ALLERGAN INC
Form 10-Q
November 07, 2005

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

COMMISSION FILE NUMBER 1-10269

ALLERGAN, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	95-1622442
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2525 DUPONT DRIVE, IRVINE, CALIFORNIA	92612
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

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

As of October 28, 2005 there were 134,254,772 shares of common stock outstanding (including 2,646,927 shares held in treasury).

ALLERGAN, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2005
INDEX

Page

PART I FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

(A)	Unaudited Condensed Consolidated Statements of Earnings Three and Nine Months Ended September 30, 2005 and September 24, 2004	3
(B)	Unaudited Condensed Consolidated Balance Sheets September 30, 2005 and December 31, 2004	4
(C)	Unaudited Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2005 and September 24, 2004	5
(D)	Notes to Unaudited Condensed Consolidated Financial Statements	6-21

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 22-38

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 39-42

CERTAIN FACTORS AND TRENDS AFFECTING ALLERGAN AND ITS BUSINESSES 43-51

ITEM 4 - CONTROLS AND PROCEDURES 52

PART II OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS 53-55

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS 56

ITEM 5 - OTHER INFORMATION 56

ITEM 6 - EXHIBITS 57

SIGNATURE 58

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements
Allergan, Inc.
Unaudited Condensed Consolidated Statements of Earnings
(in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2005	September 24, 2004	September 30, 2005	September 24, 2004
Product Sales				
Net sales	$606.1	$510.8	$1,724.3	$1,489.4
Cost of sales	98.5	99.1	304.3	282.9
Product gross margin	507.6	411.7	1,420.0	1,206.5
Operating costs and expenses				
Selling, general and administrative	237.7	195.5	689.5	572.8
Research and development	110.2	83.0	283.5	257.6
Restructuring charge (reversal)	(0.1)		37.6	
Operating income	159.8	133.2	409.4	376.1
Non-operating income (expense)				
Interest income	11.4	2.6	23.0	6.8
Interest expense	1.6	(6.8)	(7.5)	(14.2)
Unrealized gain (loss) on derivative instruments, net	(0.2)	(0.1)	1.0	0.1
Gain on investments	0.8		0.8	
Other, net	(0.8)	3.6	3.0	2.3
	12.8	(0.7)	20.3	(5.0)
Earnings before income taxes and minority interest	172.6	132.5	429.7	371.1
Provision for income taxes	19.9	40.3	163.2	105.8
Minority interest expense	2.2	0.2	2.7	0.7
Net earnings	$150.5	$ 92.0	$ 263.8	$ 264.6
Earnings per share:				
Basic	$ 1.15	$ 0.70	$ 2.02	$ 2.02
Diluted	$ 1.12	$ 0.69	$ 1.98	$ 1.97

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Allergan, Inc.
Unaudited Condensed Consolidated Balance Sheets
(in millions, except share data)

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and equivalents	$1,110.6	$ 894.8
Trade receivables, net	252.3	243.5
Inventories	90.5	89.9
Other current assets	173.3	147.8
Total current assets	1,626.7	1,376.0
Investments and other assets	264.1	230.0
Deferred tax assets	121.6	115.7
Property, plant and equipment, net	466.9	468.5
Goodwill	9.2	8.7
Intangibles, net	144.9	58.1
Total assets	$2,633.4	$2,257.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 126.0	$ 13.1
Accounts payable	114.4	97.9
Accrued expenses	263.0	255.6
Income taxes	96.0	93.0
Total current liabilities	599.4	459.6
Long-term debt	57.2	56.5
Long-term convertible notes, net of discount	518.4	513.6
Other liabilities	117.8	108.6
Commitments and contingencies		
Minority interest	1.0	2.5
Stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 300,000,000 shares; issued 134,255,000 shares	1.3	1.3
Additional paid-in capital	395.7	387.1
Accumulated other comprehensive loss	(46.3)	(45.7)
Retained earnings	1,192.7	982.5
	1,543.4	1,325.2

Less treasury stock, at cost (2,662,000 and 2,838,000 shares, respectively)	(203.8)	(209.0)
Total stockholders equity	1,339.6	1,116.2
Total liabilities and stockholders equity	$2,633.4	$2,257.0

See accompanying notes to unaudited condensed consolidated financial statements.

4

Table of Contents

Allergan, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in millions)

	Nine months ended	
	September 30, 2005	September 24, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 263.8	$ 264.6
Non-cash items included in earnings:		
Depreciation and amortization	58.1	50.5
Amortization of original issue discount and debt issuance costs	7.4	9.4
Deferred income taxes	(8.7)	(9.5)
Gain on sale of investments	(0.8)	
(Gain) loss on disposal of fixed assets	(5.3)	3.4
Unrealized gain on derivative instruments	(1.0)	(0.1)
Expense of compensation plans	10.0	7.9
Minority interest expense	2.7	0.7
Restructuring charge	37.6	
Changes in assets and liabilities:		
Trade receivables	(14.9)	(43.2)
Inventories	1.3	(8.6)
Other current assets	(26.4)	11.3
Accounts payable	17.7	10.3
Accrued expenses	(22.1)	29.2
Other liabilities	9.4	28.4
Income taxes	14.3	34.7
Other non-current assets	(38.4)	(13.9)
Net cash provided by operating activities	304.7	375.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(36.2)	(64.0)
Proceeds from sale of property, plant and equipment	5.5	
Proceeds from sale of investments	1.3	
Additions to capitalized software	(10.8)	(4.9)
Additions to intangible assets	(99.3)	
Other, net	0.2	(1.5)
Net cash used in investing activities	(139.3)	(70.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends to stockholders	(39.1)	(35.5)
Net repayments under commercial paper obligations		(10.4)
Net borrowings (repayments) of notes payable	113.3	(2.7)
Sale of stock to employees	70.5	80.0

Payments to acquire treasury stock	(94.3)	(65.2)
Net cash provided by (used in) financing activities	50.4	(33.8)
Effect of exchange rate changes on cash and equivalents		0.4
Net increase in cash and equivalents	215.8	271.3
Cash and equivalents at beginning of period	894.8	507.6
Cash and equivalents at end of period	$1,110.6	$ 778.9
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of capitalization)	$ 12.9	$ 7.3
Income taxes, net of refunds	$ 152.1	$ 79.4

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2004. The Company prepared the condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005 or any other period(s).

Reclassifications

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

Stock-Based Compensation

As allowed by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, the Company has elected to continue to apply the intrinsic-value-based method of accounting. Under this method, the Company measures stock-based compensation for option grants to employees assuming that options granted at market price at the date of grant have no intrinsic value. The Company s contributions of common stock related to the Company s savings and investment plans are measured at market price at the date of contribution. Restricted stock awards, including restricted stock units, are valued based on the market price of a share of nonrestricted stock on the grant date. No compensation expense has been recognized for stock-based incentive compensation plans other than for the contributions of common stock to the Company s savings and investment plans and the restricted stock awards under both the incentive compensation plan and the non-employee director equity incentive plan. Had compensation expense for the Company s stock options under the incentive compensation plan and the non-employee director equity incentive plan been recognized based upon the fair value of awards granted, the Company s net earnings would have been reduced to the following *pro forma* amounts:

(in millions, except per share amounts)	Three months ended		Nine months ended	
	September 30, 2005	September 24, 2004	September 30, 2005	September 24, 2004
Net earnings, as reported	$150.5	$ 92.0	$263.8	$264.6
Add stock-based compensation expense included in reported net earnings, net of tax	1.8	1.3	6.4	5.0
Deduct stock-based compensation expense determined under fair value based method, net of tax	(10.2)	(10.3)	(33.5)	(32.1)
Pro forma net earnings	$142.1	$ 83.0	$236.7	$237.5
Earnings per share:				
As reported basic	$ 1.15	$ 0.70	$ 2.02	$ 2.02
As reported diluted	$ 1.12	$ 0.69	$ 1.98	$ 1.97
Pro forma basic	$ 1.08	$ 0.63	$ 1.81	$ 1.81
Pro forma diluted	$ 1.06	$ 0.63	$ 1.78	$ 1.77

See Note 3 below for a discussion of the acceleration of vesting of premium priced stock options. These *pro forma* effects are not indicative of future amounts. The Company expects to grant additional awards in future years. See New Accounting Standards Not Yet Adopted in Note 2 below for a discussion of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

6

Table of Contents

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
2. Recently Adopted Accounting Standards

In December 2004, Financial Accounting Standards Board Position 109-2 (FASB Staff Position 109-2) was issued and was effective upon issuance. FASB Staff Position 109-2 establishes standards for how an issuer accounts for a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer pursuant to the American Jobs Creation Act of 2004 (the Act). The Financial Accounting Standards Board (FASB) staff believes that the lack of clarification of certain provisions within the Act and the timing of the enactment necessitate a practical exception to the Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109), requirement to reflect in the period of enactment the effect of a new tax law. Accordingly, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company determined during its second fiscal quarter 2005 that it had sufficient information to make an informed decision on the impact of the Act on the Company s repatriation plans and recorded a $32.8 million tax liability based on a plan to repatriate approximately $674.0 million in extraordinary dividends as defined by the Act.

In October 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share* (EITF 04-8), which became effective for reporting periods ending after December 15, 2004. EITF No. 04-8 requires all instruments that have embedded conversion features, including contingently convertible debt, that are contingent on market conditions indexed to an issuer s share price to be included in diluted earnings per share computations, if dilutive, regardless of whether the market conditions have been met. The Company adopted the provisions of EITF No. 04-8 in its fourth fiscal quarter of 2004. All prior period diluted earnings per share amounts have been restated to conform to the guidance in EITF No. 04-8.

In December 2004, Financial Accounting Standards Board Position 109-1 (FASB Staff Position 109-1) was issued and was effective upon issuance. FASB Staff Position 109-1 requires the Company to treat the effect of a newly enacted U.S. tax deduction, beginning in 2005, for income attributable to U.S. production activities as a special deduction, and not a tax rate reduction, in accordance with SFAS No. 109. The Company adopted the provisions of FASB Staff Position 109-1 in its first fiscal quarter of 2005. The adoption did not have a material effect on the Company s unaudited condensed consolidated financial statements.

New Accounting Standards Not Yet Adopted

In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), was issued. SFAS No. 123R is effective for entities that do not file as small business issuers as of the beginning of the first fiscal year that begins after June 15, 2005, which is the Company s first fiscal quarter of 2006. SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R sets accounting requirements for measuring, recognizing and reporting share-based compensation, including income tax considerations. In general, SFAS No. 123R does not express a preference for a type of valuation model for measuring the grant date fair value, generally requires equity-classified and liability-classified awards to be recognized in earnings over the requisite service period, generally the vesting period for service condition awards, allows for a one-time policy election regarding one of two alternatives for recognizing compensation cost for grant awards with graded vesting, and requires the use of the estimated forfeitures method. Upon adoption of SFAS No. 123R, the Company will begin recognizing the cost of stock options using the modified prospective application method whereby the cost of new awards and awards modified, repurchased or cancelled after the required effective date and the portion of awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. Because the Company historically accounted for share-based payment arrangements under the intrinsic value method of accounting, the Company will continue to provide the disclosures required by Statement of Financial Accounting

Table of Contents

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Standards No. 123 until the effective date of SFAS No. 123R, regarding *pro forma* net earnings and basic and diluted earnings per share, had compensation expense for the Company s stock options been recognized based upon the fair value for awards granted.

3. Acceleration of Vesting of Premium Priced Stock Options

On July 30, 2001, the Company granted non-qualified stock options to purchase up to 2,500,000 shares of its common stock to participants, including the Company s executive officers, under the Allergan, Inc. 2001 Premium Priced Stock Option Plan. Each option was issued with three tranches:

The first tranche has an exercise price equal to $88.55;

The second tranche has an exercise price equal to $106.26; and

The third tranche has an exercise price equal to $127.51.

The 2001 Premium Priced Stock Option Plan provided that each tranche of an option would vest and become exercisable upon the earlier of (i) the date on which the fair value of a share of the Company s common stock equals or exceeds the applicable exercise price or (ii) five years from the grant date (July 30, 2006). The options expire six years from the grant date (July 30, 2007). The first tranche of the options vested and became exercisable on March 1, 2004 as a result of the fair value of the Company s common stock exceeding $88.55.

In response to FAS No. 123R, on April 25, 2005, the Organization and Compensation Committee of the Company s Board of Directors approved an acceleration of the vesting of the options issued under the Allergan, Inc. 2001 Premium Priced Stock Option Plan that are held by the Company s current employees, including the Company s executive officers, and certain former employees of the Company who received grants while employees prior to the June 2002 spin-off of Advanced Medical Optics, Inc. (AMO). The former employees of the Company are current employees of AMO. As a result of the acceleration, the second tranche and third tranche of each option became immediately vested and exercisable effective as of May 10, 2005. Unlike typical stock options that vest over a predetermined period, the options, pursuant to their original terms, automatically vest as soon as they are in the money. Consequently, as soon as the options have any value to the participant, they would vest according to their original terms. Therefore, early vesting does not provide any immediate benefit to participants, including the Company s executive officers.

The acceleration of the options eliminated future compensation expense that the Company would otherwise recognize in its income statement with respect to the vesting of such options following the effectiveness of FAS No. 123R. The future expense that was eliminated is approximately $1.0 million, net of tax (of which approximately $0.1 million, net of tax, is attributable to options held by executive officers). This amount, plus an additional $0.8 million, net of tax, representing the total *pro forma* amount for the combined third and fourth fiscal quarters of 2005 that otherwise would have been included in that quarter s *pro forma* earnings disclosures, was reflected in the Company s *pro forma* footnote disclosure for the three months ended June 24, 2005. This treatment is permitted under the transition guidance provided by FAS No. 123R.

4. Restructuring Charges and Transition/Duplicate Operating Expenses

Restructuring and Streamlining of European Operations

Effective January 2005, the Company s Board of Directors approved the initiation and implementation of a restructuring of certain activities related to the Company s European operations. The restructuring seeks to optimize operations, improve resource allocation and create a scalable, lower cost and more efficient operating model for the Company s European research and development (R&D) and commercial activities. Specifically, the restructuring anticipates moving key European R&D and select commercial functions from the Company s Mougins, France and

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
other European locations to the Company s Irvine, California, High Wycombe, U.K. and Dublin, Ireland facilities and streamlining functions in the Company s European management services group.
Under applicable law, the proposed restructuring requires consultations and, in certain cases, negotiations with European and national works councils, other management/labor organizations and local authorities, which the Company substantially completed by the end of its second fiscal quarter 2005.
The Company has incurred and anticipates that it will continue to incur restructuring charges and charges relating to severance, relocation and one-time termination benefits, payments to public employment and training programs, implementation, transition, capital and other asset-related expenses, duplicate operating expenses and contract termination costs in connection with the restructuring. The Company currently estimates that the pre-tax charges resulting from the restructuring, including transition and duplicate operating expenses, will be between $40 million and $53 million and capital expenditures will be between $5 million and $7 million. The Company began to incur these amounts beginning in the first quarter of 2005 and expects to continue to incur them up through and including the second quarter of 2006. Of the total amount of pre-tax charges and capital expenditures, approximately $45 million to $58 million are expected to be cash expenditures.
The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 160 positions, principally R&D and selling, general and administrative positions in the affected European locations. These workforce reduction activities began in the first quarter of 2005 and are expected to be substantially completed by the close of the second quarter of 2006. Charges associated with the workforce reduction, including severance, relocation and one-time termination benefits, and payments to public employment and training programs, are currently expected to total approximately $28 million to $33 million. The Company began to incur these charges in the first quarter of 2005 and expects to continue to incur them up through and including the second quarter of 2006. Certain severance costs included in the estimates totaling approximately $2 million to $3 million for a limited number of personnel are dependent upon the employees future decision to continue employment after specific contractual work assignments end between 2006 and 2007. These contingent contractual severance costs will be recorded in the period when the Company determines that they become probable.
Estimated costs also include approximately $2 million to $7 million for contract and lease termination costs and asset write-offs (primarily for accelerated amortization related to leasehold improvements in facilities to be exited). These costs are currently expected to be recorded beginning in the fourth quarter of 2005 and to be completed by the close of the second quarter of 2006.
Estimated implementation and transition related expenses include, among other things, legal, consulting, recruiting, information system implementation costs and taxes. These costs are currently expected to total approximately $9 million to $11 million. The Company began to record these costs in the first quarter of 2005 and they are expected to continue up through and including the second quarter of 2006. The Company also expects to incur duplicate operating expenses during the transition period to ensure that job knowledge and skills are properly transferred to new employees. These duplicate operating expenses are currently expected to total between $1 million and $2 million. The Company began to record these costs in the first quarter of 2005 and they are expected to continue up through and including the first quarter of 2006.
The Company also expects to incur additional capital expenditures for leasehold improvements (primarily at a new facility in the United Kingdom to accommodate increased headcount). These capital expenditures are currently estimated to be between approximately $5 million and $7 million. The Company began to record these costs in the third quarter of 2005 and they are expected to continue up through and including the second quarter of 2006.
During the first nine months of 2005, the Company recorded pre-tax restructuring charges of $24.5 million related to the restructuring of the Company s European operations. The restructuring charges primarily consist of employee

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
severance, employee relocation and other costs. The following table presents the cumulative restructuring activities through September 30, 2005:

(in millions)	Employee Severance	Other Costs	Total
Net charge during 2005	$22.8	$ 1.7	$24.5
Spending	(7.1)	(1.7)	(8.8)
Balance at September 30, 2005 (included in accrued expenses)	$15.7	$	$15.7

Employee severance in the preceding table relates to 159 employees, of which 44 were severed as of September 30, 2005. Employee severance charges were based on social plans in France and Italy, and the Company s severance practices for employees in the other affected European countries. During the first nine months of 2005, the Company also recorded $3.1 million of transition/duplicate operating expenses associated with the European restructuring activities. Transition/duplicate operating expenses consisted primarily of salaries, travel, communications, recruitment and consulting costs. Transition/duplicate operating expenses of $0.1 million in cost of sales, $2.0 million in selling, general and administrative expenses and $1.0 million in research and development expenses have been included in the unaudited condensed consolidated statements of earnings for the nine months ended September 30, 2005.

Termination of Manufacturing and Supply Agreement with Advanced Medical Optics

In October 2004, the Company s Board of Directors approved certain restructuring activities related to the scheduled termination in June 2005 of the Company s manufacturing and supply agreement with AMO. Under the manufacturing and supply agreement, which was entered into in connection with the AMO spin-off, the Company agreed to manufacture certain contact lens care products and VITRAX, a surgical viscoelastic, for AMO for a period of up to three years ending in June 2005. As part of the termination of the manufacturing and supply agreement, the Company eliminated certain manufacturing positions at the Company s Westport, Ireland; Waco, Texas; and Guarulhos, Brazil manufacturing facilities.

The Company currently anticipates that the pre-tax restructuring charges to be incurred in connection with the termination of the manufacturing and supply agreement will total between approximately $22 million and $26 million. The Company began recording these charges in the fourth quarter of 2004 and expects to continue recording them up through and including the third quarter of 2006. Restructuring charges during 2006 primarily relate to the refurbishment of facilities previously used for contract manufacturing. The pre-tax charges are net of expected tax credits available under qualifying government-sponsored employment programs. Approximately $21 million of the restructuring charges are expected to be cash charges. The restructuring charges are expected to include approximately $18 million to $20 million associated with the reduction in the Company s workforce of approximately 350 individuals. The workforce reduction, which began in the fourth quarter of 2004 and was substantially completed in the second quarter of 2005, impacted personnel in Europe, the United States and Latin America. The restructuring costs are also expected to include approximately $4 million to $6 million of other costs associated with the termination of the manufacturing and supply agreement.

As of September 30, 2005, the Company recorded cumulative pre-tax restructuring charges of $22.0 million related to the termination of the manufacturing and supply agreement. These charges primarily include accruals for net statutory severance costs and the ratable recognition of termination benefits to be earned by employees who are required to render service until they are terminated in order to receive the termination benefits. Cumulative charges for employees involuntarily and voluntarily terminated in the table below relate to 343 employees, of which 312 were severed as of September 30, 2005. Included in other costs within the table below is $0.3 million of inventory write-offs that have been recorded as a component of Cost of sales in the unaudited condensed consolidated statements of earnings.

Table of Contents

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
The following table presents the cumulative restructuring activities through September 30, 2005 resulting from the scheduled termination of the Company s manufacturing and supply agreement with AMO in June 2005:

(in millions)	Charges for Employees Involuntarily and Voluntarily Terminated	Other Costs	Total
Net charge during 2004	$ 7.1	$	$ 7.1
Spending	(0.1)		(0.1)