Rifkin David M.
Form 4
December 26, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
Rifkin David M.

(Last) (First) (Middle)

8697 RESEARCH DRIVE

(Street)

IRVINE, CA 92618

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
DecisionPoint Systems, Inc. [DPSI]

3. Date of Earliest Transaction (Month/Day/Year)
12/20/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. De Se (In

	Derivative Security			(A) or Disposed of (D) (Instr. 3, 4, and 5)							
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Series D Convertible Preferred Stock	$ 1	12/20/2012		P		1,000		(1)	(1)	Common Stock	10,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Rifkin David M. 8697 RESEARCH DRIVE IRVINE, CA 92618	X			

Signatures

/s/ David Rifkin	12/26/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Series D Convertible Preferred Stock may be converted into shares of common stock by the holder at any time and has no expiration date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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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
- Ozurdex® (U.S. - Phase III) for diabetic macular edema

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- Restasis® (Europe - Phase III) for ocular surface disease
- Ser-120 (U.S. - Phase III) for nocturia
- Silicone Breast - Style 410 Cohesive Gel (U.S. - Filed) for breast reconstruction and augmentation

For management purposes, we accumulate direct costs for R&D projects, but do not allocate all indirect project costs, such as R&D administration, infrastructure and regulatory affairs costs, to specific R&D projects. Additionally, R&D expense includes upfront payments to license or purchase in-process R&D assets that have not achieved regulatory approval. Our overall R&D expenses are not materially concentrated in any specific project or stage of development. The following table sets forth direct costs for our late-stage projects (which include candidates in Phase III clinical trials) and other R&D projects, upfront payments to license or purchase in-process R&D assets and all other R&D expenses for the years ended December 31, 2011 and 2010:

	2011	2010	2009
	(in millions)		
Direct costs for:			
Late-stage projects	$198.7	$208.6	$154.6
Other R&D projects	550.7	456.3	437.9
Upfront payments to license or purchase in-process R&D assets	45.0	43.0	10.0
Other R&D expenses	108.4	96.7	103.5
Total	$902.8	$804.6	$706.0

R&D expenses increased $98.2 million, or 12.2%, to $902.8 million in 2011, or 16.9% of product net sales, compared to $804.6 million, or 16.7% of product net sales in 2010. R&D expenses in 2011 included a charge of $45.0 million for an upfront payment for the in-licensing of technology for the treatment of retinal diseases from Molecular Partners AG that has not yet achieved regulatory approval. R&D expenses in 2010 included a charge of $43.0 million for an upfront payment for the in-licensing of technology for the treatment of nocturia, a urological disorder characterized by frequent urination at nighttime, from Serenity Pharmaceuticals, LLC, or Serenity, that has not yet achieved regulatory approval. Excluding the effect of the charges described above, R&D expenses increased by $96.2 million, or 12.6%, to $857.8 million in 2011, or 16.0% of product net sales, compared to $761.6 million, or 15.8% of product net sales, in 2010. The increase in R&D expenses in dollars, excluding these charges, and as a percentage of product net sales, was primarily due to increased spending on next generation eye care pharmaceuticals products for the treatment of glaucoma and retinal diseases, potential new treatment applications for Latisse®, new technology discovery programs, the development of technology for the treatment of rosacea acquired in the Vicept acquisition, the development of tissue reinforcement technology acquired in the Serica acquisition, an increase in costs associated with our collaboration with Serenity related to the development of technology for the treatment of nocturia, an increase in costs associated with our collaboration with Spectrum Pharmaceuticals, Inc. related to the development of apaziquone for the treatment of non-muscle invasive bladder cancer, and increased spending on hyaluronic-acid based dermal filler products, partially offset by a reduction in expenses related to Botox® for the treatment of overactive bladder and a reduction in expenses related to the development of Ozurdex®. In the second quarter of 2011, we abandoned our retinoid research assets that we obtained and subsequently developed in connection with the 2001 acquisition of Allergan Specialty Therapeutics, Inc. and will forego any further research, development, or use of the know-how with respect to these assets except as it relates to tazarotene products for topical dermal indications. There was no asset impairment recorded in the second quarter of 2011 related to the abandonment since our development costs for these assets were expensed as incurred.

R&D expenses increased $98.6 million, or 14.0%, to $804.6 million in 2010, or 16.7% of product net sales, compared to $706.0 million, or 15.9% of product net sales in 2009. R&D expenses in 2010 included a charge of $43.0 million for an upfront payment for the in-licensing of technology for the treatment of nocturia, a urological disorder characterized by frequent urination at nighttime, from Serenity, that has not yet achieved regulatory approval. R&D expenses in 2009 included a charge of $10.0 million for an upfront payment for the in-licensing of technology for the

treatment of diseases of the eye from Pieris AG that has not yet achieved regulatory approval and a $21.0 million charge related to the modification of certain employee stock options in connection with our 2009 restructuring plan. Excluding the effect of the charges described above, R&D expenses increased by $86.6 million, or 12.8%, to $761.6 million in 2010, or 15.8% of product net sales, compared to $675.0 million, or 15.2% of product net sales, in 2009. The increase in R&D expenses in dollars, excluding these charges, and as a percentage of product net sales, was primarily due to increased spending on next generation eye care pharmaceuticals products for the treatment of glaucoma and retinal diseases, Latisse® in international markets, Botox® for the treatment of overactive bladder, hyaluronic-acid based dermal filler products, tissue regeneration technology acquired in the Serica acquisition and obesity intervention products, partially offset by a reduction in expenses related to the development of Ozurdex® for retinal vein occlusion and the development

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of Botox® for the treatment of chronic migraine, and a small decrease in spending for certain urology products and new technology discovery programs.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets decreased $10.4 million to $127.6 million in 2011, or 2.4% of product net sales, compared to $138.0 million, or 2.9% of product net sales in 2010. The decrease in amortization expense is primarily due to the impairment of the Sanctura® intangible assets in the third quarter of 2010, the impairment of the intangible assets associated with the EasyBand™ technology in the first quarter of 2011 and a decline in amortization expense associated with trademarks acquired in connection with our 2006 acquisition of Inamed Corporation, or Inamed, which became fully amortized at the end of the first quarter of 2011, partially offset by an increase in the balance of intangible assets subject to amortization, including a capitalized upfront licensing payment in September 2010 for Lastacaft® and other intangible assets that we acquired in connection with our July 2010 purchase of our distributor's business related to our products in Turkey, our July 2011 purchase of our distributor's business related to our products in South Africa and our August 2011 acquisition of Precision Light.

Amortization of acquired intangible assets decreased $8.3 million to $138.0 million in 2010, or 2.9% of product net sales, compared to $146.3 million, or 3.3% of product net sales in 2009. The decrease in amortization expense is primarily due to the impairment of the Sanctura® intangible assets in the third quarter of 2010 and a decline in amortization expense associated with customer relationships acquired in connection with our 2006 acquisition of Inamed, the majority of which became fully amortized at the end of the first quarter of 2009, partially offset by an increase in the balance of intangible assets subject to amortization, including developed technology that we acquired in connection with our January 2010 acquisition of Serica, a capitalized upfront licensing payment in September 2010 for an eye care product previously approved for marketing and an acquired intangible asset related to an eye care pharmaceuticals product that we purchased in the fourth quarter of 2009 as part of a settlement of a manufacturing and distribution agreement, licensing assets related to Botox® Cosmetic distribution rights in Japan and China that we reacquired in the first quarter of 2010, and other intangible assets that we acquired in connection with our July 2010 purchase of our distributor’s business related to our products in Turkey and our July 2009 acquisition of Samil.

Legal Settlement

In 2010, we recorded total pre-tax charges of $609.2 million in connection with the global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to certain therapeutic uses of Botox®. This amount includes a criminal fine of $350.0 million related to a single misdemeanor “misbranding” charge, $25.0 million in forfeited assets, a civil settlement of $225.0 million to resolve civil claims asserted by the DOJ, and estimated interest and certain attorneys’ fees that we are obligated to pay in connection with the global settlement, but excludes our ongoing administrative legal fees and other costs. The “misbranding” charge is known as a strict liability offense, and does not involve false or deceptive conduct.

Impairment of Intangible Assets and Related Costs

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 March 2011, we decided to discontinue development of EasyBand™, a technology that we acquired in connection with our 2007 acquisition of 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 2010, we concluded that the intangible assets and a related prepaid royalty asset associated with the Sanctura® franchise, which we acquired in connection with our 2007 acquisition of Esprit and certain subsequent licensing and commercialization transactions, had become impaired. 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 charges for impairing the intangible assets and a related prepaid royalty asset and estimated costs associated with the termination of an agreement with Quintiles primarily related to the promotion of Sanctura XR® to general practitioners in the United States. In the second quarter of 2011, we recorded additional costs of $3.3 million for the termination of the third-party agreement.

Restructuring Charges

Restructuring charges in 2011 were $4.6 million, primarily related to the discontinued development of EasyBand™ and the closure of the related research and development facility in Switzerland. Restructuring charges in 2010 were $0.3 million.

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Restructuring charges in 2009 were $50.9 million, consisting of $42.2 million related to the 2009 restructuring plan, $8.4 million related to the restructuring and phased closure of the Arklow, Ireland breast implant manufacturing facility and $0.3 million of other restructuring charges.

Discontinued Development of EasyBand™

In March 2011, we decided to discontinue development of EasyBand™ and close the related research and development facility in Switzerland. As a result, during 2011 we recorded a pre-tax impairment charge of $16.1 million for the intangible assets associated with the EasyBand™ technology, fixed asset impairment charges of $2.2 million and a gain of $9.4 million from the substantially complete liquidation of our investment in a foreign subsidiary. In addition, we recorded $4.7 million of restructuring charges, consisting of $3.0 million of employee severance and other one-time termination benefits for approximately 30 people affected by the facility closure, $1.6 million of contract termination costs and $0.1 million of other related costs.

2009 Restructuring Plan

On February 4, 2009, we 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 our 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 we adjusted our 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 we re-engineered our processes to increase efficiency and productivity.

As part of the restructuring plan, we modified the outstanding stock options issued in our 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.

We 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, we 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 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.

Restructuring and Phased Closure of Arklow Facility

On January 30, 2008, we announced the phased closure of our breast implant manufacturing facility at Arklow, Ireland and the transfer of production to our manufacturing plant in Costa Rica. The Arklow facility was acquired by us in connection with our 2006 acquisition of 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.

We began to record costs associated with the closure of the Arklow facility in the first quarter of 2008 and substantially

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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, we 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 facility. During 2010, we recorded a $0.3 million restructuring charge reversal. During 2009, we recorded $8.4 million of pre-tax restructuring charges and recognized $14.4 million of cost of sales for the rollout of capitalized employee retention termination benefits and accelerated depreciation costs related to inventory production and $0.1 million of R&D expenses related to one-time termination benefits.

Other Restructuring Activities and Integration Costs

Included in 2011 is a $0.1 million restructuring charge reversal primarily for employee severance related to our acquisition of Serica.

Included in 2010 are $0.8 million of restructuring charges primarily for employee severance related to our acquisition of Serica and a $0.2 million restructuring charge reversal for an abandoned leased facility related to our fiscal year 2005 restructuring and streamlining of our European operations.

Included in 2009 are a $0.3 million restructuring charge reversal related to the closure of our collagen manufacturing facility in Fremont, California, which was substantially completed in the fourth quarter of 2008, and $0.6 million of restructuring charges for an abandoned leased facility related to our fiscal year 2005 restructuring and streamlining of our European operations.

Included in 2011 are $2.6 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and licensing, collaboration and co-promotion agreements. Included in 2010 are $2.0 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and a license, development and commercialization agreement. Included in 2009 are $0.8 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses.

Operating Income

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.

For 2011, general and administrative expenses, other indirect costs and other adjustments not allocated to our business segments for purposes of performance assessment consisted of general and administrative expenses of $387.2 million, an upfront payment of $60.0 million and subsequent milestone payment of $20.0 million paid to MAP for the FDA acceptance of a New Drug Application, or NDA, filing for technology that has not achieved regulatory approval and related transaction costs of $0.6 million, an upfront licensing fee of $45.0 million to Molecular Partners AG for technology that has not achieved regulatory approval and related transaction costs of $0.1 million, fixed asset

impairment charges of $2.2 million, a gain of $9.4 million from the substantially complete liquidation of the Company's investment in a foreign subsidiary, stockholder derivative litigation costs of $3.4 million in connection with the global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to Botox®, charges of $11.9 million for changes in the fair value of contingent consideration liabilities, a purchase accounting fair market value inventory adjustment of $0.4 million associated with the purchase of our distributor's business related to our products in South Africa, integration and transaction costs of $1.9 million associated with the purchase of various businesses, costs associated with tax audit settlements for prior years' filings of $2.0 million and other net indirect costs of $26.6 million.

For 2010, general and administrative expenses, other indirect costs and other adjustments not allocated to our business segments for purposes of performance assessment consisted of licensing fee income of $36.0 million for a development and commercialization agreement with Bristol-Myers Squibb, general and administrative expenses of $343.8 million, costs associated with the DOJ investigation regarding our past U.S. sales and marketing practices relating to Botox® and related stockholder derivative litigation costs of $14.4 million, an upfront licensing fee included in R&D expenses of $43.0 million paid to Serenity

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for technology that has not achieved regulatory approval and related transaction costs of $0.4 million, a charge of $7.9 million for the change in fair value of a contingent consideration liability, a distributor termination fee of $33.0 million and integration and transaction costs of $1.1 million associated with the purchase of our distributor's business related to our products in Turkey, the write-off of manufacturing assets related to the abandonment of an eye care product of $10.6 million, integration and transaction costs of $0.5 million related to our acquisition of Serica and other net indirect costs of $16.2 million.

For 2009, general and administrative expenses, other indirect costs and other adjustments not allocated to our business segments for purposes of performance assessment consisted of general and administrative expenses of $299.1 million, compensation expense from stock option modifications of $78.6 million and asset impairments and accelerated depreciation costs of $2.3 million related to the 2009 restructuring plan, costs associated with the DOJ investigation regarding our past U.S. sales and marketing practices relating to Botox® of $32.2 million, termination benefits and accelerated depreciation costs related to the phased closure of the Arklow facility of $14.5 million, a contribution to The Allergan Foundation of $18.0 million, an upfront payment for the in-licensing of technology that has not achieved regulatory approval of $10.0 million, integration and transition costs related to the Cornéal acquisition of $0.4 million, a purchase accounting fair market value inventory adjustment of $0.8 million and transaction costs of $0.4 million related to our joint venture investment in Korea, a gain on the settlement of a manufacturing and distribution agreement related to an eye care pharmaceuticals product of $14.0 million and other net indirect costs of $14.4 million.

The following table presents operating income for each reportable segment for the years ended December 31, 2011, 2010 and 2009 and a reconciliation of our segments' operating income to consolidated operating income:

	2011	2010	2009
	(in millions)		
Operating income:			
Specialty pharmaceuticals	$1,763.3	$1,501.9	$1,370.8
Medical devices	286.0	284.7	189.2
Total segments	2,049.3	1,786.6	1,560.0
General and administrative expenses, other indirect costs and other adjustments	551.9	434.9	456.7
Amortization of acquired intangible assets (a)	104.0	114.5	124.4
Legal settlement	—	609.2	—
Impairment of intangible assets and related costs	23.7	369.1	—
Restructuring charges	4.6	0.3	50.9
Total operating income	$1,365.1	$258.6	$928.0

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

Our consolidated operating income for the year ended December 31, 2011 was $1,365.1 million, or 25.5% of product net sales, compared to consolidated operating income of $258.6 million, or 5.3% of product net sales in 2010. The $1,106.5 million increase in consolidated operating income was due to $609.2 million of legal settlement costs in 2010 that did not recur in 2011, a $527.5 million increase in product net sales, a $10.4 million decrease in amortization of acquired intangible assets and a $345.4 million decrease in impairment of intangible assets and related costs, partially offset by a $27.8 million decrease in other revenues, a $26.7 million increase in cost of sales, a $229.0 million increase in SG&A expenses, a $98.2 million increase in R&D expenses and a $4.3 million increase in restructuring charges.

Our specialty pharmaceuticals segment operating income in 2011 was $1,763.3 million, compared to operating income of $1,501.9 million in 2010. The $261.4 million increase in our specialty pharmaceuticals segment operating

income was due primarily to an increase in product net sales of our eye care pharmaceuticals, Botox® and skin care product lines and lower cost of sales as a percentage of net sales, primarily for our eye care and Botox® products, partially offset by an increase in promotion, selling and marketing expenses and an increase in R&D expenses.

Our medical devices segment operating income in 2011 was $286.0 million, compared to operating income of $284.7 million in 2010. The $1.3 million increase in our medical devices segment operating income was due primarily to 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, an increase in promotion, selling and marketing expenses, principally for breast aesthetics and facial aesthetics products, and an increase in overall R&D expenses.

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Our consolidated operating income for the year ended December 31, 2010 was $258.6 million, or 5.3% of product net sales, compared to consolidated operating income of $928.0 million, or 20.9% of product net sales in 2009. The $669.4 million decrease in consolidated operating income was due to $609.2 million of legal settlement costs and $369.1 million of impairment of intangible assets and related costs in 2010 that did not occur in 2009, a $96.1 million increase in SG&A expenses and a $98.6 million increase in R&D expenses, partially offset by a $372.0 million increase in product net sales, a $43.8 million increase in other revenues, a $28.9 million decrease in cost of sales, an $8.3 million decrease in amortization of acquired intangible assets and a $50.6 million decrease in restructuring charges. Our consolidated operating income in 2009 includes charges totaling $78.6 million for compensation costs associated with the modifications of certain employee stock options related to our 2009 restructuring plan.

Our specialty pharmaceuticals segment operating income in 2010 was $1,501.9 million, compared to operating income of $1,370.8 million in 2009. The $131.1 million increase in our specialty pharmaceuticals segment operating income was due primarily to an increase in product net sales of our eye care pharmaceuticals, Botox® and skin care product lines and lower cost of sales as a percentage of net sales, primarily for our eye care products, partially offset by an increase in selling and marketing expenses and an increase in R&D expenses.

Our medical devices segment operating income in 2010 was $284.7 million, compared to operating income of $189.2 million in 2009. The $95.5 million increase in our medical devices segment operating income was due primarily to an increase in product net sales of our breast aesthetics and facial aesthetics product lines, lower cost of sales as a percentage of net sales, primarily for our breast aesthetics and facial aesthetics products, and a decrease in overall promotion and selling expenses, partially offset by an increase in marketing expenses and an increase in R&D expenses.

Non-Operating Income and Expenses

Total net non-operating expense in 2011 was $65.4 million compared to $87.8 million in 2010. Interest income in 2011 was $6.9 million compared to interest income of $7.3 million in 2010. Interest expense decreased $6.9 million to $71.8 million in 2011 compared to $78.7 million in 2010. Interest expense decreased primarily due to the conversion of our 1.50% Convertible Senior Notes due 2026, or 2026 Convertible Notes, in the second quarter of 2011, partially offset by an increase in interest expense due to the issuance in September 2010 of our 3.375% Senior Notes due 2020, or 2020 Notes. Other, net expense was $0.5 million in 2011, consisting primarily of $10.8 million in net realized losses from foreign currency transactions and a loss of $3.2 million related to the impairment of a non-marketable third party equity investment, partially offset by a net unrealized gain on derivative instruments of $11.1 million and a gain of $1.9 million on the sale of a third party equity investment. Other, net expense was $16.4 million in 2010, consisting primarily of a net unrealized loss on derivative instruments of $7.6 million and $10.2 million in net realized losses from foreign currency transactions.

Total net non-operating expense in 2010 was $87.8 million compared to $79.5 million in 2009. Interest income in 2010 was $7.3 million compared to interest income of $7.0 million in 2009. Interest expense increased $1.8 million to $78.7 million in 2010 compared to $76.9 million in 2009. Interest expense increased primarily due to the issuance in September 2010 of our 2020 Notes, partially offset by a net reversal of previously accrued statutory interest expense resulting from a change in estimate related to uncertain tax positions, compared to a charge for statutory interest expense in 2009. During 2009, we recorded a net gain of $24.6 million on the sale of third party equity investments. Other, net expense was $16.4 million in 2010, consisting primarily of a net unrealized loss on derivative instruments of $7.6 million and $10.2 million in net realized losses from foreign currency transactions. Other, net expense was $34.2 million in 2009, consisting primarily of a net unrealized loss on derivative instruments of $13.6 million, a loss of $5.3 million on the extinguishment of a portion of our 2026 Convertible Notes and $15.3 million in net realized losses from foreign currency transactions.

Income Taxes

Our effective tax rate in 2011 was 27.8% compared to the effective tax rate of 97.1% in 2010. Included in our earnings before income taxes for 2011 are a $60.0 million upfront payment and a $20.0 million regulatory milestone payment related to a collaboration and co-promotion agreement with MAP, a $45.0 million upfront payment related to a collaboration and license agreement with Molecular Partners AG, intangible asset impairment charges of $20.4 million, restructuring charges of $4.6 million, fixed asset impairment charges of $2.2 million and a gain of $9.4 million from the substantially complete liquidation of a foreign subsidiary resulting from the discontinued development of EasyBand.™ In 2011, we recorded income tax benefits of $22.2 million and $7.4 million, respectively, associated with the upfront payment and regulatory milestone payment related to the collaboration and co-promotion agreement with MAP and income tax benefits of $4.6 million associated with the upfront payment related to the collaboration and license agreement with Molecular Partners AG. In 2011, we did not record any tax benefits related to the intangible asset impairment charges, restructuring charges, fixed asset impairment charges and the gain

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from the substantially complete liquidation of our investment in a foreign subsidiary resulting from the discontinued development of EasyBand™ since a portion of these charges are not tax deductible and we do not expect to be able to utilize the deductions for the tax deductible portion of these charges in the jurisdiction where the costs were incurred. Excluding the impact of the net pre-tax charges of $142.8 million and the net income tax benefits of $34.2 million for the items discussed above, our adjusted effective tax rate for 2011 was 27.4%. We believe that the use of an adjusted effective tax rate provides a more meaningful measure of the impact of income taxes on our results of operations because it excludes the effect of certain items that are not included as part of our core business activities. This allows investors to better determine the effective tax rate associated with our core business activities.

The calculation of our adjusted effective tax rate for 2011 is summarized below:

	2011 (in millions)	
Earnings before income taxes, as reported	$1,299.7	
Upfront payment for a collaboration and co-promotion agreement with MAP	60.0	
Regulatory milestone payment for a collaboration and co-promotion agreement with MAP	20.0	
Upfront payment for a collaboration and license agreement with Molecular Partners AG	45.0	
Restructuring charges	4.6	
Impairment of intangible assets	20.4	
Aggregate net gain for the fixed asset impairment and gain from the substantially complete liquidation of a foreign subsidiary resulting from the discontinued development of Easyband™	(7.2	)
	$1,442.5	
Provision for income taxes, as reported	$361.6	
Income tax benefit for:		
Upfront payment for a collaboration and co-promotion agreement with MAP	22.2	
Regulatory milestone payment for a collaboration and co-promotion agreement with MAP	7.4	
Upfront payment for a collaboration and license agreement with Molecular Partners AG	4.6	
	$395.8	
Adjusted effective tax rate	27.4	%

Our effective tax rate in 2010 was 97.1% compared to the effective tax rate of 26.5% in 2009. Included in our earnings before income taxes for 2010 are total pre-tax charges of $609.2 million in connection with the global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to certain therapeutic uses of Botox®, a $369.1 million aggregate charge related to the impairment of the Sanctura® Assets and related costs, a $33.0 million charge related to the termination of a distributor agreement in Turkey, a $43.0 million charge for an upfront payment for technology that has not achieved regulatory approval, restructuring charges of $0.3 million and license fee income of $36.0 million related to an upfront fee for product rights we licensed to Bristol-Myers Squibb. In 2010, we recorded income tax benefits of $21.4 million related to the global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to certain therapeutic uses of Botox®, $140.5 million related to the impairment of the Sanctura® Assets and related costs, $2.8 million related to the termination of a distributor agreement in Turkey, $15.6 million related to the upfront payment for technology that has not achieved regulatory approval and $0.2 million related to the restructuring charges, and an income tax expense of $13.7 million related to the upfront license fee income. Excluding the impact of the net pre-tax charges of $1,018.6 million and the net income tax benefits of $166.8 million for the items discussed above, our adjusted effective tax rate for 2010 was 28.0%.

The calculation of our adjusted effective tax rate for the year ended December 31, 2010 is summarized below:

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	2010 (in millions)	
Earnings before income taxes, as reported	$170.8	
Settlement with the DOJ related to U.S. sales and marketing practices for Botox®	609.2	
Impairment of the Sanctura® Assets and related costs	369.1	
Termination of a distributor agreement in Turkey	33.0	
Upfront payment for technology that has not achieved regulatory approval	43.0	
Restructuring charges	0.3	
Upfront license fee income	(36.0	)
	$1,189.4	
Provision for income taxes, as reported	$165.9	
Income tax benefit (provision) for:		
Settlement with the DOJ related to U.S. sales and marketing practices for Botox®	21.4	
Impairment of the Sanctura® Assets and related costs	140.5	
Termination of a distributor agreement in Turkey	2.8	
Upfront payment for technology that has not achieved regulatory approval	15.6	
Restructuring charges	0.2	
Upfront license fee income	(13.7	)
	$332.7	
Adjusted effective tax rate	28.0	%

Our effective tax rate in 2009 was 26.5%. Included in our earnings before income taxes for 2009 are a $24.6 million net gain on the sale of investments, a $14.0 million gain on the settlement of a manufacturing and distribution agreement, a $5.3 million loss on the extinguishment of a portion of our 2026 Convertible Notes, restructuring charges of $50.9 million, a charge of $78.6 million related to the modification of certain employee stock options in conjunction with our 2009 restructuring plan, the rollout of retention termination benefits and accelerated depreciation costs capitalized in inventory and expenses for one-time termination benefits related to the closure of our Arklow, Ireland breast implant manufacturing facility of $14.5 million, a $10.0 million charge for an upfront payment for technology that has not achieved regulatory approval, and an $18.0 million contribution to The Allergan Foundation. In 2009, we recorded income tax expense of $9.4 million related to the net gain on the sale of investments, $3.9 million related to the gain on the settlement of a manufacturing and distribution agreement and $0.8 million related to the loss on the extinguishment of a portion of our 2026 Convertible Notes. We recorded income tax benefits of $10.2 million related to the restructuring charges, $27.5 million related to the modification of certain employee stock options, $1.5 million related to the costs described above related to the closure of our breast implant manufacturing facility in Arklow, Ireland, $0.7 million related to an upfront payment for technology that has not achieved regulatory approval, and $6.9 million related to the contribution to The Allergan Foundation. Also included in the provision for income taxes in 2009 is a net expense of $4.1 million for a change in estimated taxes related to pre-acquisition periods associated with business combinations and uncertain tax positions included in prior year income tax filings and $6.7 million of income tax benefit related to foreign R&D tax credits received for tax years prior to 2008. Excluding the impact of the total pre-tax charges of $138.7 million and the total net income tax benefits of $35.3 million for the items discussed above, our adjusted effective tax rate for 2009 was 26.3%.

The calculation of our adjusted effective tax rate for the year ended December 31, 2009 is summarized below:

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	2009 (in millions)
Earnings before income taxes, as reported	$848.5
Net gain on sale of investments	(24.6)
Gain on settlement of a manufacturing and distribution agreement	(14.0)
Loss on extinguishment of a portion of the 2026 Convertible Notes	5.3
Restructuring charges	50.9
Charges related to the modification of certain employee stock options	78.6
Rollout of retention termination benefits and accelerated depreciation and expenses for one-time termination benefits related to the closure of our Arklow, Ireland breast implant manufacturing facility	14.5
Upfront payment of technology that has not achieved regulatory approval	10.0
Contribution to The Allergan Foundation	18.0
	$987.2
Provision for income taxes, as reported	$224.7
Income tax benefit (provision) for:	
Net gain on sale of investments	(9.4)
Gain on settlement of a manufacturing and distribution agreement	(3.9)
Loss on extinguishment of a portion of the 2026 Convertible Notes	(0.8)
Restructuring charges	10.2
Charges related to the modification of certain employee stock options	27.5
Rollout of retention termination benefits and accelerated depreciation and expenses for one-time termination benefits related to the closure of our Arklow, Ireland breast implant manufacturing facility	1.5
Upfront payment of technology that has not achieved regulatory approval	0.7
Contribution to The Allergan Foundation	6.9
Change in estimated taxes related to pre-acquisition periods associated with business combinations and uncertain tax positions included in prior year income tax filings	(4.1)
Foreign R&D tax credits received for tax years prior to 2008	6.7
	$260.0
Adjusted effective tax rate	26.3%

The decrease in the adjusted effective tax rate to 27.4% in 2011 compared to the adjusted effective tax rate in 2010 of 28.0% is primarily due to the increase in the mix of earnings in lower tax rate jurisdictions, which resulted from an increase in the mix of earnings contributed by our Botox® product line as a percentage of our total operating income in 2011 compared to 2010 and the beneficial impact of changes in California tax law, partially offset by the detrimental tax rate effect of an increase in the mix of earnings contributed by our eye care pharmaceuticals product line as a percentage of our total operating income in 2011 compared to 2010 and changes in tax positions affecting unrecognized tax benefits.

The increase in the adjusted effective tax rate to 28.0% in 2010 compared to the adjusted effective tax rate in 2009 of 26.3% is primarily due to the increase in the mix of earnings in higher tax rate jurisdictions, including the United States, which resulted from an increase in the mix of earnings contributed by our eye care pharmaceutical products and dermal filler products, and a decrease in the mix of earnings contributed by our Botox® product line as a percentage of our total operating income in 2010 compared to 2009, the detrimental tax rate effect of changes in our deferred tax asset and liability balances related to a change in California tax law, and the detrimental tax rate effect of decreased deductions due to lower amortization of acquired intangible assets in the United States.

Net Earnings Attributable to Noncontrolling Interest

Our net earnings attributable to noncontrolling interest for our majority-owned subsidiaries were $3.6 million in 2011, $4.3 million in 2010 and $2.5 million in 2009.

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Net Earnings Attributable to Allergan, Inc.

Our net earnings attributable to Allergan, Inc. in 2011 were $934.5 million compared to net earnings attributable to Allergan, Inc. of $0.6 million in 2010. The $933.9 million increase in net earnings attributable to Allergan, Inc. was primarily the result of the increase in operating income of $1,106.5 million, the decrease in net non-operating expense of $22.4 million and the decrease in net earnings attributable to noncontrolling interest of $0.7 million, partially offset by the increase in the provision for income taxes of $195.7 million.

Our net earnings attributable to Allergan, Inc. in 2010 were $0.6 million compared to net earnings attributable to Allergan, Inc. of $621.3 million in 2009. The $620.7 million decrease in net earnings attributable to Allergan, Inc. was primarily the result of the decrease in operating income of $669.4 million, the increase in net non-operating expense of $8.3 million and the increase in net earnings attributable to noncontrolling interest of $1.8 million, partially offset by the decrease in the provision for income taxes of $58.8 million.

Liquidity and Capital Resources

We assess our liquidity by our ability to generate cash to fund our operations. Significant factors in the management of liquidity are: funds generated by operations; levels of accounts receivable, inventories, accounts payable and capital expenditures; the extent of our stock repurchase program; funds required for acquisitions and other transactions; funds available under our credit facilities; and financial flexibility to attract long-term capital on satisfactory terms. Historically, we have generated cash from operations in excess of working capital requirements. The net cash provided by operating activities was $1,081.9 million in 2011 compared to $463.9 million in 2010 and $1,113.3 million in 2009. Cash flow from operating activities increased in 2011 compared to 2010 primarily as a result of an increase in cash from net earnings from operations, including the effect of adjusting for non-cash items, and a decrease in cash required to fund changes in accrued expenses and other liabilities, partially offset by an increase in cash used to fund changes in trade receivables, inventories, other current assets and accounts payable. In 2011, we made upfront and milestone payments of $125.0 million for various licensing and collaboration agreements compared to $43.0 million in 2010. These amounts were included in our net earnings for the respective periods. In 2010, we received an upfront licensing fee receipt of $36.0 million that did not recur in 2011. In 2010, we recorded total pre-tax charges of $609.2 million in connection with the global settlement with the DOJ regarding our past U.S. sales and marketing practices related to certain therapeutic uses of Botox®. We paid $594.0 million of the global settlement costs in 2010 and the remaining $15.2 million in 2011. We paid pension contributions of $48.7 million in 2011 compared to $21.4 million in 2010.

Cash flow from operating activities decreased in 2010 compared to 2009 primarily as a result of a decrease in cash from net earnings from operations, including the effect of adjusting for non-cash items, and an increase in cash required to fund changes in trade receivables, inventories, accounts payable, income taxes and other liabilities, partially offset by a decrease in cash used to fund changes in accrued expenses. In 2010, we made upfront payments of $43.0 million for various licensing and collaboration agreements compared to $10.0 million in 2009. These amounts were included in our net earnings for the respective periods. In 2010, we recorded total pre-tax charges of $609.2 million in connection with the global settlement with the DOJ regarding our past U.S. sales and marketing practices related to certain therapeutic uses of Botox® and paid $594.0 million of the global settlement costs in the fourth quarter of 2010. We paid pension contributions of $21.4 million in 2010 compared to $12.9 million in 2009.

Net cash provided by investing activities was $340.8 million in 2011 compared to net cash used in investing activities of $977.2 million in 2010 and $98.7 million in 2009. In 2011, we received $1,140.3 million from the maturities of short-term investments and $3.1 million from the sale of equity investments and property, plant and equipment. In 2011, we purchased $571.1 million of short-term investments and paid $101.4 million, net of cash acquired, for the acquisitions of Vicept, Alacer and Precision Light and the purchase of our distributor's business related to our products in South Africa. Additionally, we invested $118.6 million in new facilities and equipment and $11.2 million

in capitalized software. We currently expect to invest between approximately $190 million and $210 million in capital expenditures for manufacturing and administrative facilities, manufacturing equipment and other property, plant and equipment during 2012.

In 2010, we purchased $824.1 million of short-term investments and paid $69.8 million, net of cash acquired, for the acquisition of Serica and the purchase of our distributor's business related to our products in Turkey and $1.7 million for a contractual purchase price adjustment related to our 2009 acquisition of Samil. Additionally, we invested $102.8 million in new facilities and equipment and $13.3 million in capitalized software and paid $40.9 million for intangible assets related to the reacquisition of Botox® Cosmetic distribution rights in Japan and China and an upfront licensing payment for an eye care product previously approved for marketing. In 2010, we received $75.0 million from the maturities of short-term investments.

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In 2009, we paid $12.8 million, net of cash acquired, to acquire our joint venture investment in Korea, and invested $95.8 million in new facilities and equipment and $26.6 million in capitalized software. In 2009, we purchased an office building contiguous to our main facility in Irvine, California for approximately $20.7 million. We assumed a mortgage of $20.0 million and paid $0.7 million in cash. Additionally, we paid $3.3 million for an intangible asset as part of the settlement of a manufacturing and distribution agreement related to an eye care pharmaceuticals product. In 2009, we received $28.2 million from the sale of equity investments and $11.6 million related to contractual purchase price adjustments to our 2007 acquisitions of Cornéal and Esprit.

Net cash used in financing activities was $1,002.3 million in 2011 compared to net cash provided by financing activities of $563.0 million in 2010 and net cash used in financing activities of $181.5 million in 2009. In 2011, we paid $808.9 million for the repayment and conversion of our 2026 Convertible Notes ($649.7 million principal amount and $159.2 million equity repurchase), repurchased 6.0 million shares of our common stock for $461.7 million, paid $61.1 million in dividends to stockholders and paid contingent consideration of $3.0 million. This use of cash was partially offset by $30.7 million in net borrowings of notes payable, $264.0 million received from the sale of stock to employees and $37.7 million in excess tax benefits from share-based compensation.

In September 2010, we issued our 2020 Notes in a registered offering for an aggregate principal amount of $650.0 million and received proceeds of $648.0 million, net of original discount. Additionally, in 2010, we received $6.6 million in net borrowings of notes payable, $234.0 million from the sale of stock to employees and $27.1 million in excess tax benefits from share-based compensation. These amounts were partially reduced by the repurchase of 4.5 million shares of our common stock for $286.0 million, a cash payment of $6.1 million for offering fees related to the issuance of the 2020 Notes and $60.6 million in dividends paid to stockholders.

In 2009, we repurchased 2.0 million shares of our common stock for $105.5 million, paid $98.3 million to repurchase $100.3 million principal amount of our 2026 Convertible Notes and paid $60.6 million in dividends. This use of cash was partially offset by $12.1 million in net borrowings of notes payable, $63.5 million received from the sale of stock to employees and $7.3 million in excess tax benefits from share-based compensation.

Effective 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.

We maintain an evergreen stock repurchase program. Our evergreen stock repurchase program authorizes us to repurchase our common stock for the primary purpose of funding our stock-based benefit plans. 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.

Our 2020 Notes, which were sold at 99.697% of par value with an effective interest rate of 3.41%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 3.375% per annum, and are redeemable at any time at our option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2020 Notes will be due and payable on September 15, 2020, unless earlier redeemed by us.

Our 5.75% Senior Notes due 2016, or 2016 Notes, were sold at 99.717% of par value with an effective interest rate of 5.79%, pay interest semi-annually on the principal amount of the notes at a rate of 5.75% per annum, and are redeemable at any time at our option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2016 Notes is due and payable on April 1, 2016, unless earlier redeemed by us.

At December 31, 2011, we had a committed long-term credit facility, a commercial paper program, a medium-term note program, a shelf registration statement that allows us to issue additional securities, including debt securities, in one or more offerings from time to time, a real estate mortgage and various foreign bank facilities. On October 28, 2011, we amended and restated our committed long-term credit facility to extend the maturity date to October 2016

and modify certain other terms, including interest rates and fees. The termination date can be further extended from time to time upon our request and acceptance by the issuer of the facility for a period of one year from the last scheduled termination date for each request accepted. The committed long-term credit facility allows for borrowings of up to $800.0 million. The commercial paper program also provides for up to $600.0 million in borrowings. However, our combined borrowings under our committed long-term credit facility and

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our commercial paper program may not exceed $800.0 million in the aggregate. Borrowings under the committed long-term credit facility and medium-term note program are subject to certain financial and operating covenants that include, among other provisions, maximum leverage ratios. Certain covenants also limit subsidiary debt. We believe we were in compliance with these covenants at December 31, 2011. At December 31, 2011, we had no borrowings under our committed long-term credit facility, $25.0 million in borrowings outstanding under the medium-term note program (maturing April 2012), $20.0 million in borrowings outstanding under the real estate mortgage, $58.9 million in borrowings outstanding under various foreign bank facilities and no borrowings under the commercial paper program. Commercial paper, when outstanding, is issued at current short-term interest rates. Additionally, any future borrowings that are outstanding under the long-term credit facility may be subject to a floating interest rate. We may from time to time seek to retire or purchase our outstanding debt.

On March 8, 2011, we announced our intention to redeem the 2026 Convertible Notes at the principal amount plus accrued interest on April 5, 2011. Most note holders elected to exercise the conversion feature of the 2026 Convertible Notes prior to redemption and we elected to pay the full conversion value in cash. We paid approximately $800.3 million in aggregate conversion value for the converted notes with an aggregate principal amount of $641.1 million in May 2011. In addition, on April 5, 2011 we redeemed notes with a principal amount of $8.6 million that were not converted.

At December 31, 2011, we had net pension and postretirement benefit obligations totaling $245.8 million. Future funding requirements are subject to change depending on the actual return on net assets in our funded pension plans and changes in actuarial assumptions. In 2012, we expect to pay pension contributions of between $45.0 million and $55.0 million for our U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for our other postretirement plan.

On January 28, 2011, we entered into 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 certain headache specialist physicians for the acute treatment of migraine in adults, migraine in adolescents and other indications that may be approved by the parties. Under the terms of the agreements, we made a $60.0 million upfront payment to MAP in February 2011. The terms of the agreements also include up to $97.0 million in additional payments to MAP upon MAP meeting certain development and regulatory milestones. In August 2011, we made a $20.0 million milestone payment to MAP for the FDA acceptance of an NDA filing for Levadex®.

On May 4, 2011, we announced 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 in May 2011. The terms of the agreement also include potential future development, regulatory and sales milestone payments to Molecular Partners AG of up to $375.0 million, as well as potential future royalty payments.

On July 22, 2011, we completed the acquisition of Vicept for an upfront payment of $74.1 million, net of cash acquired, plus up to an aggregate of $200.0 million in payments contingent upon achieving certain future development and regulatory milestones plus additional payments contingent upon acquired products achieving certain sales milestones.

On August 8, 2011, we completed the acquisition of Precision Light for an upfront payment of $11.7 million, net of cash acquired. The terms of the agreement also include estimated additional payments of approximately $6.2 million contingent upon achieving certain commercial milestones.

In May 2011, a generic version of Elestat® was launched in the United States and a generic version of Zymar® may be launched in the United States in the near future. In addition, generic versions of some branded pharmaceutical products sold by our competitors were launched in the United States during 2011. We do not believe that our liquidity will be materially impacted in 2012 by generic competition.

As of December 31, 2011, $1,246.6 million of our existing cash and equivalents are held by non-U.S. subsidiaries. We currently plan to use these funds indefinitely in our operations outside the United States. Withholding and U.S. taxes have not been provided for unremitted earnings of certain non-U.S. subsidiaries because we have reinvested these

earnings indefinitely in such 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. Tax costs would be incurred if these earnings were remitted to the United States.

As of December 31, 2011, we have aggregate gross receivables from public and semi-public hospitals in Italy and Spain of $49.4 million and related reserves of $10.6 million for allowances for doubtful accounts. We believe the reserves established against these receivables are sufficient to cover the amounts that will ultimately be uncollectible. The economic stability in these countries is unpredictable and we cannot provide assurance that additional allowances will not be necessary if current economic conditions in these countries continue to decline. Negative changes in the amount of allowances for doubtful accounts for

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customers related to sovereign governments in Italy and Spain could adversely affect our future results of operations.

As of December 31, 2011, we have no significant exposure to sovereign government debt in Greece.

We believe that the net cash provided by operating activities, supplemented as necessary with borrowings available under our existing credit facilities and existing cash and equivalents and short-term investments, will provide us with sufficient resources to meet our current expected obligations, working capital requirements, debt service and other cash needs over the next year.

Inflation

Although at reduced levels in recent years and at the end of 2011, inflation continues to apply upward pressure on the cost of goods and services that we use. The competitive and regulatory environments in many markets substantially limit our ability to fully recover these higher costs through increased selling prices. We continually seek to mitigate the adverse effects of inflation through cost containment and improved productivity and manufacturing processes.

Foreign Currency Fluctuations

Approximately 39.8% of our product net sales in 2011 were derived from operations outside the United States, and a portion of our international cost structure is denominated in currencies other than the U.S. dollar. As a result, we are subject to fluctuations in sales and earnings reported in U.S. dollars due to changing currency exchange rates. We routinely monitor our transaction exposure to currency rates and implement certain economic hedging strategies to limit such exposure, as we deem appropriate. The net impact of foreign currency fluctuations on our sales was an increase of $82.6 million and $38.7 million in 2011 and 2010, respectively, and a decrease of $106.4 million in 2009. The 2011 sales increase included $36.1 million related to the euro, $15.4 million related to the Australian dollar, $10.7 million related to the Brazilian real, $8.7 million related to the Canadian dollar, $5.6 million related to the U.K. pound and $6.1 million related to other currencies. The 2010 sales increase included $18.5 million related to the Brazilian real, $18.6 million related to the Canadian dollar, $16.6 million related to the Australian dollar, $2.9 million related to the Mexican peso and $13.3 million related to other Asian and Latin American currencies, partially offset by decreases of $28.9 million related to the euro and $2.3 million related to the U.K. pound. The 2009 sales decrease included $37.8 million related to the euro, $20.9 million related to the U.K. pound, $11.0 million related to the Brazilian real, $10.6 million related to the Canadian dollar, $8.5 million related to the Mexican peso, $6.0 million related to the Australian dollar and $11.6 million related to other Latin American and Asian currencies. See Note 1, “Summary of Significant Accounting Policies,” in the notes to the consolidated financial statements listed under Item 15 of Part IV of this report, “Exhibits and Financial Statement Schedules,” for a description of our accounting policy on foreign currency translation.

Contractual Obligations and Commitments

The table below presents information about our contractual obligations and commitments at December 31, 2011:

	Payments Due by Period				
	Less than One Year	1-3 Years	3-5 Years	More than Five Years	Total
	(in millions)				
Debt obligations (a)	$140.1	$110.5	$893.6	$755.5	$1,899.7
Operating lease obligations	47.2	67.6	26.0	43.1	183.9
Purchase obligations	281.1	155.9	26.7	1.0	464.7

Pension minimum funding (b)	47.1	78.0	67.0	—	192.1
Other long-term obligations	—	139.9	79.2	199.3	418.4
Total	$515.5	$551.9	$1,092.5	$998.9	$3,158.8

(a) Debt obligations include expected principal and interest obligations, but exclude the interest rate swap fair value adjustment of $48.1 million at December 31, 2011.

(b) For purposes of this table, we assume that we will be required to fund our U.S. and non-U.S. funded pension plans based on the minimum funding required by applicable regulations. In determining the minimum required funding, we utilize current actuarial assumptions and exchange rates to forecast estimates of amounts that may be payable for up to five years in the future. In management's judgment, minimum funding estimates beyond a five year time horizon cannot be reliably

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estimated. Where minimum funding as determined for each individual plan would not achieve a funded status to the level of local statutory requirements, additional discretionary funding may be provided from available cash resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, our operations are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates. We address these risks through controlled risk management that includes the use of derivative financial instruments to economically hedge or reduce these exposures. We do not enter into financial instruments for trading or speculative purposes. See Note 11, “Financial Instruments,” in the notes to the consolidated financial statements listed under Item 15 of Part IV of this report, “Exhibits and Financial Statement Schedules,” for activities relating to interest rate and foreign currency risk management.

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

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

Interest Rate Risk

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

On January 31, 2007, we entered into a nine-year, two-month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap receives interest at a fixed rate of 5.75% and pays interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converts $300.0 million of the $800.0 million aggregate principal amount of our 2016 Notes to a variable interest rate. Based on the structure of the hedging relationship, the hedge meets the criteria for using the short-cut method for a fair value hedge. The investment in the derivative and the related long-term debt are recorded at fair value. At December 31, 2011 and 2010, we recognized in our consolidated balance sheets an asset reported in “Investments and other assets” and a corresponding increase in “Long-term debt” associated with the fair value of the derivative of $48.1 million and $42.3 million, respectively. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the 2016 Notes. During 2011, 2010 and 2009, we recognized $15.0 million, $15.1 million and $14.3 million, respectively, as a reduction of interest expense due to the differential to be received.

In February 2006, we entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of $800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. We entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for our 2016 Notes. In April 2006, we terminated the interest rate swap contracts and received approximately $13.0 million. The total gain is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. As of

December 31, 2011, the remaining unrecognized gain, net of tax, of $3.3 million is recorded as a component of accumulated other comprehensive loss.

At December 31, 2011, we had approximately $58.9 million of variable rate debt. If interest rates were to increase or decrease by 1% for the year, annual interest expense, including the effect of the $300.0 million notional amount of the interest rate swap entered into on January 31, 2007, would increase or decrease by approximately $3.6 million. Commercial paper, when outstanding, is issued at current short-term interest rates. Additionally, any future borrowings that are outstanding under the long-term credit facility will be subject to a floating interest rate. Therefore, higher interest costs could occur if interest rates increase in the future.

The tables below present information about certain of our investment portfolio and our debt obligations at December 31, 2011 and 2010.

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	December 31, 2011 Maturing in						
	2012	2013	2014	2015	2016	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$1,171.9	$—	$—	$—	$—	$—	$1,171.9	$1,171.9
Weighted Average Interest Rate	0.10 %	—	—	—	—	—	0.10 %	
Foreign Time Deposits	189.1	—	—	—	—	—	189.1	189.1
Weighted Average Interest Rate	0.56 %	—	—	—	—	—	0.56 %	
Other Cash Equivalents	1,078.9	—	—	—	—	—	1,078.9	1,078.9
Weighted Average Interest Rate	0.02 %	—	—	—	—	—	0.02 %	
Total Cash Equivalents and Short-Term Investments	$2,439.9	$—	$—	$—	$—	$—	$2,439.9	$2,439.9
Weighted Average Interest Rate	0.10 %	—	—	—	—	—	0.10 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$)	$25.0	$—	$—	$—	$799.0	$668.3	$1,492.3	$1,667.2
Weighted Average Interest Rate	7.47 %	—	—	—	5.79 %	3.48 %	4.78 %	
Other Variable Rate (non-US$)	58.9	—	—	—	—	—	58.9	58.9
Weighted Average Interest Rate	10.05 %	—	—	—	—	—	10.05 %	
Total Debt Obligations (a)	$83.9	$—	$—	$—	$799.0	$668.3	$1,551.2	$1,726.1
Weighted Average Interest Rate	9.28 %	—	—	—	5.79 %	3.48 %	4.98 %	
INTEREST RATE DERIVATIVES								
Interest Rate Swaps:								
Fixed to Variable (US$)	$—	$—	$—	$—	$—	$300.0	$300.0	$48.1
Average Pay Rate	—	—	—	—	—	0.95 %	0.95 %	
Average Receive Rate	—	—	—	—	—	5.75 %	5.75 %	

(a) Total debt obligations in the consolidated balance sheet at December 31, 2011 include debt obligations of $1,551.2 million and the interest rate swap fair value adjustment of $48.1 million.

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	December 31, 2010 Maturing in							
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$1,716.0	$—	$—	$—	$—	$—	$1,716.0	$1,716.0
Weighted Average Interest Rate	0.25 %	—	—	—	—	—	0.25 %	
Foreign Time Deposits	209.6	—	—	—	—	—	209.6	209.6
Weighted Average Interest Rate	0.45 %	—	—	—	—	—	0.45 %	
Other Cash Equivalents	707.0	—	—	—	—	—	707.0	707.0
Weighted Average Interest Rate	0.38 %	—	—	—	—	—	0.38 %	
Total Cash Equivalents and Short-Term Investments	$2,632.6	$—	$—	$—	$—	$—	$2,632.6	$2,632.6
Weighted Average Interest Rate	0.30 %	—	—	—	—	—	0.30 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$)	$642.5	$25.0	$—	$—	$—	$1,466.9	$2,134.4	$2,221.1
Weighted Average Interest Rate	5.59 %	7.47 %	—	—	—	4.74 %	5.02 %	
Other Variable Rate (non-US$)	28.1	—	—	—	—	—	28.1	28.1
Weighted Average Interest Rate	6.80 %	—	—	—	—	—	6.80 %	
Total Debt Obligations (a)	$670.6	$25.0	$—	$—	$—	$1,466.9	$2,162.5	$2,249.2
Weighted Average Interest Rate	5.64 %	7.47 %	—	—	—	4.74 %	5.05 %	
INTEREST RATE DERIVATIVES								
Interest Rate Swaps:								
Fixed to Variable (US$)	$—	$—	$—	$—	$—	$300.0	$300.0	$42.3
Average Pay Rate	—	—	—	—	—	0.67 %	0.67 %	
Average Receive Rate	—	—	—	—	—	5.75 %	5.75 %	

(a) Total debt obligations in the consolidated balance sheet at December 31, 2010 include debt obligations of $2,162.5 million and the interest rate swap fair value adjustment of $42.3 million.

Foreign Currency Risk

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

From time to time, we enter into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow our management to focus its attention on our core business issues. Accordingly, we enter into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. We enter into foreign currency option and

forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed 18 months.

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

All of our outstanding foreign currency option contracts are entered into to reduce the volatility of earnings generated in

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currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Korean won, Turkish lira, Polish zloty and Swiss franc. Current changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as “Other, net” in the accompanying consolidated statements of earnings. The premium costs of purchased foreign exchange option contracts are recorded in “Other current assets” and amortized to “Other, net” over the life of the options.

All of our outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through “Other, net” in the accompanying consolidated statements of earnings.

The following table provides information about our foreign currency derivative financial instruments outstanding as of December 31, 2011 and 2010. The information is provided in U.S. dollars, as presented in our consolidated financial statements:

	December 31, 2011		December 31, 2010	
	Notional Amount	Average Contract Rate or Strike Amount	Notional Amount	Average Contract Rate or Strike Amount
	(in millions)		(in millions)	
Foreign currency forward contracts:				
(Receive U.S. dollar/pay foreign currency)				
Japanese yen	$9.0	77.85	$6.0	84.09
Australian dollar	17.3	0.99	15.7	0.98
New Zealand dollar	1.1	0.76	1.1	0.74
Poland zloty	1.5	3.48	2.8	3.03
Russia ruble	6.5	32.48	—	—
	$35.4		$25.6	
Estimated fair value	$(0.4)		$(0.9)	
Foreign currency forward contracts:				
(Pay U.S. dollar/receive foreign currency)				
Euro	$39.1	1.30	$39.9	1.33
Estimated fair value	$(0.3)		$0.2	
Foreign currency sold — put options:				
Canadian dollar	$83.2	0.99	$68.1	1.04
Mexican peso	21.3	13.79	20.0	12.73
Australian dollar	50.9	1.01	44.2	0.87
Brazilian real	49.4	1.78	36.9	1.92
Euro	141.2	1.36	139.4	1.34
Korean won	21.3	1,143.10	17.3	1,153.22
Turkish lira	18.8	1.93	20.5	1.55
Polish zloty	8.8	3.41	—	—
Swiss franc	9.8	0.92	—	—
	$404.7		$346.4	
Estimated fair value	$26.3		$10.4	

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated herein by reference to the financial statements set forth in Item 15 of Part IV of this report, “Exhibits and Financial Statement Schedules.”

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, including our Principal Executive Officer and our Principal Financial Officer, does not expect that our disclosure controls or procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011, the end of the annual period covered by this report. The evaluation of our disclosure controls and procedures included a review of the disclosure controls' and procedures' objectives, design, implementation and the effect of the controls and procedures on the information generated for use in this report. In the course of our evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm the appropriate corrective actions, including process improvements, were being undertaken.

Based on the foregoing, our Principal Executive Officer and our Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

Further, management determined that, as of December 31, 2011, there were no changes in our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management report on internal control over financial reporting and the report of our independent registered public accounting firm on our internal control over financial reporting are contained in Item 15 of Part IV of this report, "Exhibits and Financial Statement Schedules."

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information required by this Item regarding our executive officers, see Item 1 of Part I of this report, “Business.”
The information to be included in the sections entitled “Item No. 1 - Election of Directors” and “Corporate Governance” in the Proxy Statement to be filed by us with the U.S. Securities and Exchange Commission no later than 120 days after the close of our fiscal year ended December 31, 2011, or the Proxy Statement, is incorporated herein by reference.
The information to be included in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement is incorporated herein by reference.
The information to be included in the section entitled “Code of Business Conduct and Ethics” in the Proxy Statement is incorporated herein by reference.
We have filed, as exhibits to this report, the certifications of our Principal Executive Officer and Principal Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

On May 20, 2011, we submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

Item 11. Executive Compensation

The information to be included in the sections entitled “Compensation Disclosure,” “Non-Employee Directors' Compensation” and “Organization and Compensation Committee Report” in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information to be included in the section entitled “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information to be included in the sections entitled “Certain Relationships and Related Person Transactions” and “Corporate Governance” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information to be included in the section entitled “Independent Registered Public Accounting Firm's Fees” in the Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Consolidated Financial Statements and Supplementary Data:

The following financial statements are included herein under Item 8 of Part II of this report, "Financial Statements and Supplementary Data:"

(a) 2. Financial Statement Schedules:

All other schedules have been omitted for the reason that the required information is presented in the financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable.

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(a) 3. Exhibits:

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Allergan, Inc., as filed with the State of Delaware on May 4, 2011 (incorporated by reference to Exhibit 3.1 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)
3.2	Allergan, Inc. Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to Allergan, Inc.'s Current Report on Form 8-K filed on October 7, 2008)
4.1	Form of Stock Certificate for Allergan, Inc. Common Stock, par value $0.01 (incorporated by reference to Exhibit 4.2 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2008)
4.2	Indenture, dated as of April 12, 2006, between Allergan, Inc. and Wells Fargo Bank, National Association relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.2 to Allergan, Inc.'s Current Report on Form 8-K filed on April 12, 2006)
4.3	Form of 5.75% Senior Note due 2016 (incorporated by reference to (and included in) the Indenture dated as of April 12, 2006 between Allergan, Inc. and Wells Fargo Bank, National Association at Exhibit 4.2 to Allergan, Inc.'s Current Report on Form 8-K filed on April 12, 2006)
4.4	Registration Rights Agreement, dated as of April 12, 2006, between Allergan, Inc. and Morgan Stanley & Co. Incorporated, as representative of the Initial Purchasers named therein, relating to the $800,000,000 5.75% Senior Notes due 2016 (incorporated by reference to Exhibit 4.4 to Allergan, Inc.'s Current Report on Form 8-K filed on April 12, 2006)
4.5	Indenture, dated as of September 14, 2010, between Allergan, Inc. and Wells Fargo Bank, National Association relating to the $650,000,000 3.375% Notes due 2020 (incorporated by reference to Exhibit 4.1 to Allergan, Inc.'s Current Report on Form 8-K filed on September 14, 2010)
4.6	Supplemental Indenture, dated as of September 14, 2010, between Allergan, Inc. and Wells Fargo Bank, National Association relating to the $650,000,000 3.375% Notes due 2020 (incorporated by reference to Exhibit 4.2 to Allergan, Inc.'s Current Report on Form 8-K filed on September 14, 2010)
4.7	Form of 3.375% Note due 2020 (incorporated by reference to (and included in) the Supplemental Indenture dated as of September 14, 2010 between Allergan, Inc. and Wells Fargo Bank, National Association at Exhibit 4.2 to Allergan, Inc.'s Current Report on Form 8-K filed on September 14, 2010)
10.1	Form of Director and Executive Officer Indemnity Agreement (incorporated by reference to Exhibit 10.1 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2006)
10.2	

	Allergan, Inc. Change in Control Policy (Effective April 2010) (incorporated by reference to Exhibit 10.2 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.3	Amended and Restated Form of Allergan, Inc. Change in Control Agreement (Restated December 2010) (applicable to certain employees of Allergan, Inc., including executive officers, hired on or before December 4, 2006) (incorporated by reference to Exhibit 10.3 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.4	Amended and Restated Form of Allergan, Inc. Change in Control Agreement (Restated December 2010) (applicable to certain employees of Allergan, Inc., including executive officers, hired on or after December 4, 2006) (incorporated by reference to Exhibit 10.4 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.5	Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Appendix A to Allergan, Inc.'s Proxy Statement filed on March 14, 2003)

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Exhibit No.	Description
10.6	First Amendment to Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Appendix A to Allergan, Inc.'s Proxy Statement filed on March 21, 2006)
10.7	Second Amendment to Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Exhibit 10.14 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 30, 2007)
10.8	Third Amendment to Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.9	Amended Form of Non-Qualified Stock Option Award Agreement under the Allergan, Inc. 2003 Nonemployee Director Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.16 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 30, 2007)
10.10	Allergan, Inc. Deferred Directors' Fee Program (Restated December 2010) (incorporated by reference to Exhibit 10.11 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.11	Allergan, Inc. 1989 Incentive Compensation Plan (Restated November 2000) (incorporated by reference to Exhibit 10.5 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2000)
10.12	First Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (Restated November 2000) (incorporated by reference to Exhibit 10.51 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended September 26, 2003)
10.13	Second Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (Restated November 2000) (incorporated by reference to Exhibit 10.7 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2004)
10.14	Third Amendment to Allergan, Inc. 1989 Incentive Compensation Plan (Restated November 2000) (incorporated by reference to Exhibit 10.15 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.15	Allergan, Inc. Pension Plan (Restated 2011) (incorporated by reference to Exhibit 10.20 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.16	First Amendment to Allergan, Inc. Pension Plan (Restated 2011)
10.17	Allergan, Inc. Supplemental Executive Benefit Plan and Supplemental Retirement Income Plan (Restated 2011) (incorporated by reference to Exhibit 10.3 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended September 30, 2011)
10.18	First Amendment to Allergan, Inc. Supplemental Executive Benefit Plan
10.19	

	Allergan, Inc. Executive Severance Pay Plan (Effective January 2011) (incorporated by reference to Exhibit 10.1 to Allergan, Inc.'s Current Report on Form 8-K filed on December 21, 2010)
10.20	Allergan, Inc. 2011 Executive Bonus Plan (incorporated by reference to Annex A to Allergan, Inc.'s Proxy Statement filed on March 8, 2011)
10.21	Allergan, Inc. 2011 Executive Bonus Plan - 2012 Performance Objectives
10.22	Allergan, Inc. 2012 Management Bonus Plan
10.23	Allergan, Inc. Executive Deferred Compensation Plan (Restated 2009) (incorporated by reference to Exhibit 10.23 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2008)

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Exhibit No.	Description
10.24	Form of Non-Qualified Stock Option Grant Notice for Non-Employee Directors under the Allergan, Inc. 2008 Incentive Award Plan (incorporated by reference to Exhibit 10.4 to Allergan, Inc.'s Current Report on Form 8-K filed on May 6, 2008)
10.25	Form of Non-Qualified Stock Option Grant Notice for Non-Employee Directors under the Allergan, Inc. 2008 Incentive Award Plan (Amended February 2010) (incorporated by reference to Exhibit 10.30 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2009)
10.26	Form of Non-Qualified Stock Option Grant Notice for Employees under the Allergan, Inc. 2008 Incentive Award Plan (incorporated by reference to Exhibit 10.5 to Allergan, Inc.'s Current Report on Form 8-K filed on May 6, 2008)
10.27	Form of Non-Qualified Stock Option Grant Notice for Employees under the Allergan, Inc. 2008 Incentive Award Plan (Amended February 2010) (incorporated by reference to Exhibit 10.32 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2009)
10.28	Form of Restricted Stock Award Grant Notice for Non-Employee Directors under the Allergan, Inc. 2008 Incentive Award Plan (incorporated by reference to Exhibit 10.10 to Allergan, Inc.'s Current Report on Form 8-K filed on May 6, 2008)
10.29	Form of Restricted Stock Award Grant Notice for Non-Employee Directors under the Allergan, Inc. 2008 Incentive Award Plan (Amended February 2010) (incorporated by reference to Exhibit 10.34 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2009)
10.30	Form of Restricted Stock Award Grant Notice for Employees under the Allergan, Inc. 2008 Incentive Award Plan (incorporated by reference to Exhibit 10.11 to Allergan, Inc.'s Current Report on Form 8-K filed on May 6, 2008)
10.31	Form of Restricted Stock Award Grant Notice for Employees under the Allergan, Inc. 2008 Incentive Award Plan (Amended February 2010) (incorporated by reference to Exhibit 10.36 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2009)
10.32	Allergan, Inc. 2011 Incentive Award Plan (formerly known as the Allergan, Inc. 2008 Incentive Award Plan) (incorporated by reference to Annex B to Allergan, Inc.'s Proxy Statement filed on March 8, 2011)
10.33	Form of Non-Qualified Stock Option Grant Notice for Employees under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.6 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)
10.34	Form of Restricted Stock Award Grant Notice for Employees under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.7 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)
10.35	Form of Restricted Stock Award Grant Notice for Employees (Management Bonus Plan) under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.8 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)

10.36	Form of Restricted Stock Unit Award Grant Notice for Employees under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.9 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)
10.37	Form of Restricted Stock Unit Award Grant Notice for Employees (Management Bonus Plan) under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.10 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)
10.38	Form of Restricted Stock Unit Award Grant Notice for Non-Employees Directors under the Allergan, Inc. 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.11 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2011)

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Exhibit No.	Description
10.39	Form of Restricted Stock Unit Award Grant Notice for Non-Employees Directors under the Allergan, Inc. 2011 Incentive Award Plan
10.40	Form of Performance-Based Restricted Stock Unit Award Grant Notice for Employees under the Allergan, Inc. 2011 Incentive Award Plan
10.41	Amended and Restated Credit Agreement, dated as of October 28, 2011, among Allergan, Inc. as Borrower and Guarantor, the Eligible Subsidiaries referred to therein, as Borrowers, the Lenders party thereto, JPMorgan Chase Bank, N.A, as Administrative Agent, Citibank N.A., as Syndication Agent and Bank of America, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.1 to Allergan, Inc.'s Current Report on Form 8-K filed on October 31, 2011)
10.42	Botox® - China License Agreement, dated as of September 30, 2005, among Allergan, Inc., Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.51* to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.43	Amendment No. 1 to Botox® - China License Agreement, dated as of March 9, 2010, among Allergan, Inc., Allergan Sales, LLC, Allergan Pharmaceuticals Holdings (Ireland) Ltd., Allergan Botox Limited, Allergan Pharmaceuticals Ireland, and Glaxo Group Limited (incorporated by reference to Exhibit 10.1* to Allergan, Inc.'s Current Report on Form 8-K filed on March 11, 2010)
10.44	Botox® - Japan License Agreement, dated as of September 30, 2005, among Allergan, Inc., Allergan Sales, LLC and Glaxo Group Limited (incorporated by reference to Exhibit 10.52* to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended September 30, 2005)
10.45	Amendment No. 1 to Botox® - Japan License Agreement, dated as of March 9, 2010, among Allergan, Inc., Allergan Sales, LLC, Allergan K.K., Allergan NK, and Glaxo Group Limited (incorporated by reference to Exhibit 10.2* to Allergan, Inc.'s Current Report on Form 8-K filed on March 11, 2010)
10.46	Amended and Restated License, Commercialization and Supply Agreement, dated as of September 18, 2007, between Esprit Pharma, Inc. and Indevus Pharmaceuticals, Inc. (incorporated by reference and included as Exhibit C* to Exhibit 2.1 to Allergan, Inc.'s Current Report on Form 8-K/A filed on September 24, 2007)
10.47	First Amendment to Amended and Restated License, Commercialization and Supply Agreement, dated as of January 9, 2009, between Allergan USA, Inc. and Indevus Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.60 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2008)
10.48	License, Development, Supply and Distribution Agreement, dated as of October 28, 2008, among Allergan, Inc., Allergan Sales, LLC, Allergan USA, Inc. and Spectrum Pharmaceuticals, Inc.* (incorporated by reference to Exhibit 10.61 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2008)
10.49	First Amendment to License, Development, Supply and Distribution Agreement, dated as of April 20, 2009, among Allergan, Inc., Allergan Sales, LLC, Allergan USA, Inc. and Spectrum

	Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.62 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2009)
10.50	Second Amendment to License, Development, Supply and Distribution Agreement, dated as of June 13, 2011, among Allergan, Inc., Allergan Sales, LLC, Allergan USA, Inc. and Spectrum Pharmaceuticals, Inc.* (incorporated by reference to Exhibit 10.2 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended June 30, 2011)
10.51	License, Transfer, and Development Agreement, dated as of March 31, 2010, among Serenity Pharmaceuticals LLC and Allergan Sales, LLC, Allergan USA, Inc., and Allergan, Inc. (incorporated by reference to Exhibit 10.1* to Allergan, Inc.'s Current Report on Form 8-K filed on April 2, 2010)

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Exhibit No.	Description
10.52	Collaboration Agreement, dated as of January 28, 2011, among MAP Pharmaceuticals, Inc., Allergan USA, Inc., Allergan Sales, LLC and Allergan, Inc.* (incorporated by reference to Exhibit 10.55 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.53	First Amendment to Collaboration Agreement, dated May 10, 2011, among MAP Pharmaceuticals, Inc., Allergan USA, Inc., Allergan Sales, LLC and Allergan, Inc. * (incorporated by reference to Exhibit 10.1 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended June 30, 2011)
10.54	Co-Promotion Agreement, dated as of January 28, 2011, among MAP Pharmaceuticals, Inc., Allergan USA, Inc. and Allergan, Inc.* (incorporated by reference to Exhibit 10.56 to Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010)
10.55	Agreement and Plan of Merger, dated as of July 18, 2011, among Allergan, Inc., Erythema Acquisition, Inc., Vicept Therapeutics, Inc. and the Shareholders' Representative * (incorporated by reference to Exhibit 2.1 to Allergan, Inc.'s Current Report on Form 8-K filed on July 22, 2011)
10.56	Letter of Understanding, dated as of August 1, 2010, between Allergan, Inc. and Douglas S. Ingram (incorporated by reference to Exhibit 10.66 to Allergan, Inc.'s Report on Form 10-Q for the Quarter ended June 30, 2010)
10.57	Settlement Agreement, dated as of August 31, 2010, among Allergan, Inc., Allergan USA, Inc., the United States Department of Justice and the other parties listed therein (incorporated by reference to Exhibit 10.1 to Allergan, Inc.'s Current Report on Form 8-K filed on September 1, 2010)
10.58	Corporate Integrity Agreement, dated as of August 30, 2010, between Allergan, Inc. and the Office of Inspector General of the Department of Health and Human Services (incorporated by reference to Exhibit 10.2 to Allergan, Inc.'s Current Report on Form 8-K filed on September 1, 2010)
10.59	Plea Agreement, dated as of October 5, 2010, between Allergan, Inc. and the United States Attorney's Office for the Northern District of Georgia as counsel for the United States (incorporated by reference to Exhibit 10.70 to Allergan, Inc.'s Current Report on Form 10-Q for the Quarter ended September 30, 2011)
21	List of Subsidiaries of Allergan, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350
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The following financial statements are from Allergan, Inc.'s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Earnings; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements

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* Confidential treatment was requested with respect to the omitted portions of this Exhibit, which portions have been filed separately with the U.S. Securities and Exchange Commission and were granted confidential treatment.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLERGAN, INC.

By /S/ DAVID E.I. PYOTT
David E.I. Pyott
Chairman of the Board,
President and
Chief Executive Officer

Date: February 28, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Date: February 28, 2012 By /S/ DAVID E.I. PYOTT
David E.I. Pyott
Chairman of the Board,
President and
Chief Executive Officer
(Principal Executive Officer)

Date: February 28, 2012 By /S/ JEFFREY L. EDWARDS
Jeffrey L. Edwards
Executive Vice President, Finance and Business Development, Chief Financial Officer
(Principal Financial Officer)

Date: February 28, 2012 By /S/ JAMES F. BARLOW
James F. Barlow
Senior Vice President, Corporate Controller
(Principal Accounting Officer)

Date: February 28, 2012 By /S/ HERBERT W. BOYER
Herbert W. Boyer, Ph.D.,
Vice Chairman of the Board

Date: February 28, 2012 By /S/ DEBORAH DUNSIRE
Deborah Dunsire, M.D., Director

Date: February 28, 2012 By /S/ MICHAEL R. GALLAGHER
Michael R. Gallagher, Director

Date: February 23, 2012 By /S/ DAWN HUDSON

Dawn Hudson, Director

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Date: February 28, 2012	By	/S/ ROBERT A. INGRAM Robert A. Ingram, Director
Date: February 28, 2012	By	/S/ TREVOR M. JONES Trevor M. Jones, Ph.D., Director
Date: February 28, 2012	By	/S/ LOUIS J. LAVIGNE, JR. Louis J. Lavigne, Jr., Director
Date: February 28, 2012	By	/S/ RUSSELL T. RAY Russell T. Ray, Director
Date: February 28, 2012	By	/S/ STEPHEN J. RYAN Stephen J. Ryan, M.D., Director

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, refers to the process designed by, or under the supervision of, our Principal Executive Officer and Principal Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Allergan;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Allergan are being made only in accordance with authorizations of management and directors of Allergan; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Allergan's assets that could have a material effect on the financial statements.

Allergan's internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report on internal control over financial reporting as of December 31, 2011. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for Allergan.

Management has used the criteria set forth in the report entitled "Internal Control — Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of Allergan's internal control over financial reporting. Management has concluded that Allergan's internal control over financial reporting was effective as of December 31, 2011, based on those criteria.

David E.I. Pyott
Chairman of the Board,
President and
Chief Executive Officer
(Principal Executive Officer)

Jeffrey L. Edwards
Executive Vice President,
Finance and Business Development,
Chief Financial Officer
(Principal Financial Officer)

February 24, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Allergan, Inc.

We have audited Allergan, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Allergan, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Allergan, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Allergan, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of earnings, equity, and cash flows for each of the three years in the period ended December 31, 2011 of Allergan, Inc. and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Irvine, California

February 28, 2012

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Explanation of Responses:

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Allergan, Inc.

We have audited the accompanying consolidated balance sheets of Allergan, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of earnings, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allergan, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Allergan, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Irvine, California
February 28, 2012

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ALLERGAN, INC.

CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	As of December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and equivalents	$2,406.1	$1,991.2
Short-term investments	179.9	749.1
Trade receivables, net	730.6	647.3
Inventories	249.7	229.4
Other current assets	482.0	376.7
Total current assets	4,048.3	3,993.7
Investments and other assets	247.1	261.4
Deferred tax assets	152.6	217.8
Property, plant and equipment, net	807.0	800.6
Goodwill	2,088.4	2,038.6
Intangibles, net	1,165.2	996.0
Total assets	$8,508.6	$8,308.1
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$83.9	$28.1
Convertible notes	—	642.5
Accounts payable	200.4	222.5
Accrued compensation	200.6	182.4
Other accrued expenses	470.1	436.8
Income taxes	—	16.1
Total current liabilities	955.0	1,528.4
Long-term debt	1,515.4	1,534.2
Other liabilities	705.8	464.4
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 307,527,460 and 307,511,888 shares as of December 31, 2011 and 2010, respectively	3.1	3.1
Additional paid-in capital	2,761.8	2,815.5
Accumulated other comprehensive loss	(241.4)	(152.9)
Retained earnings	2,969.3	2,225.9
	5,492.8	4,891.6
Less treasury stock, at cost (2,254,935 and 1,986,822 shares as of December 31, 2011 and 2010, respectively)	(183.2)	(133.9)
Total stockholders' equity	5,309.6	4,757.7
Noncontrolling interest	22.8	23.4
Total equity	5,332.4	4,781.1
Total liabilities and equity	$8,508.6	$8,308.1

Explanation of Responses:

See accompanying notes to consolidated financial statements.

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ALLERGAN, INC.

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

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Product net sales	$5,347.1	$4,819.6	$4,447.6
Other revenues	72.0	99.8	56.0
Total revenues	5,419.1	4,919.4	4,503.6
Operating costs and expenses:			
Cost of sales (excludes amortization of acquired intangible assets)	748.7	722.0	750.9
Selling, general and administrative	2,246.6	2,017.6	1,921.5
Research and development	902.8	804.6	706.0
Amortization of acquired intangible assets	127.6	138.0	146.3
Legal settlement	—	609.2	—
Impairment of intangible assets and related costs	23.7	369.1	—
Restructuring charges	4.6	0.3	50.9
Operating income	1,365.1	258.6	928.0
Non-operating income (expense):			
Interest income	6.9	7.3	7.0
Interest expense	(71.8)	(78.7)	(76.9)
Gain on investments, net	—	—	24.6
Other, net	(0.5)	(16.4)	(34.2)
	(65.4)	(87.8)	(79.5)
Earnings before income taxes	1,299.7	170.8	848.5
Provision for income taxes	361.6	165.9	224.7
Net earnings	938.1	4.9	623.8
Net earnings attributable to noncontrolling interest	3.6	4.3	2.5
Net earnings attributable to Allergan, Inc.	$934.5	$0.6	$621.3
Earnings per share attributable to Allergan, Inc. stockholders:			
Basic	$3.07	$0.00	$2.05
Diluted	$3.01	$0.00	$2.03

See accompanying notes to consolidated financial statements.

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ALLERGAN, INC.

CONSOLIDATED STATEMENTS OF EQUITY
(in millions, except per share amounts)

	Stockholders' Equity									
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Noncontrolling Interest	Total Equity	Comprehensive Income (Loss)
	Shares	Par Value				Shares	Amount			
Balance December 31, 2008	307.5	$ 3.1	$2,596.6	$ (198.7)	$1,842.1	(3.4)	$(192.4)	$ 1.8	$4,052.5	
Comprehensive income										
Net earnings					621.3			2.5	623.8	$ 623.8
Other comprehensive income, net of tax:										
Pension and postretirement benefit plan adjustments:										
Net gain				48.9						48.9
Amortization				9.2						9.2
Foreign currency translation adjustments				37.2				1.7		38.9
Amortization of deferred holding gains on derivatives designated as cash flow hedges				(0.8)						(0.8)
Unrealized gain on investments				1.4						1.4
Other comprehensive income									97.6	97.6
Comprehensive income										$ 721.4
Dividends ($0.20 per share)					(60.9)				(60.9)	
Stock options exercised					(35.5)	2.2	101.0		65.5	
Excess tax benefits from share-based compensation			7.3						7.3	
Activity under other stock plans					(2.6)	0.2	11.5		8.9	

Purchase of treasury stock						(2.0)	(105.5)		(105.5)		
Stock-based award activity			126.4		(7.7)	(0.1)	20.9		139.6		
Noncontrolling interest from an acquisition								16.7	16.7		
Dividends to noncontrolling interest								(1.6)	(1.6)		
Balance December 31, 2009	307.5	3.1	2,730.3	(102.8)	2,356.7	(3.1)	(164.5)	21.1	4,843.9		
Comprehensive income (loss)											
Net earnings					0.6			4.3	4.9	$ 4.9	
Other comprehensive income (loss), net of tax:											
Pension and postretirement benefit plan adjustments:											
Net losses				(53.5)						(53.5)	
Amortization				8.2						8.2	
Foreign currency translation adjustments				(4.0)				0.8		(3.2)	
Amortization of deferred holding gains on derivatives designated as cash flow hedges				(0.8)						(0.8)	
Other comprehensive loss									(49.3)	(49.3)	
Comprehensive loss										$ (44.4)	
Dividends ($0.20 per share)					(60.9)				(60.9)		
Stock options exercised					(73.9)	5.4	305.1		231.2		
Excess tax benefits from share-based compensation			27.1						27.1		
Activity under other stock plans			2.6		0.7	0.1	3.9		7.2		
Purchase of treasury stock						(4.5)	(286.0)		(286.0)		
Stock-based award activity			55.5		2.7	0.1	7.6		65.8		
Noncontrolling interest from an								(0.4)	(0.4)		

acquisition										
Dividends to noncontrolling interest								(2.4)	(2.4)	
Balance December 31, 2010	307.5	3.1	2,815.5	(152.9)	2,225.9	(2.0)	(133.9)	23.4	4,781.1	
Comprehensive income										
Net earnings					934.5			3.6	938.1	$ 938.1
Other comprehensive income (loss), net of tax:										
Pension and postretirement benefit plan adjustments:										
Net losses				(62.7)						(62.7)
Net gain on remeasurement of postretirement benefit plan liability				13.1						13.1
Amortization				12.7						12.7
Foreign currency translation adjustments				(41.4)				(1.2)		(42.6)
Reclassification adjustment for foreign currency translation gains included in net income from the substantially complete liquidation of an investment in a foreign subsidiary				(9.4)						(9.4)
Amortization of deferred holding gains on derivatives designated as cash flow hedges				(0.8)						(0.8)
Other comprehensive loss									(89.7)	(89.7)
Comprehensive income										$ 848.4
Dividends ($0.20 per share)					(61.1)				(61.1)	
Stock options exercised			0.7		(131.2)	5.5	394.5		264.0	
			37.7						37.7	

Explanation of Responses:

Excess tax benefits from share-based compensation									
Activity under other stock plans			0.1		(0.4)		6.3		6.0
Purchase of treasury stock						(6.0)	(461.7)		(461.7)
Stock-based award activity			67.0		1.6	0.2	11.6		80.2
Repurchase of equity component of convertible borrowings			(159.2)						(159.2)
Dividends to noncontrolling interest								(3.0)	(3.0)
Balance December 31, 2011	307.5	$ 3.1	$ 2,761.8	$ (241.4)	$ 2,969.3	(2.3)	$ (183.2)	$ 22.8	$ 5,332.4

See accompanying notes to consolidated financial statements.

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ALLERGAN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings	$938.1	$4.9	$623.8
Non-cash items included in net earnings:			
Depreciation and amortization	253.4	257.1	262.1
Amortization of original issue discount and debt issuance costs	9.7	28.4	27.5
Amortization of net realized gain on interest rate swap	(1.3)	(1.3)	(1.3)
Deferred income tax benefit	(68.9)	(249.1)	(112.8)
Loss on disposal and impairment of assets	—	17.9	3.8
Loss on extinguishment of convertible debt	—	—	5.3
Unrealized (gain) loss on derivative instruments	(11.1)	7.6	13.6
Expense of share-based compensation plans	86.3	73.9	151.9
Legal settlement	—	15.2	—
Impairment of intangible assets and related costs	20.4	369.1	—
Expense from changes in fair value of contingent consideration	11.9	7.9	—
Restructuring charges	4.6	0.3	50.9
Loss (gain) on investments, net	1.3	—	(24.6)
Changes in operating assets and liabilities:			
Trade receivables	(105.6)	(71.4)	(17.7)
Inventories	(24.0)	(5.6)	67.7
Other current assets	(33.1)	7.3	4.9
Other non-current assets	(13.4)	(18.6)	(20.3)
Accounts payable	(19.3)	8.6	22.5
Accrued expenses	39.1	34.4	16.2
Income taxes	(19.8)	(17.6)	(1.6)
Other liabilities	13.6	(5.1)	41.4
Net cash provided by operating activities	1,081.9	463.9	1,113.3
Cash flows from investing activities:			
Purchases of short-term investments	(571.1)	(824.1)	—
Acquisitions, net of cash acquired	(101.4)	(69.8)	(12.8)
Additions to property, plant and equipment	(118.6)	(102.8)	(95.8)
Additions to capitalized software	(11.2)	(13.3)	(26.6)
Additions to intangible assets	(0.3)	(40.9)	(3.3)
Contractual purchase price adjustments to prior acquisitions	—	(1.7)	11.6
Proceeds from maturities of short-term investments	1,140.3	75.0	—
Proceeds from sale of equity investments	1.9	—	28.2
Proceeds from sale of property, plant and equipment	1.2	0.4	—
Net cash provided by (used in) investing activities	340.8	(977.2)	(98.7)
Cash flows from financing activities:			
Repayments of convertible borrowings	(808.9)	—	(98.3)
Dividends to stockholders	(61.1)	(60.6)	(60.6)

Payments to acquire treasury stock	(461.7)	(286.0)	(105.5)
Payments of contingent consideration	(3.0)	—	—
Net borrowings of notes payable	30.7	6.6	12.1
Debt issuance costs	—	(6.1)	—
Proceeds from issuance of senior notes, net of discount	—	648.0	—
Sale of stock to employees	264.0	234.0	63.5
Excess tax benefits from share-based compensation	37.7	27.1	7.3
Net cash (used in) provided by financing activities	(1,002.3)	563.0	(181.5)
Effect of exchange rate changes on cash and equivalents	(5.5)	(5.6)	3.6
Net increase in cash and equivalents	414.9	44.1	836.7
Cash and equivalents at beginning of period	1,991.2	1,947.1	1,110.4
Cash and equivalents at end of period	$2,406.1	$1,991.2	$1,947.1
Supplemental disclosure of cash flow information			
Cash paid for:			
Interest (net of amount capitalized)	$64.5	$48.0	$53.7
Income taxes, net of refunds	$399.3	$410.8	$332.6

In 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 consolidated financial statements.

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ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Allergan, Inc. (“Allergan” or the “Company”) and all of its subsidiaries. All significant intercompany transactions and balances among the consolidated entities have been eliminated from the consolidated financial statements.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States and, as such, include amounts based on informed estimates and judgments of management. Actual results could differ materially from those estimates.

Foreign Currency Translation

The financial position and results of operations of the Company’s foreign subsidiaries are generally determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss in equity. Aggregate net realized and unrealized gains (losses) resulting from foreign currency transactions and derivative contracts of approximately $0.3 million, $(17.8) million and $(28.9) million for the years ended December 31, 2011, 2010 and 2009, respectively, are included in “Other, net” in the Company’s consolidated statements of earnings.

Cash and Equivalents

The Company considers cash in banks, repurchase agreements, commercial paper, money-market funds and deposits with financial institutions with maturities of three months or less when purchased and that can be liquidated without prior notice or penalty, to be cash and equivalents.

Short-Term Investments

Short-term investments consist primarily of investment grade commercial paper with maturities from three months to one year when purchased and are classified as available-for-sale. As of December 31, 2011, short-term investments are valued at cost, which approximates fair value due to their short-term maturities.

Investments

The Company has non-marketable equity investments in conjunction with its various collaboration arrangements. The non-marketable equity investments represent investments in start-up technology companies or partnerships that invest in start-up technology companies and are recorded at cost. The non-marketable equity investments are evaluated periodically for impairment. If it is determined that a decline of any investment is other than temporary, then the investment basis would be written down to fair value and the write-down would be included in earnings as a loss.

Inventories

Inventories are valued at the lower of cost or market (net realizable value). Cost is determined by the first-in, first-out method.

Long-Lived Assets

Property, plant and equipment are stated at cost. Additions, major renewals and improvements are capitalized, while maintenance and repairs are expensed. Upon disposition, the net book value of assets is relieved and resulting gains or losses are reflected in earnings. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful life of the related asset. The useful lives for buildings, including building improvements, range from seven years to 40 years and, for machinery and equipment, three years to 15 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Leasehold improvements are amortized over the shorter of their economic lives or lease terms. Accelerated depreciation methods are generally used for income tax purposes.

All long-lived assets are reviewed for impairment in value when changes in circumstances dictate, based upon undiscounted future operating cash flows, and appropriate losses are recognized and reflected in current earnings, to the extent the carrying amount of an asset exceeds its estimated fair value determined by the use of appraisals, discounted cash flow analyses or comparable fair values of similar assets.

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead tested for impairment annually. Intangible assets include developed technology, customer relationships, licensing agreements, trademarks, core technology and other rights, which are being amortized over their estimated useful lives ranging from three to 21 years, and in-process research and development assets with indefinite useful lives that are not amortized, but instead tested for impairment until the successful completion and commercialization or abandonment of the associated research and development efforts, at which point the in-process research and development assets are either amortized over their estimated useful lives or written-off immediately.

Treasury Stock

Treasury stock is accounted for by the cost method. The Company maintains an evergreen stock repurchase program. The evergreen stock repurchase program authorizes management to repurchase the Company’s common stock for the primary purpose of funding its stock-based benefit plans. Under the stock repurchase program, the Company may maintain up to 18.4 million repurchased shares in its treasury account at any one time. As of December 31, 2011 and 2010, the Company held approximately 2.3 million and 2.0 million treasury shares, respectively, under this program.

Revenue Recognition

The Company recognizes revenue from product sales when goods are shipped and title and risk of loss transfer to its customers. A portion of the Company’s 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 the Company upon use. Revenue for consigned inventory is recognized at the time the Company is notified by the customer that the product has been used. Notification is usually through the replenishing of the inventory, and the Company periodically reviews consignment inventories to confirm the accuracy of customer reporting.

The Company generally offers 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. The Company permits 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. Estimated allowances for sales returns are based upon the Company’s 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

the Company's 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 the Company's consolidated balance sheets. (See Note 4, "Composition of Certain Financial Statement Captions.") Historical allowances for cash discounts and product returns have been consistent with the amounts reserved or accrued.

The Company participates 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. The Company also offers rebate and other incentive programs for its aesthetic products and certain therapeutic products, including Botox® Cosmetic, Juvéderm®, Latisse®, Acuvail®, Aczone®, Sanctura XR® and Restasis®, and for certain other skin care products. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in "Other accrued expenses" in the Company's consolidated balance sheets. (See Note 4, "Composition of Certain Financial Statement

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Captions.") 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.

The Company's 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, the Company uses historical sales, product utilization and rebate data and applies forecasting techniques in order to estimate the Company's liability amounts. Qualitatively, management's judgment is applied to these items to modify, if appropriate, the estimated liability amounts. Additionally, there is a significant time lag between the date the Company determines the estimated liability and when the Company actually pays the liability. Due to this time lag, the Company records adjustments to its estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods.

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

Contingent Consideration

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

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.

Advertising Expenses

Advertising expenses relating to production costs are expensed as incurred and the costs of television time, radio time and space in publications are expensed when the related advertising occurs. Advertising expenses were approximately $177.3 million, $171.4 million and $185.2 million in 2011, 2010 and 2009, respectively.

Product Liability Self-Insurance

Consistent with market practice in its industry, the Company 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. The Company

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is also self-insured for product liability losses related to its breast implant products. Future product liability losses associated with Botox®, Botox® Cosmetic and 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, the Company accrues for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. The Company estimates these accruals for potential losses based primarily on historical claims experience and data regarding product usage.

Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's 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, its provision for income taxes will increase or decrease, respectively, in the period such determination is made.

Valuation allowances against the Company’s deferred tax assets were $14.9 million and $4.3 million at December 31, 2011 and December 31, 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.

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

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, the Company 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, the Company acquired Serica Technologies, Inc. for an aggregate purchase price of approximately $63.7 million, net of cash acquired. On July 1, 2010, the Company completed a business combination agreement and entered into a revised distribution agreement with its distributor in Turkey. The Company paid $33.0 million for the termination of the original distribution agreement and purchased the commercial assets related to the selling of the Company’s 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, the Company acquired Alacer Biomedical, Inc. for an aggregate purchase price of approximately $7.0 million, net of cash acquired. On July 1, 2011, the Company purchased the commercial assets related to the selling and distribution of the Company’s products from its 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, the Company acquired Vicept Therapeutics, Inc. for $74.1 million in cash and estimated contingent consideration of $163.0 million as of the acquisition date. On August 8, 2011, the Company acquired Precision Light, Inc. for $11.7 million in cash and estimated contingent consideration of $6.2 million. The Company 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. The Company believes the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions.

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Comprehensive Income (Loss)

Comprehensive income (loss) encompasses all changes in equity other than those with stockholders and consists of net earnings (losses), foreign currency translation adjustments, certain pension and other postretirement benefit plan adjustments, unrealized gains or losses on marketable equity investments and unrealized and realized gains or losses on derivative instruments, if applicable. The Company does not recognize U.S. income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries.

Reclassifications

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

Recently Adopted Accounting Standards

In September 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that 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. This guidance will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted the provisions of the guidance and performed the qualitative assessment for its specialty pharmaceuticals reporting unit during its October 2011 annual goodwill impairment assessment.

In December 2010, the FASB issued an accounting standards update that provides guidance on the recognition and classification of the annual fee imposed by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, on pharmaceutical companies that sell branded prescription drugs or biologics to specified government programs in the United States. Under this guidance, the annual fee should be estimated and recognized in full as a liability upon the first qualifying sale with a corresponding deferred cost that is amortized to operating expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year in which it is payable. The annual fee ranges from $2.5 billion to $4.1 billion for all affected entities in total, a portion of which will be allocated to the Company on the basis of the amount of its branded prescription drug sales for the preceding year as a percentage of the industry’s branded prescription drug sales for the same period. The annual fee is not deductible for federal income tax purposes. This guidance became effective for calendar years beginning after December 31, 2010. The Company adopted the provisions of the guidance in the first quarter of 2011 and recorded an estimated annual fee of $23.2 million for 2011.

In December 2010, the FASB issued an accounting standards update that requires an entity to perform Step 2 of the goodwill impairment test for its reporting units with a zero or a negative carrying amount if there are qualitative factors indicating that it is more likely than not that a goodwill impairment exists. This guidance became effective for fiscal years beginning after December 15, 2010 and was applied as a change in accounting principle with any impairment recorded as a cumulative-effect adjustment to beginning retained earnings. The Company adopted the provisions of the guidance in the first quarter of 2011. The adoption did not have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued an accounting standards update that requires an entity to disclose pro forma revenue and earnings of the combined entity for both the year in which a business combination occurred and the prior year as if the business combination had occurred as of the beginning of the prior year only. This guidance became

effective prospectively for business combinations occurring in fiscal years beginning after December 15, 2010. The Company adopted the provisions of the guidance in the first quarter of 2011. The adoption did not have a material impact on the Company’s consolidated financial statements.

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 became effective for fiscal years beginning on or after June 15, 2010 and may be applied prospectively to milestones achieved after the adoption date or retrospectively for all periods presented, with earlier application permitted. The Company made an accounting policy election to apply the guidance prospectively beginning in the first quarter of 2011 to recognize revenue in its entirety in the period in which a substantive milestone is achieved. The adoption did not have a material impact on the Company’s consolidated financial statements. As of December 31, 2011, the Company has potential

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future milestone receipts of approximately $473.0 million for the achievement of development, regulatory and sales milestones in connection with certain collaboration agreements, including $373.0 million related to a development and commercialization agreement that the Company entered into in 2010 with Bristol-Myers Squibb Company (Bristol-Myers Squibb) that granted Bristol-Myers Squibb exclusive worldwide rights to develop, manufacture and commercialize an investigational drug for neuropathic pain. Due to the challenges associated with developing and obtaining approval for pharmaceutical products, there is substantial uncertainty whether any of the future milestones will be achieved. The Company evaluates whether milestone payments are substantive based on the facts and circumstances associated with each milestone payment.

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 became effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. The Company adopted the provisions of the guidance in the first quarter of 2011. The adoption did not have a material impact on the Company’s consolidated financial statements.

New Accounting Standards Not Yet Adopted

In June 2011, the FASB issued an accounting standards update that eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires an entity to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. This guidance will be effective for fiscal years beginning after December 15, 2011, which will be the Company's fiscal year 2012, with early adoption permitted. In December 2011, the FASB issued an accounting standards update that defers the presentation requirement for other comprehensive income reclassifications on the face of the financial statements. The Company does not expect the adoption of the guidance will have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued an accounting standards update that clarifies and amends the existing fair value measurement and disclosure requirements. This guidance will be effective prospectively for interim and annual periods beginning after December 15, 2011, which will be the Company’s fiscal year 2012, with early adoption prohibited. The Company does not expect the adoption of the guidance will have a material impact on the Company’s consolidated financial statements.

Note 2: Acquisitions and Collaborations

Precision Light Acquisition

On August 8, 2011, the Company completed the acquisition of Precision Light, Inc. (Precision Light), a privately-held medical device company based in the United States focused on developing breast, facial and body imaging systems to simulate the outcome of aesthetic medical procedures, including breast surgery, for an upfront payment of $11.7 million, net of cash acquired. The Company is also required to pay additional contingent consideration based on the achievement of certain commercial milestones. The estimated fair value of the contingent consideration as of the acquisition date was $6.2 million. In connection with the acquisition, the Company acquired assets with a fair value of

$28.0 million, consisting of an intangible asset of $20.4 million, non-current deferred tax assets of $0.8 million and goodwill of $6.8 million, and assumed liabilities of $10.1 million, consisting of current liabilities of $2.6 million and non-current deferred tax liabilities of $7.5 million. The intangible asset relates to distribution rights that have an estimated useful life of five years. As of December 31, 2011, the total estimated fair value of the contingent consideration of $6.2 million was included in “Other liabilities.”

Vicept Acquisition

On July 22, 2011, the Company completed the acquisition of Vicept Therapeutics, Inc. (Vicept), a privately-held dermatology company based in the United States focused on developing a novel compound to treat erythema (redness) associated with rosacea, for an upfront payment of $74.1 million, net of cash acquired, plus up to an aggregate of $200.0 million in payments contingent upon achieving certain future development and regulatory milestones plus additional payments contingent upon acquired products achieving certain sales milestones. The estimated fair value of the contingent consideration as of the acquisition date was $163.0 million. In connection with the acquisition, the Company acquired assets with a fair value of $343.7 million,

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consisting of an in-process research and development asset of $287.0 million, non-current deferred tax assets of $7.3 million and goodwill of $49.4 million, and assumed liabilities of $106.6 million, consisting of current liabilities of $2.2 million and non-current deferred tax liabilities of $104.4 million. During 2011, the Company recognized $7.6 million of expense related to the change in the estimated fair value of the contingent consideration liability, which is included in selling, general and administrative (SG&A) expenses. As of December 31, 2011, the total estimated fair value of the contingent consideration of $170.6 million was included in “Other liabilities.”

The Company estimated the fair value of the contingent consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. The Company estimated 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 acquired product revenues and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate.

The in-process research and development asset relates to Vicept’s lead investigational product, V-101, a topical cream for the treatment of the erythema (redness) associated with rosacea, which is currently in Phase II clinical trials. The estimated fair value of the in-process research and development asset was determined based on the use of a discounted cash flow model using an income approach for the acquired technology. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. 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.

The Company believes that the fair values assigned to the assets acquired, liabilities assumed and the contingent consideration liabilities were based on reasonable assumptions.

Purchase of Distributor’s Business in South Africa

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

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

Alacer Acquisition

On June 17, 2011, the Company completed the acquisition of Alacer Biomedical, Inc. (Alacer), a development stage medical device company focused on tissue reinforcement, for an aggregate purchase price of approximately $7.0 million, net of cash acquired. In connection with the acquisition, the Company acquired assets with a fair value of $12.3 million, consisting of intangible assets of $9.0 million, non-current deferred tax assets of $1.0 million and goodwill of $2.3 million, and assumed liabilities of $5.3 million, consisting of accrued liabilities of $2.0 million and non-current deferred tax liabilities of $3.3 million.

Purchase of Distributor’s Business in Turkey

On July 1, 2010, the Company terminated its existing distributor agreement in Turkey and completed the purchase from its distributor of all licenses, registrations and other assets related to the selling of the Company’s products in Turkey. Additionally, former employees of the distributor who were primarily engaged in the selling and marketing of the Company’s products were transferred to the Company on that date. The termination of the existing distributor agreement and purchase of the commercial assets enabled the Company to initiate direct selling operations in Turkey.

In conjunction with the termination of the existing distributor agreement, the Company paid $33.0 million, including a termination fee and related taxes, which was included in SG&A expenses in the third quarter of 2010. The purchase of the

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commercial assets was accounted for as a business combination. In connection with the purchase of the assets, the Company paid $6.1 million and is required to pay additional contingent consideration based on specified percentages of revenue in Turkey over a five year period from the acquisition date. The estimated fair value of the contingent consideration as of the acquisition date was $36.7 million. The Company recognized goodwill of $31.5 million and intangible assets of $11.3 million based on their estimated fair values at the purchase date. No liabilities were assumed in connection with the purchase. During 2011 and 2010, the Company recognized $4.3 million and $7.9 million, respectively, of expense related to the change in the estimated fair value of the contingent consideration liability, which is included in SG&A expenses. During 2011, the Company made contingent consideration payments of $3.0 million. As of December 31, 2011, the total estimated fair value of the contingent consideration was $37.8 million, of which $4.9 million was included in “Other accrued expenses” and $32.9 million was included in “Other liabilities.”

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 reinforcement, 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 $96.0 million, consisting of intangible assets of $71.4 million, goodwill of $13.2 million, property, plant and equipment of $0.7 million and non-current deferred tax assets of $10.7 million, and assumed liabilities of $32.3 million, consisting of accounts payable and accrued liabilities of $3.1 million, notes payable of $3.4 million and non-current deferred tax liabilities of $25.8 million. The acquisition was funded from the Company’s cash and equivalents balances. The Serica acquisition provides the Company with an approved technology that has potential future application in a variety of medical device applications.

The Company does not consider the business combinations noted above to be material, either individually or in the aggregate. The Company’s fair value estimates may change during the allowable measurement period, which is up to one year from the acquisition date, if additional information becomes available.

Collaborations

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

On January 28, 2011, the Company entered into a collaboration agreement and a co-promotion agreement with MAP Pharmaceuticals, Inc. (MAP) for the exclusive development and commercialization by the Company and MAP of Levadex® within the United States to certain headache specialist physicians for the acute treatment of migraine in adults, migraine in adolescents and other indications that may be approved by the parties. Levadex® is a self-administered, orally inhaled therapy consisting of a proprietary formulation of dihydroergotamine delivered using MAP’s proprietary Tempo® delivery system, which has completed Phase III clinical development for the acute treatment of migraine in adults. Under the terms of the agreements, the Company made a $60.0 million upfront

payment to MAP in February 2011, which was recorded as SG&A expense in the first quarter of 2011. The terms of the agreements also include up to $97.0 million in additional payments to MAP upon MAP meeting certain development and regulatory milestones. In August 2011, the Company made a $20.0 million milestone payment to MAP for the U.S. Food and Drug Administration (FDA) acceptance of its New Drug Application for Levadex®, which was recorded as SG&A expense in the third quarter of 2011. The upfront and milestone payments were expensed because Levadex® has not yet achieved regulatory approval. If Levadex® receives FDA approval, the Company and MAP will equally share profits from sales of Levadex® generated from its commercialization to neurologists and pain specialists in the United States.

In March 2010, the Company and Serenity Pharmaceuticals, LLC (Serenity) entered into an agreement for the license, development and commercialization of a Phase III investigational drug currently in clinical development for the treatment of nocturia, a common urological disorder in adults characterized by frequent urination at night time. 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,

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the Company made an upfront payment to Serenity of $43.0 million in 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 R&D expense in the first quarter of 2010.

In December 2010, the Company and Serenity executed a letter agreement which specified certain terms and conditions governing additional development activities for a new Phase III trial which were not set forth in the original agreement. Under the letter agreement, the Company has agreed to share 50% of the cost of additional development activities. The execution of the letter agreement was a reconsideration event for the Company's variable interest in the collaboration agreement with Serenity, and since the Company is providing a significant amount of the funding for the new Phase III trial, it determined that Serenity had become a variable interest entity (VIE). However, the Company determined that it is not the primary beneficiary of the VIE because it does not possess the power to direct Serenity's research and development activities, which are the activities that most significantly impact Serenity's economic performance. The Company's maximum exposure to loss is the upfront payment of $43.0 million made to Serenity and any shared costs of additional development activities.

In September 2010, the Company acquired from Vistakon Pharmaceuticals, LLC, Janssen Pharmaceutica N.V. and Johnson & Johnson Vision Care Inc. the global license to manufacture and commercialize alcaftadine 0.25%, a topical allergy medication for the prevention and treatment of itching associated with allergic conjunctivitis. In conjunction with the license agreement for this product that was approved in July 2010 for marketing in the United States under the brand name Lastacaft® (alcaftadine ophthalmic solution), the Company made an upfront payment of $23.0 million in the fourth quarter of 2010. The terms of the agreement also require the Company to make potential future regulatory milestone payments of up to $12.0 million, as well as future royalty payments. The Company capitalized $22.4 million of the upfront licensing payment as an intangible asset in the third quarter of 2010.

In March 2010, the Company and 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 commercialize the investigational drug for neuropathic pain and backup compounds. In conjunction with the agreement, the Company received a net upfront payment of $36.0 million 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, which was paid in the third quarter of 2010. The Company capitalized the value of these reacquired rights as an intangible asset in the first quarter of 2010.

Note 3: Restructuring Charges and Integration Costs

Discontinued Development of EasyBand™

In March 2011, the Company decided to discontinue development of the EasyBand™ Remote Adjustable Gastric Band System (EasyBand™), a technology that the Company acquired in connection with its 2007 acquisition of EndoArt SA,

and close the related research and development facility in Switzerland.

As a result of discontinuing the development of EasyBand™ and the closure of the related research and development facility, during 2011 the Company recorded a pre-tax impairment charge of $16.1 million for the intangible assets associated with the EasyBand™ technology, fixed asset impairment charges of $2.2 million and a gain of $9.4 million from the substantially complete liquidation of the Company's investment in a foreign subsidiary. In addition, the Company recorded $4.7 million of restructuring charges, consisting of $3.0 million of employee severance and other one-time termination benefits for approximately 30 people affected by the facility closure, $1.6 million of contract termination costs and $0.1 million of other related 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

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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 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.

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 2010, the Company recorded a $0.3 million restructuring charge reversal. During 2009, the Company recorded $8.4 million of pre-tax restructuring charges and recognized $14.4 million of cost of sales for the rollout of capitalized employee retention termination benefits and accelerated depreciation costs related to inventory production and $0.1 million of R&D expenses related to one-time termination benefits.

Other Restructuring Activities and Integration Costs

Included in 2011 is a $0.1 million restructuring charge reversal primarily for employee severance related to the Serica

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acquisition.

Included in 2010 are $0.8 million of restructuring charges primarily for employee severance related to the Serica acquisition and a $0.2 million restructuring charge reversal for an abandoned leased facility related to the Company's fiscal year 2005 restructuring and streamlining of its European operations.

Included in 2009 are a $0.3 million restructuring charge reversal related to the Company's closure of its collagen manufacturing facility in Fremont, California, which was substantially completed in the fourth quarter of 2008, and $0.6 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 2011 are $2.6 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and licensing, collaboration and co-promotion agreements. Included in 2010 are $2.0 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and a license, development and commercialization agreement. Included in 2009 are $0.8 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses.

Note 4: Composition of Certain Financial Statement Captions

	December 31,	
	2011	2010
	(in millions)	
Trade receivables, net		
Trade receivables	$793.7	$699.4
Less allowance for sales returns — medical device products	31.2	23.1
Less allowance for doubtful accounts	31.9	29.0
	$730.6	$647.3
Inventories		
Finished products	$167.1	$148.2
Work in process	37.5	41.1
Raw materials	45.1	40.1
	$249.7	$229.4
Other current assets		
Prepaid expenses	$99.8	$64.7
Deferred taxes	305.6	277.7
Other	76.6	34.3
	$482.0	$376.7
Investments and other assets		
Deferred executive compensation investments	$70.9	$64.9
Capitalized software	57.8	75.3
Prepaid pensions	3.5	7.5
Prepaid royalties	4.9	8.5
Interest rate swap fair value	48.1	42.3
Debt issuance costs	9.5	10.0

Non-marketable equity investments	9.0	7.7
Other	43.4	45.2
	$247.1	$261.4

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	December 31,	
	2011	2010
	(in millions)	
Property, plant and equipment, net		
Land	$58.9	$58.9
Buildings	816.5	773.6
Machinery and equipment	653.8	614.8
	1,529.2	1,447.3
Less accumulated depreciation	722.2	646.7
	$807.0	$800.6
Other accrued expenses		
Sales rebates and other incentive programs	$249.1	$186.5
Royalties	27.0	34.6
Interest	15.0	17.3
Sales returns — specialty pharmaceutical products	37.3	29.2
Legal settlement expenses	—	15.2
Product warranties — breast implant products	6.5	6.7
Contingent consideration	4.9	—
Other	130.3	147.3
	$470.1	$436.8
Other liabilities		
Postretirement benefit plan	$41.3	$56.5
Qualified and non-qualified pension plans	204.4	152.1
Deferred executive compensation	75.0	68.9
Deferred income	81.1	87.8
Contingent consideration	209.7	41.3
Product warranties — breast implant products	26.1	23.4
Unrecognized tax benefit liabilities	39.3	15.9
Other	28.9	18.5
	$705.8	$464.4
Accumulated other comprehensive loss		
Foreign currency translation adjustments	$(33.5)	$17.3
Deferred holding gains on derivative instruments, net of taxes of $2.3 million and $2.8 million for 2011 and 2010, respectively	3.3	4.1
Actuarial losses not yet recognized as a component of pension and postretirement benefit plan costs, net of taxes of $106.3 million and $93.9 million for 2011 and 2010, respectively	(211.2)	(174.3)
	$(241.4)	$(152.9)

At December 31, 2011 and 2010, approximately $7.8 million and $6.4 million, respectively, of the Company’s finished goods inventories, primarily breast implants, were held on consignment at a large number of doctors’ offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant. At December 31, 2011 and 2010, approximately $7.7 million and $11.7 million, respectively, of specific reserves for sales returns related to

certain genericized eye care pharmaceutical products are included in accrued sales returns – specialty pharmaceutical products.

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Note 5: Intangibles and Goodwill

Intangibles

At December 31, 2011 and 2010, the components of intangibles and certain other related information were as follows:

	December 31, 2011			December 31, 2010		
	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period
	(in millions)		(in years)	(in millions)		(in years)
Amortizable Intangible Assets:						
Developed technology	$1,111.0	$(435.1)	13.5	$1,129.6	$(353.2)	13.4
Customer relationships	42.3	(42.3)	3.1	42.3	(42.3)	3.1
Licensing	185.8	(137.2)	9.3	185.6	(116.7)	9.3
Trademarks	26.7	(25.0)	6.2	27.4	(24.2)	6.3
Core technology	181.3	(71.4)	15.2	189.6	(61.5)	15.2
Other	38.5	(5.4)	6.9	17.0	(1.9)	9.1
	1,585.6	(716.4)	12.6	1,591.5	(599.8)	12.7
Unamortizable Intangible Assets:						
In-process research and development	296.0	—		4.3	—	
	$1,881.6	$(716.4)		$1,595.8	$(599.8)	

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, obesity intervention products, dermal fillers, skin care products and eye care products acquired in connection with business combinations, asset acquisitions and initial licensing transactions for products previously approved for marketing. 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 Groupe Cornéal Laboratoires and a drug delivery technology acquired in connection with the Company's 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist primarily of acquired product registration rights, distributor relationships, distribution rights, government permits and non-compete agreements. The in-process research and development assets consist of an intangible asset associated with technology that has not yet achieved regulatory approval acquired in connection with the Company's acquisition of Vicept in July 2011 and an intangible asset associated with technology that is not yet commercialized acquired in connection with the Company's acquisition of Alacer in June 2011.

In the first quarter of 2011, the Company recorded a pre-tax charge of $16.1 million related to the impairment of the developed technology and core technology associated with EasyBand™ as a result of the discontinued development of the technology. In the third quarter of 2011, the Company recorded a pre-tax charge of $4.3 million related to the impairment of an in-process research and development asset associated with a tissue reinforcement technology that

has not yet achieved regulatory approval acquired in connection with the Company's 2010 acquisition of Serica. 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, the Company concluded that the intangible assets and a related prepaid royalty asset associated with the Sanctura® franchise (the Sanctura® Assets), which the Company acquired in connection with its 2007 acquisition of Esprit Pharma Holding Company, Inc. and certain subsequent licensing and commercialization transactions, had become impaired. The Company 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

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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, the Company recorded an aggregate charge of $369.1 million ($228.6 million after-tax) related to the impairment of the Sanctura® Assets and related costs, which includes a pre-tax charge of $343.2 million for the impairment of the Sanctura® intangible assets. In the second quarter of 2011, the Company recorded additional related costs of $3.3 million.

The following table provides amortization expense by major categories of acquired amortizable intangible assets for the years ended December 31, 2011, 2010 and 2009, respectively:

	2011	2010	2009
	(in millions)		
Developed technology	$89.6	$97.4	$101.4
Customer relationships	—	0.3	4.2
Licensing	20.4	22.1	23.2
Trademarks	1.4	4.4	4.4
Core technology	12.3	12.4	12.7
Other	3.9	1.4	0.4
	$127.6	$138.0	$146.3

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 $123.7 million for 2012, $109.5 million for 2013, $104.6 million for 2014, $99.5 million for 2015 and $89.8 million for 2016.

Goodwill

Changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2011 and 2010 were as follows:

	Specialty Pharmaceuticals	Medical Devices	Total
	(in millions)		
Balance at December 31, 2009	$73.2	$1,925.1	$1,998.3
Purchase of distributor’s business in Turkey	31.5	—	31.5
Serica acquisition	—	13.2	13.2
Samil acquisition contractual purchase price adjustment	1.7	—	1.7
Foreign exchange translation effects and other	—	(6.1)	(6.1)
Balance at December 31, 2010	106.4	1,932.2	2,038.6
Vicept acquisition	49.4	—	49.4
Precision Light acquisition	—	6.8	6.8
Purchase of distributor’s business in South Africa	1.6	—	1.6
Alacer acquisition	—	2.3	2.3
Foreign exchange translation effects	(7.3)	(3.0)	(10.3)
Balance at December 31, 2011	$150.1	$1,938.3	$2,088.4

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Explanation of Responses:

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Note 6: Notes Payable and Long-Term Debt

	2011 Average Effective Interest Rate		December 31, 2011	2010 Average Effective Interest Rate		December 31, 2010
			(in millions)			(in millions)
Bank loans	10.05	%	$ 58.9	6.80	%	$ 28.1
Medium term notes; maturing 2012	7.47	%	25.0	7.47	%	25.0
Real estate mortgage; maturing 2017	5.65	%	20.0	5.65	%	20.0
Senior notes due 2016	5.79	%	799.0	5.79	%	798.8
Senior notes due 2020	3.41	%	648.3	3.41	%	648.1
Interest rate swap fair value adjustment			48.1			42.3
			1,599.3			1,562.3
Less current maturities			83.9			28.1
Total long-term debt			$ 1,515.4			$ 1,534.2

At December 31, 2011, the Company had a committed long-term credit facility, a commercial paper program, a medium-term note program, a shelf registration statement that allows the Company to issue additional securities, including debt securities, in one or more offerings from time to time, a real estate mortgage and various foreign bank facilities. On October 28, 2011, the Company amended and restated its committed long-term credit facility to extend the maturity date to October 2016 and modify certain other terms, including interest rates and fees. The termination date can be further extended from time to time upon the Company’s request and acceptance by the issuer of the facility for a period of one year from the last scheduled termination date for each request accepted. The committed long-term credit facility allows for borrowings of up to $800.0 million. The commercial paper program also provides for up to $600.0 million in borrowings. However, the combined borrowings under the committed long-term credit facility and the commercial paper program may not exceed $800.0 million in the aggregate. Borrowings under the committed long-term credit facility and medium-term note program are subject to certain financial and operating covenants that include, among other provisions, maximum leverage ratios. Certain covenants also limit subsidiary debt. The Company was in compliance with these covenants at December 31, 2011. As of December 31, 2011, the Company had no borrowings under its committed long-term credit facility, $25.0 million in borrowings outstanding under the medium-term note program, $20.0 million in borrowings outstanding under the real estate mortgage, $58.9 million in borrowings outstanding under various foreign bank facilities and no borrowings under the commercial paper program. Commercial paper, when outstanding, is issued at current short-term interest rates. Additionally, any future borrowings that are outstanding under the long-term credit facility may be subject to a floating interest rate. The Company may from time to time seek to retire or purchase its outstanding debt.

On September 14, 2010, the Company issued its 3.375% Senior Notes due 2020 (2020 Notes) in a registered offering for an aggregate principal amount of $650.0 million. The 2020 Notes, which were sold at 99.697% of par value with an effective interest rate of 3.41%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 3.375% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2020 Notes will be due and payable on September 15, 2020, unless earlier redeemed by the Company. The original discount of approximately $2.0 million and the deferred debt issuance costs associated with the 2020 Notes are being amortized using the effective interest method over the stated term of 10 years.

On April 12, 2006, the Company completed concurrent private placements of $800.0 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) and $750.0 million in aggregate principal amount of 1.50% Convertible Senior Notes due 2026 (2026 Convertible Notes). (See Note 7, “Convertible Notes,” for a description of the 2026 Convertible Notes.)

The 2016 Notes, which were sold at 99.717% of par value with an effective interest rate of 5.79%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 5.75% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2016 Notes will be due and payable on April 1, 2016, unless earlier redeemed by the Company. The original discount of approximately $2.3 million and the deferred debt issuance costs associated with the 2016 Notes are being amortized using the effective interest method over the stated term of 10 years.

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On January 31, 2007, the Company entered into a nine-year, two month interest rate swap with a $300.0 million notional amount with semi-annual settlements and quarterly interest rate reset dates. The swap receives interest at a fixed rate of 5.75% and pays interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converts $300.0 million of the 2016 Notes to a variable interest rate. Based on the structure of the hedging relationship, the hedge meets the criteria for using the short-cut method for a fair value hedge. The investment in the derivative and the related long-term debt are recorded at fair value. At December 31, 2011 and 2010, the Company recognized in its consolidated balance sheets an asset reported in “Investments and other assets” and a corresponding increase in “Long-term debt” associated with the fair value of the derivative of $48.1 million and $42.3 million, respectively. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the 2016 Notes. During 2011, 2010 and 2009, the Company recognized $15.0 million, $15.1 million and $14.3 million, respectively, as a reduction of interest expense due to the differential to be received.

In February 2006, the Company entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of $800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. During 2011, 2010 and 2009, the Company recognized $1.3 million, respectively, as a reduction of interest expense due to the amortization of deferred holding gains on derivatives designated as cash flow hedges. These amounts were reclassified from accumulated other comprehensive loss. As of December 31, 2011, the remaining unrecognized gain of $5.6 million ($3.3 million, net of tax) is recorded as a component of accumulated other comprehensive loss. The Company expects to reclassify an estimated pre-tax amount of $1.3 million from accumulated other comprehensive loss as a reduction in interest expense during fiscal year 2012 due to the amortization of deferred holding gains on derivatives designated as cash flow hedges.

No portion of amounts recognized from contracts designated as cash flow hedges was considered to be ineffective during 2011, 2010 and 2009, respectively.

The aggregate maturities of total debt obligations, excluding the interest rate swap fair value adjustment of $48.1 million, for each of the next five years and thereafter are as follows: $83.9 million in 2012; zero in 2013, 2014 and 2015, $799.0 million in 2016 and $668.3 million thereafter. Interest incurred of $1.0 million in 2011, $0.5 million in 2010 and $1.0 million in 2009 has been capitalized and included in property, plant and equipment.

Note 7: Convertible Notes

In 2006, the Company issued the 2026 Convertible Notes for an aggregate principal amount of $750.0 million. The 2026 Convertible Notes were unsecured and paid interest semi-annually on the principal amount of the notes at a rate of 1.50% per annum. The 2026 Convertible Notes were scheduled to mature on April 1, 2026, unless previously redeemed by the Company or earlier converted by the note holders. The Company was permitted to redeem the 2026 Convertible Notes at the principal amount plus accrued interest at any time on or after April 5, 2011.

The 2026 Convertible Notes were convertible into cash and, if applicable, shares of the Company’s common stock based on a 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 reached certain specified thresholds or the Company called the 2026 Convertible Notes for redemption. The Company separately measured and accounted for the liability and equity

components of the 2026 Convertible Notes.

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 issuance costs as loss on extinguishment of the convertible debt. The difference between the amount paid and the calculated fair value of the liability component of the 2026 Convertible Notes was recognized as a decrease to additional paid-in capital, net of the effect of deferred taxes.

On March 8, 2011, the Company announced its intention to redeem the remaining 2026 Convertible Notes at the principal amount plus accrued interest on April 5, 2011. Most note holders elected to exercise the conversion feature of the 2026 Convertible Notes prior to redemption. Pursuant to the terms of the 2026 Convertible Notes, the Company elected to pay the full conversion

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value in cash. The conversion value of a note was based on an average of the daily closing price of the Company's common stock over an averaging period that commenced after the Company received a conversion notice from a note holder. The Company paid approximately $800.3 million in aggregate conversion value for the converted notes at the end of the applicable averaging periods in May 2011. The difference between the amount paid and the principal amount of the converted notes of $641.1 million was recognized as a decrease to additional paid-in capital. In addition, on April 5, 2011 the Company redeemed notes with a principal amount of $8.6 million that were not converted.

Note 8: Income Taxes

The components of earnings before income taxes were:

	Year Ended December 31,		
	2011	2010	2009
	(in millions)		
U.S.	$690.0	$103.3	$394.3
Non-U.S.	609.7	67.5	454.2
Total	$1,299.7	$170.8	$848.5

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2011	2010	2009
	(in millions)		
Current			
U.S. federal	$307.7	$287.9	$234.7
U.S. state	32.7	32.8	41.5
Non-U.S.	90.1	94.3	61.3
Total current	430.5	415.0	337.5
Deferred			
U.S. federal	(59.8)	(244.2)	(87.8)
U.S. state	(18.2)	13.9	(17.7)
Non-U.S.	9.1	(18.8)	(7.3)
Total deferred	(68.9)	(249.1)	(112.8)
Total	$361.6	$165.9	$224.7

The current provision for income taxes does not reflect the tax benefit of $37.7 million, $27.1 million and $7.3 million for the years ended December 31, 2011, 2010 and 2009, respectively, related to excess tax benefits from share-based compensation recorded directly to "Additional paid-in capital" in the consolidated balance sheets.

The Company recorded total pre-tax charges of $609.2 million in 2010 related to the global settlement with the U.S. Department of Justice (DOJ). The charges were allocated between the United States and certain non-U.S. jurisdictions, in accordance with the Company's established transfer pricing policies. The Company 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.

The reconciliations of the U.S. federal statutory tax rate to the combined effective tax rate follow:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2011		2010		2009	
Statutory rate of tax expense	35.0	%	35.0	%	35.0	%
State taxes, net of U.S. tax benefit	1.6		20.4		3.3	
Tax differential on foreign earnings	(9.1)		28.4		(11.2)	
Other credits (R&D)	(2.0)		(15.9)		(4.3)	
Tax audit settlements/adjustments	1.5		6.0		1.3	
Legal settlement	—		18.8		—	
Other	0.8		4.4		2.4	
Effective tax rate	27.8	%	97.1	%	26.5	%

Withholding and U.S. taxes have not been provided on approximately $2,505.1 million of unremitted earnings of certain non-U.S. subsidiaries because the Company has currently reinvested these earnings indefinitely in such operations, or the U.S. taxes on such earnings will be offset by appropriate credits for foreign income taxes paid. Such earnings would become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon the remittance of dividends. 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 and its domestic subsidiaries file a consolidated U.S. federal income tax return. During the second quarter of 2010, the Company partially settled its federal income tax audit with the U.S. Internal Revenue Service (IRS) for tax years 2005 and 2006 which resulted in a total settlement amount of $33.5 million, all of which was paid in 2009 as an advanced payment. Additionally, the Company partially settled its federal income tax audit with the IRS for tax years 2003 to 2006 for the Company's acquired subsidiary, Inamed, which resulted in a total settlement amount of $1.2 million.

The Company has disagreed with certain positions taken by the IRS in the partially settled audit cycles noted above. With respect to the Allergan 2005 and 2006 tax years and the Inamed pre-acquisition tax years 2003 to 2006, the Company has completed the Appeals process and is awaiting the calculation of the final tax determinations by the IRS. The Company and its consolidated subsidiaries are currently under examination by the IRS for tax years 2007 and 2008. The Company believes that it has provided adequate accruals for any tax deficiencies or reductions in tax benefits that could result from all open audit years.

At December 31, 2011, the Company has net operating loss carryforwards in certain non-U.S. subsidiaries, with various expiration dates, of approximately $55.9 million. The Company has U.S. net operating loss carryforwards of approximately $107.7 million which are subject to limitation under section 382 of the Internal Revenue Code. If not utilized, the U.S. federal net operating loss carryforwards will begin to expire in 2027.

The Company has a subsidiary in Costa Rica under a tax incentive grant, which provides that the Company will be exempt from local income tax until the current tax incentive grant expires at the end of 2015.

Temporary differences and carryforwards/carrybacks which give rise to a significant portion of deferred tax assets and liabilities at December 31, 2011 and 2010 are as follows:

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Explanation of Responses:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2011	2010
	(in millions)	
Deferred tax assets		
Net operating loss carryforwards/carrybacks	$44.7	$40.3
Accrued expenses	105.6	103.3
Capitalized expenses	136.2	104.4
Deferred compensation	35.7	30.2
Medicare, Medicaid and other accrued health care rebates	69.0	48.6
Postretirement medical benefits	16.1	20.6
Capitalized intangible assets	49.9	83.3
Deferred revenue	17.2	13.1
Inventory reserves and adjustments	80.3	75.8
Share-based compensation awards	86.6	88.0
Unbilled costs	25.5	23.6
Pension plans	67.7	52.6
All other	50.0	50.2
	784.5	734.0
Less: valuation allowance	(14.9)	(4.3)
Total deferred tax assets	769.6	729.7
Deferred tax liabilities		
Depreciation	15.5	15.0
Developed and core technology intangible assets	188.3	213.7
In-process R&D	107.6	—
All other	—	5.5
Total deferred tax liabilities	311.4	234.2
Net deferred tax assets	$458.2	$495.5

The balances of net current deferred tax assets and net non-current deferred tax assets at December 31, 2011 were $305.6 million and $152.6 million, respectively. The balances of net current deferred tax assets and net non-current deferred tax assets at December 31, 2010 were $277.7 million and $217.8 million, respectively. Net current deferred tax assets are included in “Other current assets” in the Company’s consolidated balance sheets. The increase in the amount of the valuation allowance at December 31, 2011 compared to December 31, 2010 is primarily due to a corresponding increase in a deferred tax asset that the Company determined required a valuation allowance.

Based on the Company's historical pre-tax earnings, management believes it is more likely than not that the Company will realize the benefit of the existing total deferred tax assets at December 31, 2011. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income; however, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Certain tax planning or other strategies could be implemented, if necessary, to supplement income from operations to fully realize recorded tax benefits.

Disclosures for Uncertainty in Income Taxes

The Company classifies interest expense related to uncertainty in income taxes in the consolidated statements of earnings as interest expense. Income tax penalties are recorded in income tax expense, and are not material.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of 2011, 2010 and 2009 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2011	2010	2009
	(in millions)		
Balance, beginning of year	$32.5	$39.3	$47.5
Gross increase as a result of positions taken in a prior year	21.8	15.0	20.5
Gross decrease as a result of positions taken in a prior year	(8.5)	(13.4)	(21.0)
Gross increase as a result of positions taken in current year	16.9	10.5	0.1
Gross decrease as a result of positions taken in current year	(6.0)	(4.3)	—
Decreases related to settlements	(3.7)	(14.6)	(7.8)
Balance, end of year	$53.0	$32.5	$39.3

The total amount of unrecognized tax benefits at December 31, 2011, 2010 and 2009 that, if recognized, would affect the effective tax rate is $44.5 million, $27.5 million and $35.5 million, respectively.

The total amount of interest expense (income) related to uncertainty in income taxes recognized in the Company's consolidated statements of earnings is $0.5 million, $(0.7) million and $5.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. The total amount of accrued interest expense related to uncertainty in income taxes included in the Company's consolidated balance sheets is $8.1 million at December 31, 2011 and 2010, respectively.

The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities related to various audit issues will decrease by approximately $2.0 million to $3.0 million primarily due to settlements of income tax audits, Appeals proceedings and Competent Authority negotiations.

The following tax years remain subject to examination:

Major Jurisdictions	Open Years
U.S. Federal	2005 - 2010
California	2000 - 2010
Brazil	2006 - 2010
Canada	2004 - 2010
France	2009 - 2010
Germany	2009 - 2010
Italy	2006 - 2010
Ireland	2004 - 2010
Spain	2007 - 2010
United Kingdom	2010

Note 9: Employee Retirement and Other Benefit Plans

Pension and Postretirement Benefit Plans

The Company sponsors various qualified defined benefit pension plans covering a substantial portion of its employees. In addition, the Company sponsors two supplemental nonqualified plans covering certain management employees and officers. U.S. pension benefits are based on years of service and compensation during the five highest consecutive earnings years. Foreign pension benefits are based on various formulas that consider years of service, average or highest earnings during specified periods of employment and other criteria.

The Company also has one retiree health plan that covers U.S. retirees and dependents. Retiree contributions are required depending on the year of retirement and the number of years of service at the time of retirement. Disbursements exceed retiree contributions and the plan currently has no assets. The accounting for the retiree health care plan anticipates future cost-sharing changes to the written plan that are consistent with the Company's past practice and management's intent to manage plan costs. The Company's history of retiree medical plan modifications indicates a consistent approach to increasing the cost sharing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

provisions of the plan.

Accounting for Defined Benefit Pension and Other Postretirement Plans

The Company recognizes on its balance sheet an asset or liability equal to the over- or under-funded benefit obligation of each defined benefit pension and other postretirement plan. Actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost are recognized, net of tax, as a component of other comprehensive income.

Included in accumulated other comprehensive loss as of December 31, 2011 and 2010 are unrecognized actuarial losses of $321.5 million and $254.6 million, respectively, related to the Company's pension plans. Of the December 31, 2011 amount, the Company expects to recognize approximately $27.0 million in net periodic benefit cost during 2012. Also included in accumulated other comprehensive loss at December 31, 2011 and 2010 are unrecognized prior service credits of $22.4 million and $1.4 million, respectively, and unrecognized actuarial losses of $17.7 million and $15.0 million, respectively, related to the Company's retiree health plan. Of the December 31, 2011 amounts, the Company expects to recognize $2.7 million of the unrecognized prior service credits and $1.3 million of the unrecognized actuarial losses in net periodic benefit cost during 2012.

Components of net periodic benefit cost, change in projected benefit obligation, change in plan assets, funded status, funding policy, fair value of plan assets, assumptions used to determine net periodic benefit cost and estimated future benefit payments are summarized below for the Company's U.S. and major non-U.S. pension plans and retiree health plan.

Net Periodic Benefit Cost

Components of net periodic benefit cost for the years ended 2011, 2010 and 2009 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
	(in millions)					
Service cost	$23.7	$20.2	$23.0	$1.9	$2.2	$1.6
Interest cost	42.6	38.6	37.3	2.6	3.3	2.4
Expected return on plan assets	(44.3)	(46.0)	(42.9)	—	—	—
Amortization of prior service costs (credits)	0.1	0.1	0.1	(1.6)	(0.3)	(0.3)
Recognized net actuarial losses	17.3	10.2	12.6	1.1	1.1	0.1
Net periodic benefit cost	$39.4	$23.1	$30.1	$4.0	$6.3	$3.8

Benefit Obligation, Change in Plan Assets and Funded Status

The table below presents components of the change in projected benefit obligation, change in plan assets and funded status at December 31, 2011 and 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(in millions)			
Change in Projected Benefit Obligation				
Projected benefit obligation, beginning of year	$774.0	$655.2	$57.9	$42.1
Service cost	23.7	20.2	1.9	2.2
Interest cost	42.6	38.6	2.6	3.3
Participant contributions	1.6	1.5	—	—
Plan changes	—	—	(22.6)	—
Actuarial losses	113.2	81.2	3.8	11.4
Benefits paid	(16.1)	(14.8)	(1.1)	(1.1)
Impact of foreign currency translation	(5.8)	(7.9)	—	—
Projected benefit obligation, end of year	933.2	774.0	42.5	57.9
Change in Plan Assets				
Fair value of plan assets, beginning of year	627.2	559.9	—	—
Actual return on plan assets	74.2	67.7	—	—
Company contributions	48.7	21.4	1.1	1.1
Participant contributions	1.6	1.5	—	—
Benefits paid	(16.1)	(14.8)	(1.1)	(1.1)
Impact of foreign currency translation	(5.7)	(8.5)	—	—
Fair value of plan assets, end of year	729.9	627.2	—	—
Funded status of plans	$(203.3)	$(146.8)	$(42.5)	$(57.9)

In June 2011, the Company made certain changes to its U.S. retiree health plan to incorporate health reimbursement arrangement accounts, transition plan participants to individual plans and cap future medical premium subsidies. In connection with the changes, the Company remeasured its retiree health plan liability resulting in a net reduction of accrued benefit costs associated with the plan of $20.5 million, including the impact of plan changes and a change in actuarial assumptions, a decrease in related deferred tax assets of $7.4 million, and an increase in net other comprehensive income of $13.1 million.

Net accrued benefit costs for pension plans and other postretirement benefits are reported in the following components of the Company’s consolidated balance sheet at December 31, 2011 and 2010:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(in millions)			
Investments and other assets	$3.5	$7.5	$—	$—
Accrued compensation	(2.4)	(2.2)	(1.2)	(1.4)
Other liabilities	(204.4)	(152.1)	(41.3)	(56.5)
Net accrued benefit costs	$(203.3)	$(146.8)	$(42.5)	$(57.9)

The accumulated benefit obligation for the Company’s U.S. and major non-U.S. pension plans was $851.0 million and $706.0 million at December 31, 2011 and 2010, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of the fair value of plan assets and pension plans with accumulated benefit obligations in excess of the fair value of plan assets at December 31, 2011 and 2010 were as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2011	2010	2011	2010
	(in millions)			
Projected benefit obligation	$914.2	$658.6	$726.0	$658.6
Accumulated benefit obligation	833.1	604.5	674.0	604.5
Fair value of plan assets	707.3	504.3	537.6	504.3

The Company’s funding policy for its funded pension plans is based upon the greater of: (i) annual service cost, administrative expenses and a seven year amortization of any funded deficit or surplus relative to the projected pension benefit obligations or (ii) local statutory requirements. The Company’s funding policy is subject to certain statutory regulations with respect to annual minimum and maximum company contributions. Plan benefits for the nonqualified plans are paid as they come due. In 2012, the Company expects to pay contributions of between $45.0 million and $55.0 million for its U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for its other postretirement plan (unaudited).

Fair Value of Plan Assets

The Company measures the fair value of plan assets based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy described in Note 12, “Fair Value Measurements.”

The table below presents total plan assets by investment category as of December 31, 2011 and the classification of each investment category within the fair value hierarchy with respect to the inputs used to measure fair value:

	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and Equivalents	$6.9	$—	$6.9	$—
Equity Securities				
U.S. small-cap growth	22.5	22.5	—	—
U.S. large-cap index	55.7	55.7	—	—
International equities	152.4	152.4	—	—
Fixed Income Securities				
U.S. Treasury bonds	113.4	—	113.4	—
Global corporate bonds	285.1	—	285.1	—
International bond funds	64.4	—	64.4	—
Global corporate bond funds	8.9	8.9	—	—
International government bond funds	20.6	20.6	—	—
	$729.9	$260.1	$469.8	$—

The Company’s target asset allocation for both its U.S. and non-U.S. pension plans’ assets is 30% equity securities and 70% fixed income securities. Risk tolerance on invested pension plan assets is established through careful

consideration of plan liabilities, plan funded status and corporate financial condition. Investment risk is measured and monitored on an ongoing basis through annual liability measures, periodic asset/liability studies and quarterly investment portfolio reviews.

Assumptions

The weighted-average assumptions used to determine net periodic benefit cost and projected benefit obligation were as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
For Determining Net Periodic Benefit Cost						
U.S. Plans:						
Discount rate	5.51%	6.04%	6.19%	5.56%	6.09%	6.05%
Expected return on plan assets	7.25%	8.25%	8.25%	—	—	—
Rate of compensation increase	4.00%	4.25%	4.25%	—	—	—
Non-U.S. Pension Plans:						
Discount rate	5.57%	6.16%	5.71%			
Expected return on plan assets	5.70%	5.85%	6.03%			
Rate of compensation increase	3.10%	3.25%	4.01%			
For Determining Projected Benefit Obligation						
U.S. Plans:						
Discount rate	4.63%	5.51%		4.60%	5.56%	
Rate of compensation increase	4.00%	4.00%		—	—	
Non-U.S. Pension Plans:						
Discount rate	5.14%	5.57%				
Rate of compensation increase	3.04%	3.10%				

Under the current terms of the U.S. retiree health plan, the annual increase in the Company's subsidy to each retiree is capped at the lesser of 3.0% or the rate of medical inflation. The assumed annual increase in medical inflation is 3.0% for the duration of the plan. A one percentage point decrease in the assumed medical inflation rate would result in a $5.5 million reduction in postretirement benefit obligation and a $0.7 million reduction in service and interest cost components of the net periodic benefit cost for postretirement benefits.

For the U.S. qualified pension plan and the non-U.S. funded pension plans, the expected return on plan assets was determined using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Historical market returns are studied and long-term historical relationships between equities and fixed income are preserved in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are also evaluated before long-term capital market assumptions are determined. The Company’s pension plan assets are managed by outside investment managers using a total return investment approach whereby a mix of equities and debt securities investments are used to maximize the long-term rate of return on plan assets, and the Company utilizes a liability driven investment strategy to reduce financial volatility in the funded pension plans over time. The Company’s overall expected long-term rate of return on assets for 2012 is 6.75% for its U.S. funded pension plan and 4.80% for its non-U.S. funded pension plans.

Estimated Future Benefit Payments

Estimated benefit payments over the next 10 years for the Company’s U.S. and major non-U.S. pension plans and retiree health plan are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Pension Benefits	Other Postretirement Benefits
	(in millions)	
2012	$22.4	$1.2
2013	24.7	1.4
2014	27.0	1.6
2015	29.7	1.8
2016	32.8	2.0
2017 – 2021	217.1	14.0
	$353.7	$22.0

Savings and Investment Plan

The Company has a Savings and Investment Plan, which allows all U.S. employees to become participants upon employment. In 2011, 2010 and 2009, participants' contributions, up to 4% of compensation, generally qualified for a 100% Company match. Effective February 13, 2009, the Company reduced the 100% Company match to up to 2% of compensation. Effective January 1, 2010, the Company increased the 100% Company match to up to 3% of compensation. Effective August 13, 2010, the Company increased the 100% Company match to up to 4% of compensation. Company contributions are used to purchase various investment funds at the participants' discretion. The Company's cost of the plan was $18.7 million, $17.5 million and $8.1 million in 2011, 2010 and 2009, respectively.

In addition, the Company has a Company sponsored retirement contribution program under the Savings and Investment Plan, which provides all U.S. employees hired after September 30, 2002 with at least six months of service and certain other employees who previously elected to participate in the Company sponsored retirement contribution program under the Savings and Investment Plan, a Company provided retirement contribution of 5% of annual pay if they are employed on the last day of each calendar year. Participating employees who receive the 5% Company retirement contribution do not accrue benefits under the Company's defined benefit pension plan. The Company's cost of the retirement contribution program under the Savings and Investment Plan was $19.6 million, $18.9 million and $16.9 million in 2011, 2010 and 2009, respectively.

Note 10: Employee Stock Plans

The Company has an incentive award plan that provides for the granting of non-qualified stock options, incentive stock options, stock appreciation rights, performance shares, restricted stock and restricted stock units to officers, key employees and non-employee directors.

Stock option grants to officers and key employees under the incentive award plan are generally granted at an exercise price equal to the fair market value at the date of grant, generally expire ten years after their original date of grant and generally become vested and exercisable at a rate of 25% per year beginning twelve months after the date of grant. Restricted share awards to officers and key employees generally become fully vested and free of restrictions four years from the date of grant, except for restricted stock grants pursuant to the Company's executive bonus plan, which generally become fully vested and free of restrictions two years from the date of grant.

Restricted share awards to non-employee directors generally vest and become free of restrictions twelve months after the date of grant.

At December 31, 2011, the aggregate number of shares available for future grant under the incentive award plan for stock options and restricted share awards was approximately 28.0 million shares.

Share-Based Award Activity and Balances

The following table summarizes the Company’s stock option activity:

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	2011		2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	(in thousands, except option exercise price and fair value data)					
Outstanding, beginning of year	23,856	$51.50	24,897	$47.99	21,238	$48.96
Options granted	5,007	75.95	5,084	59.54	5,790	40.73
Options exercised	(5,496)	48.01	(5,383)	43.12	(1,835)	35.68
Options cancelled	(716)	60.35	(742)	49.70	(296)	52.01
Outstanding, end of year	22,651	57.47	23,856	51.50	24,897	47.99
Exercisable, end of year	12,414	53.05	14,485	51.30	16,628	48.98
Weighted average per share fair value of options granted during the year		$23.30		$18.86		$15.44

The aggregate intrinsic value of stock options exercised in 2011, 2010 and 2009 was $172.5 million, $135.0 million and $35.9 million, respectively.

As of December 31, 2011, the weighted average remaining contractual life of options outstanding and options exercisable are 6.6 years and 5.1 years, respectively, and based on the Company’s closing year-end stock price of $87.74 at December 31, 2011, the aggregate intrinsic value of options outstanding and options exercisable are $685.6 million and $430.6 million, respectively. Upon exercise of stock options, the Company generally issues shares from treasury.

The following table summarizes the Company’s restricted share activity:

	2011		2010		2009	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
	(in thousands, except fair value data)					
Restricted share awards, beginning of year	886	$51.20	814	$48.99	678	$52.12
Shares granted	277	76.52	352	60.53	455	42.95
Shares vested	(87)	56.12	(212)	58.97	(304)	46.49
Shares cancelled	(41)	54.45	(68)	48.70	(15)	58.96
Restricted share awards, end of year	1,035	57.38	886	51.20	814	48.99

The total fair value of restricted shares that vested was $6.9 million in 2011, $12.8 million in 2010 and $12.7 million in 2009, respectively.

Valuation and Expense Recognition of Share-Based Awards

The Company accounts for the measurement and recognition of compensation expense for all share-based awards made to the Company’s employees and directors based on the estimated fair value of the awards.

The following table summarizes share-based compensation expense by award type for the years ended December 31, 2011, 2010 and 2009, respectively:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2011	2010	2009
	(in millions)		
Employee and director stock options	$65.6	$56.9	$131.2
Employee and director restricted share awards	15.0	12.5	12.1
Stock contributed to employee benefit plans	5.7	4.5	8.6
Pre-tax share-based compensation expense	86.3	73.9	151.9
Income tax benefit	(28.5)	(23.2)	(50.9)
Net share-based compensation expense	$57.8	$50.7	$101.0

The following table summarizes pre-tax share-based compensation expense by expense category for the years ended December 31, 2011, 2010 and 2009, respectively:

	2011	2010	2009
	(in millions)		
Cost of sales	$7.8	$7.6	$12.1
Selling, general and administrative	56.3	49.7	101.6
Research and development	22.2	16.6	38.2
Pre-tax share-based compensation expense	$86.3	$73.9	$151.9

Share-based compensation expense for 2009 includes $78.6 million of pre-tax compensation expense from stock option modifications related to the 2009 restructuring plan, including incremental pre-tax compensation expense of $11.0 million due to the change in fair value from the modifications, consisting of $5.0 million of cost of sales, $52.6 million in SG&A expenses and $21.0 million in R&D expenses.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based awards on the original grant date. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. Stock options granted during 2011, 2010 and 2009 were valued using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2011	2010	2009
Expected volatility	27.82%	29.10%	39.82%
Risk-free interest rate	2.54%	2.73%	1.64%
Expected dividend yield	0.32%	0.37%	0.40%
Expected option life (in years)	5.85	5.79	5.71

The Company estimates its stock price volatility based on an equal weighting of the Company's historical stock price volatility and the average implied volatility of at-the-money options traded in the open market. The risk-free interest rate assumption is based on observed interest rates for the appropriate term of the Company's stock options. The Company does not target a specific dividend yield for its dividend payments but is required to assume a dividend yield as an input to the Black-Scholes option-pricing model. The dividend yield assumption is based on the Company's history and an expectation of future dividend amounts. The expected option life assumption is estimated based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

The Company recognizes shared-based compensation cost over the vesting period using the straight-line single option method. Share-based compensation expense is recognized only for those awards that are ultimately expected to vest.

An estimated forfeiture rate has been applied to unvested awards for the purpose of calculating compensation cost. Forfeitures were estimated based on historical experience. These estimates are revised, if necessary, 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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As of December 31, 2011, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $170.0 million, which is expected to be recognized over the next 48 months (31 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of December 31, 2011, 2010 and 2009.

Note 11: Financial Instruments

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

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

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

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

Interest Rate Risk Management

The Company’s interest income and expense is more sensitive to fluctuations in the general level of U.S. interest rates than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on cash and equivalents and short-term investments and interest expense on debt, as well as costs associated with foreign currency contracts. For a discussion of the Company’s interest rate swap activities, see Note 6, “Notes Payable and Long-Term Debt.”

Foreign Exchange Risk Management

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

From time to time, the Company enters into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities,

commitments and anticipated foreign currency denominated sales and operating expenses. The Company enters into foreign currency option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed 18 months. The Company does not designate these derivative instruments as accounting hedges.

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

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

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instruments, whether for firmly committed transactions or for probable but not firmly committed transactions, generally does not exceed 18 months.

All of the Company's outstanding foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Canadian dollar, Mexican peso, Australian dollar, Brazilian real, euro, Korean won, Turkish lira, Poland zloty and Swiss franc. Current changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as "Other, net" in the accompanying consolidated statements of earnings. During 2011, 2010 and 2009, the Company recognized realized gains on settled foreign currency option contracts of $2.2 million, $15.1 million and $10.6 million, respectively, and net unrealized gains (losses) on open foreign currency option contracts of $11.1 million, $(7.6) million and $(13.6) million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in "Other current assets" and amortized to "Other, net" over the life of the options.

All of the Company's outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through "Other, net" in the accompanying consolidated statements of earnings. During 2011, 2010 and 2009, the Company recognized total realized and unrealized (losses) gains from foreign exchange forward contracts of $(2.5) million, $1.1 million and $(11.0) million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in "Other current assets" and "Accounts payable." At December 31, 2011 and 2010, foreign currency derivative assets associated with the foreign exchange option contracts of $26.3 million and $10.4 million, respectively, were included in "Other current assets." At December 31, 2011 and 2010, net foreign currency derivative liabilities associated with the foreign exchange forward contracts of $0.7 million were included in "Accounts payable."

At December 31, 2011 and 2010, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows:

	2011 Notional Principal (in millions)	Fair Value	2010 Notional Principal	Fair Value
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$35.4	$(0.4)	$25.6	$(0.9)
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	39.1	(0.3)	39.9	0.2
Foreign currency sold — put options	404.7	26.3	346.4	10.4

The notional principal amounts provide one measure of the transaction volume outstanding as of December 31, 2011 and 2010, and do not represent the amount of the Company's exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of December 31, 2011 and 2010. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Other Financial Instruments

At December 31, 2011 and 2010, the Company’s other financial instruments included cash and equivalents, short-term investments, trade receivables, non-marketable equity investments, accounts payable and borrowings. The carrying amount of cash and equivalents, short-term investments, trade receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The fair value of non-marketable equity investments which represent investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value and other information provided by these ventures. The fair value of notes payable, convertible notes and long-term debt are estimated based on quoted market prices and interest rates.

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The carrying amount and estimated fair value of the Company's other financial instruments at December 31, 2011 and 2010 were as follows:

	2011 Carrying Amount (in millions)	Fair Value	2010 Carrying Amount	Fair Value
Cash and equivalents	$2,406.1	$2,406.1	$1,991.2	$1,991.2
Short-term investments	179.9	179.9	749.1	749.1
Non-current non-marketable equity investments	9.0	9.0	7.7	7.7
Notes payable	83.9	84.3	28.1	28.1
Convertible notes	—	—	642.5	651.1
Long-term debt	1,515.4	1,689.9	1,534.2	1,612.3

In 2011, the Company recorded an impairment charge of $3.2 million included in SG&A expenses due to the other than temporary decline in value of a non-marketable equity investment. In 2009, the Company sold a non-marketable equity investment in connection with a third-party tender offer for the business underlying the equity investment and recognized a $25.3 million pre-tax gain. During 2009, the Company recognized unrealized pre-tax holding gains related to changes in the fair value of marketable equity investments of $2.9 million as a component of "Other comprehensive income (loss)." The Company sold all of its marketable equity investments in the third quarter of 2009 and recognized a pre-tax loss of $0.7 million.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk principally consist of trade receivables. Wholesale distributors, major retail chains and managed care organizations account for a substantial portion of trade receivables. This risk is limited due to the number of customers comprising the Company's customer base, and their geographic dispersion. At December 31, 2011, no single customer represented more than 10% of trade receivables, net. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. The Company has purchased an insurance policy intended to reduce the Company's exposure to potential credit risks associated with certain U.S. customers. To date, no claims have been made against the insurance policy. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's estimates.

Note 12: Fair Value Measurements

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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

The following table provides a reconciliation of the change in the contingent consideration liabilities for the years ended December 31, 2011 and 2010:

Explanation of Responses:

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	2011	2010
	(in million)	
Balance, beginning of year	$44.5	$—
Additions during the period related to business combinations	169.2	36.7
Change in the estimated fair value of the contingent consideration liabilities	11.9	7.9
Settlements made during the period	(3.0)	—
Foreign exchange translation effects	(8.0)	(0.1)
Balance, end of year	$214.6	$44.5

Note 13: Legal Proceedings

The Company is 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 the Company and 12 other defendants and alleged unfair business practices, including a price fixing conspiracy relating to the reimportation of pharmaceuticals from Canada. The complaint sought damages, equitable relief, attorneys' fees and costs. In January 2007, the 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 the Company's 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.
Government Investigations
In September 2011, the Company 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 the Company's Eye Care Business Advisor Group, Allergan Access and BSM Connect for Ophthalmology. In January 2012, the underlying qui tam complaint was partially unsealed to the Company.
In February 2011, the Company 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 the Company's best prices provided to Medicaid for certain of the Company's ophthalmic products.
In December 2010, the Company 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 the Company's Eye Care Business Advisor Group, Allergan Access, and BSM Connect for Ophthalmology. In January 2012, the underlying qui tam complaint was partially unsealed to the Company.
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 the Company's 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 the Company's alleged sales and marketing practices in connection with Botox® and seeks to shift the costs of the September 2010 settlement with the U.S.

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Department of Justice to the defendants. In October 2010, the plaintiff filed an amended complaint and the Company 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, the Company filed a motion to dismiss the second amended complaint.

Himmel Action

In September 2010, Daniel Himmel filed a stockholder derivative complaint against the Company's 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 the Company's 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 the Company's 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 actions, which was granted. In November 2010, the plaintiffs filed their consolidated complaint. In December 2010, the Company 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, the Company filed a motion for partial stay of the consolidated action in favor of the LMPERS action, which the Company 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, the Company 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 the Company's 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 the Company's 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 the Company's 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.

The Company is 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. The Company believes 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 the Company's consolidated financial position, liquidity or results of operations. However, an adverse ruling in a patent infringement lawsuit involving the Company could materially affect the Company's ability to sell one or more of its products or could result in additional competition. In view of the unpredictable nature of such matters, the Company cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which the Company is a party or the impact on the Company of an adverse ruling in such matters.

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Note 14: Commitments and Contingencies

Operating Lease Obligations

The Company leases certain facilities, office equipment and automobiles and provides for payment of taxes, insurance and other charges on certain of these leases. Rental expense was $58.1 million in 2011, $53.5 million in 2010 and $57.9 million in 2009.

Future minimum rental payments under non-cancelable operating lease commitments with a term of more than one year as of December 31, 2011 are as follows: $47.2 million in 2012, $38.0 million in 2013, $29.6 million in 2014, $14.0 million in 2015, $12.0 million in 2016 and $43.1 million thereafter.

Contingencies

In 2009, the Company established a reserve for a contingent liability associated with regulation changes resulting from a final rule issued by the U.S. Department of Defense (DoD) that placed retroactive and prospective pricing limits on certain branded pharmaceuticals under the TRICARE Retail Pharmacy Program, even though such branded pharmaceuticals have not historically been subject to a contract with the Company. As of December 31, 2011, the reserve for the contingent liability is $15.4 million and is included in “Other accrued expenses.”

In the third quarter of 2009, the Company entered into a co-promotion agreement with Quintiles Transnational Corp. (Quintiles), under which Quintiles co-promoted Sanctura XR®, Latisse® and Aczone®, generally targeting primary care physicians. Due to significantly lower than anticipated performance under the agreement, the Company terminated this co-promotion agreement in the third quarter of 2010 and established a reserve for the contingent liability. In the second quarter of 2011, the Company settled all outstanding obligations with Quintiles and recorded additional costs of $3.3 million related to the settlement. The aggregate settlement amount, including such related costs, was within the previously disclosed estimated liability range.

Consistent with market practice, the Company 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. The Company is also self-insured for product liability losses related to its breast implant products. Future product liability losses associated with Botox®, Botox® Cosmetic and breast implant products are, by their nature, uncertain and are based upon complex judgments and probabilities. The Company accrues for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. The Company estimates these accruals for potential losses based primarily on historical claims experience and data regarding product usage.

Note 15: Guarantees

The Company’s Amended and Restated Certificate of Incorporation provides that the Company will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each person that is involved in or is, or is threatened to be, made a party to any action, suit or proceeding by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise. The Company has also entered into contractual indemnity agreements with each of its directors and executive officers pursuant to which, among other things, the Company has agreed to indemnify such directors and executive officers against any payments they are required to make as a result of a claim brought against such

executive officer or director in such capacity, excluding claims (i) relating to the action or inaction of a director or executive officer that resulted in such director or executive officer gaining illegal personal profit or advantage, (ii) for an accounting of profits made from the purchase or sale of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law or (iii) that are based upon or arise out of such director's or executive officer's knowingly fraudulent, deliberately dishonest or willful misconduct. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors' and officers' liability insurance policies intended to reduce the Company's monetary exposure and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions, but makes no assurance that such amounts will not be paid in the future. The Company currently believes the estimated fair value of these indemnification arrangements is minimal.

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

Note 16: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets. The U.S. programs include the ConfidencePlus® and ConfidencePlus® Premier warranty programs. The ConfidencePlus® program currently provides lifetime product replacement, $1,200 of financial assistance for surgical procedures within ten years of implantation and contralateral implant replacement. The ConfidencePlus® Premier program, which normally requires a low additional enrollment fee, generally provides lifetime product replacement, $2,400 of financial assistance for saline breast implants and $3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The enrollment fee is deferred and recognized as income over the ten year warranty period for financial assistance. The warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities for the years ended December 31, 2011 and 2010:

	2011	2010

	(in millions)	
Balance, beginning of year	$30.1	$29.4
Provision for warranties issued during the year	8.6	8.3
Settlements made during the year	(6.8)	(8.1)
Increases in warranty estimates	0.7	0.5
Balance, end of year	$32.6	$30.1
Current portion	$6.5	$6.7
Non-current portion	26.1	23.4
Total	$32.6	$30.1

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Note 17: Business Segment Information

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

The Company evaluates segment performance on a revenue and 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 the Company's segments for performance assessment by the Company's chief operating decision maker. Other adjustments excluded from the Company's segments for performance assessment represent income or expenses that do not reflect, according to established Company-defined criteria, operating income or expenses associated with the Company's core business activities. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does the Company's chief operating decision maker evaluate operating segments using discrete asset information.

Operating Segments

	2011	2010	2009
	(in millions)		
Product net sales:			
Specialty pharmaceuticals	$4,432.0	$3,973.4	$3,683.8
Medical devices	915.1	846.2	763.8
Total product net sales	5,347.1	4,819.6	4,447.6
Other corporate and indirect revenues	72.0	99.8	56.0
Total revenues	$5,419.1	$4,919.4	$4,503.6
Operating income:			
Specialty pharmaceuticals	$1,763.3	$1,501.9	$1,370.8
Medical devices	286.0	284.7	189.2
Total segments	2,049.3	1,786.6	1,560.0
General and administrative expenses, other indirect costs and other adjustments	551.9	434.9	456.7
Amortization of acquired intangible assets (a)	104.0	114.5	124.4
Legal settlement	—	609.2	—
Impairment of intangible assets and related costs	23.7	369.1	—
Restructuring charges	4.6	0.3	50.9
Total operating income	$1,365.1	$258.6	$928.0

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

Product net sales for the Company's various global product portfolios are presented below. The Company's principal markets are the United States, Europe, Latin America and Asia Pacific. The U.S. information is presented separately as it is the Company's headquarters country. U.S. sales represented 60.2%, 62.6% and 65.4% of the Company's total consolidated product net sales in 2011, 2010 and 2009, respectively.

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ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Sales to two customers in the Company's specialty pharmaceuticals segment each generated over 10% of the Company's total consolidated product net sales. Sales to Cardinal Health, Inc. for the years ended December 31, 2011, 2010 and 2009 were 14.1%, 13.1% and 13.9%, respectively, of the Company's 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 the Company's total consolidated product net sales. No other country or single customer generates over 10% of the Company's total consolidated product net sales. Net sales for the Europe region also include sales to customers in Africa and the Middle East, and net sales in the Asia Pacific region include sales to customers in Australia and New Zealand.

Product Net Sales by Product Line

	2011	2010	2009
	(in millions)		
Specialty Pharmaceuticals:			
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	4,432.0	3,973.4	3,683.8
Medical Devices:			
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	915.1	846.2	763.8
Total product net sales	$5,347.1	$4,819.6	$4,447.6

Geographic Information

	Product Net Sales		
	2011	2010	2009
	(in millions)		
United States	$3,221.6	$3,017.0	$2,910.2
Europe	1,086.6	931.6	857.8
Latin America	390.7	323.7	256.0
Asia Pacific	408.7	333.8	254.0
Other	239.5	213.5	169.6
Total product net sales	$5,347.1	$4,819.6	$4,447.6

	Long-lived Assets		Depreciation and Amortization			Capital Expenditures		
	2011	2010	2011	2010	2009	2011	2010	2009
	(in millions)							
United States	$3,500.9	$3,222.4	$187.9	$202.2	$210.0	$63.6	$62.8	$63.5
Europe	502.0	563.1	50.3	42.0	42.4	46.3	29.3	20.5
Latin America	59.4	65.0	9.8	8.3	6.3	6.6	6.7	10.0
Asia Pacific	53.3	56.3	4.5	3.8	2.7	2.1	3.9	1.6
Other	2.8	3.7	0.9	0.8	0.7	—	0.1	0.2

Total	$4,118.4	$3,910.5	$253.4	$257.1	$262.1	$118.6	$102.8	$95.8

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ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The increase in long-lived assets located in the United States at December 31, 2011 compared to December 31, 2010 is primarily due to an increase in intangible assets and goodwill related to the acquisitions of Vicept and Precision Light completed in the third quarter of 2011 and the acquisition of Alacer completed in the second quarter of 2011.

Note 18: Earnings Per Share

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

	Year Ended December 31,		
	2011	2010	2009
	(in millions, except per share amounts)		
Net earnings attributable to Allergan, Inc.	$934.5	$0.6	$621.3
Weighted average number of shares outstanding	304.4	303.4	303.6
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	5.5	4.3	2.2
Dilutive effect of assumed conversion of convertible notes outstanding	0.3	0.3	—
Diluted shares	310.2	308.0	305.8
Earnings per share attributable to Allergan, Inc. stockholders:			
Basic	$3.07	$0.00	$2.05
Diluted	$3.01	$0.00	$2.03

For the year ended December 31, 2011, options to purchase 4.8 million shares of common stock at exercise prices ranging from $62.71 to $84.40 per share were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

For the year ended December 31, 2010, options to purchase 8.5 million shares of common stock at exercise prices ranging from $47.10 to $73.04 per share were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

For the year ended December 31, 2009, options to purchase 13.2 million shares of common stock at exercise prices ranging from $39.67 to $65.63 per share were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive. There were no potentially diluted common shares related to the Company’s 2026 Convertible Notes for the year ended December 31, 2009, as the Company’s average stock price for the period was less than the conversion price of the notes.

Note 19: Comprehensive Income (Loss)
The following table summarizes the components of comprehensive income (loss) for the years ended December 31:

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ALLERGAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2011			2010			2009		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
	(in millions)								
Foreign currency translation adjustments	$(42.6)	$—	$ (42.6)	$(3.2)	$—	$ (3.2)	$38.9	$—	$ 38.9
Reclassification adjustment for foreign currency translation gains included in net income from the substantially complete liquidation of an investment in a foreign subsidiary	(9.4)	—	(9.4)	—	—	—	—	—	—
Amortization of deferred holding gains on derivatives designated as cash flow hedges	(1.3)	0.5	(0.8)	(1.3)	0.5	(0.8)	(1.3)	0.5	(0.8)
Pension and postretirement benefit plan adjustments:									
Net (loss) gain	(87.6)	24.9	(62.7)	(73.7)	20.2	(53.5)	66.7	(17.8)	48.9
Net gain on remeasurement of postretirement benefit plan liability	20.5	(7.4)	13.1	—	—	—	—	—	—
Amortization	17.8	(5.1)	12.7	11.3	(3.1)	8.2	12.6	(3.4)	9.2
Unrealized holding gain on available-for-sale securities	—	—	—	—	—	—	2.9	(1.5)	1.4
Other comprehensive (loss) income	$(102.6)	$ 12.9	(89.7)	$(66.9)	$ 17.6	(49.3)	$119.8	$ (22.2)	97.6
Net earnings			938.1			4.9			623.8
Total comprehensive income (loss)			848.4			(44.4)			721.4
Comprehensive income attributable to noncontrolling interest			2.4			5.1			4.2
Comprehensive income (loss) attributable to Allergan, Inc.			$ 846.0			$ (49.5)			$ 717.2

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ALLERGAN, INC.
QUARTERLY RESULTS (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in millions, except per share data)				
2011					
Product net sales	$1,252.8	$1,400.4	$1,311.1	$1,382.8	$5,347.1
Total revenues	1,271.2	1,417.2	1,328.4	1,402.3	5,419.1
Operating income	247.5	363.2	344.4	410.0	1,365.1
Earnings before income taxes (a)	215.2	344.0	356.8	383.7	1,299.7
Net earnings	158.8	248.6	251.0	279.7	938.1
Net earnings attributable to Allergan, Inc.	158.3	246.6	249.8	279.8	934.5
Basic earnings per share attributable to Allergan, Inc. stockholders	0.52	0.81	0.82	0.92	3.07
Diluted earnings per share attributable to Allergan, Inc. stockholders	0.51	0.79	0.81	0.90	3.01
2010					
Product net sales	$1,105.8	$1,231.7	$1,192.0	$1,290.1	$4,819.6
Total revenues	1,154.7	1,247.2	1,208.2	1,309.3	4,919.4
Operating income (loss)	250.3	331.9	(691.0)	367.4	258.6
Earnings (loss) before income taxes (b)	232.0	333.5	(727.7)	333.0	170.8
Net earnings (loss)	169.0	241.5	(668.7)	263.1	4.9
Net earnings (loss) attributable to Allergan, Inc.	167.9	240.1	(670.5)	263.1	0.6
Basic earnings (loss) per share attributable to Allergan, Inc. stockholders	0.55	0.79	(2.21)	0.87	0.00
Diluted earnings (loss) per share attributable to Allergan, Inc. stockholders	0.55	0.78	(2.21)	0.85	0.00

(a) Includes 2011 pre-tax charges for the following items:

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ALLERGAN, INC.
QUARTERLY RESULTS (UNAUDITED) - (Continued)

	Quarter				
	First	Second	Third	Fourth	Total
	(in millions)				
Amortization of acquired intangible assets	$32.5	$31.2	$31.9	$32.0	$127.6
External costs for stockholder derivative litigation associated with the U.S. Department of Justice (DOJ) settlement	1.6	0.7	0.8	0.3	3.4
Expenses from changes in fair value of contingent consideration	—	2.3	—	9.6	11.9
Impairment of an in-process research and development asset	—	—	4.3	—	4.3
Upfront and milestone payments for technologies that have not achieved regulatory approval	60.0	45.0	20.0	—	125.0
Additional costs for the termination of a third-party agreement related to the promotion of Sanctura XR®	—	3.3	—	—	3.3
Cumulative net expense resulting from the discontinued development of the Easyband™ Remote Adjustable Gastric Band System	9.0	(0.1)	—	—	8.9
Restructuring charges (reversal)	4.6	0.1	(0.1)	—	4.6
Non-cash interest expense associated with amortization of convertible debt discount	6.5	0.8	—	—	7.3
Unrealized loss (gain) on derivative instruments, net	6.9	(2.1)	(16.8)	0.9	(11.1)

(b) Includes 2010 pre-tax charges for the following items:

	Quarter				
	First	Second	Third	Fourth	Total
	(in millions)				
Licensing fee income for a development and commercialization agreement	$(36.0)	$—	$—	$—	$(36.0)
Amortization of acquired intangible assets	37.1	37.3	31.1	32.5	138.0
External costs associated with responding to the DOJ subpoena and related stockholder derivative litigation costs	4.5	4.0	3.0	2.9	14.4
Distributor termination fee and expense from changes in fair value of contingent consideration associated with the purchase of a distributor's business in Turkey	—	—	33.0	7.9	40.9
Write-off of manufacturing assets related to the abandonment of an eye care product	—	—	10.6	—	10.6
Upfront payment for technology that has not achieved regulatory approval	43.0	—	—	—	43.0

Legal settlement costs associated with a resolution with the DOJ regarding past U.S. sales and marketing practices relating to certain therapeutic uses of Botox®	—	—	609.9	(0.7)	609.2
An aggregate charge related to the impairment of the Sanctura® Assets and related costs	—	—	369.1	—	369.1
Non-cash interest expense associated with amortization of convertible debt discount	6.1	6.3	6.3	6.4	25.1
Unrealized loss (gain) on derivative instruments, net	0.7	(8.9)	15.2	0.6	7.6

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SCHEDULE II

ALLERGAN, INC.

VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2011, 2010 and 2009

Allowance for Doubtful Accounts Deducted from Trade Receivables	Balance at Beginning of Year (in millions)	Additions (a)	Deductions (b)	Balance at End of Year
2011	$29.0	$7.2	$(4.3)	$31.9
2010	30.3	5.3	(6.6)	29.0
2009	31.4	10.8	(11.9)	30.3

(a) Provision charged to earnings.
(b) Accounts written off, net of recoveries.

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