products to be successful, we must be able to effectively detail our products to a sufficient number of

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urologists and obstetrician/gynecologists such that they recommend our products to their patients. We will also have to demonstrate that our products are safe and reduce patients' sense of urgency, frequency and urge urinary incontinence episodes while also having limited side effects, such as dry mouth, constipation, blurred vision, drowsiness and headaches. We also have to demonstrate the effectiveness of our urologics products to Medicare and other governmental agencies to secure an appropriate and competitive level of reimbursement.

Medical Devices Segment

Breast Aesthetics

We compete in the U.S. breast implant market with Mentor. Mentor announced in 2006 that, like us, the FDA lifted a moratorium, imposed in the early 1990's, on the sale of silicone breast implants in the United States. The conditions under which Mentor is allowed to market its silicone breast implants in the United States are similar to ours, including indications for use and the requirement to conduct post-marketing studies. If patients or physicians prefer Mentor's breast implant products to ours or perceive that Mentor's breast implant products are safer than ours, our sales of breast implants could materially suffer. In the United States, Sientra, Inc. has an approved line of tissue expanders and is conducting clinical studies of saline and silicone gel breast implant products. Internationally, we compete with several manufacturers, including Mentor, Silimed, Eurosilicone, Nagor, Polytech and several Chinese implant manufacturers.

Obesity Intervention

Ethicon Endo-Surgery, Inc., a subsidiary of Johnson & Johnson, received FDA approval in 2007 to market its gastric band product, the Realize® Personalized Banding Solution, in the United States. The Realize® band competes with our Lap-Band® System. Outside the United States, the Lap-Band® System competes primarily with the Realize® band, Heliogast® by Helioscopie SA, Midband™ by Medical Innovation Development SAS, Soft Gastric Band by Agency for Medical Innovation, Bioring® by Cousin Biotech, MiniMizer Extra by Bariatric Solns and Adj Gastric Band by Silimed. No intragastric balloons for the treatment of obesity are commercially available in the United States. Outside the United States, our Orbera™ products compete with other intragastric balloons made by Helioscopie, SiliMed, Spatz FGIA and Endalis, in certain countries in the European Union, Latin America and/or Asia Pacific. In 2011, we discontinued our EasyBand™ Remote Adjustable Gastric Band System, which we had acquired in connection with our 2007 acquisition of EndoArt SA.

Facial Aesthetics

Our facial products compete in the dermatology and plastic surgery markets with other hyaluronic acid fillers, as well as polymer/bioceramic-based injectables. Our fillers compete indirectly with substantially different procedures, such as laser treatments, face lifts, chemical peels, fat injections and botulinum toxin-based products. In addition, several companies are engaged in research and development activities examining the use of collagen, hyaluronic acids and other biomaterials for the correction of soft tissue defects. In the United States, our dermal filler products, including Juvéderm® Ultra and Ultra Plus, compete with Medicis' products Restylane® and Perlane™, which were approved by the FDA in 2004 and in 2007, respectively. In 2010, the FDA approved our Juvéderm® Ultra XC and Ultra Plus XC products containing lidocaine as well as new formulations of Restylane® and Perlane™ also containing lidocaine and Restylane® without lidocaine for lips.

Additional competitors in the filler category include Radiesse®, a calcium hydroxylapatite from Bioform, which received FDA approval in 2006 and was acquired by Merz in 2010, Sculptra® from Valeant Pharmaceuticals, Inc., or Valeant, and Belotero Balance® from Merz, which received FDA approval in the fourth quarter of 2011. Internationally, we compete with Q-Med's range of Restylane® and Perlane™ products, as well as products from Teoxane, Anteis, Valeant and a large number of other hyaluronic acid, bioceramic, protein and other polymer-based dermal fillers.

Government Regulation

Specialty Pharmaceuticals Segment

Drugs and biologics are subject to regulation by the FDA, state agencies and foreign health agencies. Pharmaceutical products and biologics are subject to extensive pre- and post-market regulation by the FDA, including regulations that

govern the testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising and promotion of the products under the Federal Food, Drug, and Cosmetic Act, or FFDCA, and its implementing regulations with respect to drugs and the Public Health Services Act and its implementing regulations with respect to biologics, and by comparable agencies in foreign countries. Failure to comply with applicable FDA or other requirements may result in civil or criminal penalties, recall or seizure of products, partial or total suspension of production or withdrawal of a product from the market.

The process required by the FDA before a new drug or biologic may be marketed in the United States is long, expensive

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and inherently uncertain. We must complete preclinical laboratory and animal testing, submit an Investigational New Drug Application, which must become effective before United States clinical trials may begin, and perform adequate and well controlled human clinical trials to establish the safety and efficacy of the proposed drug or biologic for its intended use. Clinical trials are typically conducted in three sequential phases, which may overlap, and must satisfy extensive Good Clinical Practice regulations and informed consent regulations. Further, an independent institutional review board, or IRB, for each medical center or medical practice proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center or practice and must monitor the study until completed. The FDA, the IRB or the study sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. In addition, the Food and Drug Administration Amendments Act of 2007, or FDAAA, imposes certain clinical trial registry obligations on study sponsors, including the posting of detailed trial design and trial results in the FDA public databases.

We must submit a New Drug Application, or NDA, for a new drug, or BLA, for a biologic to the FDA, and the NDA or BLA must be reviewed and approved by the FDA before the drug or biologic may be legally marketed in the United States. To satisfy the criteria for approval, a NDA or BLA must demonstrate the safety and efficacy of the product based on results of preclinical studies and the three phases of clinical trials. Both NDAs and BLAs must also contain extensive manufacturing information, and the applicant must pass an FDA pre-approval inspection of the manufacturing facilities at which the drug or biologic is produced to assess compliance with the FDA's cGMPs prior to commercialization. Satisfaction of FDA pre-market approval requirements typically takes several years and the actual time required may vary substantially based on the type, complexity and novelty of the product, and we cannot be certain that any approvals for our products will be granted on a timely basis, or at all.

Once approved, the FDA may require post-marketing clinical studies, known as Phase IV studies, and surveillance programs to monitor the effect of approved products. The FDA may limit further marketing of the product based on the results of these post-market studies and programs. Further, any modifications to the drug or biologic, including changes in indications, labeling or manufacturing processes or facilities, may require the submission of a new or supplemental NDA or BLA, which may require that we develop additional data or conduct additional preclinical studies and clinical trials.

The manufacture and distribution of drugs and biologics are subject to continuing regulation by the FDA, including recordkeeping requirements, reporting of adverse experiences associated with the drug, and cGMPs, which regulate all aspects of the manufacturing process and impose certain procedural and documentation requirements. Drug and biologic manufacturers and their subcontractors are required to register their establishments, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with regulation requirements. Further, the FDAAA, which went into law in 2007, provided the FDA with additional authority over post-marketing safety. The FDAAA permits the FDA to require sponsors to conduct post-approval clinical studies, to mandate labeling changes based on new safety information and to require sponsors to implement a REMS program. The FDA may require a sponsor to submit a REMS program before a product is approved, or after approval based on new safety information. A REMS program may include a medication guide, a patient package insert, a plan for communicating risks to health care providers or other elements that the FDA deems necessary to assure the safe use of the drug. If the manufacturer or distributor fails to comply with the statutory and regulatory requirements, or if safety concerns arise, the FDA may take legal or regulatory action, including civil or criminal penalties, suspension, withdrawal or delay in the issuance of approvals, or seizure or recall of products, any one or more of which could have a material adverse effect upon us.

The FDA imposes a number of complex regulatory requirements on entities that advertise and promote pharmaceuticals and biologics, including, but not limited to, standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities, and promotional activities including internet marketing. Drugs and biologics can only be marketed for approved indications and in accordance with the labeling approved by the FDA. Failure to comply with these regulations can result in penalties, including the issuance of warning letters directing a company to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and federal and state civil and criminal

investigations and prosecutions. The FDA does not, however, regulate the behavior of physicians in their practice of medicine and choice of treatment. Physicians may prescribe (although manufacturers are not permitted to promote) legally available drugs and biologics for uses that are not described in the product's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties.

We are also subject to various laws and regulations regarding laboratory practices, the housing, care and experimental use of animals, and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as above, the FDA and the U.S. Department of Justice have broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay our operations and issue approvals, seize or recall products, and withdraw approvals, any one or more of which could have a material adverse effect upon us.

Internationally, the regulation of drugs is also complex. In Europe, our products are subject to extensive regulatory requirements. As in the United States, the marketing of medicinal products has for many years been subject to the granting of marketing authorizations by the European Medicines Agency and national Ministries of Health. Particular emphasis is also being

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placed on more sophisticated and faster procedures for reporting adverse events to the competent authorities. The European Union procedures for the authorization of medicinal products are intended to improve the efficiency of operation of both the mutual recognition and centralized procedures to license medicines. Similar rules and regulations exist in all countries around the world. Additionally, new rules have been introduced or are under discussion in several areas, including the harmonization of clinical research laws and the laws relating to orphan drugs and orphan indications. Outside the United States, reimbursement pricing is typically regulated by government agencies.

The total cost of providing health care services has been and will continue to be subject to review by governmental agencies and legislative bodies in the major world markets, including the United States, which are faced with significant pressure to lower health care costs. Legislation passed in recent years has imposed certain changes to the way in which pharmaceuticals, including our products, are covered and reimbursed in the United States. For instance, federal legislation and regulations have created a voluntary prescription drug benefit, Medicare Part D, and have imposed significant revisions to the Medicaid Drug Rebate Program. The recently enacted Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively, the PPACA, imposes yet additional changes to these programs. There also is growing political pressure to allow the importation of pharmaceutical and medical device products from outside the United States. Reimbursement restrictions or other price reductions or controls or imports of pharmaceutical or medical device products from outside of the United States could materially and adversely affect our revenues and financial condition. Additionally, price reductions and rebates have recently been mandated in several European countries, principally Germany, Italy, Spain, the United Kingdom, Turkey and Greece. Certain products are also no longer eligible for reimbursement in France, Italy and Germany. Reference pricing is used in several markets around the world to reduce prices. Furthermore, parallel trade within the European Union, whereby products flow from relatively low-priced to high-priced markets, has been increasing.

We cannot predict the likelihood or pace of any significant future regulatory or legislative action in the specialty pharmaceuticals segment, nor can we predict whether or in what form health care legislation being formulated by various governments in this area will be passed. Initiatives could subject coverage and reimbursement rates to change at any time. We cannot predict with precision what effect such governmental measures would have if they were ultimately enacted into law. However, in general, we believe that such legislative activity will likely continue.

Medical Devices Segment

Medical devices are subject to regulation by the FDA, state agencies and foreign government health agencies. FDA regulations, as well as various U.S. federal and state laws, govern the development, clinical testing, manufacturing, labeling, record keeping and marketing of medical device products. Our medical device product candidates, including our breast implants, must undergo rigorous clinical testing and an extensive government regulatory clearance or approval process prior to sale in the United States and other countries. The lengthy process of clinical development and submissions for approvals, and the continuing need for compliance with applicable laws and regulations, require the expenditure of substantial resources. Regulatory clearance or approval, when and if obtained, may be limited in scope, and may significantly limit the indicated uses for which a product may be marketed. Approved products and their manufacturers are subject to ongoing review, and discovery of previously unknown problems with products may result in restrictions on their manufacture, sale, use or their withdrawal from the market.

Our medical device products are subject to extensive regulation by the FDA in the United States. Unless an exemption applies, each medical device we market in the United States must have a 510(k) clearance or a Premarket Approval, or PMA, application in accordance with the FFDCA and its implementing regulations. The FDA classifies medical devices into one of three classes, depending on the degree of risk associated with each medical device and the extent of controls that are needed to ensure safety and effectiveness. Devices deemed to pose a lower risk are placed in either Class I or Class II, which may require the manufacturer to submit to the FDA a premarket notification under Section 510(k) of the FFDCA requesting permission for commercial distribution. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or a device deemed to be not substantially

equivalent to a previously cleared 510(k) device, are placed in Class III. In general, a Class III device cannot be marketed in the United States unless the FDA approves the device after submission of a PMA application. The majority of our medical device products, including our breast implants, are regulated as Class III medical devices. When we are required to obtain a 510(k) clearance for a device we wish to market, we must submit a premarket notification to the FDA demonstrating that the device is “substantially equivalent” to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA had not yet called for the submission of PMA applications. By regulation, the FDA is required to respond to a 510(k) premarket notification within 90 days after submission of the notification, although clearance can take significantly longer. If a device receives 510(k) clearance, any modification that could significantly affect its safety or efficacy, or that would constitute a major change in its intended use, design or manufacture requires a new 510(k) clearance or PMA approval. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination that a new clearance or approval is not required for a particular modification, the FDA can require the manufacturer to cease

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marketing and/or recall the modified device until 510(k) clearance or premarket approval is obtained.
In response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the program, and in January 2011, announced 25 actions that the FDA intended to implement during 2011 to reform the review process governing the clearance of medical devices. Key actions, to be carried out through forthcoming FDA guidance to industry, include clarifying when clinical data should be included in a premarket submission and requiring medical device manufacturers to submit a brief description of scientific information regarding safety and effectiveness for select higher-risk devices. The FDA intends these reform actions to improve the efficiency and transparency of the clearance process, as well as bolster patient safety. The FDA has submitted additional proposed actions to the Institute of Medicine, or IOM, for review and may implement further 510(k) reform measures in the future. We cannot predict the impact that these regulatory actions and FDA's forthcoming guidance will have on the clearance of any new or modified medical device products that are currently pending FDA review or that we may develop in the future.

A PMA application must be submitted if the device cannot be cleared through the 510(k) process. The PMA process is much more demanding than the 510(k) clearance process. A PMA application must be supported by extensive information, including data from preclinical and clinical trials, sufficient to demonstrate to the FDA's satisfaction that the device is safe and effective for its intended use. The FDA, by statute and regulation, has 180 days to review and accept a PMA application, although the review generally occurs over a significantly longer period of time, and can take up to several years. The FDA may also convene an advisory panel of experts outside the FDA to review and evaluate the PMA application and provide recommendations to the FDA as to the approvability of the device. New PMA applications or supplemental PMA applications are required for significant modifications to the manufacturing process, labeling and design of a medical device that is approved through the PMA process. PMA supplements require information to support the changes and may include clinical data.
A clinical trial is almost always required to support a PMA application and is sometimes required for a 510(k) premarket notification. As noted above, the FDA intends to clarify when clinical data should be included in 510(k) premarket submissions. Clinical trials generally require submission of an application for an investigational device exemption, which must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound, as well as approval by the FDA and the IRB overseeing the trial. In addition, the FDAAA imposes certain clinical trial registry obligations on study sponsors. We, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the study subjects are being exposed to an unacceptable health risk. The results of clinical testing may not be sufficient to obtain approval of the product.
After a device is placed on the market, numerous regulatory requirements apply. These include:

- establishment registration and device listings with the FDA;
- Quality System Regulation, or QSR, which requires manufacturers to follow design, testing, control documentation and other quality assurance procedures during the manufacturing process;
- labeling regulations, which prohibit the promotion of products for unapproved or “off-label” uses and impose other restrictions on labeling;
- medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that could likely cause or contribute to a death or serious injury if it were to recur; and
- corrections and removal reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FFDCA that may present a health risk.

The FDA imposes a number of complex regulatory requirements on entities that advertise and promote medical devices, including, but not limited to, standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities, and promotional activities including internet marketing. Medical devices can only be marketed for indications approved or cleared by the FDA. Failure to comply

with these regulations can result in penalties, the issuance of warning letters directing a company to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and federal and state civil and criminal investigations and prosecutions. The FDA does not, however, regulate physicians in their practice of medicine and choice of treatment. Physicians may prescribe (although manufacturers are not permitted to promote) legally available devices for uses that are not described in the product's labeling and that differ from those tested by us and approved or cleared by the FDA. Such off-label uses are common across medical specialties.

A Class III device may have significant additional obligations imposed in its conditions of approval. Compliance with regulatory requirements is assured through periodic, unannounced facility inspections by the FDA and other regulatory authorities, and these inspections may include the manufacturing facilities of our subcontractors or other third party manufacturers. Failure to

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comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions: warning letters or untitled letters; fines, injunctions and civil penalties; recall or seizure of our products; operating restrictions, partial suspension or total shutdown of production; refusing our request for 510(k) clearance or PMA approval of new products; withdrawing 510(k) clearance or PMAs that are already granted; and criminal prosecution.

Products that are marketed in the European Union must comply with the requirements of the Medical Device Directive, or MDD, as implemented in the national legislation of the European Union member states. The MDD, as implemented, provides for a regulatory regime with respect to the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices to ensure that medical devices marketed in the European Union are safe and effective for their intended uses. Medical devices that comply with the MDD, as implemented, are entitled to bear a CE marking and may be marketed in the European Union. Following a highly publicized incident surrounding a French breast implant company that used unapproved industrial grade silicone, it is likely that the European Union will consider enacting more onerous device registration and surveillance regulations. Medical device laws and regulations similar to those described above are also in effect in many of the other countries to which we export our products. These range from comprehensive device approval requirements for some or all of our medical device products to requests for product data or certifications. Failure to comply with these domestic and international regulatory requirements could affect our ability to market and sell our products in these countries.

Medical devices are also subject to review by governmental agencies and legislative bodies in the major world markets, including the United States, which are faced with significant pressure to lower health care costs. Governments may delay reimbursement decisions after a device has been approved by the appropriate regulatory agency, impose rebate obligations or restrict patient access. We expect that current health care reform measures such as PPACA and those that may be adopted in the future, could have a material adverse effect on our industry generally and our ability to successfully commercialize our products or could limit or eliminate our spending on certain development projects.

Other Regulations

We are subject to federal, state, local and foreign environmental laws and regulations, including the U.S. Occupational Safety and Health Act, the U.S. Toxic Substances Control Act, the U.S. Resource Conservation and Recovery Act, Superfund Amendments and Reauthorization Act, Comprehensive Environmental Response, Compensation and Liability Act and other current and potential future federal, state or local regulations. Our manufacturing and research and development activities involve the controlled use of hazardous materials, chemicals and biological materials, which require compliance with various laws and regulations regarding the use, storage and disposal of such materials. We cannot assure you, however, that environmental problems relating to properties owned or operated by us will not develop in the future, and we cannot predict whether any such problems, if they were to develop, could require significant expenditures on our part. In addition, we are unable to predict what legislation or regulations may be adopted or enacted in the future with respect to environmental protection and waste disposal.

Additionally, we are subject to domestic and international laws and regulations pertaining to the privacy and security of personal health information, including but not limited to the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, collectively, HIPAA. In addition, many states have enacted comparable laws addressing the privacy and security of health information, some of which are more stringent than HIPAA.

We are also subject to various federal and state laws pertaining to health care “fraud and abuse” and gifts to health care practitioners, including the federal Anti-Kickback Statute. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Furthermore, the federal False Claims Act prohibits anyone from, among other things, knowingly and willingly presenting, or causing to be presented for payment to third party payors (including Medicare and Medicaid), claims for reimbursed products or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. HIPAA prohibits executing a scheme to defraud any health care benefit program or making false statements relating to health

care matters. In addition, many states have adopted laws similar to the federal fraud and abuse laws discussed above, which, in some cases, apply to all payors whether governmental or private. Our activities, particularly those relating to the sale and marketing of our products, may be subject to scrutiny under these and other laws.

In 2010, we reached a settlement with the U.S. Attorney, U.S. Department of Justice for the Northern District of Georgia, or DOJ, and other federal agencies regarding our alleged sales and marketing practices in connection with certain therapeutic uses of Botox®. In connection with this settlement, we agreed to (i) plead guilty to a single misdemeanor "misbranding" charge covering the period from 2000 through 2005; (ii) pay the government $375 million, which includes a $350 million criminal fine and $25 million in forfeited assets; (iii) pay $225 million to resolve civil claims asserted by the DOJ under the civil False Claims Act; and (iv) enter into a five-year Corporate Integrity Agreement, or CIA, with the Office of Inspector General of the Department of Health and Human Services. Failure to comply with the terms of the CIA could result in substantial civil or criminal penalties and being

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excluded from government health care programs. Violations of fraud and abuse laws may be punishable by criminal and/or civil sanctions, including fines and civil monetary penalties, as well as the possibility of exclusion from federal health care programs (including Medicare and Medicaid).

Some states, such as California, Massachusetts and Vermont, mandate implementation of compliance programs to ensure compliance with these health care fraud and abuse laws. Under California law, pharmaceutical companies must adopt a comprehensive compliance program that is in accordance with both the April 2003 Office of Inspector General Compliance Program Guidance for Pharmaceutical Manufacturers, or OIG Guidance, and the Pharmaceutical Research and Manufacturers of America Code on Interactions with Healthcare Professionals, or the PhRMA Code. The PhRMA Code seeks to promote transparency in relationships between health care professionals and the pharmaceutical industry and to ensure that pharmaceutical marketing activities comport with the highest ethical standards. The PhRMA Code contains strict limitations on certain interactions between health care professionals and the pharmaceutical industry relating to gifts, meals, entertainment and speaker programs, among others. Similarly, the Advanced Medical Technology Association's Revised Code of Ethics, or the AdvaMed Code, also seeks to ensure that medical device companies and health care professionals have collaborative relationships that meet high ethical standards, that medical decisions are based on the best interests of patients, and that medical device companies and health care professionals comply with applicable laws, regulations and government guidance. To that end, the AdvaMed Code provides guidance regarding how medical device companies may comply with certain aspects of the anti-kickback laws and OIG Guidance by outlining ethical standards for interactions with health care professionals. In addition, certain states, such as Massachusetts and Minnesota, have also imposed restrictions on the types of interactions that pharmaceutical and medical device companies or their agents (e.g., sales representatives) may have with health care professionals, including bans or strict limitations on the provision of meals, entertainment, hospitality, travel and lodging expenses, and other financial support, including funding for continuing medical education activities.

Third Party Coverage and Reimbursement

Health care providers generally rely on third-party payors, including governmental payors such as Medicare and Medicaid, and private insurance carriers, to adequately cover and reimburse the cost of pharmaceuticals and medical devices. Such third-party payors are increasingly challenging the price of medical products and services and instituting cost containment measures to control, restrict access or significantly influence the purchase of medical products and services. The market for some of our products therefore is influenced by third-party payors' policies. This includes the placement of our pharmaceutical products on drug formularies or lists of medications.

Purchases of aesthetic products and procedures using those products generally are not covered by third-party payors, and consequently patients incur out-of-pocket costs for such products and associated procedures. This includes breast aesthetics products for augmentation and facial aesthetics products. Since 1998, however, U.S. federal law has mandated that group health plans, insurance companies and health maintenance organizations offering mastectomy coverage must also provide coverage for reconstructive surgery following a mastectomy, which includes coverage for breast implants. Outside the United States, reimbursement for breast implants used in reconstructive surgery following a mastectomy may be available, but the programs vary on a country by country basis.

Furthermore, treatments for obesity may not be covered by third-party payors unless the individual meets certain criteria. For example, in 2006, Medicare began covering certain designated bariatric surgical services, including gastric bypass surgery and procedures using the Lap-Band® System, for Medicare patients who have previously been unsuccessfully treated for obesity and who have a BMI equal to or greater than 40 or a BMI of 35 when at least one co-morbidity is present. Without changing coverage criteria for morbidly obese individuals, effective February 12, 2009, the Centers for Medicare & Medicaid Services, or CMS, the agency responsible for implementing the Medicare program, determined that Type 2 diabetes mellitus is a co-morbid condition related to obesity under the existing policies. Medicare policies are sometimes adopted by other third-party payors, but governmental and private insurance coverage for obesity treatment varies by carrier and geographic location, and we actively work with governmental agencies, insurance carriers and employers to obtain reimbursement coverage for procedures using our Lap-Band® System product. Notably, the Technology Evaluation Center of the Blue Cross/Blue Shield National Association

provided a positive assessment of the Lap-Band® System, an important step in providing private payor reimbursement for the procedure.

Outside the United States, reimbursement programs vary on a country by country basis. In some countries, both the procedure and product are fully reimbursed by the government health care systems for all citizens who need it, and there is no limit on the number of procedures that can be performed. In other countries, there is complete reimbursement but the number of procedures that can be performed at each hospital is limited either by the hospital's overall budget or by the national budget for the type of product.

In the United States, there have been and continue to be a number of legislative initiatives to contain health care coverage and reimbursement by governmental and other payors. For example, in March 2010, the PPACA was passed, which substantially

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changes the way health care is financed by both governmental and private insurers, and significantly impacts the U.S. pharmaceutical and medical device industries. The PPACA, among other things, subjects biologic products to potential competition by lower-cost biosimilars, increases the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extends the rebate program to individuals enrolled in Medicaid managed care organizations, establishes annual fees and taxes on manufacturers of certain branded prescription drugs and medical devices, requires manufacturers to participate in a discount program for certain outpatient drugs under Medicare Part D, and promotes programs that increase the federal government's comparative effectiveness research. Since its passage, a number of state governors have strenuously opposed certain of the PPACA's provisions, and initiated lawsuits challenging its constitutionality. These challenges are pending final adjudication in several jurisdictions, including the United States Supreme Court. Congress has also proposed a number of legislative initiatives, including possible repeal of the PPACA. At this time, it remains unclear whether there will be any changes made to the PPACA, whether to certain provisions or its entirety.

In addition, other legislative changes have been proposed and adopted in the United States since the PPACA was enacted. Most recently, on August 2, 2011, the Budget Control Act of 2011 among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, starting in 2013. Further, President Obama's proposed budget for 2013 and certain proposed legislation would require drug manufacturers to pay to the Medicare program new rebates for certain outpatient drugs covered under Medicare Part D. These proposals would allow the Medicare program to benefit from the same, relatively higher, rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the low-income subsidies under the Medicare Part D program and “dual eligible” beneficiaries (i.e., those who are eligible for both the Medicare and Medicaid programs). At this time, the extent to which these proposals will affect our business remains unclear, but we expect that the PPACA, as well as other health care reform measures that may be adopted in the future, could have a material adverse effect on our industry generally and our ability to successfully commercialize our products or could limit or eliminate our spending on certain development projects.

Environmental Matters

We are subject to federal, state, local and foreign environmental laws and regulations. We believe that our operations comply in all material respects with applicable environmental laws and regulations in each country where we have a business presence. We also pride ourselves on our comprehensive and successful environmental, health and safety programs and performance against internal objectives. We have been recognized many times for superior environmental health and safety performance.

Although we continue to make capital expenditures for environmental protection, we do not anticipate any expenditures in order to comply with such laws and regulations that would have a material impact on our earnings or competitive position. We are not aware of any pending litigation or significant financial obligations arising from current or past environmental practices that are likely to have a material adverse effect on our financial position. We cannot assure you, however, that environmental problems relating to properties owned or operated by us will not develop in the future, and we cannot predict whether any such problems, if they were to develop, could require significant expenditures on our part. In addition, we are unable to predict what legislation or regulations may be adopted or enacted in the future with respect to environmental protection and waste disposal.

Seasonality

Our business, both taken as a whole and by our business segments, is not materially affected by seasonal factors, although we have noticed a historical trend with respect to sales of our Botox® product. Specifically, sales of Botox® have tended to be lowest during the first fiscal quarter, with sales during the second and third fiscal quarters being comparable and marginally higher than sales during the first fiscal quarter. Botox® sales during the fourth fiscal quarter have tended to be the highest due to patients obtaining their final therapeutic treatment at the end of the year,

presumably to fully utilize deductibles and to receive aesthetic treatments, along with other aesthetic products, prior to the holiday season. Breast augmentation surgery has a seasonal highpoint in spring prior to summer vacations. Our ex-factory sales of aesthetic products may also be influenced by promotions offered both to doctors and their patients. The effect of promotions may cause variability in sales trends.

Employee Relations

At December 31, 2011, we employed approximately 10,000 persons throughout the world, including approximately 5,000 in the United States. None of our U.S.-based employees are represented by unions. We believe that our relations with our employees are generally good.

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Executive Officers

Our executive officers and their ages as of February 28, 2012 are as follows:

Name	Age	Principal Positions with Allergan
David E.I. Pyott	58	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
James F. Barlow	53	Senior Vice President, Corporate Controller (Principal Accounting Officer)
Raymond H. Diradoorian	54	Executive Vice President, Global Technical Operations
Jeffrey L. Edwards	51	Executive Vice President, Finance and Business Development, Chief Financial Officer (Principal Financial Officer)
David J. Endicott	47	Corporate Vice President, and President Allergan Medical, Asia Pacific and Latin America
Julian S. Gangolli	54	Corporate Vice President and President, North America
Douglas S. Ingram	49	Executive Vice President and President, Europe, Africa and Middle East
Arnold A. Pinkston	53	Executive Vice President, General Counsel and Assistant Secretary
Scott D. Sherman	46	Executive Vice President, Human Resources
Scott M. Whitcup, M.D.	52	Executive Vice President, Research & Development, Chief Scientific Officer

Officers are appointed by and hold office at the pleasure of the board of directors.

Mr. Pyott has been Allergan's Chief Executive Officer since January 1998 and in 2001 became the Chairman of the Board. Mr. Pyott also served as Allergan's President from January 1998 until February 2006, and again beginning March 2011. Previously, he was head of the Nutrition Division and a member of the executive committee of Novartis AG, a publicly-traded company focused on the research and development of products to protect and improve health and well-being, from 1995 until December 1997. From 1992 to 1995, Mr. Pyott was President and Chief Executive Officer of Sandoz Nutrition Corp., Minneapolis, Minnesota, a predecessor to Novartis, and General Manager of Sandoz Nutrition, Barcelona, Spain, from 1990 to 1992. Prior to that, Mr. Pyott held various positions within the Sandoz Nutrition group from 1980. Mr. Pyott is also a member of the board of directors of Avery Dennison Corporation, a publicly-traded company focused on pressure-sensitive technology and self-adhesive solutions, where he serves as the lead independent director, and Edwards Lifesciences Corporation, a publicly-traded company focused on products and technologies to treat advanced cardiovascular diseases. Mr. Pyott is a member of the Directors' Board of The Paul Merage School of Business at the University of California, Irvine (UCI). Mr. Pyott serves on the board and Executive Committee of the Biotechnology Industry Organization and in the same capacity at the California Healthcare Institute. Mr. Pyott also serves as a member of the board of the Pan-American Ophthalmological Foundation, the International Council of Ophthalmology Foundation and as a member of the Advisory Board for the Foundation of The American Academy of Ophthalmology. Mr. Pyott also serves as a Vice Chairman of the Board of Trustees of Chapman University.

Mr. Barlow has been Senior Vice President, Corporate Controller since February 2005. Mr. Barlow joined Allergan in January 2002 as Vice President, Corporate Controller. Prior to joining Allergan, Mr. Barlow served as Chief Financial Officer of Wynn Oil Company, a division of Parker Hannifin Corporation. Prior to Wynn Oil Company, Mr. Barlow was Treasurer and Controller at Wynn's International, Inc., a supplier of automotive and industrial components and specialty chemicals, from July 1990 to September 2000. Before working for Wynn's International, Inc., Mr. Barlow was Vice President, Controller from 1986 to 1990 for Ford Equipment Leasing Company. From 1983 to 1985 Mr. Barlow worked for the accounting firm Deloitte Haskins and Sells.

Mr. Diradoorian has served as Allergan's Executive Vice President, Global Technical Operations since February 2006. From April 2005 to February 2006, Mr. Diradoorian served as Senior Vice President, Global Technical Operations. From February 2001 to April 2005, Mr. Diradoorian served as Vice President, Global Engineering and Technology. Mr. Diradoorian joined Allergan in July 1981. Prior to joining Allergan, Mr. Diradoorian held positions at American

Hospital Supply and with the Los Angeles Dodgers baseball team.

Mr. Edwards has been Executive Vice President, Finance and Business Development, Chief Financial Officer since September 2005. Prior to that, Mr. Edwards was Corporate Vice President, Corporate Development since March 2003 and previously served as Senior Vice President, Treasury, Tax, and Investor Relations. He joined Allergan in 1993. Prior to joining Allergan, Mr. Edwards was with Banque Paribas and Security Pacific National Bank, where he held various senior level positions in the credit and business development functions.

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Mr. Endicott has been Corporate Vice President and President, Allergan Medical, Asia Pacific and Latin America since April 2011 and served as Corporate Vice President and President, Allergan Medical since August 2010. Prior to that, he served as Corporate Vice President and President, Europe, Africa and Middle East from October 2004 to August 2010 and managed the expansion of Allergan's business internationally, including our entry into new markets such as Turkey and Poland. Mr. Endicott served as Senior Vice President, U.S. Specialty Pharmaceuticals from January 2004 to October 2004, Vice President and General Manager of Canada from February 2000 to December 2003 and Vice President of U.S. Managed Markets since 1998. Prior to that, Mr. Endicott served various roles at Allergan since joining us in 1986.

Mr. Gangolli has been Corporate Vice President and President, North America since January 2004. Mr. Gangolli served as Senior Vice President, U.S. Eye Care from July 1998 to January 2004. Prior to joining Allergan, Mr. Gangolli served as Vice President, Sales and Marketing of VIVUS, Inc., a publicly-traded biopharmaceutical company, from 1994 to 1998, where he was responsible for facilitating the successful transition of the company from a research and development start-up into a niche pharmaceutical company. Prior to that, Mr. Gangolli served in a number of increasingly senior marketing roles in the United Kingdom, Global Strategic Marketing and in the United States for Syntex Pharmaceuticals, Inc., a multinational pharmaceutical company. Mr. Gangolli began his career in pharmaceutical sales and marketing with Ortho-Cilag Pharmaceuticals, Ltd. a U.K. subsidiary of Johnson & Johnson.

Mr. Ingram has been Executive Vice President and President, Europe, Africa and Middle East since August 2010. Prior to that, he served as Executive Vice President, Chief Administrative Officer, and Secretary from October 2006 to July 2010 and led Allergan's Global Legal Affairs, Compliance, Internal Audit and Internal Controls, Human Resources, Regulatory Affairs and Safety, and Global Corporate Affairs and Public Relations departments. Mr. Ingram also served as General Counsel from January 2001 to June 2009 and as Secretary and Chief Ethics Officer from July 2001 to July 2010. During that time, he served as Executive Vice President from October 2003 to October 2006, as Corporate Vice President from July 2001 to October 2003 and as Senior Vice President from January 2001 to July 2001. Prior to that, Mr. Ingram was Associate General Counsel and Assistant Secretary from 1998 and joined Allergan in 1996 as Senior Attorney and Chief Litigation Counsel. Prior to joining Allergan, Mr. Ingram was an attorney at Gibson, Dunn & Crutcher LLP from 1988 to 1996.

Mr. Pinkston joined Allergan as Executive Vice President, General Counsel and Assistant Secretary in October 2011 with over 25 years of experience managing legal affairs. Prior to joining Allergan, Mr. Pinkston served as the Senior Vice President, General Counsel and Secretary of Beckman Coulter, Inc. from 2005 through the company's sale to Danaher Corporation in June 2011. While at Beckman Coulter, Mr. Pinkston was responsible for all aspects of the company's global legal affairs as well as the company's compliance program, corporate social responsibility program, internal audit department and knowledge resources. Prior to joining Beckman Coulter, Mr. Pinkston held various positions at Eli Lilly and Company from 1999 through 2005, including serving as deputy general counsel responsible for the legal affairs of Lilly USA. Mr. Pinkston served as general counsel of PCS Health Systems from 1994 to 1999 after working for McKesson Corporation and beginning his legal career as an attorney with Orrick, Herrington & Sutcliffe.

Mr. Sherman joined Allergan as Executive Vice President, Human Resources in September 2010 with more than 15 years of human resources leadership experience. Prior to joining Allergan, Mr. Sherman worked at Medtronic, Inc., a global medical device company, from August 1995 to September 2010 in roles of increasing complexity and responsibility. From April 2009 until September 2010, Mr. Sherman served as Medtronic's Vice President, Global Total Rewards and Human Resources Operations, where he was responsible for global compensation and benefits programs, and served as Secretary to the Compensation Committee of Medtronic's Board of Directors. Mr. Sherman lived in Europe from August 2005 until April 2009 and served as Vice-President, International Human Resources from May 2008 to April 2009 and Vice-President, Human Resources-Europe, Emerging Markets and Canada from August 2005 to May 2008. Prior to these assignments, Mr. Sherman held a series of other positions at Medtronic

including Vice President, Human Resources-Diabetes from January 2002 to July 2005. Prior to joining Medtronic, Mr. Sherman held various positions in the Human Resources and Sales organizations at Exxon Corporation from 1990 to 1995.

Dr. Whitcup has been Executive Vice President, Research and Development, and Chief Scientific Officer since April 2009. Prior to that, Dr. Whitcup was Executive Vice President, Research and Development since July 2004. Dr. Whitcup joined Allergan in January 2000 as Vice President, Development, Ophthalmology. In January 2004, Dr. Whitcup became Allergan's Senior Vice President, Development, Ophthalmology. From 1993 until 2000, Dr. Whitcup served as the Clinical Director of the National Eye Institute at the National Institutes of Health. As Clinical Director, Dr. Whitcup's leadership was vital in building the clinical research program and promoting new ophthalmic therapeutic discoveries. Dr. Whitcup is a faculty member at the Jules Stein Eye Institute/David Geffen School of Medicine at the University of California, Los Angeles. Dr. Whitcup serves on the board of directors of Avanir Pharmaceuticals, Inc., a publicly-traded pharmaceutical company, and Questcor Pharmaceuticals, Inc., a publicly-traded biopharmaceutical company.

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Item 1A. Risk Factors

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere and the other information contained in this report and in our other filings with the SEC, including subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We operate in a rapidly changing environment that involves a number of risks. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. These known and unknown risks could materially and adversely affect our business, financial condition, operating results or liquidity, which could cause the trading price of our common stock to decline.

We operate in a highly competitive business.

The pharmaceutical and medical device industries are highly competitive. To be successful in these industries, we must be able to, among other things, effectively discover, develop, test and obtain regulatory approvals for products and effectively commercialize, market and promote approved products, including by communicating the effectiveness, safety and value of products to actual and prospective customers and medical professionals. Many of our competitors have greater resources than we have. This enables them to make greater research and development investments, including the acquisitions of technologies, products and businesses, and spread their research and development costs, as well as their marketing and promotion costs, over a broader revenue base.

Our future growth depends, in part, on our ability to develop and introduce products which are more effective than those developed by our competitors. Developments by our competitors, the entry of new competitors into the markets in which we compete, and the rapid pace of scientific advancement in the pharmaceutical and medical device industries could make our products or technologies less competitive or obsolete. For example, sales of our existing products may decline rapidly if a new product is introduced that represents a substantial improvement over our existing products or that is sold at a lower price. Additionally, if we lose patent coverage for a product, our products may compete against generic products that are as safe and effective as our products, but sold at considerably lower prices. The introduction of generic products could significantly reduce demand for our products within a short period of time. Certain of our pharmaceutical products also compete with over-the-counter products and other products not regulated by the FDA which may be priced and regulated differently than our products.

We also expect to face increasing competition from biosimilar products. Recent U.S. healthcare reform legislation included an abbreviated regulatory pathway for the approval of biosimilars. As a result, we anticipate increasing competition from biosimilars in the future. Title VII of the PPACA and the Biologics Price Competition and Innovation Act of 2009, or BPCIA, create a new licensure framework for biosimilar products, and the FDA issued draft guidance in early 2012, which could ultimately subject our biologic products, including Botox®, to competition. Previously, there had been no licensure pathway for such a follow-on product. While we do not anticipate that the FDA will license a biosimilar of Botox® for several years, we cannot guarantee that our biologic products such as Botox® will not eventually become subject to direct competition by a licensed biosimilar.

We may be unable to obtain and maintain adequate protection for our intellectual property rights.

Our success depends in part on our ability to obtain and defend patent rights and other intellectual property rights that are important to the commercialization of our products and product candidates. We cannot assure you that we will successfully obtain or preserve patent protection for the technologies incorporated into our products, or that the protection obtained will be of sufficient breadth and degree to protect our commercial interests in all countries where we conduct business. In addition, third parties, including generic drug manufacturers, may challenge, invalidate or circumvent our patents and patent applications relating to our products, product candidates and technologies. Upon the expiration or loss of necessary intellectual property protection for a product, we may rapidly lose a significant portion of our sales of that product.

Furthermore, we cannot assure you that our products will not infringe patents or other intellectual property rights held by third parties. If we infringe the intellectual property rights of others, we could lose our right to develop, manufacture or sell products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. An adverse determination in a judicial or administrative proceeding or a failure to obtain necessary

licenses could prevent us from manufacturing or selling our products. See Item 3 of Part I of this report, “Legal Proceedings,” for information concerning our current intellectual property litigation.

Our development efforts may not result in products or indications approved for commercial sale.

We must continue to develop, test and manufacture new products or achieve new indications or label extensions for the use of our existing products. Prior to marketing, these new products and product indications must satisfy stringent regulatory standards and receive requisite approvals or clearances from regulatory authorities in the United States and abroad. It typically takes many

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years to satisfy the regulatory requirements to obtain approval or clearance to market products such as ours and approval timing varies substantially based upon the type, complexity and novelty of the product. We may be required to conduct costly and time-intensive clinical trials in order to obtain clearance or approval. The development, regulatory review and approval, and commercialization processes are very expensive and time consuming, costly and subject to numerous factors that may delay or prevent the development, approval or clearance, and commercialization of new products.

In addition, any of our product candidates or indications may receive necessary regulatory approvals or clearances only after delays or unanticipated costs. For example, prior to the FDA approval of Botox® for the prophylactic treatment of headaches in adults with chronic migraine in 2010, we were required to adopt a REMS program addressing the risks related to botulinum toxin spread beyond the injection site and the non-interchangeability of botulinum toxins. Even if we receive regulatory approvals for a new product or indication, the product may later exhibit adverse effects that limit or prevent its widespread use or that force us to withdraw the product from the market or to revise our labeling to limit the indications for which the product may be prescribed.

Further, clinical trial results are frequently susceptible to varying interpretations by scientists, medical personnel, regulatory personnel, statisticians and others, which differences may delay, limit or prevent further clinical development or regulatory approvals of a product candidate. Also, the length of time that it takes for us to complete clinical trials and obtain regulatory approval for product marketing is unpredictable and varies by product and by the intended use of a product. Of course, there may be other factors that prevent us from marketing a product.

From time to time, legislative or regulatory proposals are introduced that could alter the review and approval process relating to our products. For example, in response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the program and, in the first quarter of 2011, announced numerous actions that are intended to reform the review process governing the clearance of medical devices. It is possible that the FDA or other governmental authorities will issue additional regulations further restricting the sale of our present or proposed products. Any change in legislation or regulations that govern the review and approval process relating to our current and future products could make it more difficult and costly to obtain approval for new products, or to produce, market and distribute existing products.

Moreover, any of our product candidates or indications may fail at any stage, potentially after substantial financial and other resources have been invested in their development. Successful product development in the pharmaceutical and medical device industry is highly uncertain, and very few research and development projects produce a commercial product. Product candidates that appear promising in the early phases of development, such as in early human clinical trials, may fail to reach the market for a number of reasons. For instance, a product candidate may not be effective in treating a specified condition or illness, a product candidate may have harmful side effects in humans or animals, the necessary regulatory bodies, such as the FDA, may not approve the product candidate for an intended use, a product candidate may not be economical for us to manufacture and commercialize, or certain of our licensors or partners may fail to effectively conduct clinical development or clinical manufacturing activities.

Our business and products are subject to extensive government regulation.

We are subject to extensive, complex, costly and evolving regulation by federal and state governmental authorities in the United States, principally by the FDA and the U.S. Drug Enforcement Administration, or DEA, and foreign regulatory authorities. Failure to comply with all applicable regulatory requirements, including those promulgated under the FFDCA and Controlled Substances Act, may subject us to operating restrictions and criminal prosecution, monetary penalties and other disciplinary actions, including, sanctions, warning letters, product seizures, recalls, fines, injunctions, suspension, revocation of approvals, or exclusion from future participation in the Medicare and Medicaid programs.

After our products receive regulatory approval or clearance, we, and our direct and indirect suppliers, remain subject to the periodic inspection of our plants and facilities, review of production processes, and testing of our products to confirm that we are in compliance with all applicable regulations. For example, the FDA conducts ongoing inspections to determine whether our record keeping, production processes and controls, personnel and quality control are in compliance with the cGMPs, the QSR and other FDA regulations. Adverse findings during regulatory

inspections may result in the implementation of REMS programs, completion of government mandated post-marketing clinical studies, and government enforcement action relating to labeling, advertising, marketing and promotion, as well as regulations governing manufacturing controls noted above.

The FDA has increased its enforcement activities related to the advertising and promotion of pharmaceutical, biological and medical device products. In particular, the FDA has increased its scrutiny of our compliance with the agency's regulations and guidance governing direct-to-consumer advertising. The FDA may limit or, with respect to certain products, terminate our dissemination of direct-to-consumer advertisements in the future, which could cause sales of those products to decline. In addition, our communications to physicians regarding the prescription of our pharmaceutical and biologic products, and the utilization of our medical device products that are not described in the product's labeling or differ from those tested by us and approved or

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cleared by the FDA, are restricted by federal statutes, FDA regulations and other governmental communications. If our promotional activities fail to comply with applicable laws, regulations, guidelines or interpretations, we may be subject to enforcement actions by the FDA or other governmental enforcement authorities.

Disruptions in our supply chain or failure to adequately forecast product demand could result in significant delays or lost sales.

The interruption of our manufacturing processes could adversely affect our ability to manufacture or sell many of our products. We manufacture certain products, including Botox® and Restasis®, at a single facility or a single site. Therefore, a significant disruptive event, including a fire or natural disaster, at certain manufacturing facilities or sites could materially and adversely affect our business and results of operations. In the event of a disruption, we may need to build or locate replacement facilities as well as seek and obtain the necessary regulatory approvals for these facilities. Accordingly, we may experience substantial production delays, and, if our finished goods inventories are insufficient to meet demand, we may be unable to satisfy customer orders on a timely basis, if at all.

The loss of a material supplier could also significantly disrupt our business. In some cases, we obtain components or chemicals used in certain of our products from single sources. If we experience difficulties acquiring sufficient quantities of required materials or products from our existing suppliers, or if our suppliers are found to be non-compliant with the FDA's QSRs, cGMPs or other applicable laws, obtaining the required regulatory approvals to use alternative suppliers may be a lengthy and uncertain process during which we could lose sales.

Any failure by us to forecast demand for, or to maintain an adequate supply of, the raw material and finished product could result in an interruption in the supply of certain products and a decline in sales of that product. For example, the manufacturing process to create the raw material necessary to produce Botox® and other products is technically complex and requires significant lead-time. In addition, if our suppliers are unable to meet our manufacturing requirements, we may not be able to produce a sufficient amount of materials or products in a timely manner, which could cause a decline in our sales.

Increased concerns over the safety of our products may result in negative publicity or increased regulatory controls on our products.

The Company's reputation is the foundation of our relationships with physicians, patients and other customers. If we are unable to effectively manage real or perceived issues, which could negatively impact sentiments toward the Company, our business could suffer. Pharmaceuticals and medical devices are perceived to be dangerous products and our customers may have a number of concerns about the safety of our products whether or not such concerns have a basis in generally accepted science or peer-reviewed scientific research. These concerns may be increased by negative publicity, even if the publicity is inaccurate. For example, consumer groups and certain plaintiffs have alleged that certain uses of Botox®, including off-label uses, have caused patient injuries and death and have further alleged that we failed to adequately warn patients of the risks relating to Botox® use. From time to time reports related to the quality and safety of breast implant devices are published, including reports that have suggested a possible association between anaplastic large cell lymphoma and breast implants, as well as negative reports from regulatory authorities in Europe related to a breast implant manufacturer that is not affiliated with the Company. In addition, government investigations related to the use of our products, but not the efficacy of the products themselves, may cause reputational harm to the Company. Negative publicity-whether accurate or inaccurate-about the efficacy, safety or side effects of our products or product categories, whether involving us or a competitor, could materially reduce market acceptance of our products, cause consumers to seek alternatives to our products, result in product withdrawals and cause our stock price to decline. Negative publicity could also result in an increased number of product liability claims, whether or not these claims have a basis in scientific fact.

We are also subject to adverse event reporting regulations that require us to report to the FDA or similar bodies in other countries if our products are associated with a death or serious injury, even if there is no available evidence of a causal relationship between the adverse event and the product. Such reports may be publicly released by the FDA and other authorities. For instance, the FDA maintains a public database, known as the Manufacturer and User Facility Device Experience, or MAUDE, that posts reports of adverse events involving medical devices. The submission of an adverse event report for a pharmaceutical or medical device product to the FDA and its public release on MAUDE, or

other public database, does not, by regulation, reflect a conclusion by us or the FDA that the product caused or contributed to the adverse event. However, as part of our post-marketing pharmacovigilance program, we routinely monitor the adverse event reports we receive to identify potential safety issues, known as signals, that may require us to take action with respect to the product, such as a recall or other market action, or to amend our labeling to add the adverse reaction or a new warning or contraindication. The FDA and other regulatory authorities also monitor adverse event reports to identify safety signals, and may take action in connection with that monitoring, including the imposition on us of additional regulatory controls, such as the performance of costly post-approval clinical studies or revisions to our approved labeling, which requirements could limit the indications or patient population for our products or could even lead to the withdrawal of a product from the market. We cannot assure you that the FDA will agree with our assessments of whether a safety signal exists

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for one of our products. Furthermore, any adverse publicity associated with adverse events for our products, and related post-marketing actions, could cause consumers to seek alternatives to our products, and thereby cause our sales to decline, even if our products are ultimately determined not to have been the primary cause of the adverse event.

We are subject to complex government healthcare legislation and reimbursement programs, as well as other cost-containment pressures.

Some of our products are purchased or reimbursed by federal and state government authorities, private health insurers and other organizations, including heath maintenance and managed care organizations. These third-party payors increasingly challenge pharmaceutical and medical device product pricing, which could result in lower reimbursement rates and a reduction in demand for our products.

In addition, legislative and regulatory proposals and enactments to reform healthcare insurance programs could significantly influence the manner in which pharmaceutical products, biologic products and medical devices are prescribed and purchased. For example, in March 2010, the President of the United States signed the PPACA, which substantially changes the way healthcare is financed by both governmental and private insurers and significantly impacts the U.S. pharmaceutical and medical device industries. The PPACA, among other things, subjects biologic products to potential competition by lower-cost biosimilars, increases the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extends the rebate program to individuals enrolled in Medicaid managed care organizations, establishes annual fees and taxes on manufacturers of certain branded prescription drugs and medical devices, requires manufacturers to participate in a discount program for certain outpatient drugs under Medicare Part D, and promotes programs that increase the federal government's comparative effectiveness research.

A number of state governors have strenuously opposed certain of the PPACA's provisions, and initiated lawsuits challenging its constitutionality. Congress has also proposed a number of legislative initiatives, including possible repeal of the PPACA. At this time, it remains unclear whether there will be any changes made to the PPACA, whether to certain provisions or its entirety. In addition, other legislative changes have been proposed and adopted since the PPACA was enacted. We expect that the PPACA, as well as other healthcare reform measures that may be adopted in the future, could limit the amounts that federal and state governments will pay for healthcare products and services, which could significantly reduce the projected value of certain development projects and reduce our profitability.

Recent federal regulatory changes have included reductions in Medicare reimbursement for most separately payable physician-administered drugs under the hospital outpatient prospective payment system and pricing limits on certain branded pharmaceutical products. Payments made to retail pharmacies under the TRICARE Retail Pharmacy Program for prescriptions filled on or after January 28, 2008 are subject to certain price ceilings utilized by other Department of Defense programs. The extent to which future legislation or regulations, if any, relating to the healthcare industry or third-party coverage and reimbursement may be enacted or what effect such legislation or regulation would have on our business remains uncertain.

In addition, individual states have also become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access, and to encourage importation from other countries and bulk purchasing. Furthermore, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical and medical device products and which suppliers will be included in their prescription drug and other healthcare programs. Any legally mandated price controls or utilization of bidding procedures could negatively and materially impact our revenues and financial condition.

Our ability to sell our products to hospitals in the United States also depends in part on our relationships with wholesalers and group purchasing organizations, or GPOs. We sell our pharmaceutical products primarily through wholesalers. These wholesale customers comprise a significant part of the distribution network for pharmaceutical products in the United States. This distribution network is continuing to undergo significant consolidation. We expect that consolidation of drug wholesalers will increase competitive and pricing pressures on pharmaceutical manufacturers, including us. In addition, wholesalers may apply pricing pressure through fee-for-service arrangements, and their purchases may exceed customer demand, resulting in reduced wholesaler purchases in later

quarters. We cannot assure you that we can manage these pressures or that wholesaler purchases will not decrease as a result of this potential excess buying.

Many existing and potential customers for our products become members of GPOs. GPOs negotiate pricing arrangements and contracts, sometimes on an exclusive basis, with medical supply manufacturers and distributors, and these negotiated prices are made available to a GPO's affiliated hospitals and other members. If we are not one of the providers selected by a GPO, affiliated hospitals and other members may be less likely to purchase our products, and if the GPO has negotiated a strict sole source, market share compliance or bundling contract for another manufacturer's products, we may be precluded from making sales to members of the GPO for the duration of the contractual arrangement. Our failure to renew contracts with GPOs may cause us to lose market share and could have a material adverse impact on our sales, financial condition and results of operations. We

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cannot assure you that we will be able to renew these contracts at the current or substantially similar terms. If we are unable to keep our relationships and develop new relationships with GPOs, our competitive position would likely suffer.

We also encounter similar legislative, regulatory and pricing issues in most countries outside the United States. International operations are generally subject to extensive governmental price controls and other market regulations, and we believe the increasing emphasis on cost-containment initiatives in Europe and other countries has and will continue to put pressure on the price and usage of our pharmaceutical and medical device products. Although we cannot predict the extent to which our business may be affected by future cost-containment measures or other potential legislative or regulatory developments, additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our current and future products, which could adversely affect our revenue and results of operations.

Compliance with domestic and international laws and regulations pertaining to the privacy and security of health information may be time consuming, difficult and costly.

Failure to comply with domestic and international privacy and security laws can result in the imposition of significant civil and criminal penalties. The costs of compliance with these laws, including protecting electronically stored information from cyber attacks, and potential liability associated with failure to do so could adversely affect our business, financial condition and results of operations.

We are subject to various domestic and international privacy and security regulations, including but not limited to HIPAA. HIPAA mandates, among other things, the adoption of uniform standards for the electronic exchange of information in common healthcare transactions, as well as standards relating to the privacy and security of individually identifiable health information, which require the adoption of administrative, physical and technical safeguards to protect such information. In addition, many states have enacted comparable laws addressing the privacy and security of health information, some of which are more stringent than HIPAA.

While we currently expend significant resources to protect against cyber attacks and security breaches, we may need to expend additional significant resources in the future to continue to protect against potential security breaches or to address problems caused by such attacks or any breach of our safeguards. A party that is able to circumvent our security safeguards could, among other things, misappropriate or misuse sensitive or confidential information, user information or other proprietary information, cause significant interruptions in our operations and cause all or portions of our website to be unavailable. Further, any reductions in the availability of our website could impair our ability to conduct our business, comply with regulations, and adversely impact our customers during the occurrence of any such incident.

If we market products in a manner that violates healthcare fraud and abuse laws, we may be subject to civil or criminal penalties.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse. The federal healthcare program Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical or medical device manufacturers, on the one hand, and prescribers, purchasers, formulary managers and other health care related professions, on the other hand. Due to recent legislative changes, a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration could be subject to scrutiny if they do not qualify for an exemption or safe harbor.

Recent legislation also imposes new reporting and disclosure requirements on device and drug manufacturers for any “transfer of value” made or distributed to prescribers and other healthcare providers, effective March 30, 2013. In

addition, device and drug manufacturers will also be required to report and disclose any investment interests held by physicians and their immediate family members during the preceding calendar year. Failure to submit required information may result in significant civil monetary penalties.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a claim paid. Pharmaceutical companies have been prosecuted under these laws for a variety of alleged promotional and marketing activities, including reporting to pricing services inflated average wholesale prices that were then used by federal programs to set reimbursement rates and engaging in off-label promotion that caused claims to be submitted to Medicaid for non-covered off-

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label uses.

HIPAA created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services.

The majority of states also have statutes or regulations similar to these federal laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. In addition, some states, including California, have laws and regulations that require pharmaceutical companies to adopt comprehensive compliance programs. We have adopted and implemented a compliance program which we believe satisfies the requirements of these laws, regulations and industry codes.

Sanctions under these federal and state laws may include civil monetary penalties, mandatory compliance programs, exclusion of a manufacturer's products from reimbursement under government programs, criminal fines and imprisonment. Because of the breadth of these laws and the narrowness of the safe harbors, it is possible that some of our business activities could be subject to challenge under one or more of such laws. If our past or present operations are found to be in violation of any of the laws described above or other similar governmental regulations to which we are subject, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and our financial results.

We remain subject to government investigations and related subpoenas. Such investigations and subpoenas are often associated with previously filed qui tam actions, or lawsuits filed under seal under the False Claims Act, or FCA, 31 U.S.C. § 3729 et seq. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged FCA violations. We may currently be subject to investigation for alleged FCA violations pursuant to qui tam actions, which may be under full or partial seal. The time and expense associated with responding to such subpoenas, and any related qui tam or other actions, may be extensive, and we cannot predict the results of our review of the responsive documents and underlying facts or the results of such actions. The costs of responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties (including under the FCA), settlement payments or administrative actions, as well as any related actions brought by stockholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business. For example, in September 2010, we announced that we reached a settlement with the Department of Justice regarding our alleged sales and marketing practices in connection with certain therapeutic uses of Botox®. As part of the settlement, we entered into a five-year Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services. Failure to comply with the terms of the Corporate Integrity Agreement could result in substantial civil or criminal penalties and being excluded from government health care programs, which could materially reduce our sales and adversely affect our financial condition and results of operations.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and other worldwide anti-bribery laws.

We are subject to the Foreign Corrupt Practices Act, or FCPA, which generally prohibits companies and their intermediaries from making payments to non-U.S. government officials for the purpose of obtaining or retaining business or securing any other improper advantage. We are also subject to similar anti-bribery laws in the jurisdictions in which we operate, including the United Kingdom's Bribery Act of 2010, which went into effect in the third quarter of 2011, which also prohibits commercial bribery and makes it a crime for companies to fail to prevent bribery. Although we have policies and procedures designed to ensure that we, our employees and our agents comply with the FCPA and related laws, there is no assurance that such policies or procedures will protect us against liability under the FCPA or related laws for actions taken by our agents, employees and intermediaries with respect to our business. Failure to comply with the FCPA or related laws governing the conduct of business with foreign government entities could disrupt our business and lead to severe criminal and civil penalties, including criminal and civil fines, loss of our export licenses, suspension of our ability to do business with the federal government, denial of government

reimbursement for our products and exclusion from participation in government healthcare programs. Other remedial measures could include further changes or enhancements to our procedures, policies, and controls and potential personnel changes and/or disciplinary actions, any of which could have a material adverse impact on our business, financial condition, results of operations and liquidity. We could also be adversely affected by any allegation that we violated such laws.

Illegal imports and counterfeit products may reduce demand for our products.

The illegal importation of counterfeit products and pharmaceutical and medical device products from countries where government price controls or other market dynamics result in lower prices may adversely affect our sales and profitability in the United States and other countries in which we operate. Foreign imports are illegal under current U.S. law, with the sole exception

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of limited quantities of prescription drugs imported for personal use. However, the volume of illegal imports continues to rise as the ability of patients and other customers to obtain these lower priced imports has grown significantly. In addition, U.S. policy makers may expand consumers' ability to import lower priced versions of our products and competing products from Canada, where there are government price controls. Any future legislation or regulations that increase consumer access to lower priced medicines from outside the United States may lower the prices we receive for our products, which could adversely impact our revenues.

Litigation may harm our business or otherwise distract our management.

Substantial, complex or extended litigation could cause us to incur large expenditures, affect our ability to market and distribute our products and distract our management. For example, lawsuits by employees, stockholders, customers or competitors could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on terms favorable to us. See Item 3 of Part I of this report, “Legal Proceedings,” for information concerning our current litigation.

We may experience losses due to product liability claims, product recalls or corrections.

The design, development, manufacture and sale of our products involve an inherent risk of product liability or other claims by consumers and other third parties. We have been in the past, and continue to be, subject to various product liability lawsuits, product recalls and requirements to issue field corrections related to our products due to manufacturing deficiencies, labeling errors or other safety or regulatory reasons.

Our pharmaceutical and medical device products may cause, or may appear to cause, serious adverse side effects or potentially dangerous drug interactions if misused, improperly prescribed, improperly implanted or subject to faulty surgical technique. For example, the manufacture and sale of breast implant products has been and continues to be the subject of a significant number of product liability claims due to allegations that the medical devices cause disease or result in complications, rare lymphomas and other health conditions due to rupture, deflation or other product failure. In addition to product liability claims, in the event of a breast implant rupture or deflation that requires surgical intervention with respect to our breast implant products sold and implanted, our warranty programs may require us to replace the product. Furthermore, we face a substantial risk of product liability claims from our eye care, neuromodulator, urology, skin care, obesity intervention and facial aesthetics products. Consistent with market practice in our industry, we largely self-insure for future product liability losses related to Botox®, Botox® Cosmetic and our breast implant products. Our self-insurance program is based on historical loss trends, and we can provide no assurance that our self-insurance program accruals will be adequate to cover future losses, and our third-party insurance coverage may be inadequate to satisfy any other covered liabilities we might incur.

If third parties with whom we collaborate do not perform, we may not be able to develop and market products as anticipated.

We have entered into collaborative arrangements with third parties to develop and market certain products. We cannot assure you that these collaborations will be successful, lead to additional sales of our products or lead to the creation of additional products. Our dependence on collaborative arrangements with third parties subjects us to a number of risks, including:

- our inability to fully control the amount and timing of resources our collaborative partners may devote to products based on the collaboration, and our partners may choose to pursue alternative products to the detriment of our collaboration;
- counterparties may not perform their obligations as expected;
- we could become involved in disputes with counterparties, which could lead to delays or termination of the collaborations and time-consuming and expensive litigation or arbitration; and
- counterparties can terminate the collaboration agreement under certain circumstances.

Acquisitions of technologies, products, and businesses could disrupt our business, involve increased expenses and present risks not contemplated at the time of the transactions.

We regularly consider and, as appropriate, make acquisitions of technologies, products and businesses that we believe are complementary to our business. Acquisitions typically entail many risks and could result in difficulties in

integrating the operations, personnel, technologies and products acquired, some of which may result in significant charges to earnings. Issues that must be addressed in acquiring and integrating the acquired technologies, products and businesses into our own include:

- conforming standards, controls, procedures and policies, operating divisions, business cultures and compensation structures;

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- retaining key employees;
- retaining existing customers and attracting new customers;
- consolidating operational infrastructure, including information technology, accounting systems and administration;
- mitigating the risk of unknown liabilities; and
- managing tax costs or inefficiencies associated with integrating operations.

If we are unable to successfully integrate our acquisitions with our existing business, we may not obtain the advantages that the acquisitions were intended to create, which may materially adversely affect our business, and our ability to develop and introduce new products. Actual costs and sales synergies, if achieved at all, may be lower than we expect and may take longer to achieve than we anticipate. Furthermore, the products of companies we acquire may overlap with our products or those of our customers, creating conflicts with existing relationships or with other commitments that are detrimental to the integrated businesses.

Adverse U.S. or international economic conditions may negatively affect our business.

Adverse U.S. or international economic conditions or a decline of global or country-specific financial markets may reduce consumer demand for our products. Many of our products have limited reimbursement or are not reimbursable by governmental or other healthcare plans. Instead, these products are partially or wholly paid for directly by the consumer. Adverse economic and market conditions could also have a negative impact on our business by negatively affecting the parties with whom we do business, including among others, our customers, suppliers, wholesale distributors, creditors, collaboration partners and other third parties with whom we do business.

We also collect and pay a substantial portion of our sales and expenditures in currencies other than the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates affect our operating results. We cannot assure you that future exchange rate movements, inflation or other related factors will not have a material adverse impact on our business.

In addition, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include, among other things:

- reductions in the reimbursement amounts we receive for our products from foreign governments and foreign insurance providers;
- unexpected changes in foreign regulatory requirements, including quality standards and other certification requirements;
- adverse changes in trade protection measures, including tariffs and export license requirements; and
- difficulties in coordinating and managing foreign operations, including ensuring that foreign operations comply with foreign laws as well as U.S. laws applicable to U.S. companies with foreign operations, such as export laws and the FCPA.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations, changes in our interpretations of tax laws, including pending tax law changes, changes in our manufacturing activities and changes in our future levels of research and development spending. In that regard, there have been a number of recent proposals, including by Congress and the Treasury as well as various government appointed and outside commissions, that could substantially impact the U.S. taxation of U.S. based multinational corporations such as Allergan. In addition, certain U.S. federal income tax provisions, including a research and development tax credit that provides a tax benefit on certain research and development expenditures, expired at the end of 2011, and Congress has not yet, and may not, extend the applicability of such provisions into 2012 or beyond. The permanent loss of the R&D tax credit would adversely affect our effective tax rate and our profitability.

We generally do not collect or pay state sales or other tax on sales of certain products, including Botox®, Botox® Cosmetic, our dermal fillers and breast implants. Changes in applicable tax laws that require us to collect and pay state sales or other taxes, and penalties, associated with prior, current or future years on sales of these products could adversely affect our sales and profitability due to the increased cost associated with those products.

In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other local, state and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our estimated income tax liabilities. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our provision for income taxes and estimated income tax liabilities.

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The terms of our debt agreements impose restrictions on our business.

Our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to our competitors. The operating and financial restrictions and covenants in our debt agreements may adversely affect our ability to finance future operations or capital needs or to engage in new business activities. For example, our debt agreements restrict our ability to, among other things, incur liens or engage in sale lease-back transactions and engage in consolidations, mergers and asset sales.

In addition, our debt agreements include financial covenants that we maintain certain financial ratios. As a result of these covenants and ratios, we have certain limitations on the manner in which we can conduct our business, and we may be restricted from engaging in favorable business activities or financing future operations or capital needs. Accordingly, these restrictions may limit our ability to successfully operate our business. Failure to comply with the financial covenants or to maintain the financial ratios contained in our debt agreements could result in an event of default that could trigger acceleration of our indebtedness. We cannot assure you that our future operating results will be sufficient to ensure compliance with the covenants in our debt agreements or to remedy any such default. In addition, in the event of any default and related acceleration of obligations, we may not have or be able to obtain sufficient funds to make any accelerated payments.

We are exposed to the risk of environmental liabilities.

Our product development programs and manufacturing processes involve the controlled use of hazardous materials, chemicals and toxic compounds. These programs and processes expose us to risks that an accidental contamination could lead to noncompliance with environmental laws, regulatory enforcement actions and claims for personal injury and property damage. In addition, we may be subject to clean-up obligations, damages and fines related to the discharge of hazardous materials, chemicals and toxic compounds on our properties whether or not we knew of, or were responsible for, the contamination. For example, in connection with the acquisition and ownership of our properties, we may be potentially liable for environmental clean-up costs.

Environmental laws also may impose restrictions on the manner in which our properties may be used or our business may be operated. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Any costs or expenses relating to environmental matters may not be covered by insurance and, accordingly, may have a material and adverse impact on our business.

Natural disasters and geo-political events could adversely affect our business.

We are a global company with sales and marketing subsidiaries in approximately 38 countries and are present in over 100 countries, as supplemented by distributors. The occurrence of one or more natural disasters, such as earthquakes, tsunamis, hurricanes, floods and tornados, or severe changes in geo-political events, such as wars, civil unrest or terrorist attacks in a country in which we operate or in which our suppliers or distributors are located, could adversely affect our business and financial performance. Such events could result in physical damage to, or the complete loss of, properties or assets that are important to us or to our suppliers or distributors, changes in consumers' income or purchasing patterns, temporary or long-term disruption in the supply of products to us, or disruption in the distribution of our products. Any such events and their consequences are unpredictable and could disrupt our operations or the operations of our suppliers or distributors and could have a significant and adverse effect on our business and results of operations.

Our publicly filed SEC reports may be reviewed by the SEC.

The reports of publicly traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings, and comprehensive reviews of such reports are now required at least every three years under the Sarbanes-Oxley Act of 2002. The SEC reviews may be initiated at any time. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects with the published rules and regulations of the SEC, we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be

significant and could result in material liability to us and have a material adverse impact on the trading price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our operations are conducted in owned and leased facilities located throughout the world. We believe our present facilities

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are adequate for our current needs. Our headquarters and primary administrative and research facilities, which we own, are located in Irvine, California. We own and lease additional facilities in California to provide administrative, research and raw material support, manufacturing, warehousing and distribution. We own one facility in Texas for manufacturing and warehousing. We produce clinical supplies of biodegradable silk-based scaffolds at a leased facility in Massachusetts. In 2011, we began a significant expansion of our presence in New Jersey where we have leased space primarily for research and development purposes.

Outside of the United States, we own, lease and operate various facilities for manufacturing and warehousing. Those facilities are located in Brazil, France, Ireland and Costa Rica. Other material facilities include leased facilities for administration in Australia, Brazil, Canada, France, Germany, Hong Kong, Ireland, Italy, Japan, Korea, Singapore, Spain and the United Kingdom.

Item 3. Legal Proceedings

We are involved in various lawsuits and claims arising in the ordinary course of business.

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 us 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 superior court dismissed 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 July 2008, the court of appeal affirmed the superior court's ruling, granting our motion for summary judgment. In August 2008, the plaintiffs filed a petition for rehearing with the court of appeal, which was denied. In September 2008, the plaintiffs filed a petition for review with the Supreme Court of the State of California, which was granted. In July 2010, the supreme court reversed the court of appeal's judgment and remanded the case to the superior court for further proceedings. In March 2011, the superior court entered judgment in favor of defendants pursuant to orders granting motions for summary judgment. In April 2011, plaintiffs filed a notice of appeal to the Court of Appeal of the State of California.

Allergan, Inc. v. Cayman Chemical Company, et al.

In November 2007, we filed a complaint captioned "Allergan, Inc. v. Cayman Chemical Company, Jan Marini Skin Research, Inc., Athena Cosmetics, Inc., Dermaquest, Inc., Intuit Beauty, Inc., Civic Center Pharmacy and Photomedex, Inc." in the U.S. District Court for the Central District of California alleging that the defendants are infringing U.S. Patent No. 6,262,105 licensed to us by Murray A. Johnstone, M.D. In March 2008, we filed a second amended complaint adding Dr. Johnstone, the holder of U.S. Patent No. 6,262,105, as a plaintiff and Global MDRx and ProCyte Corporation, or ProCyte, as defendants. In April 2008, we filed a motion for leave to file a third amended complaint adding patent infringement claims relating to U.S. Patent No. 7,351,404 against the defendants, and Athena Bioscience, LLC and Cosmetic Alchemy, LLC as additional defendants.

In 2008, we entered into settlement agreements with Jan Marini Skin Research, Inc., Intuit Beauty, Inc., Photomedex, Inc. and ProCyte pursuant to which each party agreed to acknowledge the validity of the patents in exchange for dismissing all claims against such defendant. In July 2008, the clerk of the court entered a default judgment against Global MDRx for failure to defend against the summons. In August 2008, the U.S. District Court dismissed Intuit Beauty, Inc. and Jan Marini Skin Research, Inc. with prejudice. In September 2008, we and Cayman Chemical Company entered into a settlement agreement under which Cayman Chemical Company agreed to cease selling certain compounds to be used in particular types of products in exchange for dismissing all claims against them. In December 2008, we entered into a settlement agreement with Athena Bioscience, LLC under which they agreed to cease selling certain products and acknowledged the validity of our patents in exchange for our dismissing all claims against them.

In January 2009, we filed a motion for leave to file a fourth amended complaint adding Pharma Tech, Inc., Dimensional Merchandising, Inc. and Cosmetic Technologies, Inc. as new defendants. In February 2009, we filed a motion for default judgment and injunction against Global MDRx, which was granted. In April 2009, we and Cosmetic Technologies, Inc. entered into a settlement agreement under which Cosmetic Technologies, Inc. agreed to cease manufacturing and selling certain products and acknowledge the validity of our patents in exchange for dismissing all claims against them.

In March 2009, we filed a complaint captioned “Allergan, Inc.; Murray A Johnstone, M.D.; and Duke University v. Athena Cosmetics, Inc.; Cosmetic Alchemy, LLC; Northwest Cosmetic Laboratories, LLC; Pharma Tech International, Inc.; Dimensional Merchandising, Inc.; Stella International, LLC; Product Innovations, LLC; Metrics, LLC; Nutra-Luxe M.D., LLC; Skin Research Laboratories, Inc.; Lifetech Resources LLC; Rocasuba, Inc.; Peter Thomas Roth Labs LLC; and Peter Thomas Roth, Inc.” in the U.S. District Court for the Central District of California alleging infringement of U.S. Patent Nos. 6,262,105, 7,351,404

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and 7,388,029. In June 2009, we and defendants La Canada Ventures, Inc. and Susan Lin, M.D. entered into a settlement agreement under which La Canada Ventures, Inc. and Susan Lin, M.D. agreed to cease manufacturing and selling certain products and acknowledge the validity of our patents in exchange for dismissing all claims against them.

In June 2009, the U.S. District Court consolidated Allergan, Inc.; Murray A Johnstone, M.D.; and Duke University v. Athena Cosmetics, Inc., et al. with Allergan, Inc. v. Cayman Chemical Company, et al. In October 2009, the defendants filed answers, amended answers and/or counterclaims to our first amended complaint. In February 2010, we and Athena Cosmetic, Inc. filed a stipulation to bifurcate Athena Cosmetic, Inc.'s antitrust and Lanham Act counterclaims into separate trials. In February 2010, Athena Cosmetic, Inc., Pharma Tech and Northwest Cosmetic filed a motion for judgment on the pleadings regarding our claim for violation of the California unfair competition statute, which was granted. In May 2010, we entered into a settlement agreement with Nutra-Luxe M.D., LLC under which Nutra-Luxe M.D., LLC agreed to cease manufacturing and selling certain products and acknowledge the validity of our patents in exchange for dismissing all claims against them. In May 2010, pursuant to a stipulation filed by the plaintiffs and the defendants, the U.S. District Court entered an order stating that a final judgment would be entered on the dismissal of our unfair competition claim against the defendants, permitting us to appeal the dismissal to the U.S. Court of Appeals for the Federal Circuit, and further stating that all U.S. District Court proceedings in both consolidated actions would be stayed pending completion of our appeal of the dismissal. In May 2010, we filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit. In March 2011, the U.S. Court of Appeals heard oral argument and in May 2011, issued its opinion reversing the judgment of the U.S. District Court. In September 2011, the U.S. District Court ordered the reopening of the case and set the trial for our unfair competition claims for February 12, 2013 and the trial for our patent claims for April 2, 2013. In October 2011, Athena Cosmetic, Inc., Pharma Tech International, Inc., and Northwest Cosmetic Labs, LLC filed an answer to our consolidated amended complaint and counterclaims. In February 2012, the U.S. District Court issued its Markman ruling regarding U.S. Patent No. 7,351,404.

Alphagan® P Patent Litigation

In February 2007, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Exela PharmSci, Inc., or Exela, indicating that Exela had filed an Abbreviated New Drug Application, or ANDA, with the U.S. Food and Drug Administration, or the FDA, for a generic form of Alphagan® P 0.15%. In the certification, Exela contends that U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, all of which are assigned to us and are listed in the Orange Book under Alphagan® P 0.15%, are invalid and/or not infringed by the proposed Exela product. In March 2007, we filed a complaint against Exela in the U.S. District Court for the Central District of California entitled “Allergan, Inc. v. Exela PharmSci, Inc., et al.,” alleging that Exela's proposed product infringes U.S. Patent No. 6,641,834. In April 2007, we filed an amended complaint adding Paddock Laboratories, Inc. and PharmaForce, Inc. as defendants.

In April 2007, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex Inc., or Apotex, indicating that Apotex had filed ANDAs with the FDA for generic versions of Alphagan® P 0.15% and Alphagan® P 0.1%. In the certification, Apotex contends that U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, all of which are assigned to us and are listed in the Orange Book under Alphagan® P 0.15% and Alphagan® P 0.1%, are invalid and/or not infringed by the proposed Apotex products. In May 2007, we filed a complaint against Apotex in the U.S. District Court for the District of Delaware entitled “Allergan, Inc. v. Apotex Inc. and Apotex Corp.,” alleging that Apotex's proposed products infringe U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337, to which Apotex filed an answer and counterclaims. In July 2007, we filed a response to Apotex's counterclaims.

In May 2007, we filed a motion with the multidistrict litigation panel to consolidate the Exela and Apotex actions in the District of Delaware, which was granted. In January 2009, we and defendants Paddock Laboratories, Inc. and PharmaForce, Inc. entered into a settlement agreement under which Paddock Laboratories, Inc. and PharmaForce, Inc. agreed to refrain from selling or manufacturing a generic version of Alphagan® P 0.15% in exchange for dismissing all claims against them. Trial was held in March 2009 and in October 2009, the U.S. District Court ruled that all five

patents (U.S. Patent Nos. 5,424,078, 6,562,873, 6,627,210, 6,641,834 and 6,673,337) asserted by us are valid and enforceable against the defendants, that Apotex's proposed generic versions of Alphagan® P 0.15% and Alphagan® P 0.1% infringe each of the five patents, and that Exela's proposed generic version of Alphagan® P 0.15% infringes U.S. Patent No. 6,641,834, which was the only patent asserted against it. Pursuant to the Hatch-Waxman Act, the FDA is required to delay approval of defendants' proposed generic products until after our last applicable patent expires in 2022. In November 2009, Apotex and Exela filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit. In January 2011, the U.S. Court of Appeals heard oral argument and in May 2011, issued its opinion affirming-in-part and reversing-in-part the judgment of the U.S. District Court. In June 2011, Apotex filed with the U.S. Court of Appeals a petition for rehearing en banc, which was denied. In August 2011, the U.S. Court of Appeals issued a mandate affirming-in-part and reversing-in-part the findings of the U.S. District Court. In December 2011, Apotex filed a petition for writ of certiorari with the U.S. Supreme Court.

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Zymar® Patent Litigation

In October 2007, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex, indicating that Apotex had filed an ANDA with the FDA for a generic version of Zymar®. In the certification, Apotex contends that U.S. Patent Nos. 5,880,283, or the '283 patent, and 6,333,045, or the '045 patent, both of which are licensed to us and are listed in the Orange Book under Zymar®, are invalid and/or not infringed by the proposed Apotex product. In November 2007, we, Senju Pharmaceutical Co., Ltd., or Senju, and Kyorin Pharmaceutical Co., Ltd., or Kyorin, filed a complaint captioned "Allergan, Inc., Senju Pharmaceutical Co., Ltd. and Kyorin Pharmaceutical Co., Ltd. v. Apotex Inc., et al." in the U.S. District Court for the District of Delaware alleging infringement of the '045 patent, to which Apotex filed an answer and counterclaim. A bench trial was held in January 2010 and in June 2010, the U.S. District Court ruled that Apotex's proposed generic version of Zymar® infringes claims 1-3, 6, 7 and 9 of the '045 patent, that claims 1-3 and 6-9 are invalid as obvious, that Apotex failed to prove that claims 6 and 7 are invalid for lack of enablement, and that Apotex failed to prove that the '045 patent is unenforceable for inequitable conduct. In June 2010, we, Senju and Kyorin filed a motion for a new trial or, alternatively, to amend judgment and findings regarding claim 7, which was dismissed without prejudice to renew and the U.S. District Court opened the record of the litigation so that additional evidence may be submitted. In April and May 2011, evidentiary hearings were held. In December 2011, the U.S. District Court entered judgment in favor of Apotex and ruled that claim 7 of the '045 patent was invalid. In January 2012, we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit.

In August 2010, we filed a statement of claim entitled "Allergan, et al. & Kyorin Pharmaceutical Co., LTD v. Apotex Inc., et al." in the Federal Court of Canada at Ottawa, Ontario, Canada. The statement of claim alleges that Apotex's product infringes Canadian Patent No. 1,340,316 covering Zymar®. In September 2010, Apotex filed a motion to strike the statement of claim, which was dismissed. In November 2010, Apotex filed a notice of appeal regarding the dismissed motion to strike, which itself was dismissed.

In April 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Lupin Limited, or Lupin, indicating that Lupin had filed an ANDA with the FDA seeking approval of a generic form of Zymar® gatifloxacin 0.3% ophthalmic solution. In the certification, Lupin contends that the '283 and '045 patents, listed in the Orange Book under Zymar®, are invalid and/or not infringed by the proposed Lupin product. In May 2011, we, Senju and Kyorin filed a complaint against Lupin and Lupin Pharmaceuticals, Inc. in the U.S. District Court for the District of Delaware alleging that Lupin's proposed product infringes the '283 and '045 patents. In May 2011, we, Senju and Kyorin filed an amended complaint, to which Lupin filed an answer and counterclaims. In August 2011, we, Senju and Kyorin filed an answer to Lupin's counterclaims. In August 2011, the court consolidated the Lupin Zymar® and Lupin Zymaxid® cases and set a bench trial for January 14, 2013. In November 2011, we, Senju and Kyorin filed a second amended complaint, to which Lupin filed an answer and counterclaims.

In September 2011, we filed a notice of subsequent event regarding receipt of a notice from the U.S. Patent and Trademark Office, or USPTO, regarding its intent to issue a reexamination certificate for the '045 patent. In October 2011, the USPTO issued a reexamination certificate for the '045 patent. In November 2011, we, Senju and Kyorin filed a complaint against Apotex in the U.S. District Court for the District of Delaware alleging that Apotex's product infringes the '045 patent pursuant to the USPTO's reexamination certificate. In January 2012, Apotex filed a motion to dismiss the complaint.

In September 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Hi-Tech Pharmacal Co., Inc., or Hi-Tech, indicating that Hi-Tech had filed an ANDA with the FDA seeking approval of a generic form of Zymar® gatifloxacin 0.3% ophthalmic solution. In the certification, Hi-Tech contends that the '283 and '045 patents, both of which are licensed to us and are listed in the Orange Book under Zymar®, are invalid and/or not infringed by the proposed Hi-Tech product. In October 2011, we, Senju and Kyorin filed a complaint against Hi-Tech in the U.S. District Court for the District of Delaware alleging that Hi-Tech's proposed product infringes the '283 and '045 patents. In November 2011, we, Senju and Kyorin filed an amended complaint, to which Hi-Tech filed an answer.

Combigan® Patent Litigation

In February 2009 and April 2009, we received paragraph 4 invalidity and noninfringement Hatch-Waxman Act certifications from Sandoz, Inc., or Sandoz, and Hi-Tech, respectively, indicating that Sandoz and Hi-Tech had filed ANDAs seeking approval of generic forms of Combigan®, a brimonidine tartrate 0.2%, timolol 0.5% ophthalmic solution. In their separate certifications, Sandoz and Hi-Tech each contend that U.S. Patent Nos. 7,030,149 and 7,320,976, listed in the Orange Book under Combigan®, are invalid and/or not infringed by the proposed Sandoz or Hi-Tech products. We filed complaints against Sandoz and Hi-Tech in the U.S. District Court for the Eastern District of Texas in April 2009 and June 2009, respectively, alleging, in each case, that the defendant's proposed product infringes U.S. Patent Nos. 7,030,149 and 7,320,976. In October 2009, the Hi-Tech and Sandoz actions were consolidated.

In September 2009, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from

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Alcon Research, Ltd., or Alcon, indicating that Alcon had filed an ANDA seeking approval of a generic version of Combigan®. In the certification, Alcon contends that U.S. Patent Nos. 7,030,149, 7,320,976 and 7,323,463, listed in the Orange Book under Combigan®, are invalid and/or not infringed by the proposed Alcon product. In November 2009, we filed a complaint against Alcon in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging that Alcon's proposed product infringes U.S. Patent Nos. 7,030,149, 7,320,976 and 7,323,463.

In October 2009 and November 2009, we received amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certifications from Sandoz and Hi-Tech, respectively, indicating that Sandoz and Hi-Tech had filed ANDAs seeking approval of generic forms of Combigan®. In their separate certifications, Sandoz and Hi-Tech each contend that U.S. Patent No. 7,323,463, listed in the Orange Book under Combigan®, is invalid and/or not infringed by the proposed Sandoz or Hi-Tech product, respectively. In November 2009, we filed an amended complaint against Sandoz and Hi-Tech for patent infringement to assert U.S. Patent No. 7,323,463, to which Sandoz and Hi-Tech filed answers and counterclaims. We filed an answer to Sandoz's counterclaims in December 2009 and Hi-Tech's counterclaims in January 2010. In January 2010, the Hi-Tech, Sandoz and Alcon actions were consolidated.

In February 2010, we received amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certifications from Sandoz and Hi-Tech indicating that Sandoz and Hi-Tech had filed ANDAs seeking approval of generic forms of Combigan®. In their separate certifications, Sandoz and Hi-Tech contend that U.S. Patent No. 7,642,258, listed in the Orange Book under Combigan®, is invalid and/or not infringed by the proposed Sandoz and Hi-Tech products. In March 2010, we filed a second amended complaint against Sandoz and Hi-Tech for patent infringement to assert U.S. Patent No. 7,642,258, to which Sandoz and Hi-Tech filed an answer and counterclaims. In April 2010, we filed answers to Hi-Tech and Sandoz's counterclaims. In April 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Alcon indicating that Alcon had filed an ANDA seeking approval of a generic form of Combigan®. In their certification, Alcon contends that U.S. Patent No. 7,642,258, listed in the Orange Book under Combigan®, is invalid and/or not infringed by the proposed Alcon product. In April 2010, we filed a first amended complaint against Alcon for patent infringement to assert U.S. Patent No. 7,642,258, to which Alcon filed an answer and counterclaims. In June 2010, we filed an answer to Alcon's counterclaims.

In May 2010, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex Corp. and Apotex indicating that Apotex had filed an ANDA seeking approval of a generic version of Combigan®. In the certification, Apotex contends that U.S. Patent Nos. 7,030,149, 7,320,976, 7,323,463 and 7,642,258 listed in the Orange Book under Combigan®, are invalid and/or not infringed by the proposed Apotex product. In June 2010, we filed a complaint against Apotex in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging that Apotex's proposed product infringes U.S. Patent Nos. 7,030,149, 7,320,976, 7,323,463 and 7,642,258. In June 2010, we filed an amended complaint, to which Apotex filed an answer and counterclaims. In August 2010, we filed an answer to Apotex's counterclaims. In September 2010, the Hi-Tech, Sandoz, Alcon and Apotex actions were consolidated.

In July 2010, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Watson Laboratories, Inc., Watson Pharma, Inc. and Watson Pharmaceuticals, Inc., or Watson, indicating that Watson had filed an ANDA seeking approval of a generic version of Combigan®. In the certification, Watson contends that U.S. Patent Nos. 7,030,149, 7,320,976, 7,323,463 and 7,642,258, listed in the Orange Book under Combigan®, are invalid and/or not infringed by the proposed Watson product. In September 2010, we filed a complaint against Watson in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging that Watson's proposed product infringes U.S. Patent Nos. 7,030,149, 7,320,976, 7,323,463 and 7,642,258. In October 2010, Watson filed an unopposed motion to dismiss without prejudice Watson Pharmaceuticals, Inc. and Watson Pharma, Inc., which was granted. In October 2010, Watson Laboratories, Inc. filed an answer to the complaint and counterclaims, to which we filed an answer. In March 2011, the Hi-Tech, Sandoz, Alcon, Apotex and Watson actions were consolidated. In April 2011, the U.S. District Court issued its Markman ruling. In May 2011, we entered into a settlement and license agreement with Hi-Tech. In June 2011, the U.S. District Court entered an order granting a stipulation of dismissal with prejudice as to Hi-Tech. In July 2011, the defendants filed a motion for partial summary judgment, which was granted. In August 2011, the U.S. District Court held a bench trial and issued its opinion holding that U.S. Patent Nos.

7,030,149, 7,320,976, 7,323,463 and 7,642,258 are not invalid, are enforceable and infringed by defendants' proposed products, and entered a final judgment and injunction in our favor and against all defendants and granted defendants' motion for partial summary judgment. In September 2011, defendants filed notices of appeal and we filed a notice of cross-appeal. In December 2011, defendants filed their opening brief and a motion to dismiss our cross-appeal in the U.S. Court of Appeals for the Federal Circuit.

In December 2009, we received a Notice of Allegation letter from Sandoz Canada Inc., or Sandoz Canada, indicating that Sandoz Canada had filed an Abbreviated New Drug Submission, or ANDS, under paragraphs 5(1)(b)(iii), 5(1)(b)(iv) and 5(3) of the Patented Medicines (Notice of Compliance) Regulations for approval of a generic version of Combigan® (DIN 02248347). In the letter, Sandoz Canada contends that Canadian Patent Nos. 2,173,974, 2,225,626 and 2,440,764 are invalid and/or not infringed by the proposed Sandoz Canada product. In February 2010, we filed a notice of application in the Canadian Federal Court alleging that Sandoz Canada's proposed product infringes Canadian Patent Nos. 2,225,626 and 2,440,764. In February

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2010, we received a Notice of Allegation letter from Sandoz Canada indicating that Sandoz Canada had filed an ANDS under paragraphs 5(1)(b)(iii), 5(1)(b)(iv) and 5(3) of the Patented Medicines (Notice of Compliance) Regulations for approval of a generic version of Combigan®. In the letter, Sandoz Canada contends that Canadian Patent No. 2,357,014 is invalid and/or not infringed by the proposed Sandoz Canada product. In March 2010, we filed a notice of application in the Canadian Federal Court alleging that Sandoz Canada's proposed product infringes Canadian Patent No. 2,357,014. In May 2010, Sandoz Canada filed two motions to strike the application regarding Canadian Patent No. 2,225,626, one of which was denied. In August 2010, we entered into an agreement to discontinue our notice of application relating to Canadian Patent No. 2,357,014 in exchange for Sandoz Canada's withdrawing its pending motion to strike the application regarding Canadian Patent No. 2,225,626. In October 2011, the Canadian Federal Court held a bench trial and in November 2011, ruled that our application was granted with respect to Canadian Patent No. 2,440,764 and that Sandoz's proposed product infringes Canadian Patent No. 2,440,764.

In August 2010, we received a Notice of Allegation letter from Apotex Canada Inc., or Apotex Canada, indicating that Apotex Canada had filed an ANDS under paragraphs 5(1)(b)(iii), 5(1)(b)(iv) and 5(3) of the Patented Medicines (Notice of Compliance) Regulations for approval of a generic version of Combigan® (DIN 02248347). In the letter, Apotex Canada contends that Canadian Patent Nos. 2,173,974, 2,225,626, 2,357,014 and 2,440,764 are invalid and/or not infringed by the proposed Apotex Canada product. In September 2010, we filed a notice of application in the Canadian Federal Court alleging that Apotex Canada's proposed product infringes Canadian Patent Nos. 2,225,626, 2,357,014 and 2,440,764. In January 2012, the Canadian Federal Court set the trial for May 22, 2012.

Sanctura XR® Patent Litigation

In June 2009, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Watson, through its subsidiary Watson Laboratories, Inc. - Florida, indicating that Watson had filed an ANDA seeking approval of a generic form of Sanctura XR®, trospium 60 mg. chloride extended release capsules. In the certification, Watson contends that U.S. Patent No. 7,410,978, listed in the Orange Book under Sanctura XR®, is invalid and/or not infringed by the proposed Watson product. In July 2009, we, Endo Pharmaceuticals Solutions, Inc., or Endo, and Supernus Pharmaceuticals, Inc., or Supernus, filed a complaint against Watson, Watson Laboratories, Inc. - Florida, and Watson Pharma, Inc. in the U.S. District Court for the District of Delaware alleging that Watson's proposed product infringes U.S. Patent No. 7,410,978, to which Watson filed an answer and counterclaims. In September 2009, we filed an answer to Watson's counterclaims. In July 2010, Watson filed an amended and supplemental answer and counterclaims to our complaint, to which we filed an answer. In August 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Watson indicating that Watson had filed an ANDA seeking approval of a generic form of Sanctura XR®. In their certification, Watson contends that U.S. Patent Nos. 7,759,359 and 7,763,635, listed in the Orange Book under Sanctura XR®, are invalid and/or not infringed by the proposed Watson product. In September 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Watson indicating that Watson had filed an ANDA seeking approval of a generic form of Sanctura XR®. In their certification, Watson contends that U.S. Patent Nos. 7,781,448 and 7,781,449, listed in the Orange Book under Sanctura XR®, are invalid and/or not infringed by the proposed Watson product.

In November 2009, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Sandoz indicating that Sandoz had filed an ANDA seeking approval of a generic form of Sanctura XR®, trospium 60 mg. chloride extended release capsules. In the certification, Sandoz contends that U.S. Patent No. 7,410,978, listed in the Orange Book under Sanctura XR®, is invalid and/or not infringed by the proposed Sandoz product. In November 2009, we, Endo and Supernus filed a complaint against Sandoz in the U.S. District Court for the District of Delaware alleging that Sandoz's proposed product infringes U.S. Patent No. 7,410,978, to which Sandoz filed an answer and counterclaims. In February 2010, we filed an answer to Sandoz's counterclaims. In March 2010, the Watson and Sandoz actions were consolidated.

In April 2010, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Paddock Laboratories, Inc., or Paddock, indicating that Paddock had filed an ANDA seeking approval of a generic

form of Sanctura XR®, trospium 60 mg. chloride extended release capsules. In the certification, Paddock contends that U.S. Patent No. 7,410,978, listed in the Orange Book under Sanctura XR®, is invalid and/or not infringed by the proposed Paddock product. In June 2010, we, Endo and Supernus filed a complaint against Paddock in the U.S. District Court for the District of Delaware alleging that Paddock's proposed product infringes U.S. Patent No. 7,410,978, to which Paddock filed an answer and counterclaims. In August 2010, we filed an answer to Paddock's counterclaims. In August 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Paddock indicating that Paddock had filed an ANDA seeking approval of a generic form of Sanctura XR®. In their certification, Paddock contends that U.S. Patent Nos. 7,759,359 and 7,763,635, listed in the Orange Book under Sanctura XR®, are invalid and/or not infringed by the proposed Paddock product. In September 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Paddock indicating that Paddock had filed an ANDA seeking approval of a generic form of Sanctura XR®. In their certification, Paddock contends that U.S. Patent Nos. 7,781,448 and 7,781,449 listed in the Orange Book under Sanctura XR®, are invalid and/or not infringed by the proposed Paddock product. In September 2010, the Watson, Sandoz and Paddock actions were consolidated.

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In October 2010, we, Endo and Supernus filed complaints against Watson and Paddock, respectively, in the U.S. District Court for the District of Delaware alleging that Watson's and Paddock's proposed products infringe U.S. Patent Nos. 7,781,448 and 7,781,449, to which Watson and Paddock each filed an answer and counterclaims. In December 2010, we, Endo and Supernus filed answers to Watson's and Paddock's respective counterclaims with respect to U.S. Patent Nos. 7,410,978, 7,781,448 and 7,781,449, and brought infringement claims regarding U.S. Patent No. 7,759,359. In March 2011, Watson filed an answer to our complaint and counterclaims regarding U.S. Patent Nos. 7,781,448 and 7,781,449, to which we filed an amended answer.

In November 2010, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Sandoz indicating that Sandoz had filed an ANDA seeking approval of a generic form of Sanctura XR®, trospium 60 mg. chloride extended release capsules. In their certification, Sandoz contends that U.S. Patent Nos. 7,759,359, 7,763,635, 7,781,448 and 7,781,449, listed in the Orange Book under Sanctura XR®, are invalid and/or not infringed by the proposed Sandoz product. In January 2011, we, Endo and Supernus filed a complaint against Sandoz in the United States District Court for the District of Delaware alleging that Sandoz's proposed product infringes U.S. Patent Nos. 7,759,359, 7,763,635, 7,781,448 and 7,781,449, to which Sandoz filed an answer and counterclaims. In February 2011, this action was consolidated with the Watson, Sandoz, and Paddock actions. In May 2011, the U.S. District Court held a bench trial and took the matter under submission.

Latisse® Patent Litigation

In July 2010, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex indicating that Apotex had filed an ANDA seeking approval of a generic form of Latisse®, a bimatoprost 0.3% ophthalmic solution. In the certification, Apotex contends that U.S. Patent Nos. 7,351,404 and 7,388,029, listed in the Orange Book under Latisse®, are invalid and/or not infringed by the proposed Apotex product. In September 2010, we and Duke University filed a complaint against Apotex in the U.S. District Court for the Middle District of North Carolina alleging that Apotex's proposed product infringes U.S. Patent Nos. 7,351,404, 7,388,029 and 6,403,649, to which Apotex filed an answer and counterclaims. In January 2011, we filed an answer to Apotex's counterclaims.

In March 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Sandoz indicating that Sandoz had filed an ANDA seeking approval of a generic form of Latisse®, a bimatoprost 0.3% ophthalmic solution. In the certification, Sandoz contends that U.S. Patent Nos. 7,351,404 and 7,388,029, listed in the Orange Book under Latisse®, are invalid and/or not infringed by the proposed Sandoz product. In April 2011, we and Duke University filed a complaint against Sandoz in the U.S. District Court for the Middle District of North Carolina alleging that Sandoz's proposed product infringes U.S. Patent Nos. 7,351,404, 7,388,029 and 6,403,649, to which Sandoz filed an answer and counterclaims. In June 2011, we filed an answer to Sandoz's counterclaims.

In May 2011, the U.S. District Court scheduled the trial in the Apotex and Sandoz actions for October 1, 2012. In September 2011, the Apotex and Sandoz actions were consolidated. In October 2011, we stipulated to the dismissal without prejudice of our claims regarding U.S. Patent No. 6,403,649 against Apotex and Sandoz.

In July 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Hi-Tech indicating that Hi-Tech had filed an ANDA seeking approval of a generic form of Latisse®, a bimatoprost 0.3% ophthalmic solution. In the certification, Hi-Tech contends that U.S. Patent Nos. 7,388,029 and 7,351,404, listed in the Orange Book under Latisse®, are invalid and/or not infringed by the proposed Hi-Tech product. In August 2011, we and Duke University filed a complaint against Hi-Tech in the U.S. District Court for the Middle District of North Carolina alleging that Hi-Tech's proposed product infringes U.S. Patent Nos. 7,351,404, 7,388,029 and 6,403,649, to which Hi-Tech filed an answer and counterclaims. In October 2011, we and Duke University filed an answer to Hi-Tech's counterclaims. In January 2012, we received an amended paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Hi-Tech indicating that Hi-Tech had filed an ANDA seeking approval of a generic form of Latisse®, a bimatoprost 0.3% ophthalmic solution. In the certification, Hi-Tech contends that U.S. Patent No. 8,038,988, listed in the Orange Book under Latisse®, is invalid and/or not infringed by the proposed Hi-Tech product. In February 2012, we stipulated to the dismissal without prejudice of our claims regarding U.S. Patent No. 6,403,649 against Hi-Tech and moved to amend our complaint to add claims regarding U.S. Patent No. 8,038,988.

Lumigan® Patent Litigation

In March 2009, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Barr Laboratories, Inc., or Barr, indicating that Barr had filed an ANDA seeking approval of a generic form of Lumigan®, a bimatoprost 0.3% ophthalmic solution. In the certification, Barr contends that U.S. Patent Nos. 5,688,819 and 6,403,649, listed in the Orange Book under Lumigan®, are invalid and/or not infringed by the proposed Barr product. In May 2009, we filed a complaint against Barr in the U.S. District Court for the District of Delaware alleging that Barr's proposed product infringes U.S. Patent Nos. 5,688,819 and 6,403,649, to which Barr filed an answer.

In December 2009, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from

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Sandoz, indicating that Sandoz had filed an ANDA seeking approval of a generic form of Lumigan®, a bimatoprost 0.3% ophthalmic solution. In the certification, Sandoz contends that U.S. Patent Nos. 5,688,819 and 6,403,649, listed in the Orange Book under Lumigan®, are invalid and/or not infringed by the proposed Sandoz product. In January 2010, we filed a complaint against Sandoz in the U.S. District Court for the District of Delaware alleging that Sandoz's proposed product infringes U.S. Patent Nos. 5,688,819 and 6,403,649, to which Sandoz filed an answer and counterclaim. In March 2010, we filed an answer to Sandoz's counterclaim. In April 2010, the U.S. District Court consolidated the Barr and Sandoz actions and scheduled a trial date for February 1, 2011.

In July 2010, we filed an amended complaint against Teva Pharmaceuticals USA, Inc., or Teva, and Teva Pharmaceutical Industries Ltd. upon belief that Barr is a wholly-owned subsidiary of Teva, to which Teva filed an answer and affirmative defenses. In January and February 2011, the U.S. District Court held a bench trial and in September 2011, issued its opinion holding that U.S. Patent Nos. 5,688,819 and 6,403,649 are not invalid, and are enforceable and infringed by defendants' proposed products and entered a final judgment and injunction in our favor and against all defendants. In October 2011, defendants filed notices of appeal. In February 2012, defendants filed their opening brief in the U.S. Court of Appeals for the Federal Circuit.

Lumigan® 0.01% Patent Litigation

In July 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Sandoz indicating that Sandoz had filed an ANDA with the FDA seeking approval of a generic form of Lumigan® 0.01% bimatoprost ophthalmic solution. In the certification, Sandoz contends that U.S. Patent Nos. 5,688, 819 and 7,851,504, listed in the Orange Book under Lumigan® 0.01%, are invalid and/or not infringed by the proposed Sandoz product. In August 2011, we filed a complaint against Sandoz in the U.S. District Court for the Eastern District of Texas alleging that Sandoz's proposed product infringes U.S. Patent Nos. 5,688,819 and 7,851,504, to which Sandoz filed an answer and counterclaims. In October 2011, we filed an answer to Sandoz's counterclaims.

In October 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Lupin indicating that Lupin had filed an ANDA with the FDA seeking approval of a generic form of Lumigan® 0.01% bimatoprost ophthalmic solution. In the certification, Lupin contends that U.S. Patent No. 7,851,504, which is listed in the Orange Book under Lumigan® 0.01%, is invalid and/or not infringed by the proposed Lupin product. In November 2011, we filed a complaint against Lupin in the U.S. District Court for the Eastern District of Texas alleging that Lupin's proposed product infringes U.S. Patent No. 7,851,504, to which Lupin filed an answer and counterclaims. In January 2012, the Sandoz and Lupin actions were consolidated and we filed an answer to Lupin's counterclaims.

In January 2012, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Hi-Tech indicating that Hi-Tech had filed an ANDA with the FDA seeking approval of a generic form of Lumigan® 0.01% bimatoprost ophthalmic solution. In the certification, Hi-Tech contends that U.S. Patent No. 7,851,504, which is listed in the Orange Book under Lumigan® 0.01%, is invalid and/or not infringed by the proposed Hi-Tech product. In January 2012, we filed a complaint against Hi-Tech in the U.S. District Court for the Eastern District of Texas alleging that Hi-Tech's proposed product infringes U.S. Patent No. 7,851,504.

Zymaxid® Patent Litigation

In February 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Lupin, indicating that Lupin had filed an ANDA with the FDA seeking approval of a generic form of Zymaxid® gatifloxacin 0.05% ophthalmic solution. In the certification, Lupin contends that the '283 and '045 patents, listed in the Orange Book under Zymaxid®, are invalid and/or not infringed by the proposed Lupin product. In March 2011, we, Senju and Kyorin filed a complaint captioned “Senju Pharmaceutical Co., Ltd., Kyorin Pharmaceutical Co., Ltd., and Allergan, Inc. v. Lupin Limited and Lupin Pharmaceuticals, Inc.” in the U.S. District Court for the District of Delaware alleging that Lupin's proposed product infringes the '283 and '045 patents. In May 2011, we, Senju and Kyorin filed an amended complaint, to which Lupin filed an answer and counterclaims. In June 2011, we, Senju and Kyorin filed an answer to Lupin's counterclaims. In August 2011, the U.S. District Court consolidated the Lupin Zymar® and Lupin Zymaxid® cases and set a bench trial for January 14, 2013. In November 2011, we, Senju and Kyorin filed a second amended complaint, to which Lupin filed an answer and counterclaims.

In August 2011, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Hi-Tech indicating that Hi-Tech had filed an ANDA with the FDA seeking approval of a generic form of Zymaxid® gatifloxacin 0.5% ophthalmic solution. In the certification, Hi-Tech contends that the '283 and '045 patents, both of which are licensed to us and are listed in the Orange Book under Zymaxid®, are invalid and/or not infringed by the proposed Hi-Tech product. In October 2011, we filed a complaint against Hi-Tech in the U.S. District Court for the District of Delaware alleging that Hi-Tech's proposed product infringes the '283 and '045 patents. In November 2011, we, Senju and Kyorin filed an amended complaint, to which Hi-Tech filed an answer.

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In September 2011, we filed a notice of subsequent event regarding receipt of a notice from the U.S. Patent and Trademark Office regarding its intent to issue a reexamination certificate for the '045 patent. In October 2011, the U.S. Patent and Trademark Office issued a reexamination certificate for the '045 patent.

In January 2012, we received a paragraph 4 invalidity and noninfringement Hatch-Waxman Act certification from Apotex indicating that Apotex had filed an ANDA with the FDA seeking approval of a generic form of Zymaxid® gatifloxacin 0.5% ophthalmic solution. In the certification, Apotex contends that the '283 and '045 patents, both of which are licensed to us and are listed in the Orange Book under Zymaxid®, are invalid and/or not infringed by the proposed Apotex product. In February 2012, we filed a complaint against Apotex in the U.S. District Court for the District of Delaware alleging that Apotex's proposed product infringes the '283 and '045 patents.

Government Investigations

In September 2011, we received service of process of a Civil Investigative Demand from the Commonwealth of Massachusetts Office of the Attorney General, Medicaid Fraud Division. The Civil Investigative Demand requests production of documents and information relating to our Eye Care Business Advisor Group, Allergan Access and BSM Connect for Ophthalmology. In January 2012, the underlying qui tam complaint was partially unsealed to us.

In February 2011, we received service of a Civil Investigative Demand from the United States Attorney's Office for the Southern District of New York, Civil Frauds Unit. The Investigative Demand requests the production of documents and responses to written interrogatories relating to our best prices provided to Medicaid for certain of our ophthalmic products.

In December 2010, we received service of process of a Subpoena Duces Tecum from the State of New York, Office of the Medicaid Inspector General. The subpoena requests the production of documents relating to our Eye Care Business Advisor Group, Allergan Access, and BSM Connect for Ophthalmology. In January 2012, the underlying qui tam complaint was partially unsealed to us.

Stockholder Derivative Litigation

Louisiana Municipal Police Employees' Retirement System Action

In September 2010, Louisiana Municipal Police Employees' Retirement System, or LMPERS, filed a stockholder derivative complaint against our then-current Board of Directors, or Board, which includes David E.I. Pyott, Herbert W. Boyer, Ph.D., Gavin S. Herbert, Leonard D. Schaeffer, Michael R. Gallagher, Stephen J. Ryan, M.D., Russell T. Ray, Trevor M. Jones, Ph.D., Robert A. Ingram, Louis J. Lavigne, Jr., Deborah Dunsire, M.D. and Dawn Hudson, and Allergan, Inc. in the Court of Chancery of the State of Delaware alleging breaches of fiduciary duties relating to our alleged sales and marketing practices in connection with Botox® and seeks to shift the costs of the September 2010 settlement with the U.S. Department of Justice to the defendants. In October 2010, the plaintiff filed an amended complaint and we and the individual defendants filed motions to dismiss. In June 2011, the court ordered that U.F.C.W. Local 1776 & Participating Employers Pension Fund, or U.F.C.W., may intervene in this action. In July 2011, LMPERS and U.F.C.W. filed a second amended complaint. In July 2011, we filed a motion to dismiss the second amended complaint.

Himmel Action

In September 2010, Daniel Himmel filed a stockholder derivative complaint against our Board, Handel E. Evans, Ronald M. Cresswell, Louis T. Rosso, Karen R. Osar, Anthony H. Wild, and Allergan, Inc. in the U.S. District Court for the Central District of California alleging violations of federal securities laws, breaches of fiduciary duties, waste of corporate assets, and unjust enrichment and seeks, among other things, damages, corporate governance reforms, attorneys' fees and costs.

Rosenbloom Action

In September 2010, Willa Rosenbloom filed a stockholder derivative complaint against our Board and Allergan, Inc. in the U.S. District Court for the Central District of California alleging violations of federal securities law, breaches of fiduciary duties, and unjust enrichment and seeks, among other things, damages, corporate governance reforms, attorneys' fees and costs.

Pompano Beach Police & Firefighters' Retirement System Action

In September 2010, Pompano Beach Police & Firefighters' Retirement System and Western Washington Laborers-Employers Pension Trust filed a stockholder derivative complaint against our then-current Board and Allergan, Inc. in the U.S. District Court for the Central District of California alleging violations of federal securities laws, breaches of fiduciary duties, abuse of control, gross mismanagement, and corporate waste and seeks, among other things, damages, corporate governance reforms, attorneys' fees and costs. In September 2010, plaintiffs filed a motion for consolidation with the Himmel and Rosenbloom

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actions, which was granted. In November 2010, the plaintiffs filed their consolidated complaint. In December 2010, we and the individual defendants filed motions to dismiss the consolidated complaint, which were granted in April 2011 with leave to amend the consolidated complaint. In March 2011, we filed a motion for partial stay of the consolidated action in favor of the LMPERS action, which we later requested to withdraw and that request was granted in April 2011. In July 2011, the plaintiffs filed a first amended verified consolidated complaint. In August 2011, we and the individual defendants filed a motion to dismiss the first amended verified consolidated complaint. In January 2012, the U.S. District Court entered an order granting our and the individual defendants' motion to dismiss the first amended verified consolidated complaint and dismissed the consolidated action with prejudice. In January 2012, the plaintiffs filed a motion for reconsideration of the U.S. District Court's order granting our and the individual defendants' motion to dismiss, which was denied in February 2012.

New Jersey Building Laborers Pension Fund Action

In November 2011, New Jersey Building Laborers Pension Fund filed a stockholder derivative complaint against members of our Board, three current officers of Allergan, Inc., one former officer of Allergan, Inc., and Allergan, Inc. in the U.S. District Court for the District of Delaware alleging claims for breach of fiduciary duty, waste of corporate assets, unjust enrichment, and wrongful acts and omissions under federal securities laws and seeks, among other things, an order voiding the stockholders' vote and Allergan, Inc.'s 2011 Incentive Award Plan, damages, attorneys' fees and costs. In February 2012, New Jersey Building Laborers Pension Fund dismissed its claims against the former officer of Allergan, Inc.

We are involved in various other lawsuits and claims arising in the ordinary course of business. 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. We believe however, that the liability, if any, resulting from the aggregate amount of uninsured damages for any outstanding litigation, investigation or claim will not have a material adverse effect on our consolidated financial position, liquidity or results of operations. However, an adverse ruling in a patent infringement lawsuit involving us could materially affect our ability to sell one or more of our products or could result in additional competition. In view of the unpredictable nature of such matters, we cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which we are a party or the impact on us of an adverse ruling in such matters.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following table shows the quarterly price range of our common stock and the cash dividends declared per share of common stock during the periods listed.

	2011			2010		
Calendar Quarter	Low	High	Div.	Low	High	Div.
First	$68.03	$76.00	$0.05	$55.25	$65.79	$0.05
Second	71.75	85.74	0.05	56.26	65.87	0.05
Third	69.40	85.92	0.05	57.45	67.53	0.05
Fourth	77.71	89.25	0.05	64.95	74.94	0.05

Our common stock is listed on the New York Stock Exchange and is traded under the symbol “AGN.”

The approximate number of stockholders of record of our common stock was 4,933 as of February 17, 2012.

On January 31, 2012, our Board of Directors declared a cash dividend of $0.05 per share, payable March 16, 2012 to stockholders of record on February 24, 2012.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Issuer Purchases of Equity Securities

The following table discloses the purchases of our equity securities during the fourth fiscal quarter of 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (2)
October 1, 2011 to October 31, 2011	291,600	$84.10	291,600	15,920,153
November 1, 2011 to November 30, 2011	422,179	82.73	422,179	15,711,520
December 1, 2011 to December 31, 2011	336,221	83.83	336,221	16,145,065
Total	1,050,000	$83.46	1,050,000	N/A

(1) We maintain an evergreen stock repurchase program, which we first announced on September 28, 1993. Under the stock repurchase program, we may maintain up to 18.4 million repurchased shares in our treasury account at any one time. At December 31, 2011, we held approximately 2.3 million treasury shares under this program. Effective January 1, 2012, our current Rule 10b5-1 plan authorizes our broker to purchase our common stock traded in the open market pursuant to our evergreen stock repurchase program. The terms of the plan set forth a maximum limit of 6.0 million shares to be repurchased through June 30, 2012, certain quarterly maximum and minimum volume

limits, and the plan is cancellable at any time in our sole discretion and in accordance with applicable insider trading laws.

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

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Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in millions, except per share data)				
Summary of Operations					
Product net sales	$5,347.1	$4,819.6	$4,447.6	$4,339.7	$3,879.0
Other revenues	72.0	99.8	56.0	63.7	59.9
Total revenues	5,419.1	4,919.4	4,503.6	4,403.4	3,938.9
Operating costs and expenses:					
Cost of sales (excludes amortization of acquired intangible assets)	748.7	722.0	750.9	761.2	673.2
Selling, general and administrative	2,246.6	2,017.6	1,921.5	1,856.1	1,680.2
Research and development	902.8	804.6	706.0	797.9	718.1
Amortization of acquired intangible assets	127.6	138.0	146.3	150.9	121.3
Legal settlement	—	609.2	—	—	—
Impairment of intangible assets and related costs	23.7	369.1	—	—	—
Restructuring charges	4.6	0.3	50.9	41.3	26.8
Operating income	1,365.1	258.6	928.0	796.0	719.3
Non-operating expense	(65.4)	(87.8)	(79.5)	(33.8)	(54.9)
Earnings from continuing operations before income taxes	1,299.7	170.8	848.5	762.2	664.4
Earnings from continuing operations	938.1	4.9	623.8	564.7	487.0
Loss from discontinued operations	—	—	—	—	(1.7)
Net earnings attributable to noncontrolling interest	3.6	4.3	2.5	1.6	0.5
Net earnings attributable to Allergan, Inc.	$934.5	$0.6	$621.3	$563.1	$484.8
Basic earnings per share attributable to Allergan, Inc. stockholders:					
Continuing operations	$3.07	$0.00	$2.05	$1.85	$1.59
Discontinued operations	—	—	—	—	—
Diluted earnings (loss) per share attributable to Allergan, Inc. stockholders:					
Continuing operations	$3.01	$0.00	$2.03	$1.84	$1.58
Discontinued operations	—	—	—	—	(0.01)
Cash dividends per share	$0.20	$0.20	$0.20	$0.20	$0.20
Financial Position					
Current assets	$4,048.3	$3,993.7	$3,106.3	$2,270.6	$2,124.2
Working capital	3,093.3	2,465.3	2,294.7	1,573.6	1,408.5
Total assets	8,508.6	8,308.1	7,536.6	6,791.8	6,578.8
Long-term debt, excluding current portion	1,515.4	1,534.2	1,491.3	1,570.5	1,499.4
Total stockholders' equity	5,309.6	4,757.7	4,822.8	4,050.7	3,794.5

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

This financial review presents our operating results for each of the three years in the period ended December 31, 2011, and our financial condition at December 31, 2011. Except for the historical information contained herein, the following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under Item 1A of Part I of this report, "Risk Factors." In addition, the following review should be read in connection with the information presented in our consolidated financial statements and the related notes to our consolidated financial statements.

Critical Accounting Policies, Estimates and Assumptions

The preparation and presentation of financial statements in conformity with 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 $4.5 million and $4.4 million at December 31, 2011 and 2010, respectively. Provisions for cash discounts deducted from consolidated sales in 2011, 2010 and 2009 were $62.5 million, $55.2 million and $50.4 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 December 31, 2011 and 2010 were $68.5 million and $52.3 million, respectively, and are recorded in "Other accrued expenses" and "Trade receivables, net" in our consolidated balance sheets. See Note 4, "Composition of Certain Financial Statement Captions" in the notes to our consolidated financial statements listed under Item 15 of Part IV of this report, "Exhibits and Financial Statement Schedules." Provisions for sales returns deducted from consolidated sales were $407.4 million, $389.3 million and $360.6 million in 2011, 2010 and 2009, respectively. The increases in the amount

of allowances for sales returns at December 31, 2011 compared to December 31, 2010 and the provisions for sales returns in 2011 compared to 2010 are primarily due to increased sales returns related to breast implant products, principally due to increased product sales volume, and an increase in estimated product sales return rates for our skin care products. The increase in the provisions for sales returns in 2010 compared to 2009 is primarily due to increased sales returns related to breast implant products, principally due to increased product sales volume, and the genericization in the United States of certain eye care pharmaceutical products. Historical allowances for cash discounts and product returns have been consistent with the amounts reserved or accrued.

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

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Acuvail®, Aczone®, Sanctura XR® and Restasis®, and for certain other skin care products. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in "Other accrued expenses" in our consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $249.1 million and $186.5 million at December 31, 2011 and 2010, respectively. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $760.0 million, $565.3 million and $473.8 million in 2011, 2010 and 2009, respectively. The increases in the amounts accrued at December 31, 2011 compared to December 31, 2010 and the provisions for sales rebates and other incentive programs in 2011 compared to 2010 are primarily due to an increase in activity under previously established rebate and incentive programs, principally related to our eye care pharmaceuticals, Botox® Cosmetic, urology, skin care and facial aesthetics products, an increase in the number of incentive programs offered, additional contractual discounts to federal government agencies related to the recently enacted health care reform legislation and increased overall product sales volume. The increase in the provisions for sales rebates and other incentive programs in 2010 compared to 2009 is primarily due to an increase in activity under previously established rebate and incentive programs, principally related to our eye care pharmaceuticals, Botox® Cosmetic, skin care and facial aesthetics products, an increase in the number of incentive programs offered, additional contractual discounts to federal government agencies related to the recently enacted health care reform legislation and increased overall product sales volume. In addition, an increase in our published list prices in the United States for pharmaceutical products, which occurred for several of our products in each of 2011 and 2010, generally results in higher provisions for sales rebates and other incentive programs deducted from consolidated sales.

Our procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management's judgment with respect to many factors, including but not limited to, current market dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, we use historical sales, product utilization and rebate data and apply forecasting techniques in order to estimate our liability amounts. Qualitatively, management's judgment is applied to these items to modify, if appropriate, the estimated liability amounts. There are inherent risks in this process. For example, customers may not achieve assumed utilization levels; customers may misreport their utilization to us; and actual movements of the U.S. Consumer Price Index for All Urban Consumers, or CPI-U, which affect our rebate programs with U.S. federal and state government agencies, may differ from those estimated. On a quarterly basis, adjustments to our estimated liabilities for sales rebates and other incentive programs related to sales made in prior periods have not been material and have generally been less than 0.5% of consolidated product net sales. An adjustment to our estimated liabilities of 0.5% of consolidated product net sales on a quarterly basis would result in an increase or decrease to net sales and earnings before income taxes of approximately $7.0 million to $8.0 million. The sensitivity of our estimates can vary by program and type of customer. Additionally, there is a significant time lag between the date we determine the estimated liability and when we actually pay the liability. Due to this time lag, we record adjustments to our estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods. Material differences may result in the amount of revenue we recognize from product sales if the actual amount of rebates and incentives differ materially from the amounts estimated by management.

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

Contingent Consideration

Contingent consideration liabilities represent future amounts we may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales performance and the achievement of certain future development, regulatory and sales milestones. We estimate the fair value of the contingent consideration liabilities related to sales performance using the income approach, which involves forecasting estimated future net cash flows and discounting the net cash flows to their present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestones and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. We evaluate our estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded through earnings as “Selling, general and administrative” in the accompanying consolidated statements of earnings. The total estimated fair value of contingent consideration liabilities was

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$214.6 million and $44.5 million at December 31, 2011 and 2010, respectively, and was included in “Other accrued expenses” and “Other liabilities” in our consolidated balance sheets. The increase in the amount of contingent consideration liabilities at December 31, 2011 compared to December 31, 2010 is primarily due to the acquisitions of Vicept Therapeutics, Inc., or Vicept, and Precision Light, Inc., or Precision Light, in the third quarter of 2011.

Pensions

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

Our assumption for the weighted average expected long-term rate of return on assets in our U.S. funded pension plan for determining the net periodic benefit cost is 7.25% for 2011 and 8.25% for 2010 and 2009, respectively. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. funded pension plans are 5.70%, 5.85% and 6.03% for 2011, 2010 and 2009, respectively. For our U.S. funded pension plan, we determine, based upon recommendations from our pension plan's investment advisors, the expected rate of return using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Our investment advisors study historical market returns and preserve long-term historical relationships between equities and fixed income in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. They also evaluate market factors such as inflation and interest rates before long-term capital market assumptions are determined. For our non-U.S. funded pension plans, the expected rate of return was determined based on asset distribution and assumed long-term rates of return on fixed income instruments and equities. Market conditions and other factors can vary over time and could significantly affect our estimates of the weighted average expected long-term rate of return on plan assets. The expected rate of return is applied to the market-related value of plan assets. As a sensitivity measure, the effect of a 0.25% decline in our rate of return on assets assumptions for our U.S. and non-U.S. funded pension plans would increase our expected 2012 pre-tax pension benefit cost by approximately $1.8 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2011 were 4.63% and 5.14%, respectively, and at December 31, 2010 were 5.51% and 5.57%, respectively. The weighted average discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2011 were 5.51% and 5.57%, respectively, for 2010, 6.04% and 6.16%, respectively, and for 2009, 6.19% and 5.71%, respectively. We determine the discount rate based upon a hypothetical portfolio of high quality fixed income investments with maturities that mirror the pension benefit obligations at the plans' measurement date. Market conditions and other factors can vary over time and could significantly affect our estimates for the discount rates used to calculate our pension benefit obligations and net periodic benefit costs for future years. As a sensitivity measure, the effect of a 0.25% decline in the discount rate assumption for our U.S. and non-U.S. pension plans would increase our expected 2012 pre-tax pension benefit costs by approximately $4.6 million and increase our pension plans' projected benefit obligations at December 31, 2011 by approximately $42.8 million.

Share-Based Compensation

We recognize compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date 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 our stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. We currently estimate stock price volatility based upon an equal weighting of the historical average over the expected life of the award and the average implied volatility of at-the-money options traded in the open market. We estimate employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

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

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Product Liability Self-Insurance

Consistent with market practice in our industry, we recently elected to largely self-insure for future product liability losses related to Botox® and Botox® Cosmetic for injuries alleged to have occurred on or after June 1, 2011. We are also self-insured for product liability losses related to our breast implant products. Future product liability losses associated with Botox®, Botox® Cosmetic and our breast implant products are, by their nature, uncertain and are based upon complex judgments and probabilities. The factors to consider in developing product liability reserves include the merits and jurisdiction of each claim, the nature and the number of other similar current and past claims, the nature of the product use and the likelihood of settlement. In addition, we accrue for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. We estimate these accruals for potential losses based primarily on historical claims experience and data regarding product usage.

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, research and development, or R&D, tax credits available in the United States, California and other foreign jurisdictions and deductions available in the United States for domestic production activities. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

We record a valuation allowance against our deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce the valuation allowance against our deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period such determination is made. Valuation allowances against deferred tax assets were $14.9 million and $4.3 million at December 31, 2011 and 2010, respectively. Changes in the valuation allowances, when they are recognized in the provision for income taxes, are included as a component of the estimated annual effective tax rate.

We have not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because we have currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2011, we had approximately $2,505.1 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these earnings were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against our U.S. tax liability, if any. We annually update our estimate of unremitted earnings outside the United States after the completion of each fiscal year.

We recorded a tax benefit of $21.4 million in the fourth quarter of 2010 in connection with the total fiscal year 2010 pre-tax charges of $609.2 million related to the global settlement with the U.S. Department of Justice, or DOJ.

Acquisitions

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

On January 15, 2010, we acquired Serica Technologies, Inc., or Serica, for an aggregate purchase price of approximately $63.7 million, net of cash acquired. On July 1, 2010, we completed a business combination agreement and entered into a revised distribution agreement with our distributor in Turkey. We paid $33.0 million for the termination of the original distribution agreement and purchased the commercial assets related to the selling of our products in Turkey for $6.1 million in cash and estimated contingent consideration of $36.7 million as of the acquisition date. On June 17, 2011, we acquired Alacer Biomedical, Inc., or Alacer, for an aggregate purchase price of approximately $7.0 million, net of cash acquired. On July 1, 2011, we purchased the commercial assets related to the selling and distribution of our products from our distributor in South Africa for $8.6 million, net of a $2.2 million pre-existing third-party receivable from the distributor. On July 22, 2011, we acquired Vicept for $74.1

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million in cash and estimated contingent consideration of $163.0 million as of the acquisition date. On August 8, 2011, we acquired Precision Light for $11.7 million in cash and estimated contingent consideration of $6.2 million. We accounted for these acquisitions as business combinations. The tangible and intangible assets acquired and liabilities assumed in connection with these acquisitions were recognized based on their estimated fair values at the acquisition dates. The determination of estimated fair values requires significant estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows and developing appropriate discount rates. We believe the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions.

Impairment Evaluations for Goodwill and Purchased Intangible Assets

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

During our October 2011 annual goodwill impairment assessment, we adopted the provisions of the accounting standards update issued in September 2011, which gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We performed the qualitative assessment for our specialty pharmaceuticals reporting unit. For our medical devices reporting unit, we evaluated goodwill for impairment by comparing its carrying value to its estimated fair value. We primarily use the income approach and the market approach to valuation that include the discounted cash flow method, the guideline company method, as well as other generally accepted valuation methodologies to determine the fair value.

Upon completion of the October 2011 annual impairment assessment, we determined that no impairment was indicated. As of December 31, 2011, we do not believe any significant indicators of impairment exist for our goodwill that would require additional analysis.

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

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

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

In the third quarter of 2010, we concluded that the intangible assets and a related prepaid royalty asset associated with the Sanctura® franchise, or the Sanctura® Assets, which we acquired in connection with our 2007 acquisition of Esprit Pharma Holding Company, Inc., or Esprit, and certain subsequent licensing and commercialization transactions, had become impaired. We determined that an impairment charge was required with respect to the Sanctura® Assets because the estimated undiscounted future cash flows over their remaining useful life were not sufficient to recover the current carrying amount of the Sanctura® Assets and the carrying amount exceeded the estimated fair value of those assets due to a reduction in expected future financial performance for the Sanctura® franchise resulting from lower than anticipated acceptance by patients, physicians and payors. As a result, in the third quarter of 2010, we recorded an aggregate charge of $369.1 million related to the impairment of the Sanctura® Assets and related costs,

which includes a charge of $343.2 million for the impairment of the Sanctura® intangible assets. In the second quarter of 2011, we recorded additional related costs of $3.3 million.
We did not record any impairment charges in 2009.

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

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assets, we could incur future impairment charges.

Operations

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

We are also a pioneer in specialty pharmaceutical, biologic and medical device research and development. Our research and development efforts are focused on products and technologies related to the many specialty areas in which we currently operate as well as new specialty areas where unmet medical needs are significant. We supplement our own research and development activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions. At December 31, 2011, we employed approximately 10,000 persons around the world. Our principal markets are the United States, Europe, Latin America and Asia Pacific.

Results of Operations

We operate our business on the basis of two reportable segments - specialty pharmaceuticals and medical devices. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products, including: ophthalmic products for dry eye, glaucoma, inflammation, infection, allergy and retinal disease; Botox® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis, eyelash growth and other prescription and over-the-counter skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery and tissue expanders; obesity intervention products; and facial aesthetics products. We provide global marketing strategy teams to coordinate the development and execution of a consistent marketing strategy for our products in all geographic regions that share similar distribution channels and customers.

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

The following table compares net sales by product line within each reportable segment and certain selected pharmaceutical products for the years ended December 31, 2011, 2010 and 2009:

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	Year Ended December 31,		Change in Product Net Sales			Percent Change in Product Net Sales		
	2011	2010	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$2,520.2	$2,262.0	$258.2	$222.9	$35.3	11.4 %	9.9 %	1.5 %
Botox®/Neuromodulator	1,594.9	1,419.4	175.5	148.2	27.3	12.4 %	10.4 %	2.0 %
Skin Care	260.1	229.5	30.6	30.1	0.5	13.3 %	13.1 %	0.2 %
Urologics	56.8	62.5	(5.7)	(5.7)	—	(9.1)%	(9.1)%	— %
Total Specialty Pharmaceuticals	4,432.0	3,973.4	458.6	395.5	63.1	11.5 %	10.0 %	1.5 %
Medical Devices:								
Breast Aesthetics	349.3	319.1	30.2	22.9	7.3	9.5 %	7.2 %	2.3 %
Obesity Intervention	203.1	243.3	(40.2)	(44.1)	3.9	(16.5)%	(18.1)%	1.6 %
Facial Aesthetics	362.7	283.8	78.9	70.6	8.3	27.8 %	24.9 %	2.9 %
Total Medical Devices	915.1	846.2	68.9	49.4	19.5	8.1 %	5.8 %	2.3 %
Total product net sales	$5,347.1	$4,819.6	$527.5	$444.9	$82.6	10.9 %	9.2 %	1.7 %
Domestic product net sales	60.2 %	62.6 %						
International product net sales	39.8 %	37.4 %						
Selected Product Net Sales (a):								
Alphagan® P, Alphagan® and Combigan®	$419.4	$401.6	$17.8	$12.5	$5.3	4.4 %	3.1 %	1.3 %
Lumigan® Franchise	612.7	526.7	86.0	73.0	13.0	16.3 %	13.9 %	2.4 %
Restasis®	697.1	620.5	76.6	77.6	(1.0)	12.4 %	12.5 %	(0.1)%
Sanctura® Franchise	56.8	62.5	(5.7)	(5.7)	—	(9.1)%	(9.1)%	— %
Latisse®	93.6	81.8	11.8	11.3	0.5	14.4 %	13.8 %	0.6 %

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	Year Ended December 31,		Change in Product Net Sales			Percent Change in Product Net Sales		
	2010	2009	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$2,262.0	$2,100.6	$161.4	$146.5	$14.9	7.7 %	7.0 %	0.7 %
Botox®/Neuromodulator	1,419.4	1,309.6	109.8	93.0	16.8	8.4 %	7.1 %	1.3 %
Skin Care	229.5	208.0	21.5	21.0	0.5	10.3 %	10.1 %	0.2 %
Urologics	62.5	65.6	(3.1)	(3.1)	—	(4.7)%	(4.7)%	— %
Total Specialty Pharmaceuticals	3,973.4	3,683.8	289.6	257.4	32.2	7.9 %	7.0 %	0.9 %
Medical Devices:								
Breast Aesthetics	319.1	287.5	31.6	31.9	(0.3)	11.0 %	11.1 %	(0.1)%
Obesity Intervention	243.3	258.2	(14.9)	(18.2)	3.3	(5.8)%	(7.0)%	1.2 %
Facial Aesthetics	283.8	218.1	65.7	62.2	3.5	30.1 %	28.5 %	1.6 %
Total Medical Devices	846.2	763.8	82.4	75.9	6.5	10.8 %	9.9 %	0.9 %
Total product net sales	$4,819.6	$4,447.6	$372.0	$333.3	$38.7	8.4 %	7.5 %	0.9 %
Domestic product net sales	62.6 %	65.4 %						
International product net sales	37.4 %	34.6 %						
Selected Product Net Sales (a):								
Alphagan® P, Alphagan® and Combigan®	$401.6	$414.5	$(12.9)	$(15.6)	$2.7	(3.1)%	(3.8)%	0.7 %
Lumigan® Franchise	526.7	456.5	70.2	71.3	(1.1)	15.4 %	15.6 %	(0.2)%
Restasis®	620.5	522.9	97.6	96.7	0.9	18.7 %	18.5 %	0.2 %
Sanctura® Franchise	62.5	65.6	(3.1)	(3.1)	—	(4.7)%	(4.7)%	— %
Latisse®	81.8	73.7	8.1	7.6	0.5	11.0 %	10.4 %	0.6 %

(a) Percentage change in selected product net sales is calculated on amounts reported to the nearest whole dollar.

Product Net Sales

Product net sales increased by $527.5 million in 2011 compared to 2010 due to an increase of $458.6 million in our specialty pharmaceuticals product net sales and an increase of $68.9 million in our medical devices product net sales. The increase in specialty pharmaceuticals product net sales is due to increases in product net sales of our eye care pharmaceuticals, Botox®, and skin care product lines, partially offset by a small decrease in product net sales of our urologics product line. The increase in medical devices product net sales reflects an increase in product net sales of our breast aesthetics and facial aesthetics product lines, partially offset by a decrease in product net sales of our obesity intervention product line.

Several of our products, including Botox® Cosmetic, Latisse®, over-the-counter artificial tears, facial aesthetics and breast implant products, are purchased based on consumer choice and have limited reimbursement or are not reimbursable by government or other health care plans and are, therefore, partially or wholly paid for directly by the consumer. As such, the general economic environment and level of consumer spending have a significant effect on our sales of these products.

In May 2011, a generic version of our older-generation topical allergy medication Elestat® was launched in the United States and a generic version of Zymar®, our older-generation fluoroquinolone indicated for the treatment of bacterial conjunctivitis, may be launched in the United States in the near future. In June 2011, the U.S. patent for Tazorac®, indicated for psoriasis and acne, expired. The U.S. Food and Drug Administration, or FDA, has posted guidance regarding requirements for clinical bioequivalence for a generic of tazarotene, separately for both psoriasis and acne. Our interpretation is that this will require generic manufacturers to conduct a trial, at risk, for both indications.

In March 2010, the U.S. government enacted the Patient Protection and Affordable Care Act, as amended by the Health

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Care and Education Affordability Reconciliation Act, or collectively, the PPACA, reforming the U.S. health care system. The PPACA includes provisions that have had, and we believe will continue to have, a significant negative impact on our product net sales, including an extension of Medicaid and Medicare benefits to new patient populations, an increase in Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and a future increase in the initial coverage limit for Medicare participants. In 2011, the additional rebates related to the PPACA had a negative impact of approximately $56.7 million on our product net sales compared to a negative impact of $14.8 million in 2010. The PPACA also established an annual non-deductible fee on entities that sell branded prescription drugs or biologics to specified government programs in the United States. This fee had a negative impact on our selling, general and administrative expenses of $23.2 million in 2011. In addition, we believe incremental price reductions and rebate increases mandated by European governments also had a negative impact on our 2011 product net sales of approximately $40 million. In the aggregate, incremental costs of healthcare reform under the PPACA and the effect of European pricing pressures had a negative impact on our 2011 earnings on a pre-tax equivalent basis of approximately $130 million.

Eye care pharmaceuticals product net sales increased in 2011 compared to 2010 primarily due to an increase in net sales of Restasis®, our therapeutic treatment for chronic dry eye disease, an increase in sales of our glaucoma drug Lumigan® 0.01%, which was launched in the United States in the fourth quarter of 2010, an increase in international sales of Ganfort,™ our Lumigan® and timolol combination for the treatment of glaucoma, an increase in sales of Combigan®, our Alphagan® and timolol combination for the treatment of glaucoma, an increase in sales of Alphagan®P 0.1%, an increase in sales of Ozurdex®, our biodegradable, sustained-release steroid implant for the treatment of certain retinal diseases, an increase in sales of Zymaxid®, our next-generation anti-infective product in the fluoroquinolone category indicated for the treatment of bacterial conjunctivitis, an increase in new product sales of Lastacaft®, our topical allergy medication for the treatment and prevention of itching associated with allergic conjuntivitis, which we launched in the United States in January 2011, and an increase in sales of our artificial tears products Refresh® and Refresh® Optive,™ partially offset by a decrease in sales of our glaucoma drugs Alphagan®, Alphagan® P 0.15% and Lumigan® 0.03%, our older-generation fluoroquinolone Zymar®, our older-generation topical allergy medication Elestat®, and our non-steroidal anti-inflammatory drug Acuvail®. Beginning in February 2011 we discontinued the U.S. sales of Zymar®. Although generic competition in the United States negatively affected our aggregate product net sales of eye care products, such impact was not material. Although we do not currently believe that our aggregate product net sales of eye care products will be materially impacted in 2012 by generic competition, we could experience a rapid and significant decline in net sales of certain eye care products if we are unable to successfully maintain or defend our patents. For a more complete discussion of the risks relating to generic competition and patent protection, see Item 1A of Part I of this report, “Risk Factors.”

We increased prices on certain eye care pharmaceutical products in the United States in 2011. Effective January 8, 2011, we increased the published U.S. list price for Restasis®, Alphagan® P 0.1%, Alphagan® P 0.15%, Combigan®, Zymar®, Zymaxid®, Acular®, Acular LS® and Acuvail® by four percent and Lumigan® 0.1% and Lumigan® 0.3% by eight percent. Effective July 9, 2011, we increased the published U.S. list price for Alphagan® P 0.1% and Combigan® by an additional four percent, Alphagan® P 0.15% by an additional eight percent, Acular® and Acular LS® by an additional five percent, Zymaxid® and Acuvail® by an additional fourteen percent and Lastacaft® by eight percent. Effective September 10, 2011, we increased the published U.S. list price for Lumigan® 0.1% and Lumigan® 0.3% by an additional six percent, and effective October 22, 2011, we increased the published U.S. list price for Restasis® by an additional five percent. These price increases had a positive net effect on our U.S. sales in 2011 compared to 2010, but the actual net effect is difficult to determine due to the various managed care sales rebate and other incentive programs in which we participate. Wholesaler buying patterns and the change in dollar value of the prescription product mix also affected our reported net sales dollars, although we are unable to determine the impact of these effects.

Total sales of Botox® increased in 2011 compared to 2010 due to an increase in sales of Botox® for both cosmetic and therapeutic use in all of our principal geographic markets. Sales of Botox® for therapeutic use in the United States

benefited from sales for the prophylactic treatment of headaches in adults with chronic migraine and the treatment of upper limb spasticity, indications which were approved by the FDA in 2010. In Europe, sales of Botox® for therapeutic use were negatively impacted in 2011 by government mandated price reductions, and sales of Botox® for cosmetic use, marketed as Vistabel®/Vistabex®, were negatively impacted in 2011 due to launches of competitive products in certain geographical markets. Based on internal information and assumptions, we estimate in 2011 that Botox® therapeutic sales accounted for approximately 51% of total consolidated Botox® sales and increased by approximately 12% compared to 2010. In 2011, Botox® Cosmetic sales accounted for approximately 49% of total consolidated Botox® sales and increased by approximately 12% compared to 2010. We believe our worldwide market share for neuromodulators, including Botox®, was approximately 78% in the third quarter of 2011, the last quarter for which market data is available.

Skin care product net sales increased in 2011 compared to 2010 primarily due to an increase in sales of Aczone®, our topical dapsone treatment for acne vulgaris and an increase in sales of Latisse®, our treatment for inadequate or insufficient eyelashes, partially offset by a decrease in total sales of Tazorac®, Zorac® and Avage®, our topical tazarotene products. Effective January 8, 2011, we increased the published U.S. list price for Aczone® by approximately four percent, and Tazorac® and Avage®

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by approximately fifteen percent. Effective June 11, 2011, we increased the published U.S. list price for Aczone® by approximately an additional five percent, and Tazorac® and Avage® by approximately an additional ten percent.
Urologics sales, which are presently concentrated in the United States and consist of our Sanctura® franchise products for the treatment of overactive bladder, or OAB, decreased in 2011 compared to 2010, primarily due to lower sales of Sanctura®, our twice-a-day anticholinergic for the treatment of OAB, which was negatively impacted by the launch of trospium chloride generics in September 2010, partially offset by a small increase in sales of Sanctura XR®, our second-generation, once-daily anticholinergic for the treatment of OAB. Effective January 8, 2011, we increased the published U.S. list price for Sanctura XR® by eight percent and Sanctura® by ten percent. In addition, effective June 11, 2011, we increased the published U.S. list price for Sanctura XR® by an additional seven percent.
We have a policy to attempt to maintain average U.S. wholesaler inventory levels of our specialty pharmaceuticals products at an amount less than eight weeks of our net sales. At December 31, 2011, based on available external and internal information, we believe the amount of average U.S. wholesaler inventories of our specialty pharmaceutical products was near the lower end of our stated policy levels.
Breast aesthetics product net sales, which consist primarily of sales of silicone gel and saline breast implants and tissue expanders, increased in 2011 compared to 2010 due to increases in sales in all of our principal geographic markets. The increase in sales of breast aesthetics products in the United States was primarily due to higher unit volume, an increase in market share, the continued transition of the U.S. market to higher priced silicone gel products from lower priced saline products and new product sales of tissue expanders with suture tabs. The overall increase in sales of breast aesthetics products in our international markets was primarily due to higher unit volume.
Obesity intervention product net sales, which consist primarily of sales of devices used for minimally invasive long-term treatments of obesity such as our Lap-Band® and Lap-Band AP® Systems and Orbera™ System, decreased in 2011 compared to 2010 primarily due to a decrease in sales in the United States, Australia and Spain, partially offset by an increase in sales in Latin America. We believe sales of obesity intervention products in the United States and other principal geographic markets continued to be negatively impacted by general economic conditions given the substantial patient co-pays associated with these products, government spending restrictions and access restrictions imposed by insurance plans. In addition, net sales of our obesity intervention products continued to be negatively impacted by a general increase in the market share of other competitive surgical obesity procedures, especially in the United States.
Facial aesthetics product net sales, which consist primarily of sales of hyaluronic acid-based dermal fillers used to correct facial wrinkles, increased in 2011 compared to 2010 primarily due to a significant increase in sales in the United States and all of our other principal geographic markets. We believe the increase in sales of facial aesthetic products was primarily due to an increase in sales of Juvéderm® XC with lidocaine in the United States, recent launches of Juvéderm® with lidocaine and Juvéderm® Voluma™ in many of our international markets and a global expansion of the dermal filler market, partially offset by a decline in sales of older generation collagen-based dermal fillers, which we discontinued selling in early 2011.
Foreign currency changes increased product net sales by $82.6 million in 2011 compared to 2010, primarily due to the strengthening of the euro, Australian dollar, Brazilian real, Canadian dollar and U.K. pound compared to the U.S. dollar.
U.S. product net sales as a percentage of total product net sales decreased by 2.4 percentage points to 60.2% in 2011 compared to U.S. sales of 62.6% in 2010, due primarily to higher sales growth in our international markets compared to the U.S. market for our eye care pharmaceuticals, breast aesthetics and facial aesthetics product lines, and a greater percentage decline in sales in the U.S. market compared to our total international markets for our obesity intervention product line, partially offset by an increase in sales of skin care products, which are highly concentrated in the United States. Additionally, international sales benefited from a positive translation impact due to a general strengthening of foreign currencies compared to the U.S. dollar in markets where we sold products in 2011 compared to 2010.
Product net sales increased by $372.0 million in 2010 compared to 2009 due to an increase of $289.6 million in our specialty pharmaceuticals product net sales and an increase of $82.4 million in our medical devices product net sales. The increase in specialty pharmaceuticals product net sales is due to increases in product net sales of our eye care

pharmaceuticals, Botox®, and skin care product lines, partially offset by a small decrease in product net sales of our urologics product line. The increase in medical devices product net sales reflects an increase in product net sales of our breast aesthetics and facial aesthetics product lines, partially offset by a decrease in product net sales of our obesity intervention product line.

Eye care pharmaceuticals product net sales increased in 2010 compared to 2009 primarily due to an increase in net sales of Restasis®, our therapeutic treatment for chronic dry eye disease, an increase in sales of our glaucoma drug Lumigan® 0.03%, an increase in international sales of Ganfort,™ our Lumigan® and timolol combination for the treatment of glaucoma, an increase in new product sales of Lumigan® 0.01%, which was launched in the United States in the fourth quarter of 2010, an increase in

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sales of Combigan®, our Alphagan® and timolol combination for the treatment of glaucoma, an increase in sales of Alphagan®P 0.1%, an increase in sales of Ozurdex®, our biodegradable, sustained-release steroid implant for the treatment of certain retinal diseases, an increase in new product sales of Zymaxid®, our next-generation anti-infective product in the fluoroquinolone category indicated for the treatment of bacterial conjunctivitis, which was launched in the second quarter of 2010, an increase in sales of Acuvail®, our next-generation preservative-free, non-steroidal anti-inflammatory, which was launched in the third quarter of 2009, and an increase in sales of our artificial tears products Refresh® and Refresh® Optive,™ partially offset by a decrease in sales of our glaucoma drugs Alphagan® and Alphagan® P 0.15%, our older-generation fluoroquinolone Zymar® and our non-steroidal anti-inflammatory drugs Acular® and Acular LS®.

Aggregate product net sales for Alphagan®, Alphagan® P 0.15%, Acular®, and Acular LS® decreased approximately $146.4 million in 2010 compared to 2009, primarily due to generic competition in the United States. However, total product net sales for our Alphagan® franchise, which includes Alphagan®, Alphagan® P 0.15%, Alphagan® P 0.1% and Combigan®, and our products containing ketorolac, which include Acular®, Acular LS® and Acuvail®, decreased approximately $86.9 million in the aggregate in 2010 compared to 2009.

We increased prices on certain eye care pharmaceutical products in the United States in 2010. Effective January 9, 2010, we increased the published U.S. list price for Combigan®, Alphagan® P 0.1% and Zymar® by five percent, Restasis® by four percent, Elestat® by ten percent and Acular® and Acular LS® by three percent. Effective April 3, 2010, we increased the published U.S. list price of Lumigan® by six percent. Effective July 10, 2010, we increased the published U.S. list price of Alphagan® P 0.15% by eight percent and Acular®, Acular LS®, and Acuvail® by three percent. Effective October 2, 2010, we increased the published U.S. list price of Restasis® by an additional five percent, Alphagan® P 0.1% by an additional four percent, and Combigan® by an additional six percent. These price increases had a positive net effect on our U.S. sales in 2010 compared to 2009, but the actual net effect is difficult to determine due to the various managed care sales rebate and other incentive programs in which we participate. Wholesaler buying patterns and the change in dollar value of the prescription product mix also affected our reported net sales dollars, although we are unable to determine the impact of these effects.

Total sales of Botox® increased in 2010 compared to 2009 due to an increase in sales of Botox® for both cosmetic and therapeutic use in all of our principal geographic markets. We believe sales of Botox®, primarily Botox® Cosmetic, were negatively impacted in 2010 by the introduction of a competitive product that was launched in the United States in June 2009. Based on internal information and assumptions, we estimate in 2010 that Botox® therapeutic sales accounted for approximately 51% of total consolidated Botox® sales and grew at a rate of approximately 6% compared to 2009. In 2010, Botox® Cosmetic sales accounted for approximately 49% of total consolidated Botox® sales and increased by approximately 11% compared to 2009.

Skin care product net sales increased in 2010 compared to 2009 primarily due to an increase in sales of Latisse®, our treatment for inadequate or insufficient eyelashes, an increase in sales of Aczone®, our topical dapsone treatment for acne vulgaris, and a small increase in total sales of Tazorac®, Zorac® and Avage®, our topical tazarotene products. Effective January 9, 2010, we increased the published U.S. list price for Aczone® by approximately ten to sixteen percent, depending on package size, and Tazorac® and Avage® by approximately ten percent. Effective June 5, 2010, we increased the published U.S. list prices of Aczone® by approximately an additional six percent and Tazorac® and Avage® by approximately an additional ten percent. Effective October 2, 2010, we increased the published U.S. list prices of Tazorac® and Avage® by approximately an additional ten percent.

Urologics sales, which are presently concentrated in the United States and consist of our Sanctura® franchise products for the treatment of overactive bladder, decreased in 2010 compared to 2009, primarily due to lower sales of Sanctura®, our twice-a-day anticholinergic for the treatment of OAB, which was negatively impacted by the launch of trospium chloride generics at the beginning of September 2010, partially offset by a small increase in sales of Sanctura XR®, our second-generation, once-daily anticholinergic for the treatment of OAB. In the third quarter of

2009, we entered into a co-promotion agreement with Quintiles Transnational Corp., or Quintiles, under which Quintiles began to promote Sanctura XR® to general practitioners in the United States. In the third quarter of 2010, we terminated the co-promotion agreement with Quintiles due to lower than anticipated sales of Sanctura XR® in the general practitioner market. We continue to focus our internal sales efforts on Sanctura XR® in the urology specialty market. Effective January 9, 2010, we increased the published U.S. list price for Sanctura® by approximately nine percent. Effective February 20, 2010, we increased the published U.S. list price for Sanctura XR® by six percent. Effective July 10, 2010, we increased the published U.S. list price of Sanctura XR® by an additional three percent and Sanctura® by an additional ten percent.

Breast aesthetics product net sales, which consist primarily of sales of silicone gel and saline breast implants and tissue expanders, increased in 2010 compared to 2009 due to increases in sales in all of our principal geographic markets. The increase in sales of breast aesthetics products in the United States was primarily due to higher unit volume and the continued transition of the U.S. market to higher priced silicone gel products from lower priced saline products. The overall increase in sales of breast aesthetics products in our international markets was primarily due to higher unit volume.

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Obesity intervention product net sales, which consist primarily of sales of devices used for minimally invasive long-term treatments of obesity such as our Lap-Band® and Lap-Band AP® Systems and Orbera™ System, decreased in 2010 compared to 2009 primarily due to a decrease in sales in the United States, partially offset by increases in sales in most markets in Europe, Latin America and Canada. We believe sales of obesity intervention products in the United States and other principal geographic markets were negatively impacted in 2010 by general economic conditions given the substantial patient co-pays associated with these products and government spending restrictions.

Facial aesthetics product net sales, which consist primarily of sales of hyaluronic acid-based and collagen-based dermal fillers used to correct facial wrinkles, increased in 2010 compared to 2009 primarily due to significant increases in sales in the United States, Canada and all of our other principal geographic markets. We believe the increase in sales of facial aesthetic products was primarily due to the February 2010 launch of Juvéderm® XC with lidocaine in the United States and recent launches of Juvéderm® with lidocaine and Juvéderm® Voluma™ in other international markets, an expansion of the facial aesthetics market and an increase in our share of the hyaluronic acid-based dermal filler market, partially offset by a decline in sales of older generation collagen-based dermal fillers.

Foreign currency changes increased product net sales by $38.7 million in 2010 compared to 2009, primarily due to the strengthening of the Canadian dollar, Brazilian real and Australian dollar compared to the U.S. dollar, partially offset by the weakening of the euro compared to the U.S. dollar.

U.S. product net sales as a percentage of total product net sales decreased by 2.8 percentage points to 62.6% in 2010 compared to U.S. sales of 65.4% in 2009, due primarily to higher sales growth in our international markets compared to the U.S. market for our eye care pharmaceuticals, Botox® and obesity intervention product lines, partially offset by an increase in sales of our skin care products, which are highly concentrated in the United States. Additionally, international sales benefited from a positive translation impact due to a general strengthening of foreign currencies compared to the U.S. dollar in markets where we sold products in 2010 compared to 2009.

Other Revenues

Other revenues decreased $27.8 million to $72.0 million in 2011 compared to $99.8 million in 2010, primarily due to the prior year impact of an upfront net licensing fee of $36.0 million that we recognized in the first quarter of 2010 related to an agreement with Bristol-Myers Squibb Company, or Bristol-Myers Squibb, for the exclusive worldwide rights to develop, manufacture and commercialize an investigational medicine for neuropathic pain and a reduction in reimbursement income, primarily related to a strategic support agreement with GlaxoSmithKline, or GSK. These reductions were partially offset by an increase in royalty income in 2011 compared to 2010 from sales of a brimonidine product by Alcon, Inc. in the United States under a licensing agreement, an increase in royalty income from sales of Lumigan® by Senju Pharmaceutical Co., Ltd., or Senju, in Japan under a licensing agreement and an increase in royalty income from sales of Botox® for therapeutic use in Japan and China by GSK under a licensing agreement.

Other revenues increased $43.8 million to $99.8 million in 2010 compared to $56.0 million in 2009. The increase in other revenues is primarily related to an upfront net licensing fee of $36.0 million that we recognized in 2010 related to an agreement with Bristol-Myers Squibb for the exclusive worldwide rights to develop, manufacture and commercialize an investigational medicine for neuropathic pain, an increase in royalty income from sales of a brimonidine product by Alcon, Inc. in the United States under a licensing agreement and an increase in royalty income from sales of Lumigan® by Senju in Japan under a licensing agreement, partially offset by a decline in royalty and reimbursement income related to certain licensing and strategic support agreements with GSK, and a decline in other reimbursement income.

Income and Expenses

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

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	Year Ended December 31,		
	2011	2010	2009
Product net sales	100.0%	100.0%	100.0%
Other revenues	1.3	2.1	1.3
Operating costs and expenses:			
Cost of sales (excludes amortization of acquired intangible assets)	14.0	15.0	16.9
Selling, general and administrative	42.0	41.9	43.2
Research and development	16.9	16.7	15.9
Amortization of acquired intangible assets	2.4	2.9	3.3
Legal settlement	—	12.6	—
Impairment of intangible assets and related costs	0.4	7.7	—
Restructuring charges	0.1	—	1.1
Operating income	25.5	5.3	20.9
Non-operating expense	(1.2)	(1.8)	(1.8)
Earnings before income taxes	24.3%	3.5%	19.1%
Net earnings attributable to Allergan, Inc.	17.5%	0.0%	14.0%

Cost of Sales

Cost of sales increased $26.7 million, or 3.7%, in 2011 to $748.7 million, or 14.0% of product net sales, compared to $722.0 million, or 15.0% of product net sales in 2010. This increase in cost of sales primarily resulted from the 10.9% increase in total product net sales, partially offset by a decrease in cost of sales as a percentage of product net sales primarily due to lower royalty expenses, volume-based manufacturing efficiencies related to our eye care, Botox® and facial aesthetics product lines, and positive changes in product mix.

Cost of sales decreased $28.9 million, or 3.8%, in 2010 to $722.0 million, or 15.0% of product net sales, compared to $750.9 million, or 16.9% of product net sales in 2009. Cost of sales in 2009 includes charges of $14.4 million for the rollout of retention termination benefits and accelerated depreciation costs capitalized in inventory related to the phased closure of our Arklow, Ireland breast implant manufacturing facility, $5.0 million related to the modification of certain employee stock options in connection with our 2009 restructuring plan and $0.8 million for the purchase accounting fair market value inventory adjustment rollout related to our acquisition of Samil Allergan Ophthalmic Joint Venture Company, or Samil. Excluding the effect of these charges, cost of sales decreased $8.7 million, or 1.2%, in 2010 compared to 2009. This decrease in cost of sales, excluding the charges described above, primarily resulted from a decrease in cost of sales as a percentage of product net sales for our eye care pharmaceuticals, primarily due to lower royalty expenses and positive, volume-based manufacturing efficiencies, and for our breast aesthetics and facial aesthetics products, primarily due to manufacturing efficiencies and positive changes in product mix, and an overall decrease in provisions for inventory reserves, partially offset by the 8.4% increase in product net sales.

Selling, General and Administrative

Selling, general and administrative, or SG&A, expenses increased $229.0 million, or 11.4%, to $2,246.6 million, or 42.0% of product net sales, in 2011 compared to $2,017.6 million, or 41.9% of product net sales, in 2010. SG&A expenses in 2011 include an upfront payment of $60.0 million and a regulatory milestone payment of $20.0 million related to the Levadex® collaboration and co-promotion agreement with MAP Pharmaceuticals, Inc., or MAP, a gain of $9.4 million from the substantially complete liquidation of a foreign subsidiary and fixed asset impairment charges of $2.2 million related to the discontinued development of EasyBand,™ $3.4 million of stockholder derivative litigation costs associated with the 2010 global settlement with the DOJ regarding our past U.S. sales and marketing practices

relating to certain therapeutic uses of Botox®, $2.0 million of costs associated with tax audit settlements for prior years' filings, and $11.9 million in charges related to the change in fair value of contingent consideration liabilities associated with business combinations. SG&A expenses in 2010 include $14.4 million of costs associated with the DOJ investigation relating to sales and marketing practices in connection with Botox® and related derivative litigation costs associated with the 2010 global settlement with the DOJ described above, a charge of $33.0 million related to the termination of a distributor agreement in Turkey, a $10.6 million charge for the write-off of manufacturing assets related to the abandonment of an eye care product, and a $7.9 million charge related to the change in fair value of a contingent consideration liability associated with a business combination. Excluding the effect of the items described above,

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SG&A expenses increased $204.8 million, or 10.5%, to $2,156.5 million, or 40.3% of product net sales, in 2011 compared to $1,951.7 million, or 40.5% of product net sales in 2010. The increase in SG&A expenses in dollars, excluding the charges described above, primarily relates to increases in selling, marketing, promotion and general and administrative expenses and the negative translation impact due to a general strengthening of foreign currencies compared to the U.S. dollar. The increase in selling and marketing expenses in 2011 compared to 2010 principally relates to increased personnel and related incentive compensation costs that support the 10.9% increase in product net sales, and additional costs supporting the expansion of our sales forces, including the addition of several new direct operations in emerging markets. The increase in promotion expenses is primarily due to increased professional promotion activity, primarily related to Botox® and facial aesthetics products, and an increase in expense for a consumer-focused unbranded advertising campaign for chronic migraine, partially offset by a small decline in other direct-to-consumer advertising, primarily related to Latisse® and Restasis®. The increase in general and administrative expenses is primarily due to the negative impact of the fee established by the PPACA for selling branded pharmaceuticals to certain U.S. government programs, increased compliance costs associated with the Corporate Integrity Agreement entered into in 2010 with the Office of Inspector General of the U.S. Department of Health and Human Services, an increase in legal costs, an increase in incentive compensation costs and an increase in regional management costs related to the expansion of our direct selling operations in emerging markets, partially offset by an insurance recovery related to damaged inventory. The small decrease in SG&A expenses as a percentage of product net sales, excluding the items described above, in 2011 compared to 2010 is primarily due to the lower 10.5% increase in SG&A expenses relative to the higher 10.9% increase in product net sales during the same period.

SG&A expenses increased $96.1 million, or 5.0%, to $2,017.6 million, or 41.9% of product net sales, in 2010 compared to $1,921.5 million, or 43.2% of product net sales, in 2009. SG&A expenses in 2010 include $14.4 million of costs associated with the DOJ investigation relating to sales and marketing practices in connection with Botox® and related derivative litigation costs associated with the 2010 global settlement with the DOJ described above, a charge of $33.0 million related to the termination of a distributor agreement in Turkey, a $10.6 million charge for the write-off of manufacturing assets related to the abandonment of an eye care product, and a $7.9 million charge related to the change in fair value of a contingent consideration liability associated with a business combination. SG&A expenses in 2009 include a $52.6 million charge related to the modification of certain employee stock options and $2.3 million in asset write-offs in connection with our 2009 restructuring plan, $32.2 million of costs associated with the DOJ investigation relating to sales and marketing practices in connection with Botox®, an $18.0 million contribution to The Allergan Foundation, a $14.0 million gain on the settlement of a manufacturing and distribution agreement related to an eye care pharmaceuticals product and $0.4 million of integration and transition costs related to our acquisition of Groupe Cornéal Laboratoires, or Cornéal. Excluding the effect of the items described above, SG&A expenses increased $121.7 million, or 6.7%, to $1,951.7 million, or 40.5% of product net sales, in 2010 compared to $1,830.0 million, or 41.1% of product net sales in 2009. The increase in SG&A expenses in dollars, excluding the charges described above, primarily relates to increases in selling, marketing, and general and administrative expenses, partially offset by a decrease in promotion costs. The increase in selling and marketing expenses in 2010 compared to 2009 principally relates to increased personnel and related incentive compensation costs that support the 8.4% increase in product net sales, additional costs related to the expansion of our sales forces in Asia, Poland and Turkey, and additional selling costs related to an agreement with Quintiles to promote Sanctura XR® to general practitioners in the United States. The increase in general and administrative expenses is primarily due to an increase in legal expenses, incentive compensation costs, information systems and human resource administrative costs, an increase in losses from the disposal of fixed assets, and an increase in regional management costs related to our expansion of direct selling operations in Asia. The decrease in promotion expenses is primarily due to a decrease in direct-to-consumer advertising for the Lap-Band® System, Latisse® and Juvéderm®, partially offset by increases in direct-to-consumer advertising for Botox® Cosmetic and Restasis®. The decrease in SG&A expenses as a percentage of product net sales, excluding the items described above, in 2010 compared to 2009 is primarily due to the lower 6.7% increase in SG&A expenses relative to the higher 8.4% increase in product net sales during the same period.

Research and Development

We believe that our future medium- and long-term revenue and cash flows are most likely to be affected by the successful development and approval of our significant late-stage research and development candidates. As of December 31, 2011, we have the following significant R&D projects in late-stage development:

- Apaziquone (U.S. - Phase III) for bladder cancer
- Botox® (U.S. - Phase III) for idiopathic overactive bladder
- Juvéderm Voluma™ (U.S. - Filed) for volumizing the mid-face
- Latisse® (Europe - Filed) for eyelash growth
- Levadex® (U.S. - Filed) for migraine