ALLERGAN INC
Form 10-Q
August 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number 1-10269

Allergan, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

(714) 246-4500

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of July 31, 2010, there were 307,511,888 shares of common stock outstanding (including 4,093,406 shares held in treasury).

ALLERGAN, INC.

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

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2009. The Company prepared the unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010 or any other period(s).

Reclassifications

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

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires companies to perform a qualitative analysis to determine whether a variable interest in another entity represents a controlling financial interest in a variable interest entity. A controlling financial interest in a variable interest entity is characterized by having both the power to direct the most significant activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity. This guidance also requires ongoing reassessments of variable interests based on changes in facts and circumstances. This guidance became effective for fiscal years beginning after November 15, 2009. The Company adopted the provisions of the guidance in the first quarter of 2010 and determined that none of the entities with which the Company currently conducts business and collaborations are variable interest entities.

New Accounting Standards Not Yet Adopted

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

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

Note 2: Acquisitions and Collaborations

Serica Acquisition

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

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

Samil Acquisition

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

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

Collaborations

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

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

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Note 3: Restructuring Charges and Integration Costs

2009 Restructuring Plan

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

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

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

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restructuring and Phased Closure of Arklow Facility

On January 30, 2008, the Company announced the phased closure of its breast implant manufacturing facility at Arklow, Ireland and the transfer of production to the Company s manufacturing plant in Costa Rica. The Arklow facility was acquired by the Company in connection with its 2006 acquisition of Inamed Corporation (Inamed) and employed approximately 360 people. As of March 31, 2009, all production activities at the Arklow facility had ceased. Certain employee retention termination benefits and accelerated depreciation costs related to inventory production in Arklow were capitalized to inventory as incurred and recognized as cost of sales in the periods the related products were sold.

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

Other Restructuring Activities and Integration Costs

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

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

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

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

Note 4: Intangibles and Goodwill

Intangibles

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, obesity intervention products, dermal fillers, skin care and urologics products acquired in connection with business combinations and asset acquisitions. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with the Company s 2006 Inamed acquisition, primarily in the breast implant market in the United States. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of proprietary technology associated with silicone gel breast implants, gastric bands and intragastric balloon systems acquired in connection with the Inamed acquisition, dermal filler technology acquired in connection with the Company s 2007 acquisition of Cornéal, gastric band technology acquired in connection with the Company s 2007 acquisition of EndoArt SA (EndoArt), and a drug delivery technology acquired in connection with the Company s 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist of acquired product registration rights and distributor relationships. The in-process research and development asset consists of a dermal filler technology that has not yet achieved regulatory approval acquired in connection with the Company s 2010 acquisition of Serica. The increase in developed technology at June 30, 2010 compared to December 31, 2009 is primarily due to the Serica acquisition. The increase in licensing assets at June 30, 2010 compared to December 31, 2009 is primarily due to a licensing payment for the reacquisition of *Botox*® Cosmetic distribution rights in Japan and China.

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

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

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

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

ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill

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

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

Note 5: Inventories

Components of inventories were:

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

At June 30, 2010 and December 31, 2009, approximately $5.9 million and $5.6 million, respectively, of the Company s finished goods medical device inventories, primarily breast implants, were held on consignment at a large number of doctors offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant.

Note 6: Convertible Notes

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

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

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

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

Note 7: Income Taxes

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

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

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

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

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

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

The Company has not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because it has currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2009, the Company had approximately $2,184.5 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these funds were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company s U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 8: Share-Based Compensation

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

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

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

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

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in millions)		(in millions)	
Cost of sales	$ 1.1	$ 1.5	$ 2.2	$ 8.2
Selling, general and administrative	11.7	12.2	24.6	78.1
Research and development	4.3	4.5	8.5	30.1

Pre-tax share-based compensation exp