Spectrum Brands, Inc.
Form 10-Q
May 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-13615

Spectrum Brands, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin	**22-2423556**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
Six Concourse Parkway,	
Suite 3300, Atlanta, Georgia	**30328**
(Address of principal executive offices)	**(Zip Code)**

(770) 829-6200

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report.)

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of May 5, 2008, was 52,767,673.

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SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED March 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Balance Sheets

March 30, 2008 and September 30, 2007

(Unaudited)

(Amounts in thousands, except per share figures)

	March 30, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 81,454	$ 69,853
Receivables:		
Trade accounts receivable, net of allowances of $17,878 and $17,196, respectively	365,045	352,877
Other	36,894	47,522
Inventories	468,198	396,329
Deferred income taxes	14,860	22,208
Assets held for sale	8,942	33,646
Prepaid expenses and other	56,370	53,966
Total current assets	1,031,763	976,401
Property, plant and equipment, net	275,444	281,568
Deferred charges and other	47,602	40,740
Goodwill	861,390	820,727
Intangible assets, net	1,056,223	1,047,044
Debt issuance costs	40,770	44,906
Total assets	$ 3,313,192	$ 3,211,386
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of long-term debt	$ 58,378	$ 43,438
Accounts payable	288,417	279,548
Accrued liabilities:		
Wages and benefits	58,814	67,492
Income taxes payable	15,977	18,345
Restructuring and related charges	43,065	55,793
Accrued interest	51,336	51,122
Liabilities held for sale		8,475
Other	81,254	81,943
Total current liabilities	597,241	606,156
Long-term debt, net of current maturities	2,584,975	2,416,916
Employee benefit obligations, net of current portion	60,295	54,469
Deferred income taxes	232,600	169,088
Other	70,998	68,585
Total liabilities	3,546,109	3,315,214
Commitments and contingencies		
Shareholders deficit:		
	692	690

Common stock, $.01 par value, authorized 150,000 shares; issued 69,250 and 69,062 shares, respectively; outstanding 52,779 and 52,765 shares, respectively		
Additional paid-in capital	672,562	669,274
Accumulated deficit	(918,486)	(763,370)
Accumulated other comprehensive income	89,091	65,664
	(156,141)	(27,742)
Less treasury stock, at cost, 16,327 and 16,297 shares, respectively	(76,776)	(76,086)
Total shareholders deficit	(232,917)	(103,828)
Total liabilities and shareholders deficit	$ 3,313,192	$ 3,211,386

See accompanying notes which are an integral part of these condensed consolidated financial statements.

(Unaudited).

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Operations

For the three and six month periods ended March 30, 2008 and April 1, 2007

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS		SIX MONTHS	
	2008	2007	2008	2007
Net sales	$ 647,142	$ 634,465	$ 1,251,826	$ 1,245,551
Cost of goods sold	412,348	403,985	799,229	790,845
Restructuring and related charges	195	6,664	316	12,615
Gross profit	234,599	223,816	452,281	442,091
Selling	139,102	139,520	275,403	288,403
General and administrative	59,233	48,401	98,479	87,717
Research and development	6,199	7,154	11,998	14,541
Goodwill and intangibles impairment	13,200	214,039	13,200	214,039
Restructuring and related charges	5,175	11,175	10,067	14,783
Total operating expenses	222,909	420,289	409,147	619,483
Operating income (loss)	11,690	(196,473)	43,134	(177,392)
Interest expense	58,221	85,215	115,393	132,099
Other (income) expense, net	(1,054)	2,303	(1,163)	3,254
Loss from continuing operations before income taxes	(45,477)	(283,991)	(71,096)	(312,745)
Income tax expense (benefit)	66,329	(45,886)	82,774	(57,070)
Loss from continuing operations	(111,806)	(238,105)	(153,870)	(255,675)
Income (loss) from discontinued operations, net of tax	93	590	(1,245)	(650)
Net loss	$ (111,713)	$ (237,515)	$ (155,115)	$ (256,325)
Basic earnings per share:				
Weighted average shares of common stock outstanding	50,897	49,811	50,937	49,828
Loss from continuing operations	$ (2.19)	$ (4.78)	$ (3.02)	$ (5.13)
Income (loss) from discontinued operations		0.01	(0.03)	(0.01)
Net loss	$ (2.19)	$ (4.77)	$ (3.05)	$ (5.14)
Diluted earnings per share:				
Weighted average shares and equivalents outstanding	50,897	49,811	50,937	49,828
Loss from continuing operations	$ (2.19)	$ (4.78)	$ (3.02)	$ (5.13)
Income (loss) from discontinued operations		0.01	(0.03)	(0.01)
Net loss	$ (2.19)	$ (4.77)	$ (3.05)	$ (5.14)

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

For the six month periods ended March 30, 2008 and April 1, 2007

(Unaudited)

(Amounts in thousands)

	SIX MONTHS	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (155,115)	$ (256,325)
Loss from discontinued operations	(1,245)	(650)
Loss from continuing operations	(153,870)	(255,675)
Non-cash adjustments to loss from continuing operations:		
Depreciation	29,188	21,087
Amortization	22,494	15,386
Amortization of debt issuance costs	4,288	3,822
Impairment of goodwill and intangibles	13,200	214,039
Other non-cash adjustments	84,652	(20,428)
Net changes in assets and liabilities, net of discontinued operations	(136,347)	(180,232)
Net cash used by operating activities of continuing operations	(136,395)	(202,001)
Net cash used by operating activities of discontinued operations	(296)	(13,001)
Net cash used by operating activities	(136,691)	(215,002)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10,122)	(14,689)
Proceeds from sale of equipment	126	231
Net cash used by investing activities of continuing operations	(9,996)	(14,458)
Net cash provided by investing activities of discontinued operations	15,076	
Net cash provided (used) by investing activities	5,080	(14,458)
Cash flows from financing activities:		
Reduction of debt	(146,201)	(1,715,780)
Proceeds from debt financing	285,000	2,076,623
Debt issuance costs	(152)	(40,969)
Treasury stock purchases	(690)	(665)
Net cash provided by financing activities	137,957	319,209
Effect of exchange rate changes on cash and cash equivalents	5,255	62
Net increase in cash and cash equivalents	11,601	89,811
Cash and cash equivalents, beginning of period	69,853	28,430
Cash and cash equivalents, end of period	$ 81,454	$ 118,241

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc. and its subsidiaries (the Company) is a global branded consumer products company with positions in seven major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care; portable lighting; lawn and garden and household insect control.

The Company manages its business in three reportable segments: (i) Global Batteries & Personal Care, which consists of the Company s worldwide battery, shaving and grooming, personal care and portable lighting business (Global Batteries & Personal Care); (ii) Global Pet Supplies, which consists of the Company s worldwide pet supplies business (Global Pet Supplies); and (iii) Home and Garden Business, which consists of the Company s lawn and garden and household insect control businesses (the Home and Garden Business).

The Company s operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic supplies and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company s operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets lawn fertilizers, herbicides, insecticides and repellents in North America. The Company s operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin America.

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8in1, Spectracide, Cutter and various other brands.

In the third quarter of the Company s fiscal year ended September 30, 2006, the Company engaged advisors to assist it in exploring possible strategic options, including divesting certain assets, in order to reduce its outstanding indebtedness. In connection with this undertaking, during the first quarter of the Company s fiscal year ended September 30, 2007 the Company approved and initiated a plan to sell the Home and Garden Business, which at the time was comprised of United States (U.S.) and Canadian divisions. As a result, the Company designated certain assets and liabilities related to the Home and Garden Business as held for sale and designated the Home and Garden Business as discontinued operations. On November 1, 2007, the Company sold the Canadian division of the Home and Garden Business. See Note 2, Significant Accounting Policies Discontinued Operations and Assets Held for Sale for further details on the sale of the Canadian division of the Home and Garden Business.

During the second quarter of the Company s fiscal year ending September 30, 2008 the Company determined that in view of the difficulty in predicting the timing or probability of a sale of the Home and Garden Business, the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), necessary to classify the Home and Garden Business as discontinued operations were no longer met. As a result, effective December 31, 2007, the Company reclassified the Home and Garden Business, which had been designated as a discontinued operation since October 1, 2006, as an asset held and used. Accordingly, the presentation herein of the results of continuing operations includes the Home and Garden Business, without the Canadian division which, as indicated above, was sold on November 1, 2007, for all periods presented.

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at March 30, 2008, the results of operations for the three and six month periods ended March 30, 2008 and April 1, 2007, and cash flows for the six month periods ended March 30, 2008 and April 1, 2007. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the condensed consolidated financial statements of Spectrum Brands, Inc. and its subsidiaries and are prepared in accordance with generally accepted accounting principles in the United States of America. All intercompany transactions have been eliminated. The Company s fiscal year ends September 30. References herein to Fiscal 2008 and Fiscal 2007 refer to the fiscal years ended September 30, 2008 and 2007, respectively.

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Discontinued Operations: On November 1, 2007, the Company sold the Canadian division of the Home and Garden Business, which operated under the name Nu-Gro, to a new company formed by RoyCap Merchant Banking Group and Clarke Inc. Cash proceeds received at closing, net of selling expenses, totaled $14,931 and were used to reduce outstanding debt. These proceeds are included in net cash provided by investing activities of discontinued operations in the Condensed Consolidated Statements of Cash Flows (Unaudited) included in this Quarterly Report on Form 10-Q. On February 5, 2008, the Company finalized the contractual working capital adjustment in connection with this sale which increased proceeds received by the Company by $500. As a result of the finalization of the contractual working capital adjustments the Company recorded a loss on disposal of $1,087, net of tax benefit.

The following amounts related to the Canadian division of the Home and Garden Business have been segregated from continuing operations and are reflected as discontinued operations for the three and six months ended March 30, 2008 and April 1, 2007, respectively:

	Three Months		Six Months	
	2008[A]	2007[B]	2008[A]	2007[B]
Net sales	$	$ 25,495	$ 4,732	$ 34,609
Income (loss) from discontinued operations before income taxes	$ 93	$ 890	$ (1,896)	$ (1,049)
Provision for income tax expense (benefit)		300	(651)	(399)
Income (loss) from discontinued operations, net of tax	$ 93	$ 590	$ (1,245)	$ (650)

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

(A) The three month period ended March 30, 2008 represents the adjustment of certain liabilities, primarily professional fees related to the sale of the Canadian division of the Home and Garden Business. The six month period ended March 30, 2008 represents results from discontinued operations from October 1, 2007 through November 1, 2008, the date of sale. Included in the loss for the six month period is a loss on disposal of $1,087, net of tax benefit.

(B) The three month period ended April 1, 2007 represents results from discontinued operations from January 1, 2007 through April 1, 2007. The six month period ended April 1, 2007 represents results for the discontinued operations for October 1, 2006 through April 1, 2007.

Assets Held for Sale: At March 30, 2008 assets totaling $8,942, which consists primarily of a distribution facility in the Dominican Republic and manufacturing facilities in France and Brazil, were included in Assets held for sale in the Condensed Consolidated Balance Sheets (Unaudited). At September 30, 2007, the Company had assets and liabilities of $24,975 and $8,475, respectively, related to the Canadian division of the Home and Garden Business included in Assets held for sale and liabilities held for sale in its Condensed Consolidated Balance Sheets (Unaudited). See Discontinued Operations in this Note 2 above for additional information. The remaining balance in Assets held for sale in the Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2007, consists primarily of a distribution facility in the Dominican Republic and manufacturing facilities in France and Brazil.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer lists and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 5 to 19 years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite-lived intangible assets (certain trade name intangibles) are not amortized. Goodwill is tested for impairment at least annually at the reporting unit level. If an impairment is indicated, a writedown to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite-lived trade name intangibles are tested for impairment at least annually by comparing the fair value, determined using a relief from royalty methodology, with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.

SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. The fair values of the Company s goodwill and trade name intangibles were tested as of December 31, 2007 and April 1, 2007. Goodwill and trade name intangibles were tested as of December 31, 2007 in conjunction with the Company s reclassification of the Home and Garden Business from an asset held for sale to an asset held and used coupled with a change in circumstances which indicated that the carrying value of certain of the Company s reporting units may not be recoverable. Goodwill and trade name intangibles were tested as of April 1, 2007 in conjunction with the Company s realignment of reportable segments.

In accordance with SFAS 142, the Company conducted impairment testing on the Company s goodwill. The Company used the discounted estimated future cash flows methodology to determine the fair value of its reporting units. Assumptions critical to the Company s fair value estimates were: (i) the present value factors used in determining the fair value of the reporting units and trade names; (ii) royalty rates used in the Company s trade name valuations; (iii) projected average revenue growth rates used in the reporting unit and trade name models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. The Company also tested fair value for reasonableness by

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

comparison to the market capitalization of the Company. The Company first compared the fair value of its reporting units with their carrying amounts, including goodwill. As a result of the testing performed as of December 31, 2007 this first step indicated that the fair value of the Company s reporting units were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required. As a result of the testing performed as of April 1, 2007 this first step indicated that the fair value of the Company s North America reporting unit, which is included in the Global Batteries & Personal Care reportable segment, was less than the Company s North America reporting unit s carrying amount and, accordingly, further testing of goodwill was required to determine the impairment charge required by SFAS 142. Accordingly, the Company then compared the carrying amount of the North America reporting unit s goodwill against the respective implied fair value of goodwill. The carrying amount of the North America reporting unit s goodwill was determined to exceed its implied fair value and, therefore, the Company recorded an impairment charge equal to the excess of the carrying amount of the reporting unit s goodwill over the implied fair value of such goodwill. As a result of this goodwill impairment analysis, the Company recorded a non-cash pretax goodwill impairment charge of approximately $214,039 during the three months ended April 1, 2007. This impairment of goodwill is primarily attributed to lower forecasted profits of the North America reporting unit, reflecting more conservative future growth rates, coupled with an increase in its carrying value during the six month period ended April 1, 2007.

The recognition of the $214,039 non-cash impairment of goodwill for the three months ended April 1, 2007, recorded as a separate component of Operating expenses, has had a material negative effect on the Company s financial condition and results of operations for the three and six month periods ended April 1, 2007. The impairment will not result in future cash expenditures.

In addition, in accordance with SFAS 142, as of December 31, 2007 and April 1, 2007 the Company also compared the carrying amount of indefinite-lived trade name intangible assets with their respective implied fair value. Fair value was determined using a relief from royalty methodology. Assumptions critical to the Company s fair value estimates were: (i) royalty rates; and (ii) projected average revenue growth rates. As a result, the Company concluded that as of December 31, 2007 the implied fair values of certain trade name intangible assets related to the Home and Garden Business were less that the carrying amounts of those assets. Accordingly, the Company recorded a non-cash pretax impairment charge of $13,200, equal to the excess of the carrying amounts of these intangible assets over the implied fair value of such assets. This impairment of indefinite-lived intangible assets, which related to the Home and Garden Business, is primarily attributed to lower forecasted sales of products sold under the respective impaired trade name. As a result of the testing performed as of April 1, 2007 the Company concluded that the fair values of its trade name intangible assets were in excess of their respective carrying amounts and, hence, such assets were not impaired.

The recognition of the $13,200 non-cash impairment of indefinite-lived intangible assets for the three months ended March 30, 2008, recorded as a separate component of Operating expenses, has had a material negative effect on the Company s financial condition and results of operations for the three and six month periods ended March 30, 2008. The impairment will not result in future cash expenditures.

The Company s management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts may signal that an asset has become impaired. Subsequent to March 30, 2008 there have been significant cost increases in certain raw materials used in the production of many of the lawn fertilizer and growing media products manufactured by the Company s Home and Garden Business, namely urea, diammonium phosphate and potash. If the cost of these commodities were to remain at, or increase from, their current levels and the Company was unable to offset or temper a significant portion of such higher costs by securing higher selling prices,

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

implementing cost reduction programs, or a combination of both, the cash flows of the Home and Garden Business could be negatively impacted which could result in a future impairment of goodwill related to that reporting unit.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $57,542 and $106,706 for the three and six month periods ended March 30, 2008, respectively, and $58,502 and $104,917 for the three and six month periods ended April 1, 2007, respectively. These costs are included in Selling expenses. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company s products for shipment from its distribution facilities.

Concentrations of Credit Risk: Trade receivables subject the Company to credit risk. Trade accounts receivable are carried at net realizable value. The Company extends credit to its customers based upon an evaluation of the customer s financial condition and credit history, and generally does not require collateral. The Company monitors its customers credit and financial condition based on changing economic conditions and makes adjustments to credit policies as required. Provision for losses on uncollectible trade receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of the Company s receivables and evaluations of the risks of nonpayment for a given customer.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 17% and 18% of the Company s Net sales during the three and six month periods ended March 30, 2008, respectively, and 20% of the Company s Net sales during both the three and six month periods ended April 1, 2007. This major customer also represented approximately 16% and 11% of the Company s trade accounts receivable, net as of March 30, 2008 and September 30, 2007, respectively.

Approximately 39% and 46% of the Company s Net sales during the three and six month periods ended March 30, 2008, respectively, and 40% and 45% of the Company s Net sales during the three and six month periods ended April 1, 2007, respectively, occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock-Based Compensation: The Company uses or has used two forms of stock based compensation. Shares of restricted stock have been awarded to certain employees and members of management since the fiscal year ended September 30, 2001. Prior to the fourth quarter of the fiscal year ended September 30, 2004, the Company also issued stock options to employees, some of which remained unvested as of October 1, 2005, the date the Company adopted SFAS No. 123(R), *Share Based Payment* (SFAS 123(R)). Restricted stock is now the only form of stock based compensation used by the Company.

SFAS 123(R) requires the Company to recognize expense related to the fair value of its employee stock option awards. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Company during the three and six month periods ended March 30, 2008, was $1,388, or $861, net of taxes, and $3,249, or $2,014, net of taxes, respectively, and during the three and six month periods ended April 1, 2007 was $4,818 and $8,626, or $3,228 and $5,779, net of taxes, respectively. The amounts before tax are included in General and administrative expenses in the Condensed Consolidated Statements of Operations (Unaudited). The Company expects that total stock compensation expense for 2008 will be approximately $6,555 before the effect of income taxes. As of March 30, 2008, there was $10,405 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted average period of approximately 3 years.

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

Stock options previously awarded generally vest under a combination of time-based and performance-based vesting criteria. Under the time-based vesting, the stock options become exercisable primarily in equal increments over a three year period, while under the performance-based vesting such options become exercisable over the same time period if certain performance criteria are met or one day prior to the end of the exercise period, if certain performance criteria are not met. The period during which such options, if vested, may be exercised generally extends ten years from the date of grant.

Restricted stock shares granted through the fiscal year ended September 30, 2006 generally have vesting periods of three to five years. Approximately 50% of the restricted stock shares are purely time-based and vest on a pro rata basis over either a three or four year vesting period and approximately 50% are time-based and performance-based. Vesting of such performance based restricted stock will occur upon achievement of certain performance goals established by the Board of Directors of the Company. Generally, performance targets consist of Earnings Per Share (EPS), segment Earnings Before Interest and Taxes (EBIT) and cash flow components. If such performance targets are not met, the performance component of a restricted stock award will not vest in the year that the performance targets applied to and instead will automatically vest one year after the originally scheduled vesting date, effectively making the award time-based. The Company recognizes amortization on the time-based component on a straight-line basis over the vesting period. The Company recognizes amortization on the performance-based component over the vesting period, assuming performance targets will not be met, unless and until it is probable that the performance targets will be met. At the point in time when it is probable that the performance target will be met, the recognition period is shortened one year to account for the accelerated vesting requirement of the performance-based component. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

Restricted stock shares granted in Fiscal 2007 generally have vesting periods which can range from one to five years. Approximately 89% of the shares granted are purely performance based and vest only upon the achievement of certain performance goals. Such performance goals consist of reportable segment and consolidated company Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) and cash flow components, each as defined by the Company for purposes of such awards. The remaining shares granted in Fiscal 2007 are time based, which vest either 100% after three years or on a pro rata basis over three years. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

During the six month period ended March 30, 2008, the Company granted approximately 308 shares of restricted stock. Of these grants, 58 shares are time based and vest on a pro rata basis over a three year period and 250 are purely performance based and vest only upon achievement of certain performance goals which consist of reportable segment and consolidated company EBITDA and cash flow components, each as defined by the Company for purposes of such awards. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

The Company currently has one active incentive plan under which additional shares may be issued to employees as equity compensation. In 2004, the Company s Board of Directors (the Board) adopted the 2004 Rayovac Incentive Plan (2004 Plan). Up to 3,500 shares of common stock, net of forfeitures and cancellations, may be issued under the 2004 Plan, which expires in July 2014. As of March 30, 2008, 2,574 restricted shares had been granted, net of forfeitures and shares surrendered by employees for payment of taxes on such awards, and 1,356 restricted shares were outstanding under the 2004 Plan. No options have been granted under the 2004 Plan.

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The Company also has two expired plans under which there remain equity based awards outstanding; the 1997 Rayovac Incentive Plan (1997 Plan), which expired on August 31, 2007, and the 1996 Rayovac Corporation Stock Option Plan (1996 Plan), which expired on September 12, 2006. As of March 30, 2008 there were options with respect to 1,152 shares of common stock and 526 restricted shares outstanding under the 1997 Plan, and options with respect to 180 shares of common stock outstanding under the 1996 Plan. The fair value of restricted stock is determined based on the market price per share of the Company s common stock on the grant date. A summary of the status of the Company s non-vested restricted stock as of March 30, 2008 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2007	2,265	$ 15.56	$ 35,242
Granted	308	5.73	1,765
Vested	(514)	19.00	(9,769)
Forfeited	(177)	30.26	(5,356)
Restricted stock at March 30, 2008	1,882	$ 11.63	$ 21,882

The following table summarizes the stock option transactions for the six month period ended March 30, 2008:

	Options	Weighted-Average Exercise Price
Outstanding at September 30, 2007	1,510	$ 15.82
Forfeited	(178)	17.45
Outstanding, at March 30, 2008	1,332	$ 15.58
Options exercisable at March 30, 2008	1,232	$ 15.72

The following table summarizes information about options outstanding and options outstanding and exercisable as of March 30, 2008:

	Options Outstanding			Options Outstanding and Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$11.32 $14.60	996	4.10 years	$ 13.49	902	$ 13.53
$16.19 $21.50	92	0.69	19.36	90	19.33
$21.63 $28.70	244	1.09	22.67	240	22.60

1,332	3.31	$	15.58	1,232	$	15.72

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if specific criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally

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assesses, both at inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument s change in fair value is immediately recognized in earnings.

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in Accumulated Other Comprehensive Income (AOCI) and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to Interest expense from the underlying debt to which the swap is designated. During the three month periods ended March 30, 2008 and April 1, 2007, $662 and $1,940 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Interest expense. During the three month periods ended March 30, 2008 and April 1, 2007, no adjustments were recorded to Interest expense for ineffectiveness from such hedges as such amounts were de minimis. During the six month periods ended March 30, 2008 and April 1, 2007, $2,264 and $3,745 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Interest expense. During the six month periods ended March 30, 2008 and April 1, 2007, no adjustments were recorded to Interest expense for ineffectiveness from such hedges as such amounts were de minimis. At March 30, 2008, the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 4.46% for a notional principal amount of $170,000 through October 2008 and 5.49% for a notional principal amount of $225,000 through March 2010 and 3.01% for a notional principal amount of $80,000 through April 2010. In addition, the Company had a portfolio of EUR-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 2.68% for a notional principal amount of 185,000 through September 2008. The derivative net loss on these contracts recorded in AOCI at March 30, 2008 was $8,255, net of tax benefit of $5,060. The derivative net gain on these contracts recorded in AOCI at September 30, 2007 was $163, net of tax expense of $100. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months was $5,350, net of tax benefit.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third-party and inter-company sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. During the three month periods ended March 30, 2008 and April 1, 2007, $416 and $359 of pretax derivative losses and gains, respectively, from such hedges were recorded as an adjustment to Net sales. During the six month periods ended March 30, 2008 and April 1, 2007, $1,374 and $538 of pretax derivative losses and gains, respectively, from such hedges were recorded as an adjustment to Net sales. During the three month periods ended March 30, 2008 and April 1, 2007, $1,804 and $408 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to Cost of goods sold. During the six month periods ended March 30, 2008 and April 1, 2007, $4,698 and $549 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to Cost of goods sold. Following the sale or purchase, subsequent changes in the fair value of the derivative hedge contracts are

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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recorded as a gain or loss in earnings as an offset to the change in value of the related asset or liability recorded in the Condensed Consolidated Balance Sheet (Unaudited). During the three month periods ended March 30, 2008 and April 1, 2007, $0 and $351 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. During the six month periods ended March 30, 2008 and April 1, 2007, $0 and $756 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for both the three month periods ended March 30, 2008 and April 1, 2007 was $0. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for both the six month periods ended March 30, 2008 and April 1, 2007 was $0. The derivative net loss on these contracts recorded in AOCI at March 30, 2008 was $8,045, net of tax benefit of $3,251. The derivative net loss on these contracts recorded in AOCI at September 30, 2007 was $6,010, net of tax benefit of $3,318. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months was $6,781, net of tax benefit.

The Company periodically enters into forward and swap foreign exchange contracts to hedge the risk from third-party and inter-company payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Brazilian Reals or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the Condensed Consolidated Balance Sheets (Unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. During the three month periods ended March 30, 2008 and April 1, 2007, $9,191 and $215 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. During the six month periods ended March 30, 2008 and April 1, 2007, $15,627 and $4,032 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. At March 30, 2008, $134,491 of such foreign exchange derivative contracts were outstanding. At September 30, 2007, $125,771 of such foreign exchange derivative contracts were outstanding.

The Company is exposed to risk from fluctuating prices for raw materials, including zinc, urea and diammonium phosphate used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity call options and swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The call options effectively cap the floating price on a specified quantity of raw materials through a specified date. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. During the three month periods ended March 30, 2008 and April 1, 2007, $727 and $7,719, of pretax derivative gains, respectively, were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally effective, however, during the three month periods ended March 30, 2008 and April 1, 2007, $24 and $453, of pretax derivative gains and losses, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. During the six month periods ended March 30, 2008 and April 1, 2007, $564 and $12,313, respectively, of pretax derivative gains were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally effective, however, during the six month periods ended March 30, 2008 and April 1, 2007, $303 and $388 of pretax derivative losses, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. At March 30, 2008, the Company had a series of such swap contracts outstanding through March 2010 with a contract value of $44,668. At September 30, 2007, $64,043 of such commodity contracts were outstanding. The derivative net loss on these contracts recorded in AOCI at March 30, 2008, was $2,289, net of tax benefit of $1,134. The derivative net loss on these contracts recorded in

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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AOCI at September 30, 2007 was $1,107, net of tax benefit of $529. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is $1,964, net of tax.

3 OTHER COMPREHENSIVE LOSS

Comprehensive income and the components of other comprehensive income, net of tax, for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, are as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Net loss	$ (111,713)	$ (237,515)	$ (155,115)	$ (256,325)
Other comprehensive income:				
Foreign currency translation	30,082	907	39,482	11,990
Adjustment of additional minimum pension liability		(52)		(1,614)
Valuation allowance adjustments	(3,269)		(4,636)	
Pension liability adjustments	103		206	
Net unrealized loss on derivative instruments	(8,365)	(10,197)	(11,622)	(5,656)
Net change to derive comprehensive income for the period	18,551	(9,342)	23,430	4,720
Comprehensive loss	$ (93,162)	$ (246,857)	$ (131,685)	$ (251,605)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the AOCI section of Shareholders deficit. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three and six month periods ended March 30, 2008 and April 1, 2007 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

4 NET LOSS PER COMMON SHARE

Net loss per common share for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, is calculated based upon the following number of shares:

	Three Months		Six Months	
	2008	2007	2008	2007
Basic	50,897	49,811	50,937	49,828
Effect of restricted stock and assumed conversion of options				
Diluted	50,897	49,811	50,937	49,828

For the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

5 INVENTORIES

Inventories, which are stated at the lower of cost or market, consist of the following:

	March 30, 2008	September 30, 2007
Raw materials	$ 108,063	$ 102,353
Work-in-process	33,693	29,455
Finished goods	326,442	264,521
	$ 468,198	$ 396,329

6 GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	Global Batteries & Personal Care	Home and Garden	Global Pet Supplies	Total
Goodwill:				
Balance as of September 30, 2007	$ 129,899	$ 161,078	$ 529,750	$ 820,727
Purchase price allocation[A), (B)]		(1,064)	(379)	(1,443)
Effect of translation	14,572		27,534	42,106
Balance as of March 30, 2008	$ 144,471	$ 160,014	$ 556,905	$ 861,390
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance as of September 30, 2007	$ 387,789	$ 138,400	$ 310,637	$ 836,826
Purchase price allocation[(C)]	(1,900)			(1,900)
Impairment charge		(13,200)		(13,200)
Effect of translation	17,913		18,589	36,502
Balance as of March 30, 2008	$ 403,802	$ 125,200	$ 329,226	$ 858,228
Intangible Assets Subject to Amortization				
Balance as of September 30, 2007, gross	$ 16,954	$ 89,450	$ 155,816	$ 262,220
Less: Accumulated amortization	(4,388)	(15,103)	(32,511)	(52,002)
Balance as of September 30, 2007, net	$ 12,566	$ 74,347	$ 123,305	$ 210,218
Additions			52	52
Amortization during period	(546)	(11,999)	(6,700)	(19,245)
Effect of translation	1,329		5,641	6,970

Balance as of March 30, 2008, net	$ 13,349	$ 62,348	$ 122,298	$ 197,995
Total Intangible Assets, net	$ 417,151	$ 187,548	$ 451,524	$ 1,056,223

(A) During the six month period ended March 30, 2008, the Company reduced goodwill in its Home and Garden Business segment as a result of adjustment to certain liabilities assumed in connection with the Company s February 7, 2005 acquisition of United Industries Corporation (United) recorded in accordance with Emerging Issues Task Force (EITF) Issue 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.*

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(B) During the six month period ended March 30, 2008, the Company reduced goodwill in its Global Pet Supplies segment as a result of a partial reversal of a tax contingency reserve recorded in connection with the acquisition of Tetra Holding GmbH and its affiliates and subsidiaries in the aquatics business (Tetra).

(C) During the six month period ended March 30, 2008, in accordance with SFAS No. 109, *Accounting for Income Taxes,* the Company reduced Global Batteries & Personal Care segment intangible assets as a result of the estimated reversal in Fiscal 2008 of a portion of the valuation allowance established against net deferred tax assets at the time of the acquisition of the Company s Brazilian battery business as all prior goodwill had been written off.

Intangible assets subject to amortization include proprietary technology, customer relationship intangibles and certain trade names. The carrying value of technology assets was $35,125, net of accumulated amortization of $12,642, at March 30, 2008 and $35,635, net of accumulated amortization of $10,726, at September 30, 2007. The carrying value of customer relationship intangibles was $160,094, net of accumulated amortization of $50,424, at March 30, 2008 and $169,715, net of accumulated amortization of $35,586, at September 30, 2007. The carrying value of trade name intangibles was $2,775, net of accumulated amortization of $8,181 at March 30, 2008 and $4,868, net of accumulated amortization of $5,690 at September 30, 2007.

Of the intangible assets acquired in the United acquisition and the Company s acquisition of Jungle Laboratories Corporation (Jungle Labs), customer relationships and technology assets have been assigned a life of approximately 12 years and certain trade names have been assigned a life of 5 years. Of the intangible assets acquired in the Company s acquisition of Tetra, customer relationships have been assigned a life of approximately 12 years and technology assets have been assigned a 6 year life.

Amortization expense for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, is as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Proprietary technology amortization	$ 964	$ 910	$ 1,916	$ 1,821
Customer relationships amortization	12,293	2,338	14,838	4,676
Trade names amortization	2,391	167	2,491	334
	$ 15,648	$ 3,415	$ 19,245	$ 6,831

The Company estimates annual amortization expense for the next five fiscal years will approximate $21,729 per year.

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(Amounts in thousands, except per share figures)

7 DEBT

Debt consists of the following:

	March 30, 2008		September 30, 2007	
	Amount	Rate[(A)]	Amount	Rate[(A)]
Senior Subordinated Notes, due February 1, 2015	$ 700,000	7.4%	$ 700,000	7.4%
Senior Subordinated Notes, due October 1, 2013	2,873	8.5%	2,873	8.5%
Senior Subordinated Notes, due October 2, 2013	347,012	11.5%	347,012	11.3%
Term Loan B, U.S. Dollar, expiring March 30, 2013	983,837	7.9%	997,500	9.6%
Term Loan, Euro, expiring March 30, 2013	406,693	9.0%	369,855	8.8%
Revolving Credit Facility, expiring September 28, 2011	150,500	5.5%		
Other notes and obligations	36,986	7.8%	28,719	5.6%
Capitalized lease obligations	15,452	4.9%	14,395	5.0%
	2,643,353		2,460,354	
Less current maturities	58,378		43,438	
Long-term debt	$ 2,584,975		$ 2,416,916	

(A) Interest rates on senior credit facilities represent the period-end weighted average rates on balances outstanding exclusive of the effects of any interest rate swaps.

Senior Credit Facilities

During the second quarter of Fiscal 2007, the Company refinanced its outstanding senior credit facilities with new senior secured credit facilities pursuant to a new senior credit agreement (the Senior Credit Agreement) consisting of a $1,000,000 U.S. Dollar Term B Loan facility (the U.S. Dollar Term B Loan), a $200,000 U.S. Dollar Term B II Loan facility (the U.S. Dollar Term B II Loan), a 262,000 Term Loan facility (the Euro Facility), and a $50,000 synthetic letter of credit facility (the L/C Facility). The proceeds of borrowings under the Senior Credit Agreement were used to repay all outstanding obligations under the Company s Fourth Amended and Restated Credit Agreement, dated as of February 7, 2005, to pay fees and expenses in connection with the refinancing and the exchange offer completed on March 30, 2007 relating to certain of our senior subordinated notes and for general corporate purposes. Subject to certain mandatory prepayment events, the term loan facilities under the Senior Credit Agreement are subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due on March 30, 2013. Letters of credit issued pursuant to the L/C Facility are required to expire, at the latest, five business days prior to March 30, 2013.

On September 28, 2007, as provided for in the Senior Credit Agreement, the Company entered into a $225,000 U.S. Dollar Asset Based Revolving Loan Facility (the ABL Facility) pursuant to a new credit agreement (the ABL Credit Agreement). The ABL Facility replaced the U.S. Dollar Term B II Loan, which was simultaneously prepaid using cash on hand generated from the Company s operations and available cash from prior borrowings under its Senior Credit Agreement in connection with the above-referenced refinancing. The Company, at its option, may increase the existing $225,000 commitment under the ABL Facility up to $300,000 upon request to the lenders under the ABL Facility and upon meeting certain criteria specified in the ABL Credit Agreement. The ABL Facility has a maturity date of September 28, 2011, subject to certain mandatory prepayment events. As a result of the prepayment of the U.S. Dollar Term B II Loan, under the terms of the ABL Credit Agreement and borrowings under the ABL Facility during the first half of Fiscal 2008, as of

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March 30, 2008, the Company had aggregate borrowing availability of approximately $36,659, net of lender reserves of $31,825 and outstanding letters of credit of $3,000, under the ABL Facility. As of September 30, 2007, the Company had aggregate borrowing availability of approximately $171,005, net of lenders reserves of $32,370, under the ABL Facility. References to Senior Credit Facilities in this Quarterly Report on Form 10-Q, refer, collectively, to the U.S. Dollar Term B Loan, the Euro Facility and the ABL Facility.

During the six month period ended March 30, 2008, the Company prepaid $18,847 of term loan indebtedness under its Senior Credit Agreement with borrowings under the ABL Facility and net proceeds from the sale of the Canadian division of the Home and Garden Business. See Note 2, Significant Accounting Policies Discontinued Operations for further details on the sale of the Canadian division of the Home and Garden Business.

At March 30, 2008, the aggregate amount outstanding under the Company s Senior Credit Facilities totaled a U.S. Dollar equivalent of $1,593,588, including principal amounts of $983,837 under the U.S. Dollar Term B Loan, 257,776 under the Euro Facility (USD $406,693 at March 30, 2008), $153,500 under the ABL Facility, including $3,000 in letters of credit. Letters of credit outstanding under the L/C Facility totaled $49,558 at March 30, 2008.

The Senior Credit Agreement contains financial covenants with respect to debt, including, but not limited to, a maximum senior secured leverage ratio, which covenants, pursuant to their terms, become more restrictive over time. In addition, the Senior Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed their respective obligations under the Senior Credit Agreement and related loan documents and have pledged substantially all of their respective assets to secure such obligations.

The ABL Credit Agreement also contains customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed their respective obligations under the ABL Credit Agreement and related loan documents and have pledged certain of their liquid assets, including, but not limited to, deposit accounts, trade receivables and inventory to secure such obligations.

The Senior Credit Agreement and ABL Credit Agreement each provide for customary events of default, including payment defaults and cross-defaults on other material indebtedness. If an event of default occurs and is continuing under either agreement, amounts due under such agreement may be accelerated and the rights and remedies of the lenders under such agreement available under the applicable loan documents may be exercised, including rights with respect to the collateral securing the obligations under such agreement.

As of March 30, 2008, the Company was in compliance with all of the covenants under the Senior Credit Agreement and ABL Credit Agreement.

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Senior Subordinated Notes

At March 30, 2008, the Company had outstanding principal of $700,000 under its 7 3/8% Senior Subordinated Notes due 2015, outstanding principal of $2,873 under its 8 1/2% Senior Subordinated Notes due 2013, and outstanding principal of $347,012 under its Variable Rate Toggle Senior Subordinated Notes due 2013 (collectively, the Senior Subordinated Notes). The Variable Rate Toggle Senior Subordinated Notes due 2013 are subject to a variable rate of interest that increases semi-annually, varying depending on whether interest is paid in cash or increased principal. As of March 30, 2008, the Variable Rate Toggle Senior Subordinated Notes due 2013 bore interest at a rate of 11 1/2%.

The Company may redeem all or a part of the Variable Rate Toggle Senior Subordinated Notes due 2013 upon not less than 30 nor more than 60 days notice, at specified redemption prices. The terms of the 8 1/2% Senior Subordinated Notes due 2013 and 7 3/8% Senior Subordinated Notes due 2015 do not currently permit redemption. Further, the indentures governing the 7 3/8% Senior Subordinated Notes due 2015 and the Variable Rate Toggle Senior Subordinated Notes due 2013 require the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indentures and require prepayment in connection with certain asset sales.

The indentures governing the Senior Subordinated Notes contain customary covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur additional indebtedness, pay dividends on or redeem or repurchase its equity interests, make certain investments, expand into unrelated businesses, create liens on assets, merge or consolidate with another company, transfer or sell all or substantially all of its assets, and enter into transactions with affiliates.

In addition, the indentures governing the Senior Subordinated Notes each provide for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the respective indentures arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the notes subject to that indenture. If any other event of default under an indenture occurs and is continuing, the trustee for that indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of those notes, may declare the acceleration of the amounts due under those notes.

As of March 30, 2008, the Company was in compliance with all covenants under the Senior Subordinated Notes and the respective indentures. The Company, however, is subject to certain restrictions under the terms of the respective indentures because, due to significant restructuring charges and reduced business performance, the Company does not currently satisfy the Fixed Charge Coverage Ratio test of 2:1 under each of the indentures. Until the test is satisfied, the Company and certain of its subsidiaries are limited in their ability to make significant acquisitions or incur significant additional senior credit facility debt beyond the Senior Credit Facilities. The Company does not expect its inability to satisfy the Fixed Charge Coverage Ratio test to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing businesses, although no assurance can be given in this regard.

8 EMPLOYEE BENEFIT PLANS

The Company has various defined benefit pension plans covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans at a level to

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

maintain, within established guidelines, the IRS-defined 90 percent current liability funded status. At January 1, 2007, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected a current liability funded status equal to or greater than 90 percent. Additionally, in compliance with the Company s funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below.

The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

The Company s results of operations for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, reflect the following pension and deferred compensation benefit costs:

	Three Months		Six Months	
Components of net periodic pension benefit and deferred compensation benefit cost	**2008**	**2007**	**2008**	**2007**
Service cost	$ 668	$ 782	$ 1,336	$ 1,565
Interest cost	1,669	1,393	3,338	2,786
Expected return on assets	(1,207)	(1,017)	(2,414)	(2,035)
Settlement and Curtailment		173		347
Amortization of prior service cost	63	64	127	127
Recognized net actuarial loss	70	156	139	312
Net periodic benefit cost	$ 1,263	$ 1,551	$ 2,526	$ 3,102

	Three Months		Six Months	
Pension and deferred compensation contributions	**2008**	**2007**	**2008**	**2007**
Contributions made during period	$ 1,309	$ 198	$ 1,979	$ 779

Under the Rayovac postretirement plan the Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits after reaching age 45 over the next 10 succeeding years of service and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

The Company sponsors a defined contribution retirement plan for its domestic employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes annually from up to 4% of participants compensation, and may make additional discretionary contributions. The Company also sponsors defined contribution pension plans for employees of

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certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three and six month periods ended March 30, 2008 were $1,150 and $2,415, respectively.

Effective September 30, 2007, the Company adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). The recognition and disclosure provisions of this statement require recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the statement of financial position, and recognition of changes in that funded status in AOCI in the year in which the adoption occurs. The initial adoption was reflected as a $1,900 decrease to the September 30, 2007 balance of AOCI and included the elimination of the additional minimum liability, which is no longer required. In periods subsequent to the adoption of SFAS 158, adjustments to other comprehensive income will reflect prior service cost or credits and actuarial gain or loss amounts arising during the period and reclassification adjustments for amounts being recognized as components of net periodic pension benefit and deferred compensation benefit cost, net of tax, in accordance with current pension accounting rules.

The measurement date provisions of SFAS 158, which for the Company becomes effective for the fiscal year ending September 30, 2009, will require the Company to measure all of its defined benefit pension and postretirement plan assets and obligations as of September 30, its fiscal year end. The Company currently measures plan assets and obligations of its domestic pension plans as of June 30 each year and September 30 each year for its foreign pension plans and its domestic other postretirement plans. The Company is currently evaluating the impact of adopting the measurement date provisions of SFAS 158 on its consolidated financial statements.

9 INCOME TAXES

In 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires the Company to recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company adopted the provisions of FIN 48 on October 1, 2007. As a result of the adoption of FIN 48, the Company recognized no cumulative effect adjustment. As of October 1, 2007 and March 30, 2008, the Company had approximately $7,933 and $7,354 of unrecognized tax benefits, respectively, of which approximately $4,630 and $4,785, respectively, would affect the Company s effective tax rate if recognized and approximately $2,629 and $1,900, respectively, of which would result in a reduction in goodwill if recognized. The change from October 1, 2007 to March 30, 2008 is primarily a result of the accrual of additional interest and penalties and the settlement of a tax examination in Germany as further discussed below.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of October 1, 2007 and March 30, 2008, the Company had approximately $1,525 and $1,713, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company does not expect any significant increases in the unrecognized tax benefits within twelve months of the reporting date of this Quarterly Report on Form 10-Q.

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company s major taxing jurisdictions are the U.S. and Germany. In the U.S, federal tax filings for years prior to and including the

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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Company s fiscal year ended September 30, 2004 are closed. However, the federal net operating loss carryforward from the Company s fiscal year ended September 30, 2004 is subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforward is utilized and that year is closed for audit. The Company s fiscal years ended September 30, 2005, 2006 and 2007 remain open to examination by the IRS. Various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

During the six month period ended March 30, 2008, certain of the German legal entities acquired by the Company in April, 2005 settled German tax audits for the fiscal years ended 2001 through 2004. As a result of the settlement, the Company reduced its unrecognized tax benefits by approximately $734, resulting in a reduction of goodwill of approximately $379 and the remainder of which was reclassified as a current tax liability.

The Company cannot predict the ultimate outcome of its current tax examinations. However, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

10 SEGMENT RESULTS

In Fiscal 2007 the Company began managing its business in three vertically integrated, product-focused reporting segments; (i) Global Batteries & Personal Care; (ii) Global Pet Supplies and (iii) the Home and Garden Business.

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment.

Net sales and Cost of goods sold to other business segments have been eliminated. The gross contribution of intersegment sales is included in the segment selling the product to the external customer. Segment net sales are based upon the segment from which the product is shipped.

The operating segment profits do not include restructuring and related charges, interest expense, interest income, impairment charges and income tax expense. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

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Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

Segment information for the three and six month periods ended March 30, 2008 and April 1, 2007 and at March 30, 2008 and September 30, 2007 is as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Net sales from external customers				
Global Batteries & Personal Care	$ 307,596	$ 297,189	$ 725,655	$ 724,059
Global Pet Supplies	148,408	142,545	290,869	280,226
Home and Garden Business	191,138	194,731	235,302	241,266
Total segments	$ 647,142	$ 634,465	$ 1,251,826	$ 1,245,551

	Three Months		Six Months	
	2008	2007	2008	2007
Segment profit				
Global Batteries & Personal Care	$ 24,675	$ 22,144	$ 71,766	$ 61,952
Global Pet Supplies	15,276	16,357	32,089	34,697
Home and Garden Business	(549)	14,779	(19,633)	(1,483)
Total segments	39,402	53,280	84,222	95,166
Corporate expense	9,142	17,875	17,505	31,121
Restructuring and related charges	5,370	17,839	10,383	27,398
Goodwill and intangibles impairment	13,200	214,039	13,200	214,039
Interest expense	58,221	85,215	115,393	132,099
Other (income) expense, net	(1,054)	2,303	(1,163)	3,254
Loss from continuing operations before income taxes	$ (45,477)	$ (283,991)	$ (71,096)	$ (312,745)

	March 30, 2008	September 30, 2007
Segment total assets		

$35.7 million as of September 30, 2013, none of which are individually significant. Of that amount, approximately $3.5 million relates to achievement of certain development milestones, approximately $12.0 million relates to achievement of certain regulatory milestones, and approximately $20.2 million relates to achievement of certain commercial sales milestones. 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.

Note 3: Discontinued Operations

On February 1, 2013, the Company completed its previously announced review of strategic options for maximizing the value of its obesity intervention business, and formally committed to pursue a sale of that business unit. As a result of the Company's approved plan to pursue a sale of its obesity intervention business unit, beginning in the first quarter of 2013, the Company has

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

reported the financial results from that business unit in discontinued operations in its consolidated statements of earnings and has classified the related assets and liabilities as held for sale in its consolidated balance sheet. The prior period consolidated statements of earnings and consolidated balance sheet as of December 31, 2012 have been retrospectively revised to reflect the obesity intervention business unit as discontinued operations and the related assets and liabilities as held for sale.

The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the obesity intervention business. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the obesity intervention business unit do not necessarily reflect what the results of operations would have been had the business operated as a stand-alone entity.

The following table summarizes the results of operations from discontinued operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Product net sales	$29.3	$ 37.4	$94.5	$ 122.7
Operating costs and expenses:				
Cost of sales (excludes amortization of intangible assets)	5.4	5.8	15.9	18.1
Selling, general and administrative	14.4	18.0	44.8	59.8
Research and development	1.3	3.5	4.0	12.8
Amortization of intangible assets	—	10.4	10.3	30.9
Restructuring charges	—	3.2	—	3.2
Earnings (loss) from discontinued operations before income taxes	$8.2	$ (3.5)	$19.5	$ (2.1)
Earnings (loss) from discontinued operations, net of income taxes	$5.5	$ (2.3)	$13.1	$ (1.1)

In the first quarter of 2013, the Company also reported a separate estimated pre-tax disposal loss of $346.2 million ($259.0 million after tax) related to the obesity intervention business unit from the write-down of the net assets held for sale to their estimated fair value less costs to sell. The Company determined the estimated fair value of the net assets held for sale based on a range of indicative purchase prices received from prospective buyers participating in an orderly sales process. The net assets held for sale include a portion of the Company's medical devices reporting unit's goodwill allocated to the obesity intervention business based on the relative fair value as of February 1, 2013 of that business to the portion of the medical devices reporting unit that the Company will retain. During the first quarter of 2013, the Company tested the remaining goodwill of the medical devices reporting unit for impairment and concluded that no impairment was indicated.

On October 28, 2013, the Company entered into a definitive agreement to sell its obesity intervention business to Apollo Endosurgery, Inc. (Apollo) for an upfront cash payment of $75.0 million, subject to certain adjustments, and certain additional consideration, including a $15.0 million minority equity

interest in Apollo and contingent consideration of up to $20.0 million to be paid upon the achievement of certain regulatory and sales milestones. The transaction is expected to close in 2013, subject to customary closing conditions. In the third quarter of 2013, the Company recorded an additional pre-tax disposal loss of $58.7 million ($37.6 million after tax) from the write-down of the net assets held for sale to their estimated fair value based on the terms of the sale agreement.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the assets and liabilities held for sale related to the Company's obesity intervention business unit as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(in millions)	
Assets:		
Trade receivables, net	$22.2	$ 25.2
Inventories	10.1	10.6
Property, plant and equipment, net	1.2	1.4
Goodwill	105.7	105.7
Intangibles, net	358.7	369.0
Other assets	0.3	0.7
Valuation allowance	(404.9)	—
Total assets held for sale	$93.3	$ 512.6
Liabilities:		
Accounts payable	$0.8	$ 0.9
Accrued expenses	2.4	4.1
Other liabilities	0.1	0.3
Total liabilities held for sale	$3.3	$ 5.3

Note 4: Restructuring Charges and Integration Costs

In connection with the March 2013 acquisition of MAP, the April 2013 acquisition of Exemplar and the December 2012 acquisition of SkinMedica, the Company initiated restructuring activities to integrate the operations of the acquired businesses with the Company's operations and to capture synergies through the centralization of certain research and development, manufacturing, general and administrative and commercial functions. The restructuring charges primarily consist of employee severance and other one-time termination benefits for approximately 111 people. In the first quarter of 2013, the Company recorded $4.3 million of restructuring charges. In the second quarter of 2013, the Company recorded a $0.9 million restructuring charge reversal. In the third quarter of 2013, the Company recorded an additional $0.6 million of restructuring charges.

Included in the nine month period ended September 30, 2013 are $0.9 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2013. Included in the three and nine month periods ended September 30, 2012 are $0.7 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2012. Included in the three and nine month periods ended September 30, 2012 are a $0.1 million restructuring charge reversal and $0.8 million of restructuring charges, respectively, related to restructuring activities initiated in prior years.

Included in the three month period ended September 30, 2013 are $3.4 million of SG&A expenses and in the nine month period ended September 30, 2013 $0.1 million of cost of sales and $18.5 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. Included in the three month period ended September 30, 2012 are $0.1 million of SG&A expenses and in the nine month period ended September 30, 2012 $0.1 million of cost of sales and $0.6 million of SG&A expenses related to

transaction and integration costs associated with the purchase of various businesses and collaboration agreements. For the nine month period ended September 30, 2013, these costs primarily consist of investment banking and legal fees.

In addition, included in the three month period ended September 30, 2013 are $1.4 million of SG&A expenses and $0.2 million of R&D expenses and in the nine month period ended September 30, 2013 $1.6 million of SG&A expenses and $0.9 million of R&D expenses related to the realignment of various business functions. Included in the three month period ended September 30, 2012 are $0.3 million of SG&A expenses and in the nine month period ended September 30, 2012 $0.8 million of SG&A expenses and $0.3 million of R&D expenses related to the realignment of various business functions. The SG&A and R&D expenses related to the realignment of various business functions primarily consist of one-time termination benefits earned based on specified retention periods and losses on the disposal of fixed assets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 5: Intangibles and Goodwill

Intangibles

At September 30, 2013 and December 31, 2012, the components of intangibles and certain other related information were as follows:

	September 30, 2013			December 31, 2012		
	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	$646.5	$(328.6)	11.1	$644.2	$(284.5)	11.1
Customer relationships	54.6	(16.7)	2.7	54.5	(1.2)	2.7
Licensing	185.9	(164.2)	9.3	185.9	(157.8)	9.3
Trademarks	89.5	(28.4)	12.4	87.9	(25.3)	12.3
Core technology	326.9	(61.0)	14.8	93.8	(46.5)	14.4
Other	42.3	(20.2)	6.3	43.9	(14.1)	6.4
	1,345.7	(619.1)	11.3	1,110.2	(529.4)	10.6
Unamortizable Intangible Assets:						
In-process research and development	962.8	—		279.3	—	
	$2,308.5	$(619.1)		$1,389.5	$(529.4)	

Developed technology consists primarily of current product offerings, primarily breast aesthetics 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 business combinations. 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 upfront payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of a drug delivery technology acquired in connection with the Company's 2013 acquisition of MAP, proprietary technology associated with silicone gel breast implants acquired in connection with the Company's 2006 acquisition of Inamed Corporation, 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 primarily of an orally inhaled drug for the potential acute treatment of migraine in adults acquired in connection with the Company's 2013 acquisition of MAP, a novel compound to treat erythema associated with rosacea acquired in connection with the Company’s 2011 acquisition of Vicept Therapeutics, Inc. that is currently under development and an intangible asset associated with technology acquired in connection with the Company’s 2011 acquisition of Alacer Biomedical, Inc. that is not yet commercialized.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table provides amortization expense by major categories of intangible assets for the three and nine month periods ended September 30, 2013 and 2012, respectively:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Developed technology	$14.3	$ 13.6	$42.9	$ 39.7
Customer relationships	5.1	0.3	15.3	0.8
Licensing	0.7	5.1	6.7	15.3
Trademarks	1.1	0.1	3.3	0.3
Core technology	5.5	1.6	13.9	4.9
Other	2.1	2.1	6.4	6.2
	$28.8	$ 22.8	$88.5	$ 67.2

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 $117.7 million for 2013, $113.1 million for 2014, $99.5 million for 2015, $77.6 million for 2016 and $56.8 million for 2017.

Goodwill

Changes in the carrying amount of goodwill by operating segment through September 30, 2013 were as follows:

	Specialty Pharmaceuticals	Medical Devices	Total
	(in millions)		
Balance at December 31, 2012	$299.8	$1,834.0	$2,133.8
MAP acquisition	170.5	—	170.5
Exemplar acquisition	14.0	—	14.0
SkinMedica acquisition adjustments	17.3	—	17.3
Foreign exchange translation effects and other	(4.1)	2.5	(1.6)
Balance at September 30, 2013	$497.5	$1,836.5	$2,334.0

The SkinMedica acquisition adjustments primarily relate to adjusting the assigned fair values associated with deferred tax assets and deferred tax liabilities and a contractual purchase price adjustment of $2.8 million. The Company does not consider the adjustments to be material.

Note 6: Inventories

Components of inventories were:

	September 30, 2013	December 31, 2012
	(in millions)	
Finished products	$182.6	$ 179.9
Work in process	37.4	41.3
Raw materials	60.0	51.1
Total	$280.0	$ 272.3

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

At September 30, 2013 and December 31, 2012, approximately $11.2 million and $9.9 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.

Note 7: Long-Term Debt

On March 12, 2013, the Company issued concurrently in a registered offering $250.0 million in aggregate principal amount of 1.35% Senior Notes due 2018 (2018 Notes) and $350.0 million in aggregate principal amount of 2.80% Senior Notes due 2023 (2023 Notes).

The 2018 Notes, which were sold at 99.793% of par value with an effective interest rate of 1.39%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 1.35% 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 2018 Notes will be due and payable on March 15, 2018, unless earlier redeemed by the Company. The original discount of approximately $0.5 million and the deferred debt issuance costs associated with the 2018 Notes are being amortized using the effective interest method over the stated term of five years.

The 2023 Notes, which were sold at 99.714% of par value with an effective interest rate of 2.83%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 2.80% 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, if the redemption occurs prior to December 15, 2022 (three months prior to the maturity of the 2023 Notes). If the redemption occurs on or after December 15, 2022, then such redemption is not subject to the make-whole provision. The aggregate outstanding principal amount of the 2023 Notes will be due and payable on March 15, 2023, unless earlier redeemed by the Company. The original discount of approximately $1.0 million and the deferred debt issuance costs associated with the 2023 Notes are being amortized using the effective interest method over the stated term of 10 years.

Note 8: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, R&D tax credits available in the United States, California, and other foreign jurisdictions and deductions available in the United States for domestic production activities. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of R&D tax credits and acquired net operating losses, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013 and retroactively reinstated the U.S. R&D tax credit to January 1, 2012. In fiscal year 2013, the Company has recognized a retroactive benefit of $15.4 million for the U.S. R&D tax credit for fiscal year 2012. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers.

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was $24.3 million and $22.6 million as of September 30, 2013 and December 31, 2012, respectively.

The total amount of unrecognized tax benefits was $58.1 million and $61.9 million as of September 30, 2013 and December 31, 2012, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $51.6 million and $55.2 million as of September 30, 2013 and December 31, 2012, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $5.0 million to $6.0 million due to the settlement of income tax audits, Appeals proceedings and Competent Authority negotiations in the United States and certain foreign jurisdictions.

Total interest accrued related to uncertain tax positions included in the Company's unaudited condensed consolidated balance sheets was $10.7 million and $10.0 million as of September 30, 2013 and December 31, 2012, respectively.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 2012, the Company had approximately $3,083.5 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these 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. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 9: 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 and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

The fair value of stock option awards that vest based solely on a service condition is estimated using the Black-Scholes option-pricing model. The fair value of share-based awards that contain a market condition is generally estimated using a Monte Carlo simulation model, and the fair value of modifications to share-based awards is generally estimated using a lattice model.

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

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. Compensation expense for share-based awards based on a service condition is recognized using the straight-line single option method.

For the three and nine month periods ended September 30, 2013 and 2012, share-based compensation expense was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Cost of sales	$1.6	$ 1.7	$5.2	$ 5.0
Selling, general and administrative	18.6	18.0	56.0	52.3
Research and development	7.1	6.5	21.9	20.6
Pre-tax share-based compensation expense	27.3	26.2	83.1	77.9
Income tax benefit	8.6	8.3	26.7	24.9
Net share-based compensation expense	$18.7	$ 17.9	$56.4	$ 53.0

As of September 30, 2013, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $214.4 million, which is expected to be recognized over the next 46 months (32 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of September 30, 2013.

Note 10: Employee Retirement and Other Benefit Plans

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

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Components of net periodic benefit cost for the three and nine month periods ended September 30, 2013 and 2012, respectively, were as follows:

	Three Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Service cost	$7.1	$ 6.4	$0.4	$ 0.4
Interest cost	11.5	10.8	0.5	0.5
Expected return on plan assets	(11.2)	(10.8)	—	—
Amortization of prior service costs	—	—	(0.7)	(0.7)
Recognized net actuarial losses	7.7	6.7	0.4	0.4
Net periodic benefit cost	$15.1	$ 13.1	$0.6	$ 0.6

	Nine Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Service cost	$21.3	$ 19.3	$1.3	$ 1.2
Interest cost	34.6	32.9	1.5	1.5
Expected return on plan assets	(33.7)	(32.6)	—	—
Amortization of prior service costs	—	—	(2.0)	(2.0)
Recognized net actuarial losses	23.2	20.2	1.1	1.0
Net periodic benefit cost	$45.4	$ 39.8	$1.9	$ 1.7

In 2013, the Company expects to pay contributions of between $40.0 million and $50.0 million for its U.S. and non-U.S. pension plans and between $1.0 million and $2.0 million for its other postretirement plan.

Note 11: Contingencies

Legal Proceedings

In the ordinary course of business, the Company is involved in various legal actions, government investigations and environmental proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these actions, proceedings and investigations are described below. The following supplements and amends the discussion set forth in Note 12 “Commitments and Contingencies — Legal Proceedings” in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and Note 11 “Contingencies — Legal Proceedings” in the Company's Quarterly Report on Form10-Q for the quarterly periods ended March 31, 2013 and June 30, 2013 and is limited to certain recent developments concerning the Company's legal proceedings. The Company's legal proceedings range from cases brought by a single plaintiff to a class action with thousands of putative class members. These legal proceedings, as well as other matters, involve various aspects of the Company's business and a variety of claims (including but not limited to patent infringement, marketing, product liability, pricing and trade practices and securities law), some of which present novel factual allegations and/or unique legal theories. Complex legal proceedings

frequently extend for several years, and a number of the matters pending against the Company are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable the Company to determine whether the proceeding is material to the Company or to estimate a range of possible loss, if any. Unless otherwise disclosed, the Company is unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

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Patent Litigation

We are involved in patent litigation matters, including certain paragraph 4 invalidity and non-infringement claims brought under the Hatch-Waxman Act in the United States described below.

Zymar®.

In August 2013, the U.S. District Court for the District of Delaware entered judgment ruling that U.S. Patent Number 6,333,045 (‘045 Patent) was invalid. In September 2013, the Company, with Senju Pharmaceuticals Co., Ltd. (Senju) and Kyorin Pharmaceutical Co., Ltd. (Kyorin), filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit and a motion for injunction pending appeal, which motion was denied.

Zymaxid®.

In August 2013, the U.S. District Court for the District of Delaware entered judgment in favor of Lupin Limited (Lupin) and Hi-Tech Pharmaceutical Co., Inc. (Hi-Tech) ruling that the ‘045 patent was invalid. In September 2013, the Company, with Senju and Kyorin, filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit and a motion for injunction pending appeal, which motion was denied.

In October 2013, the U.S. District Court for the District of Delaware dismissed the complaint against Apotex, Inc. (Apotex) alleging infringement of the ‘045 patent, subject to the appeal pending in the U.S. Court of Appeals for the Federal Circuit involving the ‘045 patent and Lupin and Hi-Tech.

In September 2013, Strides, Inc. and Agila Specialties Private Limited filed a motion to dismiss based upon the U.S. District Court for the District of Delaware’s judgment in favor of Lupin and Hi-Tech ruling that the ‘045 patent was invalid and for lack of subject matter jurisdiction.

Combigan®.

In September and October 2013, Sandoz, Inc., Alcon Research, Ltd, and Apotex filed a motion seeking to modify the permanent injunction issued by the U.S. District Court for the Eastern District of Texas.

Other Litigation

Allergan, Inc. v. Cayman Chemical Company, et al. In October 2013, the U.S. Court of Appeals for the Federal Circuit heard oral argument on Athena Cosmetics Inc.’s appeal and took the matter under submission.

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, 2012, the reserve for the contingent liability was $21.7 million and was included in “Other accrued expenses.” In January 2013, the United States Court of Appeals for the District of Columbia Circuit affirmed an earlier decision by the United States District Court for the District of Columbia in favor of the DoD, and the Company subsequently paid all outstanding contingent TRICARE Retail Pharmacy Program claims.

As of June 1, 2012 the Company is largely self-insured for future product liability losses related to all of its products. Future product liability losses 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. The total value of self-insured product liability claims settled in the

third quarter and the first nine months of 2013 and 2012, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of September 30, 2013 are not material.

The Company has provided reserves for contingencies related to various lawsuits, claims and contractual disputes that management believes are probable and reasonably estimable. The amounts reserved for these contingencies as of September 30, 2013 are not material.

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Note 12: Guarantees

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

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 13: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets. The U.S. programs include the ConfidencePlus® and ConfidencePlus® Premier warranty programs. The ConfidencePlus® program, which is limited to saline breast implants, 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 is standard for silicone gel implants and requires a low enrollment fee for saline breast implants, 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 warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact

on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities through September 30, 2013:

	(in millions)
Balance at December 31, 2012	$ 34.4
Provision for warranties issued during the period	5.8
Settlements made during the period	(5.4)
Decreases in warranty estimates	(0.7)
Balance at September 30, 2013	$ 34.1
Current portion	$ 7.5
Non-current portion	26.6
Total	$ 34.1

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Note 14: Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions, except per share amounts)			
Net earnings attributable to Allergan, Inc.:				
Earnings from continuing operations attributable to Allergan, Inc.:				
Earnings from continuing operations	$332.9	$ 252.9	$959.9	$ 778.4
Less net earnings attributable to noncontrolling interest	1.0	1.2	4.2	2.7
Earnings from continuing operations attributable to Allergan, Inc.	331.9	251.7	955.7	775.7
Loss from discontinued operations	(32.1)	(2.3)	(283.5)	(1.1)
Net earnings attributable to Allergan, Inc.	$299.8	$ 249.4	$672.2	$ 774.6
Weighted average number of shares outstanding	296.5	300.1	296.7	302.1
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	4.2	5.2	5.2	5.6
Diluted shares	300.7	305.3	301.9	307.7
Basic earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	$1.12	$ 0.84	$3.22	$ 2.57
Discontinued operations	(0.11)	(0.01)	(0.95)	(0.01)
Net basic earnings per share attributable to Allergan, Inc. stockholders	$1.01	$ 0.83	$2.27	$ 2.56
Diluted earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	$1.10	$ 0.82	$3.17	$ 2.52
Discontinued operations	(0.10)	—	(0.94)	—
Net diluted earnings per share attributable to Allergan, Inc. stockholders	$1.00	$ 0.82	$2.23	$ 2.52

For the three and nine month periods ended September 30, 2013, options to purchase 8.1 million and 5.6 million shares of common stock at exercise prices ranging from $84.40 to $113.55 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

For the three and nine month periods ended September 30, 2012, options to purchase 4.5 million and 5.9 million shares of common stock at exercise prices ranging from $76.98 to $92.90 and $75.58 to $92.90 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

Note 15: 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

ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 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 cash and equivalents and short-term investments and interest expense on debt, as well as costs associated with foreign currency contracts.

On January 31, 2007, the Company entered into a nine-year, two month interest rate swap with a $300.0 million notional amount. The swap received interest at a fixed rate of 5.75% and paid interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converted $300.0 million of the Company's $800.0 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) to a variable interest rate. Based on the structure of the hedging relationship, the hedge met the criteria for using the short-cut method for a fair value hedge. In September 2012, the Company terminated the interest rate swap and received $54.7 million, which included accrued interest of $3.7 million. Upon termination of the interest rate swap, the Company added the net fair value received of $51.0 million to the carrying value of the 2016 Notes. The amount received for the termination of the interest rate swap is being amortized as a reduction to interest expense over the remaining life of the debt, which effectively fixes the interest rate for the remaining term of the 2016 Notes at 3.94%. During the three and nine month periods ended September 30, 2013, the Company recognized $3.3 million and $9.8 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap. During the three and nine month periods ended September 30, 2012, the Company recognized $3.2 million and $10.6 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap.

In February 2006, the Company entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of $800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately $13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. During the three and nine month periods ended September 30, 2013 and 2012, the Company recognized $0.3 million and $1.0 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 September 30, 2013, the remaining unrecognized gain of $3.3 million ($2.0 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 2013 due to the amortization of deferred holding gains on derivatives designated as cash flow hedges.

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

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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 economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of the Company's business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

Changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2013, the Company recognized realized gains on settled foreign currency option contracts of $2.3 million and $3.9 million, respectively, and net unrealized (losses) gains on open foreign currency option contracts of $(7.6) million and $4.3 million, respectively. During the three and nine month periods ended September 30, 2012, the Company recognized realized gains on settled foreign currency option contracts of $3.8 million and $10.8 million, respectively, and net unrealized losses on open foreign currency option contracts of $7.1 million and $15.2 million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in "Other current assets" and amortized to "Other, net" over the life of the options.

All of the Company's outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2013, the Company recognized total realized and unrealized gains from foreign exchange forward contracts of $0.3 million and $3.5 million, respectively. During the three and nine month periods ended September 30, 2012, the Company recognized total realized and unrealized losses from foreign exchange forward contracts of $0.7 million and $1.9 million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in "Other current assets" and "Accounts payable." At September 30, 2013 and December 31, 2012, foreign currency derivative assets associated with the foreign exchange option contracts of $10.9 million and $9.9 million, respectively, were included in "Other current assets." At September 30, 2013 and December 31, 2012, net foreign currency derivative assets associated with the foreign exchange forward contracts of $0.4 million and $0.3 million, respectively, were included in "Other current assets."

At September 30, 2013 and December 31, 2012, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows:

	September 30, 2013		December 31, 2012	
	Notional	Fair	Notional	Fair

	Principal	Value	Principal	Value
	(in millions)			
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$46.2	$(0.1)	$44.6	$0.3
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	40.1	0.5	39.6	—
Foreign currency sold — put options	407.0	10.9	501.6	9.9

The notional principal amounts provide one measure of the transaction volume outstanding as of September 30, 2013 and December 31, 2012, 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 September 30, 2013 and December 31, 2012. 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.

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Other Financial Instruments

At September 30, 2013 and December 31, 2012, 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, are estimated based on information provided by these companies. The fair value of notes payable and long-term debt are estimated based on quoted market prices and interest rates.

The carrying amount and estimated fair value of the Company's other financial instruments at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents	$2,686.3	$2,686.3	$2,701.8	$2,701.8
Short-term investments	524.6	524.6	260.6	260.6
Non-current non-marketable equity investments	6.1	6.1	9.0	9.0
Notes payable	37.2	37.2	48.8	48.8
Long-term debt	2,101.5	2,181.4	1,512.4	1,673.0

In the first quarter of 2013, the Company recorded an impairment charge of $3.7 million due to the other than temporary decline in value of a non-marketable equity investment.

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 September 30, 2013, 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 historically exceeded management's estimates.

Note 16: 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 September 30, 2013 and December 31, 2012, 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, 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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	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$1,641.2	$—	$1,641.2	$—
Foreign time deposits	312.9	—	312.9	—
Other cash equivalents	1,022.6	—	1,022.6	—
Foreign exchange derivative assets	11.3	—	11.3	—
Deferred executive compensation investments	93.0	74.2	18.8	—
	$3,081.0	$74.2	$3,006.8	$—
Liabilities				
Deferred executive compensation liabilities	$85.2	$66.4	$18.8	$—
Contingent consideration liabilities	212.5	—	—	212.5
	$297.7	$66.4	$18.8	$212.5

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$1,709.0	$—	$1,709.0	$—
Foreign time deposits	341.7	—	341.7	—
Other cash equivalents	685.0	—	685.0	—
Foreign exchange derivative assets	10.2	—	10.2	—
Deferred executive compensation investments	81.7	66.8	14.9	—
	$2,827.6	$66.8	$2,760.8	$—
Liabilities				
Deferred executive compensation liabilities	$73.5	$58.6	$14.9	$—
Contingent consideration liabilities	224.3	—	—	224.3
	$297.8	$58.6	$14.9	$224.3

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 Company believes the fair values assigned to its derivative instruments as of September 30, 2013 and December 31, 2012 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.

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 and other contractual performance conditions. 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 as SG&A expense.

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

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 fair value of other contractual performance conditions is measured by assigning an achievement probability to each payment and discounting the payment to its present value using the Company's estimated cost of borrowing. The unobservable inputs to the valuation models that have the most significant effect on the fair value of the Company's contingent consideration liabilities are the probabilities that certain in-process development projects will meet specified development milestones, including ultimate approval by the FDA. The Company currently estimates that the probabilities of success in meeting the specified development milestones are between 40% and 75%.

The following table provides a reconciliation of the change in the contingent consideration liabilities through September 30, 2013:

	(in millions)
Balance at December 31, 2012	$224.3
Change in the estimated fair value of the contingent consideration liabilities	4.8
Payments made during the period	(11.1)
Foreign exchange translation effects	(5.5)
Balance at September 30, 2013	$212.5

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 physician-dispensed 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; 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 product net sales 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, amortization of certain identifiable intangible assets related to business combinations, 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.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Operating Segments

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Product net sales:				
Specialty pharmaceuticals	$1,329.8	$ 1,178.5	$3,909.3	$ 3,530.6
Medical devices	198.6	175.2	628.6	570.9
Total product net sales	1,528.4	1,353.7	4,537.9	4,101.5
Other revenues	30.3	22.8	78.1	73.0
Total revenues	$1,558.7	$ 1,376.5	$4,616.0	$ 4,174.5
Operating income:				
Specialty pharmaceuticals	$593.4	$ 503.4	$1,652.8	$ 1,449.8
Medical devices	58.5	49.6	188.2	169.4
Total segments	651.9	553.0	1,841.0	1,619.2
General and administrative expenses, other indirect costs and other adjustments	133.4	177.9	401.2	418.9
Amortization of intangible assets (a)	27.7	17.0	80.4	49.5
Restructuring charges	0.6	0.6	4.9	1.5
Total operating income	$490.2	$ 357.5	$1,354.5	$ 1,149.3

(a) Represents amortization of certain identifiable intangible assets related to business combinations, 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 geographic 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 62.5% and 62.1% of the Company’s total consolidated product net sales for the three month periods ended September 30, 2013 and 2012, respectively. U.S. sales represented 61.5% and 60.8% of the Company’s total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012, respectively.

Sales to two customers in the Company’s specialty pharmaceuticals segment each generated over 10% of the Company’s total consolidated product net sales. Sales to McKesson Drug Company for the three month periods ended September 30, 2013 and 2012 were 16.0% and 14.1%, respectively, of the Company’s total consolidated product net sales, and 14.8% and 15.0%, respectively, of the Company’s total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012. Sales to Cardinal Health, Inc. for the three month periods ended September 30, 2013 and 2012 were 13.7% and 16.3%, respectively, of the Company’s total consolidated product net sales, and 14.1% and 14.8%, respectively, of the Company’s total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012. 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Product Net Sales by Product Line

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	$717.1	$ 663.2	$2,108.1	$ 1,986.1
Botox®/Neuromodulators	485.7	431.6	1,456.6	1,291.7
Skin Care and Other	127.0	83.7	344.6	252.8
Total Specialty Pharmaceuticals	1,329.8	1,178.5	3,909.3	3,530.6
Medical Devices:				
Breast Aesthetics	91.9	86.1	288.3	285.7
Facial Aesthetics	106.7	89.1	340.3	285.2
Total Medical Devices	198.6	175.2	628.6	570.9
Total product net sales	$1,528.4	$ 1,353.7	$4,537.9	$ 4,101.5

Geographic Information

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Product net sales:				
United States	$955.6	$ 840.0	$2,791.9	$ 2,494.1
Europe	282.6	246.5	909.5	816.5
Latin America	104.6	93.6	286.5	282.7
Asia Pacific	117.8	109.7	348.7	318.6
Other	67.8	63.9	201.3	189.6
Total product net sales	$1,528.4	$ 1,353.7	$4,537.9	$ 4,101.5

	September 30, 2013	December 31, 2012
	(in millions)	
Long-lived assets:		
United States	$4,289.2	$ 3,242.9
Europe	545.2	538.6
Latin America	51.2	55.2
Asia Pacific	51.5	53.8
Other	1.5	2.2
Total long-lived assets	$4,938.6	$ 3,892.7

The increase in long-lived assets located in the United States at September 30, 2013 compared to December 31, 2012 is primarily due to an increase in intangible assets and goodwill related to the acquisitions of MAP completed in the first quarter of 2013 and Exemplar completed in the second quarter of 2013.

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ALLERGAN, INC.

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

This financial review presents our operating results for the three and nine month periods ended September 30, 2013 and 2012, and our financial condition at September 30, 2013. The following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the caption "Risk Factors" in Part II, Item 1A below. The following review should be read in connection with the information presented in our unaudited condensed consolidated financial statements and related notes for the three and nine month periods ended September 30, 2013 included in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2012 included in our 2012 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Critical Accounting Policies, Estimates and Assumptions

The preparation and presentation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to establish policies and to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. In our judgment, the accounting policies, estimates and assumptions described below have the greatest potential impact on our consolidated financial statements. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

Revenue Recognition

We recognize revenue from product sales when goods are shipped and title and risk of loss transfer to our customers. A substantial portion of our revenue is generated by the sale of specialty pharmaceutical products (primarily eye care pharmaceuticals and skin care and other products) to wholesalers within the United States, and we have a policy to attempt to maintain average U.S. wholesaler inventory levels at an amount less than eight weeks of our net sales. A portion of our revenue is generated from consigned inventory of breast implants maintained at physician, hospital and clinic locations. These customers are contractually obligated to maintain a specific level of inventory and to notify us upon the use of consigned inventory. Revenue for consigned inventory is recognized at the time we are notified by the customer that the product has been used. Notification is usually through the replenishing of the inventory, and we periodically review consignment inventories to confirm the accuracy of customer reporting.

We generally offer cash discounts to customers for the early payment of receivables. Those discounts are recorded as a reduction of revenue and accounts receivable in the same period that the related sale is recorded. The amounts reserved for cash discounts were $6.2 million and $4.2 million at September 30, 2013 and December 31, 2012, respectively. Provisions for cash discounts deducted from consolidated sales in the third quarter of 2013 and 2012 were $19.3 million and $17.6 million, respectively. Provisions for cash discounts deducted from consolidated sales in the first nine months of 2013 and 2012 were $55.6 million and $51.4 million, respectively.

We permit returns of product from most product lines by any class of customer if such product is returned in a timely manner, in good condition and from normal distribution channels. Return policies in certain international markets and for certain medical device products, primarily breast implants, provide for more stringent guidelines in accordance with the terms of contractual agreements with customers. Our estimates for sales returns are based upon the historical patterns of product returns matched against sales, and management's evaluation of specific factors that may increase the risk of product returns. The amount of allowances for sales returns recognized in our consolidated balance sheets at September 30, 2013 and December 31, 2012 were $84.6 million and $77.9 million, respectively, and are recorded in "Other accrued expenses" and "Trade receivables, net" in our

consolidated balance sheets. Provisions for sales returns deducted from consolidated sales were $113.8 million and $91.8 million in the third quarter of 2013 and 2012, respectively. Provisions for sales returns deducted from consolidated sales were $330.7 million and $300.8 million in the first nine months of 2013 and 2012, respectively. The increases in the amount of allowances for sales returns at September 30, 2013 compared to December 31, 2012 and the provisions for sales returns in the third quarter and the first nine months of 2013 compared to the third quarter and the first nine months of 2012 are primarily due to increased overall product sales volume and an increase in estimated product sales return rates for our breast aesthetics products, partially offset by a slight decrease in estimated product sales return rates for our skin care and other products. Actual historical allowances for cash discounts and product returns have been consistent with the amounts reserved or accrued.

We participate in various U.S. federal and state government rebate programs, the largest of which are Medicaid, Medicare and the U.S. Department of Veterans Affairs. We also have contracts with various managed care and group purchasing organizations that provide for sales rebates and other contractual discounts. In the United States, we also incur chargebacks, which are reimbursements to wholesalers for honoring contracted prices to third parties. Outside of the United States, we incur sales allowances based on contractual provisions and legislative mandates. We also offer rebate and other incentive programs directly to our customers

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for our aesthetic products and certain therapeutic products, including Botox® Cosmetic, Juvéderm®, Latisse®, Natrelle®, Acuvail®, Aczone®, Sanctura XR® and Restasis®, and for certain other skin care products. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in "Other accrued expenses" in our consolidated balance sheets. The amounts accrued for sales rebates and other incentive programs were $278.7 million and $269.6 million at September 30, 2013 and December 31, 2012, respectively.

Provisions for sales rebates and other incentive programs deducted from consolidated sales were $292.2 million in the third quarter of 2013 compared to $241.6 million in the third quarter of 2012. The $50.6 million increase in the provisions for sales rebates and other incentive programs in the third quarter of 2013 is due to a $22.8 million increase in provisions for rebates associated with U.S. federal and state government programs, a $0.3 million increase in managed health care rebates and other contractual discounts, a $10.8 million increase in chargebacks, a $7.7 million increase in sales allowances outside of the United States and a $9.0 million increase in provisions for consumer coupons and other customer incentives. Provisions for sales rebates and other incentive programs deducted from consolidated sales were $831.1 million for the first nine months of 2013 compared to $708.6 million for the first nine months of 2012. The $122.5 million increase in the provisions for sales rebates and other incentive programs in the first nine months of 2013 is due to a $50.4 million increase in provisions for rebates associated with U.S. federal and state government programs, a $13.3 million increase in managed health care rebates and other contractual discounts, a $14.8 million increase in chargebacks, an $18.6 million increase in sales allowances outside of the United States and a $25.4 million increase in provisions for consumer coupons and other customer incentives. The increase in provisions for sales rebates and other incentive programs in the three and nine month periods ended September 30, 2013 compared to the respective periods in 2012 is primarily due to increased eye care pharmaceutical sales in the United States and a shift in U.S. patient populations to government reimbursed programs, which typically have higher rebate percentages than other managed care programs. Rebates related to the Medicare Part D coverage gap in the United States increased in the three and nine month periods ended September 30, 2013 compared to the respective periods in 2012, which we believe was primarily due to an increase in patients covered under employer group waiver plans. In addition, provisions for sales rebates and other incentive programs were negatively impacted by an increase in government rebates in Europe related to austerity measures, increased incentives offered directly to customers in the United States, and increases in our published list prices in the United States for pharmaceutical products, which occurred for several of our products in each of 2013 and 2012 and generally result in higher provisions for sales rebates and other incentive programs deducted from consolidated sales.

Our procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management's judgment with respect to many factors, including but not limited to, current market dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, we use historical sales, product utilization and rebate data and apply forecasting techniques in order to estimate our liability amounts. Qualitatively, management's judgment is applied to these items to modify, if appropriate, the estimated liability amounts. There are inherent risks in this process. For example, customers may not achieve assumed utilization levels; customers may misreport their utilization to us; actual utilization and reimbursement rates under government rebate programs may differ from those estimated; and actual movements of the U.S. Consumer Price Index for All Urban Consumers, or CPI-U, which affect our rebate programs with U.S. federal and state government agencies, may differ from those estimated. On a quarterly basis, adjustments to our estimated liabilities for sales rebates and other incentive programs related to sales made in prior periods have not been material and have generally been less than 0.5% of consolidated product net sales. An adjustment to our estimated liabilities of 0.5% of consolidated

product net sales on a quarterly basis would result in an increase or decrease to net sales and earnings before income taxes of approximately $7.0 million to $8.0 million. The sensitivity of our estimates can vary by program and type of customer. Additionally, there is a significant time lag between the date we determine the estimated liability and when we actually pay the liability. Due to this time lag, we record adjustments to our estimated liabilities over several periods, which can result in a net increase to earnings or a net decrease to earnings in those periods. Material differences may result in the amount of revenue we recognize from product sales if the actual amount of rebates and incentives differ materially from the amounts estimated by management.

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

Contingent Consideration

Contingent consideration liabilities represent future amounts we may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales performance and the achievement of certain future development, regulatory and sales milestones and other contractual performance conditions. We

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estimate the fair value of the contingent consideration liabilities related to sales performance using the income approach, which involves forecasting estimated future net cash flows and discounting the net cash flows to their present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. We estimate the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestone payments and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. The fair value of other contractual performance conditions is measured by assigning an achievement probability to each payment and discounting the payment to its present value using our estimated cost of borrowing. We evaluate our estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded through earnings as “Selling, general and administrative” in the accompanying unaudited condensed consolidated statements of earnings. The total estimated fair value of contingent consideration liabilities was $212.5 million and $224.3 million at September 30, 2013 and December 31, 2012, respectively, and was included in “Other accrued expenses” and “Other liabilities” in our consolidated balance sheets.

Pensions

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

Our assumption for the weighted average expected long-term rate of return on assets in our U.S. funded pension plan for determining the net periodic benefit cost is 6.25% and 6.75% for 2013 and 2012, respectively. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. funded pension plans are 4.36% and 4.80% for 2013 and 2012, respectively. For our U.S. funded pension plan, we determine, based upon recommendations from our pension plan's investment advisors, the expected rate of return using a building block approach that considers diversification and rebalancing for a long-term portfolio of invested assets. Our investment advisors study historical market returns and preserve long-term historical relationships between equities and fixed income in a manner consistent with the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long run. They also evaluate market factors such as inflation and interest rates before long-term capital market assumptions are determined. For our non-U.S. funded pension plans, the expected rate of return was determined based on asset distribution and assumed long-term rates of return on fixed income instruments and equities. Market conditions and other factors can vary over time and could significantly affect our estimates of the weighted average expected long-term rate of return on plan assets. The expected rate of return is applied to the market-related value of plan assets. As a sensitivity measure, the effect of a 0.25% decline in our rate of return on assets assumptions for our U.S. and non-U.S. funded pension plans would increase our expected 2013 pre-tax pension benefit cost by approximately $2.0 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2012 were 4.23% and 4.55%, respectively. The weighted average discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2013 were 4.23% and 4.55%, respectively, and for 2012, 4.63% and 5.14%, respectively. We determine the discount rate based upon a hypothetical portfolio of high quality fixed income investments with maturities that mirror the pension benefit obligations at the plans' measurement date. Market conditions and other

factors can vary over time and could significantly affect our estimates for the discount rates used to calculate our pension benefit obligations and net periodic benefit costs for future years. As a sensitivity measure, the effect of a 0.25% decline in the discount rate assumption for our U.S. and non-U.S. pension plans would increase our expected 2013 pre-tax pension benefit costs by approximately $5.2 million and increase our pension plans' projected benefit obligations at December 31, 2012 by approximately $50.6 million.

Share-Based Compensation

We recognize compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

The fair value of stock option awards that vest based on a service condition is estimated using the Black-Scholes option-pricing model. The fair value of share-based awards that contain a market condition is generally estimated using a Monte Carlo simulation model, and the fair value of modifications to share-based awards is generally estimated using a lattice model.

The determination of fair value using the Black-Scholes, Monte Carlo simulation and lattice models is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. We currently estimate stock

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price volatility based upon an equal weighting of the historical average over the expected life of the award and the average implied volatility of at-the-money options traded in the open market. We estimate employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

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

Product Liability Self-Insurance

As of June 1, 2012, we are largely self-insured for future product liability losses related to all of our products. We have historically been and continue to be self-insured for any product liability losses related to our breast implant products. We maintain third party insurance coverage that we believe is adequate to cover potential product liability losses for injuries alleged to have occurred prior to June 1, 2011 related to Botox® and Botox® Cosmetic and prior to June 1, 2012 related to all of our other products. Future product liability losses are, by their nature, uncertain and are based upon complex judgments and probabilities. The factors to consider in developing product liability reserves include the merits and jurisdiction of each claim, the nature and the number of other similar current and past claims, the nature of the product use and the likelihood of settlement. In addition, we accrue for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. We estimate these accruals for potential losses based primarily on historical claims experience and data regarding product usage. The total value of self-insured product liability claims settled in the third quarter and the first nine months of 2013 and 2012, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of September 30, 2013 are not expected to have a material effect on our results of operations or liquidity.

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, research and development, or R&D, tax credits available in the United States, California, and other foreign jurisdictions and deductions available in the United States for domestic production activities. Our effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of R&D tax credits and acquired net operating losses and changes in or the interpretation of tax laws in jurisdictions where we conduct business. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013 and retroactively reinstated the U.S. R&D tax credit to January 1, 2012. In fiscal year 2013, we have recognized a retroactive benefit of $15.4 million for the U.S. R&D tax credit for fiscal year 2012. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers.

We record a valuation allowance against our deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce the valuation allowance against our deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was $24.3 million and $22.6 million at September 30, 2013 and December 31,

2012, respectively.

We have not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because we have currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2012, we had approximately $3,083.5 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these earnings were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against our U.S. tax liability, if any. We annually update our estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Acquisitions

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

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On February 1, 2012, we purchased the commercial assets related to the selling and distribution of our products from our distributor in Russia for $3.1 million in cash, net of a $6.6 million pre-existing net receivable from the distributor, and estimated contingent consideration of $4.7 million as of the acquisition date. On December 19, 2012, we acquired SkinMedica, Inc., or SkinMedica, for $348.9 million in cash and contingent consideration with an estimated fair value of $2.2 million as of the acquisition date. On March 1, 2013, we acquired MAP Pharmaceuticals, Inc., or MAP, for an aggregate purchase price of approximately $871.7 million, net of cash acquired. On April 12, 2013, we acquired Exemplar Pharma, LLC, or Exemplar, for an aggregate purchase price of approximately $16.1 million, net of cash acquired. We accounted for these acquisitions as business combinations. The tangible and intangible assets acquired and liabilities assumed in connection with these acquisitions were recognized based on their estimated fair values at the acquisition dates. The determination of estimated fair values requires significant estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows and developing appropriate discount rates. We believe the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions.

Impairment Evaluations for Goodwill and Intangible Assets

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

For our specialty pharmaceuticals reporting unit, we performed a qualitative assessment to determine whether it is more likely than not that its fair value is less than its carrying amount. For our medical devices reporting unit, we evaluated goodwill for impairment by comparing its carrying value to its estimated fair value. We primarily use the income approach and the market approach that include the discounted cash flow method, the guideline company method, as well as other generally accepted valuation methodologies to determine the fair value. Upon completion of the October 2012 annual impairment assessment, we determined that no impairment was indicated.

On February 1, 2013, we completed our previously announced review of strategic options for maximizing the value of our obesity intervention business, and formally committed to pursue a sale of that business unit. The obesity intervention business was included in our medical devices reporting unit for the annual goodwill impairment evaluation. In the first quarter of 2013, we reported our obesity intervention business as a discontinued operation, and accordingly reduced the value of the net assets held for sale to fair value less costs to sell. In the third quarter of 2013, we reduced the value of the net assets held for sale by an additional amount to reflect an updated estimate of the fair value of the obesity intervention business. The net assets held for sale include a portion of the medical devices reporting unit's goodwill allocated to the obesity intervention business based on the relative fair value as of February 1, 2013 of that business to the portion of the medical devices reporting unit that we will retain. During the first quarter of 2013, we tested the remaining goodwill of the medical devices reporting unit for impairment and concluded that no impairment was indicated.

As of September 30, 2013, we are not aware of any significant indicators of impairment that exist for our goodwill that would require additional analysis.

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

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

future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur future impairment charges.

Continuing Operations

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

We are also a pioneer in specialty pharmaceutical, biologic and medical device research and development. Our research and development efforts are focused on products and technologies related to the many specialty areas in which we currently operate as well as new specialty areas where unmet medical needs are significant. We supplement our own research and development

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activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions. At September 30, 2013, we employed approximately 11,400 persons around the world. Our principal geographic markets are the United States, Europe, Latin America and Asia Pacific.

Results of Continuing Operations

We operate our business on the basis of two reportable segments — specialty pharmaceuticals and medical devices. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products, including: ophthalmic products for 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 physician-dispensed 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; and facial aesthetics products. We provide global marketing strategy teams to coordinate the development and execution of a consistent marketing strategy for our products in all geographic regions that share similar distribution channels and customers.

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

The following tables compare net sales by product line within each reportable segment and certain selected pharmaceutical products for the three and nine month periods ended September 30, 2013 and 2012:

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	Three Months Ended							
	September 30, 2013	September 30, 2012	Change in Product Net Sales			Percent Change in Product Net Sa		
	(in millions)		Total	Performance	Currency	Total	Performa	C
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$717.1	$663.2	$53.9	$59.7	$(5.8)	8.1 %	9.0 %	(0
Botox®/Neuromodulators	485.7	431.6	54.1	60.2	(6.1)	12.5%	13.9%	(1
Skin Care and Other	127.0	83.7	43.3	43.5	(0.2)	51.7%	52.0%	(0
Total Specialty Pharmaceuticals	1,329.8	1,178.5	151.3	163.4	(12.1)	12.8%	13.9%	(1
Medical Devices:								
Breast Aesthetics	91.9	86.1	5.8	6.5	(0.7)	6.7 %	7.5 %	(0
Facial Aesthetics	106.7	89.1	17.6	19.0	(1.4)	19.8%	21.3%	(1
Total Medical Devices	198.6	175.2	23.4	25.5	(2.1)	13.4%	14.6%	(1
Total product net sales	$1,528.4	$1,353.7	$174.7	$188.9	$(14.2)	12.9%	14.0%	(1
Domestic product net sales	62.5 %	62.1 %						
International product net sales	37.5 %	37.9 %						
Selected Product Net Sales (a):								
Alphagan® P, Alphagan® and Combigan®	$112.4	$111.3	$1.1	$2.3	$(1.2)	1.0 %	2.1 %	(1
Lumigan® Franchise	153.5	152.0	1.5	0.8	0.7	1.0 %	0.5 %	0.
Total Glaucoma Products	267.9	265.8	2.1	2.7	(0.6)	0.8 %	1.0 %	(0
Restasis®	239.3	198.3	41.0	42.0	(1.0)	20.7%	21.2%	(0
Latisse®	24.4	23.4	1.0	1.2	(0.2)	4.3 %	4.9 %	(0

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	Nine Months Ended							
	September 30, 2013	September 30, 2012	Change in Product Net Sales			Percent Change in Product Net Sa		
	(in millions)		Total	Performance	Currency	Total	Performa	C
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$2,108.1	$1,986.1	$122.0	$134.1	$(12.1)	6.1 %	6.8 %	(0
Botox®/Neuromodulators	1,456.6	1,291.7	164.9	176.0	(11.1)	12.8%	13.6%	(0
Skin Care and Other	344.6	252.8	91.8	92.1	(0.3)	36.3%	36.4%	(0
Total Specialty Pharmaceuticals	3,909.3	3,530.6	378.7	402.2	(23.5)	10.7%	11.4%	(0
Medical Devices:								
Breast Aesthetics	288.3	285.7	2.6	3.9	(1.3)	0.9 %	1.4 %	(0
Facial Aesthetics	340.3	285.2	55.1	57.2	(2.1)	19.3%	20.1%	(0
Total Medical Devices	628.6	570.9	57.7	61.1	(3.4)	10.1%	10.7%	(0
Total product net sales	$4,537.9	$4,101.5	$436.4	$463.3	$(26.9)	10.6%	11.3%	(0
Domestic product net sales	61.5 %	60.8 %						
International product net sales	38.5 %	39.2 %						
Selected Product Net Sales (a):								
Alphagan® P, Alphagan® and Combigan®	$349.2	$334.7	$14.5	$16.4	$(1.9)	4.3 %	4.9 %	(0
Lumigan® Franchise	452.7	452.4	0.3	—	0.3	0.1 %	— %	0.
Total Glaucoma Products	808.7	794.9	13.8	15.6	(1.8)	1.7 %	2.0 %	(0
Restasis®	662.4	580.0	82.4	83.5	(1.1)	14.2%	14.4%	(0
Latisse®	76.6	72.4	4.2	4.5	(0.3)	5.8 %	6.2 %	(0

(a) Percentage change in selected product net sales is calculated on amounts reported to the nearest whole dollar. Total glaucoma products include the Alphagan® and Lumigan® franchises.

Product Net Sales

Product net sales increased by $174.7 million in the third quarter of 2013 compared to the third quarter of 2012 due to an increase of $151.3 million in our specialty pharmaceuticals product net sales and an increase of $23.4 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 and other product lines. The increase in medical devices product net sales reflects an increase in product net sales of our facial aesthetics and breast aesthetics product lines.

Several of our products, including Botox® Cosmetic, Latisse®, over-the-counter artificial tears, non-prescription aesthetics skin care products, facial aesthetics and breast implant products, as well as, in emerging markets, Botox® for therapeutic use and eye care 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 the United States, sales of our products that are reimbursable by government health care plans continue to be significantly impacted by the provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively, the

PPACA, which extended Medicaid and Medicare benefits to new patient populations and increased Medicaid and Medicare rebates. Additionally, sales of our products in the United States that are reimbursed by managed care programs continue to be impacted by competitive pricing pressures. In Europe and some other international markets, sales of our products that are reimbursable by government health care plans continue to be impacted by mandatory price reductions, tenders and rebate increases.

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Certain of our products face generic competition. In May 2011, a generic version of our older-generation topical allergy medication Elestat® was launched in the United States. In June 2011, the U.S. patent for Tazorac®cream, indicated for psoriasis and acne, expired. The U.S. patents for Tazorac® gel expire in June 2014. The U.S. Food and Drug Administration, or FDA, has posted guidance regarding requirements for clinical bioequivalence for a generic of tazarotene cream, separately for both psoriasis and acne. We believe that this will require generic manufacturers to conduct a trial, at risk, for both indications. In October 2012, a competitive generic version of Sanctura XR® was launched in the United States. Additionally, a generic version of Zymaxid®, our fluoroquinolone indicated for the treatment of bacterial conjunctivitis, was launched in the United States in October 2013. The U.S. Patent covering Restasis® will expire in May 2014. In June 2013, the FDA issued draft bioequivalence guidance that would potentially allow for a generic version of Restasis® to be approved in the future without a human clinical trial. In August 2013, we, as well as 22 medical societies, patient groups and consumer groups, provided comments to the FDA on the draft guidance. Our comments, and generally those of these other parties, challenged the legal scientific basis for the FDA's proposed guidance, raised potential patient safety and public health concerns and argued that the proposed non-clinical criteria are inadequate to prove bioequivalence to Restasis®. We are currently engaging with the FDA, especially the Office of Generic Drugs, various experts and others to understand what the FDA plans to do with its current draft guidance. We will also consider other legal and regulatory actions to advocate our positions. Our products also compete with generic versions of some branded pharmaceutical products sold by our competitors. Although generic competition in the United States negatively affected our aggregate product net sales in the first nine months of 2013, the impact was not material. We do not currently believe that our aggregate product net sales will be materially impacted in 2013 by generic competition, but we could experience a rapid and significant decline in net sales of certain products if we are unable to successfully maintain or defend our patents and patent applications relating to such products.

Eye care pharmaceuticals product net sales increased in the third quarter of 2013 compared to the third quarter of 2012 in all of our principal geographic markets.The overall increase in total sales in dollars of our eye care pharmaceutical products is primarily due to an increase in sales of Restasis®, our therapeutic treatment for chronic dry eye disease, an increase in sales of our glaucoma drug Lumigan® 0.01%, an increase in sales of Ozurdex®, our biodegradable, sustained-release steroid implant for the treatment of certain retinal diseases, an increase in sales of Ganfort,™our Lumigan® and timolol combination for the treatment of glaucoma, an increase in sales of Lastacaft®, our topical allergy medication for the treatment and prevention of itching associated with allergic conjunctivitis, and an increase of $6.6 million in sales of our artificial tears products, primarily consisting of Refresh® and Optive™lubricant eye drops, partially offset by a decrease in sales of our older-generation glaucoma drug Lumigan® 0.03% and our fluoroquinolone product Zymaxid®. Due to the strong acceptance of Lumigan® 0.1% in the United States market, we ceased manufacturing Lumigan® 0.3% for the U.S. market in the fourth quarter of 2012.

We increased prices on certain eye care pharmaceutical products in the United States in the last six months of 2012 and the first nine months of 2013. Effective January 5, 2013, we increased the published U.S. list price for Restasis®, Lastacaft® and Zymaxid® by five percent, Combigan® and Alphagan® P 0.1% by seven percent, Lumigan® 0.1% and Alphagan® P 0.15% by eight percent, and Acular®, Acular LS® and Acuvail® by eighteen percent. Effective May 18, 2013, we increased the published U.S. list price for Restasis®, Alphagan® P 0.1%, Alphagan® P 0.15% and Lastacaft® by an additional five percent and Zymaxid®, Acular®, Acular LS® and Acuvail® by an additional six percent. These price increases had a positive net effect on our U.S. sales in the third quarter of 2013 compared to the third quarter of 2012, 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 the third quarter of 2013 compared to the third quarter of 2012 due to strong growth in sales for both therapeutic and cosmetic uses. Sales of Botox® for therapeutic use increased in all of our principal geographic markets, primarily due to strong growth in sales for the prophylactic treatment of chronic migraine and an increase in sales for the treatment of urinary incontinence and hyperhidrosis. Sales of Botox® for cosmetic use increased in the United States, Europe and Asia, partially offset by a decline in sales in Canada due primarily to the introduction of competitive products in that market. We believe our worldwide market share for neuromodulators, including Botox®, was approximately 76% in the second quarter of 2013, the last quarter for which market data is available.

In March 2012, a U.S. District Court, after conducting a full trial, ruled that Merz Pharmaceuticals and Merz Aesthetics, or, jointly, Merz, violated California's Uniform Trade Secrets Act and issued an injunction prohibiting Merz from providing, selling or soliciting purchases of Xeomin® or its Radiesse® dermal filler products, provided that Merz may sell Xeomin® in the therapeutic market to customers not identified on court mandated exclusion lists and may sell dermal filler products to certain pre-existing customers. On October 1, 2012, the Company announced that the U.S. District Court had entered an order providing that the injunction related to Xeomin® for the facial aesthetics market would remain in place until January 9, 2013. The injunction related to Xeomin® for therapeutic use and Radiesse® was in effect until November 1, 2012.

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Skin care and other product net sales increased in the third quarter of 2013 compared to the third quarter of 2012 primarily due to an increase of $21.2 million in sales of Aczone®, our topical dapsone treatment for acne vulgaris, new product sales of $19.7 million from a variety of physician dispensed aesthetic skin care products acquired in our recent acquisition of SkinMedica, an increase of $6.9 million in sales of our topical tazarotene products Tazorac®, Zorac® and Avage®, and a $1.0 million increase in sales of Latisse®, our treatment for inadequate or insufficient eyelashes, partially offset by a decrease of $5.6 million in sales of our Sanctura® franchise products for the treatment of overactive bladder, or OAB, due to a decline in unit volume related to the launch of competitive generic versions of Sanctura XR® in the United States since October 2012. The increases in sales of Aczone® and our topical tazarotene products Tazorac®, Zorac® and Avage are primarily attributable to an increase in sales volume and an increase in the U.S. list price for these products of five percent that was effective May 18, 2013. The increase in sales of Latisse® is primarily attributable to an increase in product sales volume.

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 September 30, 2013, 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 the third quarter of 2013 compared to the third quarter of 2012 due to increases in sales in the United States, Europe and Asia, partially offset by a decrease in sales in Latin America. The increase in sales of breast aesthetics products in the United States was primarily due to a beneficial change in implant product mix to higher priced round and shaped silicone gel products and higher tissue expander unit volume, partially offset by a small decline in implant unit volume. The increase in sales in Asia benefited from a stocking shipment to Japan. The overall decrease in sales of breast aesthetics products in Latin America was primarily due to lower unit volume shipped to distributors in certain markets. Sales of tissue expanders increased $2.9 million and total sales of silicone gel and saline breast implants and accessories increased $2.9 million in the third quarter of 2013 compared to the third quarter of 2012.

Facial aesthetics product net sales, which consist primarily of sales of hyaluronic acid-based dermal fillers used to correct facial wrinkles, increased in the third quarter of 2013 compared to the third quarter of 2012 due to strong growth in all of our principal geographic markets. The increase in sales of facial aesthetics products in the United States was due primarily to an overall increase in unit volume due to an expansion of the dermal filler market and an increase in market share. The increase in sales of facial aesthetics products in Europe, Latin America and Asia Pacific was due primarily to recent launches of Juvéderm® Voluma,™ Juvéderm® Volift™ and Juvéderm® Volbella™ in those markets.

Foreign currency changes decreased product net sales by $14.2 million in the third quarter of 2013 compared to the third quarter of 2012, primarily due to the weakening of the Brazilian real, Canadian dollar, Australian dollar and Turkish lira compared to the U.S. dollar, partially offset by the strengthening of the euro compared to the U.S. dollar.

U.S. product net sales as a percentage of total product net sales increased by 0.4 percentage points to 62.5% in the third quarter of 2013 compared to U.S. sales of 62.1% in the third quarter of 2012, due primarily to higher sales growth in the U.S. market compared to our international markets for our Botox®, skin care and other, breast aesthetics and facial aesthetics product lines, partially offset by higher sales growth in international markets compared to the U.S. market for our eye care pharmaceuticals product line.

The $436.4 million increase in product net sales in the first nine months of 2013 compared to the first nine months of 2012 was the combined result of an increase of $378.7 million in our specialty pharmaceuticals product net sales and an increase of $57.7 million in our medical devices product net

sales.

The increase in specialty pharmaceuticals product net sales in the first nine months of 2013 compared to the first nine months of 2012 was primarily due to the same factors discussed above with respect to the increase in specialty pharmaceuticals product net sales for the third quarter of 2013. In addition, net sales of Combigan®, our Alphagan® and timolol combination for the treatment of glaucoma increased in the first nine months of 2013 compared to the first nine months of 2012. Sales of Botox® for therapeutic use were relatively unchanged in Latin America in the first nine months of 2013 compared to the first nine months of 2012, primarily due to a delay in orders from our distributor in Venezuela due to the February 2013 currency devaluation and political transition in that country and the negative impact of the Brazilian real exchange rates compared to the U.S. dollar in effect during the first nine months of 2013 compared to the first nine months of 2012. The increase in eye care pharmaceuticals in the first nine months of 2013 compared to the first nine months of 2012 includes an increase of $9.6 million in sales of our artificial tears products. The increase in skin care and other product net sales in the first nine months of 2013 compared to the first nine months of 2012 primarily includes an increase of $35.9 million in sales of Aczone®, new product sales of $59.5 million due to our recent acquisition of SkinMedica, an increase of $18.5 million in sales of Tazorac®, Zorac® and Avage® and a $4.2 million increase in sales of Latisse®, partially offset by a decrease of $25.0 million in sales of our Sanctura® franchise products.

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The increase in medical devices product net sales in the first nine months of 2013 compared to the first nine months of 2012 was primarily due to the same factors discussed above with respect to the increase in medical devices product net sales for the third quarter of 2013. In addition, product net sales in 2013 compared to 2012 were positively impacted by an increase in sales from silicone gel breast implant products in China during 2013. Also, sales of breast aesthetics products in Europe decreased in the first nine months of 2013 compared to the first nine months of 2012 due to extraordinarily high sales and sales growth in the first nine months 2012 following a regulatory action by the French Government to shut down a manufacturer using industrial grade silicone in their breast implants. Many of the resultant revision surgeries occurred with our implants. Sales of tissue expanders increased $5.9 million in the first nine months of 2013 compared to the first nine months of 2012, and sales of total silicone gel and saline breast implants and accessories decreased $3.3 million during the same period.

Foreign currency changes decreased product net sales by $26.9 million in the first nine months of 2013 compared to the first nine months of 2012, primarily due to the weakening of the Brazilian real, Canadian dollar, Australian dollar, U.K. pound, Turkish lira and Indian rupee compared to the U.S. dollar, partially offset by the strengthening of the euro and Mexican peso compared to the U.S. dollar.

U.S. sales as a percentage of total product net sales increased by 0.7 percentage points to 61.5% in the first nine months of 2013 compared to U.S. sales of 60.8% in the first nine months of 2012, due primarily to higher sales growth in the U.S. market compared to our international markets for our Botox® and skin care and other product lines, partially offset by higher sales growth in international markets compared to the U.S. market for our eye care pharmaceuticals product line.

Other Revenues

Other revenues increased $7.5 million to $30.3 million in the third quarter of 2013 compared to $22.8 million in the third quarter of 2012. The increase in other revenues is primarily due to an increase in royalty income from sales of brimonidine products in the United States under a license agreement with Alcon, Inc., or Alcon, and an increase in sales of Aiphagan® in Japan under a license agreement with Senju.

Other revenues increased $5.1 million to $78.1 million in the first nine months of 2013 compared to $73.0 million in the first nine months of 2012. The increase in other revenues is primarily due to an increase in royalty income, partially offset by a decline in substantive milestone event revenue. No substantive milestone event revenue was recorded in the first nine months of 2013. In the first nine months of 2012, other revenues included the achievement of substantive milestones related to the approval of Aiphagan® in Japan and the achievement of two sales milestones related to sales of Lumigan® in Japan. The increase in royalty income in the first nine months of 2013 compared to the first nine months of 2012 is primarily due to an increase in sales of Aiphagan® in Japan under a license agreement with Senju, an increase in sales of brimonidine products in the United States under a license agreement with Alcon and an increase in sales of Botox® for therapeutic use in Japan and China under a licensing agreement with GlaxoSmithKline, partially offset by a decrease in royalties from sales of Lumigan® in Japan under a license agreement with Senju, which were negatively impacted by the Japanese yen exchange rates in effect during the first nine months of 2013 compared to the first nine months of 2012.

Cost of Sales

Cost of sales increased $9.3 million, or 5.1%, in the third quarter of 2013 to $192.2 million, or 12.6% of product net sales, compared to $182.9 million, or 13.5% of product net sales in the third quarter of 2012. The increase in cost of sales primarily resulted from the 12.9% 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, lower provisions for inventory reserves and beneficial changes in standard costs and product mix.

Cost of sales increased $23.0 million, or 4.0%, in the first nine months of 2013 to $591.2 million, or 13.0% of product net sales, compared to $568.2 million, or 13.9% of product net sales in the first nine months of 2012. Cost of sales in the first nine months of 2013 includes $8.9 million for the purchase accounting fair market value inventory adjustment rollout related to our acquisition of SkinMedica. Cost of sales in the first nine months of 2012 includes $0.3 million for the purchase accounting fair market value inventory adjustment rollout related to the purchase of our distributor's business in Russia. Excluding the effect of the charges described above, cost of sales increased $14.4 million, or 2.5%, to $582.3 million, or 12.8% of product net sales in the first nine months of 2013 compared to $567.9 million, or 13.8% of product net sales, in the first nine months of 2012. This increase in cost of sales primarily resulted from the 10.6% 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, lower provisions for inventory reserves, and beneficial changes in standard costs and product mix.

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Selling, General and Administrative

Selling, general and administrative, or SG&A, expenses increased $66.4 million, or 12.7%, to $589.3 million, or 38.6% of product net sales, in the third quarter of 2013 compared to $522.9 million, or 38.6% of product net sales, in the third quarter of 2012. SG&A expenses in the third quarter of 2013 include $3.4 million of transaction and integration costs related to business combinations and license agreements, a $1.5 million charge related to the change in fair value of contingent consideration liabilities associated with certain business combinations, expenses of $1.4 million related to the realignment of various business functions and expenses of $0.1 million for external costs of stockholder derivative litigation associated with the 2010 global settlement with the U.S. Department of Justice, or DOJ, regarding our past U.S. sales and marketing practices relating to certain therapeutic uses of Botox®. SG&A expenses in the third quarter of 2012 include expenses of $0.5 million for external costs of stockholder derivative litigation associated with the 2010 global settlement with the DOJ discussed above and a $2.4 million charge related to the change in fair value of contingent consideration liabilities associated with certain business combinations. Excluding the effect of the items described above, SG&A expenses increased $62.9 million, or 12.1%, to $582.9 million, or 38.1% of product net sales, in the third quarter of 2013 compared to $520.0 million, or 38.4% of product net sales in the third quarter of 2012. The increase in SG&A expenses in dollars, excluding the charges described above, primarily relates to increases in selling expenses and promotion expenses. The increase in selling expenses in the third quarter of 2013 compared to the third quarter of 2012 principally relates to increased personnel and related incentive compensation costs that support the 12.9% increase in product net sales, including the acquisition of the SkinMedica sales force and other sales force expansions in the United States, Europe and Asia. The increase in promotion expenses is primarily due to an increase in direct-to-consumer advertising in the United States for Aczone®, Botox® for the treatment of chronic migraine and Restasis®. General and administrative expenses declined slightly in the third quarter of 2013 compared to the third quarter of 2012. The decrease in general and administrative expenses primarily relates to a reduction in the estimated expense for our share of the annual non-deductible fee on entities that sell branded prescription drugs to specified government programs in the United States and a decrease in losses from the disposal of fixed assets and general insurance costs, partially offset by higher personnel and related incentive compensation costs, the new medical device excise tax in the United States and higher facilities costs.

SG&A expenses increased $153.2 million, or 9.3%, to $1,804.0 million, or 39.8% of product net sales, in the first nine months of 2013 compared to $1,650.8 million, or 40.2% of product net sales, in the first nine months of 2012. SG&A expenses in the first nine months of 2013 include $18.5 million of transaction and integration costs related to business combinations and license agreements, a $4.8 million charge related to the change in fair value of contingent consideration liabilities associated with certain business combinations, expenses of $1.6 million related to the realignment of various business functions and expenses of $3.6 million for external costs of stockholder derivative litigation associated with the 2010 global settlement with the DOJ discussed above and other legal contingency expenses. SG&A expenses in the first nine months of 2012 include $8.9 million of stockholder derivative litigation costs associated with the 2010 global settlement with the DOJ discussed above and other legal contingency expenses and a $15.8 million charge related to the change in fair value of contingent consideration liabilities associated with certain business combinations. Excluding the effect of the items described above, SG&A expenses increased $149.4 million, or 9.2%, to $1,775.5 million, or 39.1% of product net sales, in the first nine months of 2013 compared to $1,626.1 million, or 39.6% of product net sales in the first nine months of 2012. The increase in SG&A expenses in dollars, excluding the charges described above, primarily relates to increases in selling expenses, promotion expenses, and general and administrative expenses. The increase in selling expenses and promotion expenses in the first nine months of 2013 was primarily due to the same factors discussed

with regard to the increase in these expenses in the third quarter of 2013 compared to the third quarter of 2012. The increase in general and administrative expenses primarily relates to higher personnel and related incentive compensation costs, the new medical device excise tax in the United States, an increase in bad debt expense and higher facilities costs, partially offset by a decrease in legal expenses, losses from the disposal of fixed assets and general insurance costs, and a reduction in the estimated expense for our share of the annual non-deductible fee on entities that sell branded prescription drugs to specified government programs in the United States.

Under the provisions of the PPACA, companies that sell branded prescription drugs or biologics to specified government programs in the United States are subject to an annual non-deductible fee based on the company's relative market share of branded prescription drugs or biologics sold to the specified government programs. The non-deductible fee is recorded in SG&A expenses, and the related full year 2013 expense is expected to be approximately $24 million to $27 million. Also under the provisions of the PPACA, the Company is required to pay a tax deductible excise tax of 2.3% on the sale of certain medical devices beginning January 1, 2013. The excise tax is recorded in SG&A expenses, and the related full year 2013 expense is expected to be approximately $7 million to $10 million.

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 September 30, 2013, we have the following significant R&D projects in late-stage development:

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- Latisse® (U.S - Phase III) for brow
- Levadex® (U.S. - Filed/Allergan addressing FDA Complete Response Letter) for migraine
- Ozurdex® (U.S. and Europe - Filed) for diabetic macular edema
- Restasis® (Europe - Phase III) for ocular surface disease
- Ser-120 (U.S. - Phase III) for nocturia (in collaboration with Serenity)
- Botox® (U.S - Phase III) for juvenile cerebral palsy

In December 2012, we announced that Botox® received a positive opinion from the Irish Medicines Board for the treatment of idiopathic overactive bladder with symptoms of urinary incontinence, urgency and frequency in adult patients who have an inadequate response to, or are intolerant of, anticholinergic medications. This is an important step towards securing national licenses in the 14 European countries involved in the Mutual Recognition Procedure.

In January 2013, we announced that the FDA approved Botox® for the treatment of overactive bladder with symptoms of urge urinary incontinence, urgency and frequency in adults who have had an inadequate response to or are intolerant of an anticholinergic medication.

In January 2013, we restructured our collaboration agreement with Spectrum Pharmaceuticals, Inc., or Spectrum, for the development of apaziquone, pursuant to which Spectrum reacquired all rights from us under the collaboration agreement in exchange for agreeing to pay us a royalty on future net sales of licensed products. We have no further obligation under the agreement to share development costs or perform any development, regulatory or other activities.

In February 2013, we announced that the FDA approved our Natrelle®410 Highly Cohesive Anatomically Shaped Silicone-Filled Breast Implants for use in breast reconstruction, augmentation and revision surgery.

In March 2013, we completed the acquisition of MAP (previously, our collaboration partner for Levadex®). In April 2013, we announced that we received a Complete Response Letter, or CRL, from the FDA related to the Levadex® filing that noted concerns with the third-party canister filling unit manufacturer, Exemplar Pharma, LLC, or Exemplar. In April 2013, in order to secure our supply chain, we acquired Exemplar for approximately $16.1 million. We are on track for filing, by year end, all the data required by the FDA in the CRL and anticipate approval in the second quarter of 2014.

In September 2013, we announced that the FDA approved Botox® for an additional cosmetic indication to temporarily treat moderate to severe lateral canthal lines, commonly known as crow's feet lines. Botox® is the first and only product of its kind approved for this indication in the United States.

In October 2013, we announced that the FDA approved Juvéderm® Voluma™XC, the first and only filler approved to temporarily correct age-related volume loss in the cheek area in adults over the age of 21.

In October 2013, we announced that VISTABEL® received a positive opinion from the Agence Nationale de Sécurité du Médicament et des Produits de Santé for the temporary improvement in the appearance of moderate to severe lateral canthal lines (crow's feet lines) seen at maximum smile, either alone or when treated at the same time as glabellar (or frown) lines seen at maximum frown in adult patients. This is an important step towards securing national licences in the twenty seven countries of the European Union as well as Norway and Iceland.

In addition to the significant R&D projects in late stage development described above, in May 2013, we provided an update on certain important Phase II projects — namely, the development of therapeutic DARPin® products and bimatoprost for scalp hair growth. Regarding development efforts of therapeutic DARPin® products, we have completed analysis of data from the randomized controlled Phase II trial comparing two doses of the anti-VEGF DARPin® and Lucentis® (ranibizumab), which suggest some product differentiation between DARPin® and Lucentis® but do not support directly moving to Phase III. During the second quarter of 2013, we started to recruit patients into an additional Phase II study to more completely assess safety and efficacy and to guide the Phase III

study design. In this Phase II study, patients are randomized to one of two doses of the anti-VEGF DARPin® or ranibizumab. This study employs the conventional use of three loading doses to eliminate existing retinal fluid and then assesses the duration of this treatment effect. Regarding bimatoprost for scalp hair growth, the results of the Phase II trial in male and female hair loss indicated that the formulation was well tolerated but did not provide sufficient efficacy to proceed directly to Phase III. We began enrolling patients in the third quarter of 2013 in the first of two additional planned Phase II studies that include trials using a substantially higher concentration of bimatoprost.

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

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license or purchase in-process R&D assets and all other R&D expenses for the three and nine month periods ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Direct costs for:				
Late-stage projects	$59.3	$43.5	$173.5	$137.5
Other R&D projects	164.8	157.6	509.8	459.9
Upfront payments to license or purchase in-process R&D assets	6.5	62.5	6.5	62.5
Other R&D expenses	27.0	26.2	83.1	77.6
Total	$257.6	$289.8	$772.9	$737.5

R&D expenses decreased $32.2 million, or 11.1%, to $257.6 million in the third quarter of 2013, or 16.9% of product net sales, compared to $289.8 million, or 21.4% of product net sales in the third quarter of 2012. R&D expenses in the third quarter of 2013 include $6.5 million for an upfront payment associated with the in-licensing of a technology for the treatment of ocular disease that has not yet achieved regulatory approval. R&D expenses in the third quarter of 2012 include an aggregate charge of $62.5 million for upfront payments associated with two agreements for the in-licensing of technologies for the treatment of serious ophthalmic diseases, including age-related macular degeneration, from Molecular Partners AG that have not yet achieved regulatory approval. Excluding the effect of the charges described above, R&D expenses increased $23.8 million, or 10.5%, to $251.1 million in the third quarter of 2013, or 16.4% of product net sales, compared to $227.3 million, or 16.8% of product net sales in the third quarter of 2012. The increase in R&D expenses in dollars was primarily due to increased spending on next generation eye care pharmaceuticals products for the treatment of glaucoma and retinal diseases, including the DARPin® development programs, the development of technology for the treatment of rosacea acquired in the Vicept acquisition, increased spending on Botox® for the treatment of movement disorders, including juvenile cerebral palsy, increased spending on potential new treatment applications for Latisse®, an increase in costs associated with our collaboration with Serenity Pharmaceuticals, LLC related to Ser-120 for the treatment of nocturia, increased spending on the development of tissue reinforcement technonology acquired in the Serica Technologies, Inc. acquisition, and new expenses for the development of Levadex® for the acute treatment of migraine acquired in the MAP acquisition, partially offset by a decrease in expenses associated with our restructured collaboration with Spectrum related to the development of apaziquone, a decrease in spending on Botox® for the treatment of crow's feet and a decrease in expenses for new technology discovery programs.

R&D expenses increased $35.4 million, or 4.8%, to $772.9 million in the first nine months of 2013, or 17.0% of product net sales, compared to $737.5 million, or 18.0% of product net sales in the first nine months of 2012. R&D expenses in the first nine months of 2013 include $6.5 million for an upfront payment associated with the in-licensing of a technology for the treatment of ocular disease that has not yet achieved regulatory approval. R&D expenses in the first nine months of 2012 include an aggregate charge of $62.5 million for upfront payments associated with two agreements for the in-licensing of technologies for the treatment of serious ophthalmic diseases, including age-related macular degeneration, from Molecular Partners AG that have not yet achieved regulatory approval. Excluding the effect of the charges described above, R&D expenses increased $91.4 million, or 13.5%, to $766.4 million in the first nine months of 2013, or 16.9% of product net sales, compared to $675.0 million, or 16.5% of product net sales in the first nine months of 2012. The increase in R&D expenses in the first nine months of 2013 was primarily due to the same factors described above

related to the increase in R&D expenses in the third quarter of 2013 compared to the third quarter of 2012.

Amortization of Intangible Assets

Amortization of intangible assets increased $6.0 million to $28.8 million in the third quarter of 2013, or 1.9% of product net sales, compared to $22.8 million, or 1.7% of product net sales, in the third quarter of 2012. The increase in amortization expense is primarily due to an increase in the balance of intangible assets subject to amortization, including intangible assets that we acquired in connection with our March 2013 acquisition of MAP and our December 2012 acquisition of SkinMedica, partially offset by a decline in amortization expense associated with certain licensing assets that became fully amortized at the end of the first quarter of 2013, and intangible assets associated with Sanctura XR®, which became fully amortized at the end of 2012.

Amortization of intangible assets increased $21.3 million to $88.5 million in the first nine months of 2013, or 2.0% of product net sales, compared to $67.2 million, or 1.6% of product net sales, in the first nine months of 2012. The increase in amortization expense is primarily due to the same factors described above with respect to the increase in amortization expense in the third quarter of 2013 compared to the third quarter of 2012.

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Restructuring Charges and Integration Costs

In connection with our March 2013 acquisition of MAP, our April 2013 acquisition of Exemplar and our December 2012 acquisition of SkinMedica, we initiated restructuring activities to integrate the operations of the acquired businesses with our operations and to capture synergies through the centralization of certain research and development, manufacturing, general and administrative and commercial functions. The restructuring charges primarily consist of employee severance and other one-time termination benefits for approximately 111 people. In the first quarter of 2013, we recorded $4.3 million of restructuring charges. In the second quarter of 2013, we recorded a $0.9 million restructuring charge reversal. In the third quarter of 2013, we recorded an additional $0.6 million of restructuring charges.

Included in the nine month period ended September 30, 2013 are $0.9 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2013. Included in the three and nine month periods ended September 30, 2012 are $0.7 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2012. Included in the three and nine month periods ended September 30, 2012 are a $0.1 million restructuring charge reversal and $0.8 million of restructuring charges, respectively, related to restructuring activities initiated in prior years.

Included in the three month period ended September 30, 2013 are $3.4 million of SG&A expenses and in the nine month period ended September 30, 2013 $0.1 million of cost of sales and $18.5 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. Included in the three month period ended September 30, 2012 are $0.1 million of SG&A expenses and in the nine month period ended September 30, 2012 $0.1 million of cost of sales and $0.6 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. For the nine month period ended September 30, 2013, these costs primarily consist of investment banking and legal fees.

In addition, included in the three month period ended September 30, 2013 are $1.4 million of SG&A expenses and $0.2 million of R&D expenses and in the nine month period ended September 30, 2013 $1.6 million of SG&A expenses and $0.9 million of R&D expenses related to the realignment of various business functions. Included in the three month period ended September 30, 2012 are $0.3 million of SG&A expenses and in the nine month period ended September 30, 2012 $0.8 million of SG&A expenses and $0.3 million of R&D expenses related to the realignment of various business functions. The SG&A and R&D expenses related to the realignment of various business functions primarily consist of one-time termination benefits earned based on specified retention periods and losses on the disposal of fixed assets.

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, 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 the third quarter of 2013, 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 $114.3 million, stockholder derivative litigation costs of

$0.1 million in connection with the 2010 global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to Botox®, charges of $1.5 million for changes in the fair value of contingent consideration liabilities, integration and transaction costs of $3.0 million associated with the purchase of various businesses, expenses of $1.6 million related to the realignment of various business functions initiated in 2013, an upfront licensing fee of $6.5 million for technology that has not achieved regulatory approval and related transaction costs of $0.1 million, transaction costs of $0.3 million associated with a licensing agreement with Medytox, Inc. and other net indirect costs of $6.0 million.

For the third quarter of 2012, 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 $105.0 million, upfront licensing fees of $62.5 million paid to Molecular Partners AG for technology that has not achieved regulatory approval and related transaction costs of $0.1 million, stockholder derivative litigation costs of $0.5 million in connection with the 2010 global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to Botox®, charges of $2.4 million for changes in the fair value of contingent consideration liabilities, expenses related to the 2012 restructuring and realignment initiatives of $0.3 million and other net indirect costs of $7.1 million.

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For the first nine months of 2013, 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 $335.4 million, aggregate charges of $3.6 million for stockholder derivative litigation costs in connection with the 2010 global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to Botox® and other legal contingency expenses, charges of $4.8 million for changes in the fair value of contingent consideration liabilities, a purchase accounting fair market value inventory adjustment of $8.9 million associated with the acquisition of SkinMedica, integration and transaction costs of $18.2 million associated with the purchase of various businesses, expenses of $2.5 million related to the realignment of various business functions initiated in 2013, an upfront licensing fee of $6.5 million for technology that has not achieved regulatory approval and related transaction costs of $0.1 million, transaction costs of $0.3 million associated with a licensing agreement with Medytox, Inc. and other net indirect costs of $20.9 million.

For the first nine months of 2012, 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 $314.0 million, upfront licensing fees of $62.5 million paid to Molecular Partners AG for technology that has not achieved regulatory approval and related transaction costs of $0.1 million, aggregate charges of $8.9 million for stockholder derivative litigation costs in connection with the 2010 global settlement with the DOJ regarding our past U.S. sales and marketing practices relating to Botox® and other legal contingency expenses, charges of $15.8 million for changes in the fair value of contingent consideration liabilities, a purchase accounting fair market value inventory adjustment of $0.3 million and integration and transaction costs of $0.6 million associated with the purchase of our distributor's business related to our products in Russia, expenses related to the 2012 restructuring and realignment initiatives of $1.1 million and other net indirect costs of $15.6 million.

The following table presents operating income for each reportable segment for the three and nine month periods ended September 30, 2013 and 2012 and a reconciliation of our segments' operating income to consolidated operating income:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Operating income:				
Specialty pharmaceuticals	$593.4	$ 503.4	$1,652.8	$ 1,449.8
Medical devices	58.5	49.6	188.2	169.4
Total segments	651.9	553.0	1,841.0	1,619.2
General and administrative expenses, other indirect costs and other adjustments	133.4	177.9	401.2	418.9
Amortization of intangible assets (a)	27.7	17.0	80.4	49.5
Restructuring charges	0.6	0.6	4.9	1.5
Total operating income	$490.2	$ 357.5	$1,354.5	$ 1,149.3

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

Our consolidated operating income in the third quarter of 2013 was $490.2 million, or 32.1% of product net sales, compared to consolidated operating income of $357.5 million, or 26.4% of product net sales in the third quarter of 2012. The $132.7 million increase in consolidated operating income was due to a $174.7 million increase in product net sales, a $7.5 million increase in other revenues and a $32.2 million decrease in R&D expenses, partially offset by a $9.3 million increase in cost of

sales, a $66.4 million increase in SG&A expenses and a $6.0 million increase in amortization of intangible assets.

Our specialty pharmaceuticals segment operating income in the third quarter of 2013 was $593.4 million, compared to operating income of $503.4 million in the third quarter of 2012. The $90.0 million increase in our specialty pharmaceuticals segment operating income was due primarily to an increase in product net sales across all product lines, partially offset by an increase in selling, promotion and R&D expenses.

Our medical devices segment operating income in the third quarter of 2013 was $58.5 million, compared to operating income of $49.6 million in the third quarter of 2012. The $8.9 million increase in our medical devices segment operating income was due primarily to an increase in product net sales of our facial aesthetics and breast aesthetics product lines, partially offset by an increase in selling, promotion and R&D expenses.

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Our consolidated operating income in the first nine months of 2013 was $1,354.5 million, or 29.8% of product net sales, compared to consolidated operating income of $1,149.3 million, or 28.0% of product net sales in the first nine months of 2012. The $205.2 million increase in consolidated operating income was due to a $436.4 million increase in product net sales and a $5.1 million increase in other revenues, partially offset by a $23.0 million increase in cost of sales, a $153.2 million increase in SG&A expenses, a $35.4 million increase in R&D expenses, a $21.3 million increase in amortization of intangible assets and a $3.4 million increase in restructuring charges.

Our specialty pharmaceuticals segment operating income in the first nine months of 2013 was $1,652.8 million, compared to operating income of $1,449.8 million in the first nine months of 2012. The $203.0 million increase in our specialty pharmaceuticals segment operating income was due primarily to the same factors discussed above with respect to the increase in our specialty pharmaceuticals operating income in the third quarter of 2013 compared to the third quarter of 2012.

Our medical devices segment operating income in the first nine months of 2013 was $188.2 million, compared to operating income of $169.4 million in the first nine months of 2012. The $18.8 million increase in our medical devices segment operating income was due primarily to the same factors discussed above with respect to the increase in our medical devices operating income in the third quarter of 2013 compared to the third quarter of 2012.

Non-Operating Income and Expense

Total net non-operating expense in the third quarter of 2013 was $33.4 million compared to total net non-operating expense of $23.2 million in the third quarter of 2012. Interest income decreased $0.4 million to $1.5 million in the third quarter of 2013 compared to $1.9 million in the third quarter of 2012. Interest expense increased $3.5 million to $19.4 million in the third quarter of 2013 compared to $15.9 million in the third quarter of 2012. Interest expense increased primarily due to the issuance in March 2013 of our 1.35% Senior Notes due 2018, or 2018 Notes, and our 2.80% Senior Notes due 2023, or 2023 Notes. Other, net expense was $15.5 million and $9.2 million in the third quarter of 2013 and 2012, respectively, consisting primarily of net losses on foreign currency derivative instruments and other foreign currency transactions.

Total net non-operating expense in the first nine months of 2013 was $64.7 million compared to total net non-operating expense of $63.3 million in the first nine months of 2012. Interest income increased $0.3 million to $5.1 million in the first nine months of 2013 compared to $4.8 million in the first nine months of 2012. Interest expense increased $8.0 million to $56.8 million in the first nine months of 2013 compared to $48.8 million in the first nine months of 2012. Interest expense increased primarily due to an increase in accrued statutory interest resulting from a change in estimate related to uncertain tax positions and an increase in interest expense due to the issuance in March 2013 of our 2018 Notes and our 2023 Notes. Other, net expense was $13.0 million in the first nine months of 2013, consisting primarily of $10.1 million in net losses on foreign currency derivative instruments and other foreign currency transactions and a loss of $3.7 million related to the impairment of a non-marketable third party equity investment, partially offset by a gain of $0.7 million on the sale of a third party equity investment. Other, net expense was $19.3 million in the first nine months of 2012, consisting primarily of net losses on foreign currency derivative instruments and other foreign currency transactions.

Income Taxes

Our effective tax rate for the third quarter of 2013 was 27.1%. Our effective tax rate for the first nine months of 2013 was 25.6%. Included in our earnings before income taxes for the first nine months of 2013 are charges related to changes in the fair value of contingent consideration associated with certain business combination agreements of $4.8 million, the fair market value inventory adjustment rollout related to the acquisition of SkinMedica of $8.9 million, external costs of stockholder derivative litigation 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® and other legal

contingency expenses of $3.6 million, transaction and integration costs associated with business combinations and license agreements of $18.6 million, a loss of $3.7 million related to the impairment of a non-marketable third party equity investment and restructuring charges of $4.9 million. In the first nine months of 2013 we recorded no income tax benefit related to the changes in the fair value of contingent consideration liabilities, $3.3 million of income tax benefits related to the fair market value inventory adjustment rollout related to the acquisition of SkinMedica, $0.2 million of income tax benefits related to external costs of stockholder derivative litigation 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® and other legal contingency expenses, $4.5 million of income tax benefits related to transaction and integration costs associated with business combinations and license agreements, $1.3 million of income tax benefits related to the impairment of a non-marketable third party equity investment and $1.5 million of income tax benefits related to the restructuring charges. In the first nine months of 2013, we also recorded an income tax benefit of $15.4 million for the retroactive benefit of the U.S. federal research and development tax credit for the 2012 fiscal year that was signed into law on January 2, 2013. Excluding the impact of the pre-tax charges of $44.5 million and the income tax benefits of $26.2 million for the items discussed above, our adjusted effective tax rate for the first nine months of 2013 was 26.7%. We believe that the use of an adjusted effective tax rate provides a more meaningful measure

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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 the first nine months of 2013 is summarized below:

	(in millions)	
Earnings from continuing operations before income taxes, as reported	$1,289.8	
Changes in the fair value of contingent consideration liabilities related to business combinations	4.8	
Fair market value inventory adjustment rollout related to the acquisition of SkinMedica	8.9	
External costs for stockholder derivative litigation and other legal contingency expenses	3.6	
Transaction and integration costs associated with business combinations and license agreements	18.6	
Impairment of a non-marketable third party equity investment	3.7	
Restructuring charges	4.9	
	$1,334.3	
Provision for income taxes, as reported	$329.9	
Income tax benefit (provision) for:		
Changes in the fair value of contingent consideration liabilities related to business combinations	—	
Fair market value inventory adjustment rollout related to the acquisition of SkinMedica	3.3	
External costs for stockholder derivative litigation and legal contingency expenses	0.2	
Transaction and integration costs associated with business combinations and license agreements	4.5	
Impairment of a non-marketable third party equity investment	1.3	
Restructuring charges	1.5	
2012 retroactive U.S. federal research and development tax credit	15.4	
	$356.1	
Adjusted effective tax rate	26.7	%

Our effective tax rates for the third quarter and first nine months of 2012 were 24.3% and 28.3%, respectively. Our effective tax rate for the year ended December 31, 2012 was 28.1%. Included in our earnings before income taxes for the fiscal year 2012 are charges related to changes in the fair value of contingent consideration associated with certain business combination agreements of $5.4 million, upfront payments of $62.5 million associated with two agreements for the in-licensing of technologies from Molecular Partners AG, the fair market value inventory adjustment rollout and integration costs related to the purchase of a distributor's business in Russia of $0.9 million, external costs of stockholder derivative litigation and other legal 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® and other legal contingency expenses of $9.7 million, $0.9 million of interest expense associated with changes in estimated taxes related to uncertain tax positions included in prior year filings, restructuring charges of $1.5 million and impairment of intangible assets and related costs of $22.3 million. In 2012 we recorded no income tax benefits related to the changes in the fair value of contingent consideration liabilities, $15.7 million of income tax benefits related to the upfront payments associated with the two agreements for the in-licensing of technologies from Molecular Partners AG, $0.1 million of income tax benefits related to the fair market value inventory adjustment rollout and integration costs related to the purchase of a distributor's business in Russia, $1.3 million of income tax benefits related to external costs of stockholder derivative litigation and other legal 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® and other legal contingency expenses, income tax benefits of $0.3 million related to interest expense associated with changes in estimated taxes related to uncertain tax positions included in prior year filings, $0.6 million of income tax benefits related to the restructuring charges and $8.2 million of income tax benefits related to the impairment of intangible assets and related costs. In 2012 we also recorded an income tax provision of $7.7 million for changes in estimated taxes related to uncertain tax positions included in prior year filings. Excluding the impact of the pre-tax charges of $103.2 million and the net income tax benefits of $18.5 million for the items discussed above, our adjusted effective tax rate for 2012 was 27.5%.

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The calculation of our adjusted effective tax rate for 2012 is summarized below:

	2012 (in millions)
Earnings from continuing operations before income taxes	$1,531.0
Changes in the fair value of contingent consideration liabilities related to business combinations	5.4
Upfront payments associated with two agreements for the in-licensing of technologies from Molecular Partners AG	62.5
Fair market value inventory adjustment rollout and integration costs related to the purchase of a distributor's business in Russia	0.9
External costs for stockholder derivative litigation and other legal contingency expenses	9.7
Interest expense associated with changes in estimated taxes related to uncertain tax positions in prior year filings	0.9
Restructuring charges	1.5
Impairment of intangible assets and related costs	22.3
	$1,634.2
Provision for income taxes	$430.3
Income tax benefit (provision) for:	
Changes in the fair value of contingent consideration liabilities related to business combinations	—
Upfront payments associated with two agreements for the in-licensing of technologies from Molecular Partners AG	15.7
Fair market value inventory adjustment rollout and integration costs related to the purchase of a distributor's business in Russia	0.1
External costs for stockholder derivative litigation and other legal contingency expenses	1.3
Interest expense associated with changes in estimated taxes related to uncertain tax positions in prior year filings	0.3
Restructuring charges	0.6
Impairment of intangible assets and related costs	8.2
Changes in estimated taxes related to uncertain tax positions in prior year filings	(7.7)
	$448.8
Adjusted effective tax rate	27.5%

The decrease in the adjusted effective tax rate to 26.7% in the first nine months of 2013 compared to the adjusted effective tax rate for the year ended December 31, 2012 of 27.5% is primarily attributable to the beneficial impact of the U.S. federal research and development tax credit, which is included in our estimated annual effective tax rate for 2013, but was not available in 2012, partially offset by a small negative change in other tax positions affecting unrecognized tax benefits.

Earnings from Continuing Operations

Our earnings from continuing operations in the third quarter of 2013 were $332.9 million compared to earnings from continuing operations of $252.9 million in the third quarter of 2012. The $80.0 million increase in earnings from continuing operations was primarily the result of the increase in operating income of $132.7 million, partially offset by the increase in net non-operating expense of $10.2 million and the increase in the provision for income taxes of $42.5 million.

Our earnings from continuing operations in the first nine months of 2013 were $959.9 million compared to earnings from continuing operations of $778.4 million in the first nine months of 2012. The $181.5 million increase in earnings from continuing operations was primarily the result of

the increase in operating income of $205.2 million, partially offset by the increase in net non-operating expense of $1.4 million and the increase in the provision for income taxes of $22.3 million.

Net Earnings Attributable to Noncontrolling Interest

Our net earnings attributable to noncontrolling interest for our majority-owned subsidiaries were $1.0 million and $1.2 million in the third quarter of 2013 and 2012, respectively, and $4.2 million and $2.7 million in the first nine months of 2013 and 2012, respectively.

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Discontinued Operations

On February 1, 2013, we completed our previously announced review of strategic options for maximizing the value of our obesity intervention business, and formally committed to pursue a sale of that business unit. As a result of our approved plan to pursue a sale of the obesity intervention business unit, beginning in the first quarter of 2013, we have reported the financial results from that business unit in discontinued operations in the consolidated statements of earnings and have classified the related assets and liabilities as held for sale in the consolidated balance sheet. The prior period consolidated statements of earnings and consolidated balance sheet as of December 31, 2012 have been retrospectively revised to reflect the obesity intervention business unit as discontinued operations and the related assets and liabilities as held for sale. The net assets held for sale include a portion of the medical devices reporting unit's goodwill allocated to the obesity intervention business based on the relative fair value of that business to the portion of the medical devices reporting unit that we will retain.

The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the obesity intervention business. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the obesity intervention business unit do not necessarily reflect what the results of operations would have been had the business operated as a stand-alone entity.

The following table summarizes the results of operations from discontinued operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Product net sales	$29.3	$ 37.4	$94.5	$ 122.7
Operating costs and expenses:				
Cost of sales (excludes amortization of intangible assets)	5.4	5.8	15.9	18.1
Selling, general and administrative	14.4	18.0	44.8	59.8
Research and development	1.3	3.5	4.0	12.8
Amortization of intangible assets	—	10.4	10.3	30.9
Restructuring charges	—	3.2	—	3.2
Earnings (loss) from discontinued operations before income taxes	$8.2	$ (3.5)	$19.5	$ (2.1)
Earnings (loss) from discontinued operations, net of income taxes	$5.5	$ (2.3)	$13.1	$ (1.1)

In the first quarter of 2013, we also reported a separate estimated pre-tax disposal loss of $346.2 million ($259.0 million after tax) related to the obesity intervention business unit from the write-down of the net assets held for sale to their estimated fair value less costs to sell.

On October 28, 2013, we entered into a definitive agreement to sell our obesity intervention business to Apollo Endosurgery, Inc., or Apollo, for an upfront cash payment of $75.0 million, subject to certain adjustments, and certain additional consideration, including a $15.0 million minority equity interest in Apollo and contingent consideration of up to $20.0 million to be paid upon the achievement of certain regulatory and sales milestones. The transaction is expected to close in 2013, subject to customary closing conditions. In the third quarter of 2013, we recorded an additional pre-tax disposal loss of $58.7 million ($37.6 million after tax) from the write-down of the net assets

held for sale to their estimated fair value based on the terms of the sale agreement.

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The following table summarizes the assets and liabilities held for sale related to the obesity intervention business unit as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(in millions)	
Assets:		
Trade receivables, net	$22.2	$ 25.2
Inventories	10.1	10.6
Property, plant and equipment, net	1.2	1.4
Goodwill	105.7	105.7
Intangibles, net	358.7	369.0
Other assets	0.3	0.7
Valuation allowance	(404.9)	—
Total assets held for sale	$93.3	$ 512.6
Liabilities:		
Accounts payable	$0.8	$ 0.9
Accrued expenses	2.4	4.1
Other liabilities	0.1	0.3
Total liabilities held for sale	$3.3	$ 5.3

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 for the first nine months of 2013 was $1,180.1 million compared to $1,100.0 million for the first nine months of 2012. Cash flow from operating activities increased in the first nine months of 2013 compared to the first nine months of 2012 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 other current assets, accounts payable and other liabilities, partially offset by an increase in cash used to fund changes in trade receivables, inventories, other non-current assets, accrued expenses and income taxes. In September 2012, we terminated the $300.0 million notional amount interest rate swap and received $54.7 million, which included accrued interest of $3.7 million. In the first nine months of 2013 and 2012, we made upfront payments of $6.5 million and $62.5 million, respectively, for various licensing and collaboration agreements, which were included in our net earnings for the respective periods. In the first nine months of 2013 and 2012, we paid pension contributions of $22.0 million and $23.1 million, respectively, to our U.S. defined benefit pension plan.

Net cash used in investing activities was $1,262.0 million in the first nine months of 2013 compared to net cash used in investing activities of $211.4 million in the first nine months of 2012. In the first nine months of 2013, we received $380.5 million from the maturities of short-term investments. In the first nine months of 2013, we purchased $644.5 million of short-term investments and paid $889.7 million, net of cash acquired, for the acquisitions of MAP and Exemplar, and $2.4 million for purchase price adjustments related to prior acquisitions. Additionally, we invested $97.4 million in new facilities and equipment and $8.6 million in capitalized software. In the first nine months of 2012, we received $604.7 million from the maturities of short-term investments and $1.3 million from the sale of property, plant and equipment. In the first nine months of 2012, we purchased $704.6

million of short-term investments, paid $3.1 million for the purchase of our distributor's business related to our products in Russia and paid $4.1 million for trademarks and developed technology intangible assets. Additionally, we invested $98.1 million in new facilities and equipment and $7.5 million in capitalized software. We currently expect to invest between approximately $150 million and $200 million in capital expenditures for manufacturing and administrative facilities, manufacturing equipment and other property, plant and equipment during 2013.

Net cash provided by financing activities was $70.8 million in the first nine months of 2013 compared to net cash used in financing activities of $638.5 million in the first nine months of 2012. On March 12, 2013, we issued concurrently in a registered offering $250.0 million in aggregate principal amount of our 2018 Notes and $350.0 million in aggregate principal amount of our

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2023 Notes, and received total proceeds of $598.5 million, net of original discounts. Additionally, in the first nine months of 2013, we received $160.1 million from the sale of stock to employees and $33.6 million in excess tax benefits from share-based compensation. These amounts were partially reduced by the repurchase of approximately 6.1 million shares of our common stock for $649.3 million, a cash payment of $4.8 million for offering fees related to the issuance of the 2018 Notes and the 2023 Notes, $44.6 million in dividends paid to stockholders, net repayments of notes payable of $11.6 million and payments of contingent consideration of $11.1 million. In the first nine months of 2012, we repurchased approximately 8.0 million shares of our common stock for $723.3 million, paid $45.4 million in dividends to stockholders, made net repayments of notes payable of $43.1 million and paid contingent consideration of $5.1 million. This use of cash was partially offset by $153.9 million received from the sale of stock to employees and $24.5 million in excess tax benefits from share-based compensation.

Effective October 25, 2013, our Board of Directors declared a cash dividend of $0.05 per share, payable December 11, 2013 to stockholders of record on November 20, 2013.

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 September 30, 2013, we held approximately 10.4 million treasury shares under this program. In the first quarter of 2013, we completed the repurchase of 6.0 million shares under our previously disclosed Rule 10b5-1 plan. We are uncertain as to the level of stock repurchases, if any, to be made in the future.

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 will be due and payable on April 1, 2016, unless earlier redeemed by us. In September 2012, we terminated the $300.0 million notional amount interest rate swap related to the 2016 Notes and received $54.7 million, which included accrued interest of $3.7 million. Upon termination of the interest rate swap, we added the net fair value received of $51.0 million to the carrying value of the 2016 Notes. The amount received for the termination of the interest rate swap is being amortized as a reduction to interest expense over the remaining life of the debt, which effectively fixes the interest rate for the remaining term of the 2016 Notes at 3.94%.

Our 2018 Notes, which were sold at 99.793% of par value with an effective interest rate of 1.39%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 1.35% 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 2018 Notes will be due and payable on March 15, 2018, unless earlier redeemed by us.

Our 3.375% Senior Notes due 2020, or 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 2023 Notes, which were sold at 99.714% of par value with an effective interest rate of 2.83%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 2.80% 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, if the redemption occurs

prior to December 15, 2022 (three months prior to the maturity of the 2023 Notes). If the redemption occurs on or after December 15, 2022, then such redemption is not subject to the make-whole provision.The aggregate outstanding principal amount of the 2023 Notes will be due and payable on March 15, 2023, unless earlier redeemed by us.

At September 30, 2013, we had a committed long-term credit facility, a commercial paper 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. Our committed long-term credit facility will expire in October 2016. 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 $800.0 million in borrowings. However, our combined borrowings under our committed long-term credit facility and our commercial paper program may not exceed $800.0 million in the aggregate. Borrowings under the committed long-term credit facility 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 September 30, 2013. At September 30, 2013, we had no borrowings under our committed long-term credit facility, $20.0 million in borrowings outstanding under the real estate mortgage, $37.2

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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 September 25, 2013, we announced that we had entered into a license agreement with Medytox, Inc., or Medytox, pursuant to which, upon closing, we will pay Medytox an upfront payment of $65.0 million and Medytox will grant us exclusive rights, worldwide outside of Korea, to develop and, if approved, commercialize certain neurotoxin product candidates currently in development, including a potential liquid-injectable product. The terms of the agreement also include potential future development milestone payments of up to $116.5 million and potential future sales milestone payments of up to $180.5 million, as well as potential future royalty payments. The closing of the transaction is contingent on obtaining certain government approvals.

On September 10, 2013, we entered into a license and collaboration agreement with a third party pursuant to which we obtained exclusive global rights to research, manufacture and commercialize certain technologies for the treatment of ocular disease. Under the terms of the agreement, we made a $6.5 million upfront payment in September 2013. The terms of the agreement also include potential future payments to the third party related to our achievement of development, regulatory and sales milestone events, as well as potential future royalty payments.

On February 1, 2013, we completed our previously announced review of strategic options for maximizing the value of our obesity intervention business, and formally committed to pursue a sale of that business unit. On October 28, 2013, we entered into a definitive agreement to sell our obesity intervention business to Apollo Endosurgery, Inc., or Apollo, for an upfront cash payment of $75.0 million, subject to certain adjustments, and certain additional consideration, including a $15.0 million minority equity interest in Apollo and contingent consideration of up to $20.0 million to be paid upon the achievement of certain regulatory and sales milestones. The transaction is expected to close in 2013, subject to customary closing conditions.

At December 31, 2012, we had net pension and postretirement benefit obligations totaling $263.2 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 2013, we expect to pay pension contributions of between $40.0 million and $50.0 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.

Generic versions of Elestat® and Sanctura XR® were launched in the United States in May 2011 and October 2012, respectively, and a generic version of Zymaxid® was launched in the United States in October 2013. In addition, our products compete with generic versions of some branded pharmaceutical products sold by our competitors. We do not believe that our liquidity will be materially impacted in 2013 by generic competition.

As of September 30, 2013, $2,287.9 million of our existing cash and equivalents and short-term investments 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, 2012, we had approximately $3,083.5 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.

We sell products to public and semi-public hospitals in Italy and Spain, which are wholly or partially funded by their respective sovereign governments. The following table provides information related to trade receivables outstanding as of September 30, 2013 from product net sales in Italy and Spain:

	Italy	Spain
	(in millions)	

Trade receivables from public and semi-public hospitals primarily funded by the sovereign government	$20.1	$18.8
Trade receivables from other customers	7.0	16.4
Total trade receivables	$27.1	$35.2
Amount of trade receivables that is past due	$16.8	$19.6
Allowance for doubtful accounts	$5.5	$4.4

We believe the reserves established against these trade receivables are sufficient to cover the amounts that will ultimately be uncollectible. However, the economic stability in these countries is unpredictable and we cannot provide assurance that additional

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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 could adversely affect our future results of operations.

As of September 30, 2013, we have no significant trade accounts receivable from customers in Greece or Portugal that are primarily funded by their respective sovereign governments.

As of September 30, 2013, we had trade receivables from a single commercial distributor in Venezuela of approximately $44.1 million, which are subject to currency exchange controls administered by the Commission for the Administration of Currency Exchange, or CADIVI, a Venezuelan government body. The payment of our trade receivables is required to be approved through CADIVI's administration of monthly allocations of foreign currency provided by the Central Bank of Venezuela. Our trade receivables are subject to future potential currency devaluation actions that could be taken by the Venezuelan government, which have occurred several times in the past. The agreement with our distributor contains certain terms that partially limit our exposure to devaluation risk, but because of the unpredictable economic stability in Venezuela, our trade receivables in Venezuela may become subject to a material devaluation.

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.

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ALLERGAN, INC.

Item 3. 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 derivative financial instruments for trading or speculative purposes.

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.

As of September 30, 2013, we had no interest rate swap contracts outstanding. However, we may from time to time seek to enter into interest rate hedge transactions in the future.

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. The swap received interest at a fixed rate of 5.75% and paid interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converted $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 met the criteria for using the short-cut method for a fair value hedge. In September 2012, we terminated the interest rate swap and received $54.7 million, which included accrued interest of $3.7 million. Upon termination of the interest rate swap, we added the net fair value received of $51.0 million to the carrying value of the 2016 Notes. The amount received for the termination of the interest rate swap is being amortized as a reduction to interest expense over the remaining life of the debt, which effectively fixes the interest rate for the remaining term of the 2016 Notes at 3.94%. During the three and nine month periods ended September 30, 2013, we recognized $3.3 million and $9.8 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap. During the three and nine month periods ended September 30, 2012, we recognized $3.2 million and $10.6 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap.

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 September 30, 2013, the remaining unrecognized gain, net of tax, of $2.0 million is recorded as a component of accumulated other comprehensive loss.

At September 30, 2013, we had approximately $37.2 million of variable rate debt. If interest rates were to increase or decrease by 1% for the year, annual interest expense would increase or decrease by approximately $0.4 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 may be subject to a floating interest rate. Therefore, higher interest costs could occur if interest rates increase in the future.

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The following tables present information about certain of our investment portfolio and our debt obligations at September 30, 2013 and December 31, 2012.

	September 30, 2013 Maturing in							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$1,641.2	$—	$—	$—	$—	$—	$1,641.2	$1,641.2
Weighted Average Interest Rate	0.09 %	—	—	—	—	—	0.09 %	
Foreign Time Deposits	312.9	—	—	—	—	—	312.9	312.9
Weighted Average Interest Rate	0.14 %	—	—	—	—	—	0.14 %	
Other Cash Equivalents	1,022.6	—	—	—	—	—	1,022.6	1,022.6
Weighted Average Interest Rate	0.21 %	—	—	—	—	—	0.21 %	
Total Cash Equivalents and Short-Term Investments	$2,976.7	$—	$—	$—	$—	$—	$2,976.7	$2,976.7
Weighted Average Interest Rate	0.13 %	—	—	—	—	—	0.13 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$) (a)	$—	$—	$—	$834.3	$20.0	$1,247.2	$2,101.5	$2,181.4
Weighted Average Interest Rate	—	—	—	3.94 %	5.65 %	2.84 %	3.31 %	
Other Variable Rate (non-US$)	37.2	—	—	—	—	—	37.2	37.2
Weighted Average Interest Rate	6.82 %	—	—	—	—	—	6.82 %	
Total Debt Obligations	$37.2	$—	$—	$834.3	$20.0	$1,247.2	$2,138.7	$2,218.6
Weighted Average Interest Rate	6.82 %	—	—	3.94 %	5.65 %	2.84 %	3.37 %	

(a) The carrying value of debt obligations maturing in 2016 includes an unamortized amount of $34.8 million related to a terminated interest rate swap associated with the 2016 Notes.

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	December 31, 2012 Maturing in							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$1,709.0	$—	$—	$—	$—	$—	$1,709.0	$1,709.0
Weighted Average Interest Rate	0.14 %	—	—	—	—	—	0.14 %	
Foreign Time Deposits	341.7	—	—	—	—	—	341.7	341.7
Weighted Average Interest Rate	0.17 %	—	—	—	—	—	0.17 %	
Other Cash Equivalents	685.0	—	—	—	—	—	685.0	685.0
Weighted Average Interest Rate	0.17 %	—	—	—	—	—	0.17 %	
Total Cash Equivalents and Short-Term Investments	$2,735.7	$—	$—	$—	$—	$—	$2,735.7	$2,735.7
Weighted Average Interest Rate	0.15 %	—	—	—	—	—	0.15 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$) (a)	$—	$—	$—	$843.9	$20.0	$648.5	$1,512.4	$1,673.0
Weighted Average Interest Rate	—	—	—	3.94 %	5.65 %	3.41 %	3.74 %	
Other Variable Rate (non-US$)	48.8	—	—	—	—	—	48.8	48.8
Weighted Average Interest Rate	6.06 %	—	—	—	—	—	6.06 %	
Total Debt Obligations	$48.8	$—	$—	$843.9	$20.0	$648.5	$1,561.2	$1,721.8
Weighted Average Interest Rate	6.06 %	—	—	3.94 %	5.65 %	3.41 %	3.81 %	

(a) The carrying value of debt obligations maturing in 2016 includes an unamortized amount of $44.6 million related to a terminated interest rate swap associated with the 2016 Notes.

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 economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of our business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The 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, Polish zloty, Swiss franc, Russian ruble, Swedish krona and South African rand. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures. Changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as “Other, net” in the accompanying unaudited condensed consolidated statements of earnings. 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

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gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through “Other, net” in the accompanying unaudited condensed consolidated statements of earnings.

The following table provides information about our foreign currency derivative financial instruments outstanding as of September 30, 2013 and December 31, 2012. The information is provided in U.S. dollars, as presented in our unaudited condensed consolidated financial statements:

	September 30, 2013		December 31, 2012	
	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	$9.6	99.23	$8.3	83.88
Australian dollar	15.3	0.93	17.3	1.05
Russian ruble	20.5	32.75	17.9	31.31
New Zealand dollar	0.8	0.81	—	—
Polish zloty	—	—	1.1	3.14
	$46.2		$44.6	
Estimated fair value	$(0.1)		$0.3	
Foreign currency forward contracts: (Pay U.S. dollar/receive foreign currency)				
Euro	$40.1	1.34	$39.6	1.32
Estimated fair value	$0.5		$—	
Foreign currency sold — put options:				
Canadian dollar	$111.9	1.03	$105.6	1.02
Mexican peso	5.1	13.27	17.8	13.10
Australian dollar	62.9	0.93	67.9	1.00
Brazilian real	42.4	2.36	45.5	2.14
Euro	159.9	1.32	168.0	1.29
Korean won	5.4	1,091.68	20.1	1,086.16
Turkish lira	6.8	1.86	27.0	1.83
Polish zloty	2.5	3.22	8.7	3.19
Swiss franc	2.3	0.92	8.6	0.92
Russian ruble	1.9	32.46	10.6	31.74
Swedish krona	2.7	6.72	9.7	6.70
South African rand	3.2	9.09	12.1	8.94
	$407.0		$501.6	
Estimated fair value	$10.9		$9.9	

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ALLERGAN, INC.

Item 4. 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 September 30, 2013, the end of the quarterly period covered by this report. 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 September 30, 2013, there were no changes in our internal control over financial reporting that occurred during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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ALLERGAN, INC.
PART II — OTHER INFORMATION

Item 1. Legal Proceedings
Certain of the legal proceedings in which we are involved are discussed in Note 11, "Contingencies," to our Unaudited Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, and are hereby incorporated by reference.

Item 1A. Risk Factors
There have been no material changes to the risk factors previously disclosed by us in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as supplemented and amended by the risk factors previously disclosed by us in Part II, Item 1A "Risk Factors" of our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2013 and June 30, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following table discloses the purchases of our equity securities during the third fiscal quarter of 2013.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (2)
July 1, 2013 to July 31, 2013	—	$—	—	7,701,424
August 1, 2013 to August 31, 2013	2,155	91.95	—	7,841,748
September 1, 2013 to September 30, 2013	—	—	—	7,992,630
Total	2,155	$91.95	—	N/A

(1) We maintain an evergreen stock repurchase program, which we first announced on September 28, 1993. Under the stock repurchase program, we may maintain up to 18.4 million repurchased shares in our treasury account at any one time. At September 30, 2013, we held approximately 10.4 million treasury shares under this program. Total number of shares purchased represents shares of common stock withheld by us to satisfy tax withholding obligations related to vested employee restricted stock awards.

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

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
Not Applicable.

Item 5. Other Information
None.

Item 6. Exhibits

Reference is made to the Exhibit Index included herein.

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SIGNATURE

Pursuant to the requirements 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.

Date: November 5, 2013

ALLERGAN, INC.

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

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ALLERGAN, INC.
EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Allergan, Inc. (incorporated by reference to Exhibit 3.1 to Allergan Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2013)
3.2	Allergan, Inc. Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Allergan Inc.'s Report on Form 10-Q for the Quarter ended March 31, 2013)
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
101	The following financial statements from Allergan, Inc.'s Report on Form 10-Q for the Quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Earnings; (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income; (iii) Unaudited Condensed Consolidated Balance Sheets; (iv) Unaudited Condensed Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Condensed Consolidated Financial Statements