Radius Health, Inc.
Form 10-Q
November 14, 2012
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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 September 30, 2012.

Or

o 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 000-53173

Radius Health, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**80-0145732**
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification Number)
201 Broadway Sixth Floor Cambridge, Massachusetts	**02142**
(Address of Principal Executive Offices)	(Zip Code)

(617) 551-4700

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of the registrant s Common Stock, $0.001 par value per share, outstanding as of November 14, 2012: 867,204 shares

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RADIUS HEALTH, INC.

QUARTERLY REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2012

ON FORM 10-Q

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CURRENCY AND CONVERSIONS

In this report, references to dollar or $ are to the legal currency of the United States, and references to euro or are to the single currency introduced on January 1, 1999 at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam. Unless otherwise indicated, the financial information in this report has been expressed in U.S. dollars. Unless otherwise stated, the U.S. dollar equivalent information translating euros into U.S. dollars has been made, for convenience purposes, on the basis of the noon buying rate published by the Board of Governors of the Federal Reserve as of September 28, 2012, which was 1.00 = $1.2856. Such translations should not be construed as a representation that the euro has been, could have been or could be converted into U.S. dollars at the rate indicated, any particular rate or at all.

Trademarks appearing in this report are the property of their respective holders.

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Item 1. Financial Statements Unaudited

Radius Health, Inc.

Condensed Balance Sheets

(Unaudited, in thousands, except share and per share amounts)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 20,449	$ 25,128
Marketable securities	14,755	31,580
Prepaid expenses and other current assets	4,231	6,682
Total current assets	39,435	63,390
Property and equipment, net	89	167
Other assets	45	80
Total assets	$ 39,569	$ 63,637
Liabilities, convertible preferred stock, redeemable convertible preferred stock and stockholders deficit		
Current liabilities:		
Accounts payable	$ 862	$ 313
Accrued expenses	4,481	3,590
Current portion of note payable	6,816	2,880
Total current liabilities	12,159	6,783
Note payable, net of current portion and discount	15,206	8,886
Warrant liability	849	450
Other liabilities	21,092	10,470
Series A-1 Convertible Preferred Stock, $.0001 par value; 1,000,000 shares authorized, 939,612 issued and outstanding at September 30, 2012 and December 31, 2011	70,337	65,675
Series A-2 Convertible Preferred Stock, $.0001 par value; 983,213 shares authorized, 983,208 issued and outstanding at September 30, 2012 and December 31, 2011	84,966	79,979
Series A-3 Convertible Preferred Stock, $.0001 par value; 142,230 shares authorized, 142,227 issued and outstanding at September 30, 2012 and December 31, 2011	10,929	10,208
Series A-4 Convertible Preferred Stock, $.0001 par value; 4,000 shares authorized, 3,998 issued and outstanding at September 30, 2012 and December 31, 2011	271	271
Series A-5 Convertible Preferred Stock, $.0001 par value; 7,000 shares authorized, 6,443 issued and outstanding at September 30, 2012 and December 31, 2011	525	525
Series A-6 Convertible Preferred Stock, $.0001 par value; 800,000 shares authorized, no shares issued and outstanding at September 30, 2012 and December 31, 2011		
Stockholders deficit:		

Common stock, $.0001 par value; 100,000,000 shares authorized, 863,551 and 645,399 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively				
Additional paid-in-capital				2,744
Accumulated other comprehensive income		3		5
Accumulated deficit		(176,768)		(122,359)
Total stockholders deficit		(176,765)		(119,610)
Total liabilities, convertible preferred stock, redeemable convertible preferred stock and stockholders deficit	$	39,569	$	63,637

See accompanying notes to unaudited condensed financial statements.

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Radius Health, Inc.

Condensed Statements of Operations

(Unaudited, in thousands, except share and per share amounts)

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2012	**2011**	**2012**	**2011**
Operating expenses:				
Research and development	$ 14,173	$ 7,646	$ 38,539	$ 28,336
General and administrative	1,918	1,221	6,209	3,062
Loss from operations	(16,091)	(8,867)	(44,748)	(31,398)
Interest income	18	2	53	22
Other (expense) income	(604)	(301)	(1,788)	(279)
Interest expense	(853)	(258)	(1,880)	(366)
Net loss	$ (17,530)	$ (9,424)	$ (48,363)	$ (32,021)
Comprehensive loss	$ (17,537)	$ (9,424)	$ (48,365)	$ (32,018)
(Loss) income attributable to common stockholders - basic and diluted (Note 4)	$ (21,090)	$ (11,950)	$ (58,733)	$ 713
(Loss) income per share (Note 4):				
Basic	$ (24.53)	$ (20.17)	$ (70.76)	$ 1.53
Diluted	$ (24.53)	$ (20.17)	$ (70.76)	$ 0.21
Weighted average shares:				
Basic	859,769	592,459	830,068	467,488
Diluted	859,769	592,459	830,068	3,406,615

See accompanying notes to unaudited condensed financial statements.

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Radius Health, Inc.

Statements of Convertible Preferred Stock and Stockholders Deficit

(Unaudited, in thousands except share amounts)

	Convertible Preferred Stock																	
	Series A-1		Series A-2		Series A-3		Series A-4		Series A-5		Series A-6		Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Amount	Amount
Balance at December 31, 2011	939,612	$ 65,675	983,208	$ 79,979	142,227	$ 10,208	3,998	$ 271	6,443	$ 525		$	645,399	$	$ 2,744	$ 5	$ (122,359)	$ (119,610)
Net loss																	(48,363)	(48,363)
Unrealized gain from available-for-sale securities																(2)		(2)
Total comprehensive loss																		(48,365)
Accretion of dividends on preferred stock		4,662		4,987		721									(4,324)		(6,046)	(10,370)
Stock-based compensation expense															1,311			1,311
Stock options exercised													218,152		269			269
Balance at September 30, 2012	939,612	$ 70,337	983,208	$ 84,966	142,227	$ 10,929	3,998	$ 271	6,443	$ 525		$	863,551	$	$	$ 3	$ (176,768)	$ (176,765)

See accompanying notes to unaudited condensed financial statements.

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Radius Health, Inc.

Statements of Cash Flows

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2012	**2011**
Operating activities		
Net loss	$ (48,363)	$ (32,021)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	33	23
Stock-based compensation expense	1,311	132
Research and development expense to be settled in stock	6,872	7,074
Amortization of premium (accretion of discount) on short-term investments, net	98	21
Non-cash interest	339	102
Change in fair value of warrant liability, other current assets and other liability	1,766	310
Milestone payment settled with stock		1,410
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	4,437	(2,961)
Other long-term assets	35	(2)
Accounts payable	549	1,360
Accrued expenses	891	(75)
Net cash used in operating activities	(32,032)	(24,627)
Investing activities		
Purchases of property and equipment		(45)
Proceeds from sale of equipment	45	
Purchases of marketable securities	(18,989)	(899)
Sales and maturities of marketable securities	35,714	8,850
Net cash provided by investing activities	16,770	7,906
Financing activities		
Proceeds from the exercise of stock options	269	153
Net proceeds from the issuance of preferred stock		20,098
Proceeds on note payable, net	12,469	5,883
Deferred financing costs		(56)
Payments on note payable	(2,155)	
Net cash provided by financing activities	10,583	26,078
Net (decrease) increase in cash and cash equivalents	(4,679)	9,357
Cash and cash equivalents at beginning of period	25,128	10,582
Cash and cash equivalents at end of period	$ 20,449	$ 19,939
Supplemental disclosures		
Cash paid for interest	$ 1,311	$ 178
Non-cash financing activities		
Fair value of preferred stock issued in the recapitalization, net of issuance costs	$	$ 85,879
Accretion of dividends on preferred stock	$ 10,370	$ 8,121
Fair value of warrants issued	$ 379	$ 217

See accompanying notes to unaudited condensed financial statements.

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Radius Health, Inc.

Notes to Financial Statements

(Unaudited)

1. Organization

Radius Health, Inc. (Radius or the Company), which was formerly known as MPM Acquisition Corp., is a biopharmaceutical company focused on developing new therapeutics for the treatment of osteoporosis and other women s health conditions. The Company s lead product candidate, currently in Phase 3 clinical development, is BA058-SC, a daily subcutaneous injection of novel synthetic peptide analog of human parathyroid hormone-related protein (hPTHrP) for the treatment of osteoporosis. The BA058-SC Phase 3 study began dosing patients in April 2011. The Company is also developing BA058-TD, a short wear time, transdermal form of BA058 delivered using a microneedle technology from 3M Drug Delivery Systems (3M), for which the Company commenced a Phase 2 clinical study during the third quarter of 2012, with top-line data expected to be available in the third quarter of 2013. The Company also has two other product candidates, RAD1901, a selective estrogen receptor modulator, in Phase 2 clinical development for the treatment of vasomotor symptoms (hot flashes) in women entering menopause, and RAD140, a selective androgen receptor modulator, currently in preclinical development as a potential treatment for age-related muscle loss, frailty, weight loss associated with cancer cachexia and osteoporosis. As used throughout these financial statements, the terms Radius, Company, we, us and our refer to Radius Health, Inc. (f/k/a MPM Acquisition Corp.).

Pursuant to an Agreement and Plan of Merger (the Merger Agreement or the Merger) entered into in April 2011 by and among the Company (a public-reporting, Form 10 shell company at the time), RHI Merger Corp., a Delaware corporation and wholly owned subsidiary of the Company (MergerCo), and Radius Health, Inc., a privately-held Delaware corporation (Former Operating Company), MergerCo merged with and into the Former Operating Company, with the Former Operating Company remaining as the surviving entity and a wholly-owned subsidiary of the Company. This transaction is herein referred to as the Merger . The Merger was effective as of May 17, 2011, upon the filing of a certificate of merger with the Delaware Secretary of State. Following the Merger on May 17, 2011, the Company s Board of Directors approved a transaction pursuant to which the Former Operating Company merged with and into the Company, leaving the Company as the surviving corporation (the Short-Form Merger). As part of the Short-Form Merger, the Company, then named MPM Acquisition Corp., changed its name to Radius Health, Inc. and assumed the operations of the Former Operating Company.

The Company is subject to the risks associated with emerging companies with a limited operating history, including dependence on key individuals, a developing business model, market acceptance of the Company s product candidates, competition for its product candidates, and the continued ability to obtain adequate financing to fund the Company s future operations. The Company has an accumulated deficit of $176.8 million through September 30, 2012. The Company has incurred losses and expects to continue to incur additional losses for the foreseeable future. The Company intends to obtain additional equity and/or debt financing in order to meet working capital requirements and to further develop its product candidates. The Company believes that its existing cash and cash equivalents and marketable securities as of September 30, 2012 are sufficient to finance its operations, including its obligations under the Nordic agreement described in note 12, until the end of the first quarter of 2013.

2. Basis of Presentation

The accompanying unaudited condensed financial statements and the related disclosures of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2012. Subsequent events have been evaluated up to the date of issuance of these financials. For further information, refer to the financial statements and footnotes included in the Company s audited financial statements for the year ended December 31, 2011 included in the Company s Registration Statement on Form S-1/A filed with the SEC on October 19, 2012.

3. Summary of Significant Accounting Policies

Core technology
5.5

2.9

Other
1.0

2.1

$
27.8

$
30.7

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 $111.0 million for 2014, $97.7 million for 2015, $77.4 million for 2016, $58.9 million for 2017 and $56.9 million for 2018.
Goodwill
Changes in the carrying amount of goodwill by operating segment through March 31, 2014 were as follows:

	Specialty Pharmaceuticals	Medical Devices	Total
	(in millions)		
Balance at December 31, 2013	$501.2	$1,838.2	$2,339.4
Foreign exchange translation effects	(0.2)	0.2	—

Balance at March 31, 2014	$501.0	$1,838.4	$2,339.4

Note 6: Inventories

Components of inventories were:

	March 31, 2014	December 31, 2013
	(in millions)	
Finished products	$181.1	$ 180.0
Work in process	42.7	44.1
Raw materials	72.8	61.2
Total	$296.6	$ 285.3

At March 31, 2014 and December 31, 2013, approximately $12.4 million and $11.7 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: Income Taxes

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

California and other foreign jurisdictions and deductions available in the United States for domestic production activities. The Company currently expects the U.S. R&D tax credit to be renewed in the fourth quarter of 2014, with retroactive effect to January 1, 2014; however, until appropriate legislation is enacted in the United States to renew the R&D tax credit, the estimated annual effective tax rate for fiscal year 2014 must exclude any potential benefit for this credit. 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 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 $48.9 million at March 31, 2014 and December 31, 2013.

The total amount of unrecognized tax benefits was $67.1 million and $77.3 million as of March 31, 2014 and December 31, 2013, respectively. The decrease in unrecognized tax benefits is primarily attributable to changes in estimates of certain transfer-pricing positions related to prior year filings. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $60.8 million and $70.5 million as of March 31, 2014 and December 31, 2013, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately $11.0 million to $12.0 million due to the settlement of income tax audits, Appeals proceedings and Competent Authority negotiations in the United States and certain foreign jurisdictions.

During the third quarter of 2013, the Company reached a preliminary settlement for the Company’s acquired subsidiary, Inamed, for tax year 2005 with the IRS that was pending final review and approval by the U.S. Tax Court. The U.S. Tax Court approved the settlement in the first quarter of 2014. The impact of this settlement is not considered material.

Total interest accrued related to uncertain tax positions included in the Company's unaudited condensed consolidated balance sheets was $6.8 million and $9.8 million as of March 31, 2014 and December 31, 2013, respectively.

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, 2013, the Company had approximately $3,828.0 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 8: Share-Based Compensation

The Company recognizes compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 month periods ended March 31, 2014 and 2013, share-based compensation expense was as follows:

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Cost of sales	$1.9	$1.8
Selling, general and administrative	23.2	19.4
Research and development	9.6	7.3
Pre-tax share-based compensation expense	34.7	28.5
Income tax benefit	10.7	9.4
Net share-based compensation expense	$24.0	$19.1

As of March 31, 2014, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately $277.1 million, which is expected to be recognized over the next 47 months (37 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 March 31, 2014.

Note 9: 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.

Components of net periodic benefit cost for the three month periods ended March 31, 2014 and 2013, respectively, were as follows:

	Three Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	(in millions)			
Service cost	$6.9	$7.1	$0.4	$0.4
Interest cost	13.3	11.6	0.6	0.5
Expected return on plan assets	(13.1)	(11.3)	—	—
Amortization of prior service costs	—	—	(0.7)	(0.7)
Recognized net actuarial losses	4.7	7.8	0.2	0.4
Net periodic benefit cost	$11.8	$15.2	$0.5	$0.6

In 2014, the Company expects to pay contributions of between $30.0 million and $40.0 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.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 10: 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 the discussion set forth in Note 13 “Commitments and Contingencies - Legal Proceedings” in the Company's Annual Report on Form 10-K for the year ended December 31, 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.

Stockholder Derivative Litigation

2011 Incentive Award Plan Action

In March 2014, the U.S. District Court entered a report and recommendation that Allergan’s motion to dismiss be granted and the individual defendants’ motion to dismiss be denied.

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.

Combigan®

Combigan® I. In March 2014, the U.S. Supreme Court denied Sandoz, Inc., Alcon Research, Ltd. and Falcon Pharmaceuticals, Ltd.’s Petition for Writ of Certiorari.

Restasis®

In January 2014, the Company received a purported paragraph 4 certification from Watson Laboratories, Inc., a subsidiary of Actavis plc (Watson), contending that it had filed an ANDA seeking approval of a generic form of Restasis® (cyclosporine) ophthalmic emulsion, 0.05%, and that U.S. Patent Number 8,629,111 (Restasis Patent) is invalid, unenforceable and/or not infringed. In March 2014, the Company filed a complaint against Watson in the U.S. District Court for the Eastern District of Texas alleging that Watson sent a premature, improper, null and void paragraph 4 certification and, in the alternative, that its proposed product infringes the Restasis Patent.

Contingencies

The Company is largely self-insured for future product liability losses related to all of its products. The Company has historically been and continues to be self-insured for any product liability losses related to its breast implant 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 first quarter of 2014 and 2013, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of March 31, 2014 are not material.

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 March 31, 2014 are not material.

Note 11: 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 12: 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 March 31, 2014:

	(in millions)
Balance at December 31, 2013	$ 33.6
Provision for warranties issued during the period	2.6
Settlements made during the period	(2.4)
Balance at March 31, 2014	$ 33.8
Current portion	$ 7.6
Non-current portion	26.2
Total	$ 33.8

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 13: Earnings Per Share

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

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Net earnings attributable to Allergan, Inc.:		
Earnings from continuing operations attributable to Allergan, Inc.:		
Earnings from continuing operations	$258.5	$273.0
Less net earnings attributable to noncontrolling interest	0.6	1.9
Earnings from continuing operations attributable to Allergan, Inc.	257.9	271.1
Loss from discontinued operations	(0.6)	(258.6)
Net earnings attributable to Allergan, Inc.	$257.3	$12.5
Weighted average number of shares outstanding	297.9	297.7
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	5.6	5.9
Diluted shares	303.5	303.6
Basic earnings per share attributable to Allergan, Inc. stockholders:		
Continuing operations	$0.87	$0.91
Discontinued operations	(0.01)	(0.87)
Net basic earnings per share attributable to Allergan, Inc. stockholders	$0.86	$0.04
Diluted earnings per share attributable to Allergan, Inc. stockholders:		
Continuing operations	$0.85	$0.89
Discontinued operations	—	(0.85)
Net diluted earnings per share attributable to Allergan, Inc. stockholders	$0.85	$0.04

For the three month periods ended March 31, 2014 and 2013, options to purchase 7.3 million and 4.3 million shares of common stock at exercise prices ranging from $104.77 to $125.07 and $90.78 to $105.87 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 14: Financial Instruments

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

The Company assesses the adequacy and effectiveness of its interest rate and foreign exchange hedge positions by continually monitoring its interest rate swap 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 month periods ended March 31, 2014 and 2013, the Company recognized $3.4 million and $3.2 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 month periods ended March 31, 2014 and 2013, the Company recognized $0.4 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 March 31, 2014, the remaining unrecognized gain of $2.6 million ($1.6 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 2014 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 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 24 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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the three month periods ended March 31, 2014 and 2013, the Company recognized realized gains on settled foreign currency option contracts of $4.0 million and $1.0 million, respectively, and net unrealized (losses) gains on open foreign currency option contracts of $(4.2) million and $1.3 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 month periods ended March 31, 2014 and 2013, the Company recognized total realized and unrealized gains (losses) from foreign exchange forward contracts of $0.1 million and $(0.6) 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 March 31, 2014 and December 31, 2013, foreign currency derivative assets associated with the foreign exchange option contracts of $15.8 million and $20.2 million, respectively, were included in “Other current assets.” At March 31, 2014, net foreign currency derivative liabilities associated with the foreign exchange forward contracts of $1.1 million were included in "Accounts payable". At December 31, 2013, net foreign currency derivative assets associated with the foreign exchange forward contracts of $0.2 million were included in “Other current assets.”

At March 31, 2014 and December 31, 2013, the notional principal and fair value of the Company’s outstanding foreign currency derivative financial instruments were as follows:

	March 31, 2014		December 31, 2013	
	Notional Principal	Fair Value	Notional Principal	Fair Value
	(in millions)			
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$38.3	$(0.7)	$35.0	$0.1
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	41.7	(0.4)	41.3	0.1
Foreign currency sold — put options	531.7	15.8	560.8	20.2

The notional principal amounts provide one measure of the transaction volume outstanding as of March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Other Financial Instruments

At March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013 were as follows:

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	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents	$2,815.3	$2,815.3	$3,046.1	$3,046.1
Short-term investments	802.0	802.0	603.0	603.0
Non-current non-marketable equity investments	30.8	30.8	20.8	20.8
Notes payable	61.1	61.1	55.6	55.6
Long-term debt	2,095.1	2,169.9	2,098.3	2,163.8

In the first quarter of 2013, the Company recorded an impairment charge of $3.7 million included in "Other, net" non-operating expense 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 March 31, 2014, 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 15: 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 March 31, 2014 and December 31, 2013, 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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	March 31, 2014			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$2,236.0	$—	$2,236.0	$—
Foreign time deposits	417.6	—	417.6	—
Other cash equivalents	776.3	—	776.3	—
Foreign exchange derivative assets	15.8	—	15.8	—
Deferred executive compensation investments	106.4	85.3	21.1	—
	$3,552.1	$85.3	$3,466.8	$—
Liabilities				
Foreign exchange derivative liabilities	$1.1	$—	$1.1	$—
Deferred executive compensation liabilities	98.8	77.7	21.1	—
Contingent consideration liabilities	217.2	—	—	217.2
	$317.1	$77.7	$22.2	$217.2

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	$2,016.8	$—	$2,016.8	$—
Foreign time deposits	370.3	—	370.3	—
Other cash equivalents	1,080.4	—	1,080.4	—
Foreign exchange derivative assets	20.4	—	20.4	—
Deferred executive compensation investments	100.7	80.4	20.3	—
	$3,588.6	$80.4	$3,508.2	$—
Liabilities				
Deferred executive compensation liabilities	$93.0	$72.7	$20.3	$—
Contingent consideration liabilities	225.2	—	—	225.2
	$318.2	$72.7	$20.3	$225.2

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 and foreign time deposits. 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 March 31, 2014 and December 31, 2013 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

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to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. The Company estimates the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestone payments and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. The 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 65% and 75%.

The following table provides a reconciliation of the change in the contingent consideration liabilities through March 31, 2014:

	(in millions)
Balance at December 31, 2013	$225.2
Change in the estimated fair value of the contingent consideration liabilities	(0.3)
Payments made during the period	(7.6)
Foreign exchange translation effects	(0.1)
Balance at March 31, 2014	$217.2

Note 16: 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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Operating Segments

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Product net sales:		
Specialty pharmaceuticals	$1,359.3	$1,231.8
Medical devices	259.8	200.7
Total product net sales	1,619.1	1,432.5
Other revenues	27.0	27.1
Total revenues	$1,646.1	$1,459.6
Operating income:		
Specialty pharmaceuticals	$570.3	$490.0
Medical devices	75.7	54.6
Total segments	646.0	544.6
General and administrative expenses, other indirect costs and other adjustments	213.2	144.1
Amortization of intangible assets (a)	26.6	25.1
Restructuring charges	24.3	4.3
Total operating income	$381.9	$371.1

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

Product net sales for the Company’s various global product portfolios are presented below. The Company’s principal 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 62.4% and 60.9% of the Company’s total consolidated product net sales for the three month periods ended March 31, 2014 and 2013, 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 March 31, 2014 and 2013 were 13.7% and 14.4%, respectively, of the Company’s total consolidated product net sales. Sales to Cardinal Health, Inc. for the three month periods ended March 31, 2014 and 2013 were 10.4% and 14.3%, respectively, of the Company’s total consolidated product net sales. No other country or single customer generates over 10% of the Company’s total consolidated product net sales. Other medical devices product net sales represent sales made pursuant to certain transitional manufacturing and distribution service agreements with Apollo related to the sale of the Company's obesity intervention business unit. 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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Product Net Sales by Product Line

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Specialty Pharmaceuticals:		
Eye Care Pharmaceuticals	$730.4	$668.6
Botox®/Neuromodulators	501.8	457.9
Skin Care and Other	127.1	105.3
Total Specialty Pharmaceuticals	1,359.3	1,231.8
Medical Devices:		
Breast Aesthetics	99.5	89.6
Facial Aesthetics	147.9	111.1
Core Medical Devices	247.4	200.7
Other	12.4	—
Total Medical Devices	259.8	200.7
Total product net sales	$1,619.1	$1,432.5

Geographic Information

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Product net sales:		
United States	$1,010.7	$873.0
Europe	347.5	303.2
Latin America	80.4	81.2
Asia Pacific	114.0	112.4
Other	66.5	62.7
Total product net sales	$1,619.1	$1,432.5

	March 31, 2014	December 31, 2013
	(in millions)	
Long-lived assets:		
United States	$4,256.1	$ 4,274.7
Europe	590.2	569.9
Latin America	51.7	52.2
Asia Pacific	50.1	51.2
Other	1.3	1.4
Total long-lived assets	$4,949.4	$ 4,949.4

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

This financial review presents our operating results for the three month periods ended March 31, 2014 and 2013, and our financial condition at March 31, 2014. 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 month period ended March 31, 2014 included in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2013 included in our 2013 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 $7.1 million and $6.3 million at March 31, 2014 and December 31, 2013, respectively. Provisions for cash discounts deducted from consolidated sales in the first quarter of 2014 and 2013 were $19.3 million and $17.6 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 March 31, 2014 and December 31, 2013 were $83.0 million and $84.4 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 $109.1 million and $102.2 million in the first quarter of 2014 and 2013, respectively. The increase in the provisions for sales returns in the first quarter of 2014 compared to the first quarter of 2013 is primarily due to increased overall product sales volume, partially offset by a decrease in estimated product sales return rates for our breast aesthetics 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 for our aesthetic products and certain therapeutic products, including Botox® for both therapeutic and cosmetic uses, the Juvéderm® franchise, Latisse®, Natrelle®, Acuvail®, Aczone® 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 $317.0 million and $279.3 million at March 31, 2014 and December 31, 2013, respectively.

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Provisions for sales rebates and other incentive programs deducted from consolidated sales were $343.1 million in the first quarter of 2014 compared to $271.3 million in the first quarter of 2013. The $71.8 million increase in the provisions for sales rebates and other incentive programs in the first quarter of 2014 is due to a $36.7 million increase in provisions for rebates associated with U.S. federal and state government programs, a $6.7 million increase in managed health care rebates and other contractual discounts, a $22.4 million increase in chargebacks, primarily due to increases in the list prices of certain eye care pharmaceuticals products that are subject to fixed contractual prices with government agencies, a $0.9 million increase in sales allowances outside of the United States and a $5.1 million increase in provisions for consumer coupons and other customer incentives. The increase in the provisions for sales rebates and other incentive programs in the first quarter of 2014 compared to the respective period in 2013 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 first quarter of 2014 compared to the respective period in 2013, primarily due to changes in rebate estimates related to patients covered under employer group waiver plans. In addition, an increase in our published list prices in the United States for pharmaceutical products, which occurred for several of our products in each of 2014 and 2013, generally results in higher provisions for sales rebates and other incentive programs deducted from consolidated sales.

Our procedures for estimating amounts accrued for sales rebates and other incentive programs at the end of any period are based on available quantitative data and are supplemented by management's judgment with respect to many factors, including but not limited to, current market dynamics, changes in contract terms, changes in sales trends, an evaluation of current laws and regulations and product pricing. Quantitatively, we use historical sales, product utilization and rebate data and apply forecasting techniques in order to estimate our liability amounts. Qualitatively, management's judgment is applied to these items to modify, if appropriate, the estimated liability amounts. There are inherent risks in this process. For example, customers may not achieve assumed utilization levels; customers may misreport their utilization to us; 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 $8.0 million to $9.0 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 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

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$217.2 million and $225.2 million at March 31, 2014 and December 31, 2013, 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% for 2014 and 2013. Our assumptions for the weighted average expected long-term rate of return on assets in our non-U.S. funded pension plans are 4.56% and 4.36% for 2014 and 2013, 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 2014 pre-tax pension benefit cost by approximately $2.3 million.

The weighted average discount rates used to calculate our U.S. and non-U.S. pension benefit obligations at December 31, 2013 were 5.05% and 4.19%, respectively. The weighted average discount rates used to calculate our U.S. and non-U.S. net periodic benefit costs for 2014 were 5.05% and 4.19%, respectively, and for 2013, 4.23% and 4.55%, 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 2014 pre-tax pension benefit costs by approximately $5.3 million and increase our pension plans' projected benefit obligations at December 31, 2013 by approximately $52.7 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 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.

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Product Liability Self-Insurance

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. 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 first quarter of 2014 and 2013, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of March 31, 2014 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 California and other foreign jurisdictions and deductions available in the United States for domestic production activities. We currently expect the U.S. R&D tax credit to be renewed in the fourth quarter of 2014, with retroactive effect to January 1, 2014; however, until appropriate legislation is enacted in the United States to renew the R&D tax credit, our estimated annual effective tax rate for fiscal year 2014 must exclude any potential benefit for this credit. 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. 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 $48.9 million at March 31, 2014 and December 31, 2013.

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, 2013, we had approximately $3,828.0 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.

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. In March 2014, we completed the acquisition of certain assets related to technology under development for use as a dermal filler from Aline Aesthetics, LLC and Tautona Group, L.P. for an upfront payment of $10.0 million and potential future payments for certain milestone events. We accounted for this acquisition as a purchase of net assets. 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.

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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 2013 annual impairment assessment, we determined that no impairment was indicated.

As of March 31, 2014, 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 activities with our commitment to identify and obtain new technologies through in-licensing, research collaborations, joint ventures and acquisitions. At March 31, 2014, we employed approximately 11,600 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 revenue basis, which is presented below in accordance with GAAP. We also report sales performance using the non-GAAP financial measure of constant currency sales. Constant currency sales represent current period reported sales, adjusted for the translation

effect of changes in average foreign exchange rates between the current period and the corresponding period in the prior year. We calculate the currency effect by comparing adjusted current period reported sales, calculated using the monthly average foreign exchange rates for the corresponding period in the prior year, to the actual current period reported sales. We routinely evaluate our net sales performance at constant currency so that sales results can be viewed without the impact of changing foreign currency exchange rates, thereby facilitating period-to-period comparisons of our sales. Generally, when the U.S. dollar either strengthens or weakens against other

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currencies, the growth at constant currency rates will be higher or lower, respectively, than growth reported at actual exchange rates.

The following table compares net sales by product line within each reportable segment and certain selected pharmaceutical products for the three month periods ended March 31, 2014 and 2013:

	Three Months Ended		Change in Product Net Sales			Percent Change in Product Net Sales		
	March 31, 2014	March 31, 2013	Total	Performance	Currency	Total	Performance	Currency
	(in millions)							
Net Sales by Product Line:								
Specialty Pharmaceuticals:								
Eye Care Pharmaceuticals	$730.4	$668.6	$61.8	$73.1	$(11.3)	9.2 %	10.9 %	(1.7)%
Botox®/Neuromodulators	501.8	457.9	43.9	52.7	(8.8)	9.6 %	11.5 %	(1.9)%
Skin Care and Other	127.1	105.3	21.8	22.1	(0.3)	20.7 %	21.0 %	(0.3)%
Total Specialty Pharmaceuticals	1,359.3	1,231.8	127.5	147.9	(20.4)	10.4 %	12.0 %	(1.6)%
Medical Devices:								
Breast Aesthetics	99.5	89.6	9.9	11.0	(1.1)	11.0 %	12.3 %	(1.3)%
Facial Aesthetics	147.9	111.1	36.8	39.6	(2.8)	33.1 %	35.6 %	(2.5)%
Core Medical Devices	247.4	200.7	46.7	50.6	(3.9)	23.3 %	25.2 %	(1.9)%
Other (a)	12.4	—	12.4	12.4	—	N/A	N/A	N/A
Total Medical Devices	259.8	200.7	59.1	63.0	(3.9)	29.4 %	31.4 %	(2.0)%
Total product net sales	$1,619.1	$1,432.5	$186.6	$210.9	$(24.3)	13.0 %	14.7 %	(1.7)%
Domestic product net sales	62.4 %	60.9 %						
International product net sales	37.6 %	39.1 %						
Selected Product Net Sales (b):								
Alphagan® P, Alphagan® and Combigan®	$121.3	$116.7	$4.6	$7.0	$(2.4)	3.9 %	6.0 %	(2.1)%
Lumigan® Franchise	145.0	141.2	3.8	3.7	0.1	2.7 %	2.6 %	0.1 %
Total Glaucoma Products	268.5	260.4	8.1	10.5	(2.4)	3.1 %	4.0 %	(0.9)%
Restasis®	231.7	206.7	25.0	27.3	(2.3)	12.1 %	13.2 %	(1.1)%
Latisse®	23.7	24.6	(0.9)	(0.6)	(0.3)	(3.5)%	(2.5)%	(1.0)%
Total Specialty Pharmaceuticals and Core Medical Devices	1,606.7	1,432.5	174.2	198.5	(24.3)	12.2 %	13.9 %	(1.7)%

(a) Other medical devices product net sales consist of sales made pursuant to transition services agreements with Apollo Endosurgery, Inc. related to the disposition of our obesity intervention business unit.

(b) 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 $186.6 million in the first quarter of 2014 compared to the first quarter of 2013 due to an increase of $127.5 million in our specialty pharmaceuticals product net sales, an increase of $46.7 million in our core medical devices product net sales, and $12.4 million of sales made pursuant to transition services agreements with Apollo Endosurgery, Inc. related to the disposition of our obesity intervention business unit. 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 core medical devices product net sales reflects an

increase in product net sales of our facial aesthetics and breast aesthetics product lines.

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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.

Certain of our products face generic competition and our products also compete with generic versions of some branded pharmaceutical products sold by our competitors. In October 2013, a generic version of Zymaxid®, our fluoroquinolone indicated for the treatment of bacterial conjunctivitis, was launched in the United States. In 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 June 2013, the FDA published draft guidance that proposes certain approaches for demonstrating bioequivalence of cyclosporine ophthalmic emulsions in abbreviated new drug applications referring to new drug application related to Restasis®. In August 2013, we submitted comments to the FDA regarding its draft guidance and, in January 2014, we submitted a Citizen Petition to the FDA, which has subsequently been amended. In addition, we have obtained five additional U.S. patents covering the specific formulation and the method of using our Restasis® product, all of which expire in August 2024. There remains uncertainty as to the status of any ANDA filers with respect to Restasis®. For additional information, see Item 1 of Part II of this report, “Legal Proceedings.”

We do not currently believe that our aggregate product net sales will be materially impacted in 2014 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 first quarter of 2014 compared to the first quarter of 2013 in the United States, Canada, Europe, and to a lesser degree Asia. Net sales of eye care pharmaceutical products in Latin America decreased in the first quarter of 2014 compared to the first quarter of 2013 due to the negative translation effect of average foreign currency exchange rates in effect during the first quarter of 2014 compared to the first quarter of 2013. When measured at constant currency, net sales of eye care pharmaceutical products in Latin America increased in the first quarter of 2014 compared to the first quarter of 2013.

The overall increase in total sales in dollars of our eye care pharmaceutical products in the first quarter of 2014 compared to the first quarter of 2013 is primarily due to an increase in sales of Restasis®, our therapeutic treatment for chronic dry eye disease, 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 our glaucoma drug Lumigan® 0.01%, an increase in sales of our glaucoma products Combigan® and Alphagan® P 0.15%, an increase in sales of eye care products, prednisolone acetate and fluorometholone, by our generics division, Pacific Pharma, Inc., and an increase of $5.3 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®, and a relatively small decrease in sales of Lastacaft®, our topical allergy medication for the treatment and prevention of itching associated with allergic conjunctivitis, and Alphagan® P 0.1%.

We increased prices on certain eye care pharmaceutical products in the United States in the last nine months of 2013 and the first quarter of 2014. 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 five percent and Zymaxid®, Acular®, Acular LS® and Acuvail® by six percent. Effective November 23, 2013, we increased the published U.S. list price for Acular LS® by an additional ten percent. Effective January 1, 2014, we increased the published U.S. list price for Restasis®, Lastacaft®, Combigan®, Alphagan® P 0.1%, Alphagan® P 0.15%, Acular®, Acuvail® and Zymaxid® by an additional seven percent and Lumigan® 0.01% by seven percent. These price increases had a positive net effect on our U.S. sales in the first quarter of 2014 compared to the first quarter of 2013, but the actual net effect is difficult to determine due to the various managed care sales rebate and other incentive programs in which we

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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 first quarter of 2014 compared to the first quarter of 2013 due to growth in sales for both therapeutic and cosmetic uses. Sales of Botox® for therapeutic use increased in the United States, Canada, Europe, and Asia Pacific, primarily due to strong growth in sales for the prophylactic treatment of chronic migraine and for the treatment of urinary incontinence. Net sales of Botox® for therapeutic use in Latin America decreased in the first quarter of 2014 compared to the first quarter of 2013 due to the negative translation effect of average foreign currency exchange rates in effect during the first quarter of 2014 compared to the first quarter of 2013. When measured at constant currency, net sales of Botox® for therapeutic use in Latin America increased in the first quarter of 2014 compared to the first quarter of 2013. Sales of Botox® for cosmetic use increased in the United States, partially offset by a decline in sales in Canada, Europe, Latin America and Asia Pacific. The increase in sales of Botox® for cosmetic use in United States was primarily attributable to higher unit volume. The decline in sales of Botox® for cosmetic use in Canada is primarily due to the introduction of competitive products in that market. The decline in sales of Botox® for cosmetic use in other international markets is due primarily to the timing of shipments to certain distributor markets and the negative translation effect of average foreign currency exchange rates in effect during the first quarter of 2014 compared to the first quarter of 2013. Additionally, sales of Botox® for both therapeutic and cosmetic uses in the United States were positively impacted by an increase in the U.S. list price for Botox® of three percent that was effective January 1, 2014. We believe our worldwide market share for neuromodulators, including Botox®, was approximately 77% in the fourth quarter of 2013, the last quarter for which market data is available.

Skin care and other product net sales increased in the first quarter of 2014 compared to the first quarter of 2013 primarily due to an increase of $16.4 million in sales of Aczone®, our topical dapsone treatment for acne vulgaris, an increase of $5.0 million in sales of SkinMedica physician dispensed aesthetic skin care products, and an increase of $0.5 million in sales of our topical tazarotene products Tazorac®, Zorac® and Avage®, partially offset by a $0.9 million decrease in sales of Latisse®, our treatment for inadequate or insufficient eyelashes. The increases in sales of Aczone® and our topical tazarotene products Tazorac®, Zorac® and Avage are primarily attributable to an increase in product sales volume and an increase in the U.S. list price for these products of five percent that was effective May 18, 2013 and an additional five percent that was effective January 1, 2014. The increase in sales of SkinMedica products 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 March 31, 2014, 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 first quarter of 2014 compared to the first quarter of 2013 due to increases in sales in the United States, Europe, Asia and Latin America. The increase in sales of breast aesthetics products in the United States was primarily due to higher tissue expander unit volume, a beneficial change in implant product mix to higher priced round and shaped silicone gel products and new product sales related to the recent launch of our Seri® Surgical Scaffold product, which is indicated for use as a transitory scaffold for soft tissue support and repair, partially offset by a small decline in implant unit volume. The increase in breast aesthetics sales in Europe was primarily due to an increase in implant unit volume in most major markets. The increase in sales in Asia benefited from the recent launch of our breast aesthetics products in Japan, and the increase in Latin America was primarily due to an increase in sales in Mexico. Total sales of tissue expanders increased $2.4 million and total sales of silicone gel and saline breast implants, accessories and Seri® Surgical Scaffold products increased $7.5 million in the first quarter of 2014 compared to the first quarter of 2013.

Facial aesthetics product net sales, which consist primarily of sales of hyaluronic acid-based dermal fillers used to correct facial wrinkles, increased in the first quarter of 2014 compared to the first quarter of 2013 due to strong growth in the United States and Europe, partially offset by a decline in sales in Asia Pacific. The increase in sales of facial aesthetics products in the United States was due primarily to an overall increase in unit volume due to the recent

launch of Juvéderm® Voluma.™The increase in sales of facial aesthetics products in Europe was due primarily to an overall increase in unit volume of Juvéderm® Voluma,™Juvéderm® Volift™and Juvéderm® Volbella.™The decrease in sales of facial aesthetics products in Asia Pacific was primarily due to the timing of shipments to certain distributor markets and the negative translation effect of average foreign currency exchange rates in effect during the first quarter of 2014 compared to the first quarter of 2013.

Foreign currency changes decreased product net sales by $24.3 million in the first quarter of 2014 compared to the first quarter of 2013, 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 and the U.K. pound compared to the U.S. dollar.

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U.S. product net sales as a percentage of total product net sales increased by 1.5 percentage points to 62.4% in the first quarter of 2014 compared to U.S. sales of 60.9% in the first quarter of 2013, due primarily to higher sales growth in the U.S. market compared to our international markets for our Botox®, skin care and other, and facial aesthetics product lines, partially offset by higher sales growth in international markets compared to the U.S. market for our breast aesthetics product line.

Other Revenues

Other revenues decreased $0.1 million to $27.0 million in the first quarter of 2014 compared to $27.1 million in the first quarter of 2013. The decrease in other revenues is primarily due to a decrease in royalties from sales of Lumigan® in Japan under a license agreement with Senju Pharmaceutical Co., Ltd., or Senju, and sales of Botox® in Japan under a license agreement with GlaxoSmithKline, or GSK, both of which were negatively impacted by the Japanese yen exchange rates in effect during the first quarter of 2014 compared to the first quarter of 2013, and a decrease in royalties from sales of Botox® in China. These declines were partially offset by an increase in royalty income from sales of brimonidine products in the United States under a license agreement with Alcon, Inc. and from sales of Aiphagan® in Japan under a license agreement with Senju, and a small increase in certain contractual income from GSK in China.

Cost of Sales

Cost of sales increased $4.6 million, or 2.3%, in the first quarter of 2014 to $204.5 million, or 12.6% of product net sales, compared to $199.9 million, or 14.0% of product net sales in the first quarter of 2013. Cost of sales in the first quarter of 2013 includes $8.9 million for the purchase accounting fair market value inventory adjustment rollout related to our acquisition of SkinMedica. Excluding the effect of this charge, cost of sales increased $13.5 million, or 7.1% in the first quarter of 2014 compared to the first quarter of 2013. This increase in cost of sales primarily resulted from the 13.0% 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 and beneficial changes in standard costs and product mix.

Selling, General and Administrative

Selling, general and administrative, or SG&A, expenses increased $53.8 million, or 8.9%, to $658.6 million, or 40.7% of product net sales, in the first quarter of 2014 compared to $604.8 million, or 42.2% of product net sales, in the first quarter of 2013. SG&A expenses in the first quarter of 2014 include $0.8 million of transaction and integration costs related to business combinations and license agreements, $0.3 million of income related to the change in fair value of contingent consideration liabilities associated with certain business combinations and expenses of $4.3 million related to the realignment of various business functions. SG&A expenses in the first quarter of 2013 include $11.4 million of transaction and integration costs related to business combinations, a $5.8 million charge related to the change in fair value of contingent consideration liabilities associated with certain business combinations and expenses of $0.6 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®. Excluding the effect of the items described above, SG&A expenses increased $66.8 million, or 11.4%, to $653.8 million, or 40.4% of product net sales, in the first quarter of 2014 compared to $587.0 million, or 41.0% of product net sales in the first quarter of 2013. The increase in SG&A expenses in dollars, excluding the charges described above, primarily relates to increases in promotion expenses, selling expenses, and general and administrative expenses. The increase in promotion expenses is primarily due to an increase in direct-to-consumer advertising in the United States for Botox® for the treatment of chronic migraine, Aczone® and other promotional expenses related to Juvéderm® Voluma,™ which was recently launched in the United States. The increase in selling expenses in the first quarter of 2014 compared to the first quarter of 2013 principally relates to increased personnel and related incentive compensation costs that support the 13.0% increase in product net sales, including sales force expansions in Europe and Asia. General and administrative expenses increased in the first quarter of 2014 compared to the first quarter of 2013 primarily due to an increase in information services costs, general insurance costs, and higher personnel and related incentive compensation costs, partially offset by a decrease in legal and bad debt expenses.

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 2014 expense is expected to be approximately $25 million to $35 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 in the United States. The excise tax is recorded in SG&A expenses, and the related full year 2014 expense is expected to be approximately $10 million to $12 million.

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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 March 31, 2014, we have the following significant R&D projects in late-stage development:

- Latisse® (U.S. - Phase III) for brow
- Levadex® (U.S. - Filed / Resubmitted in response to 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
- Aczone® X (U.S. - Phase III) for acne vulgaris
- AGN-199201 (U.S. - Phase III) for rosacea

In addition to the significant R&D projects in late stage development described above, we have certain important Phase II projects — namely, the development of therapeutic DARPin® products and bimatoprost for scalp hair growth. For management purposes, we accumulate direct costs for R&D projects, but do not allocate all indirect project costs, such as R&D administration, infrastructure and regulatory affairs costs, to specific R&D projects. Additionally, R&D expense includes upfront payments to license or purchase in-process R&D assets that have not achieved regulatory approval. Our overall R&D expenses are not materially concentrated in any specific project or stage of development. The following table sets forth direct costs for our late-stage projects (which include candidates in Phase III clinical trials) and other R&D projects, upfront payments to license or purchase in-process R&D assets and all other R&D expenses for the three month periods ended March 31, 2014 and 2013:

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Direct costs for:		
Late-stage projects	$84.8	$55.1
Other R&D projects	156.9	167.8
Upfront payments to license or purchase in-process R&D assets	75.0	—
Other R&D expenses	32.3	25.9
Total	$349.0	$248.8

R&D expenses increased $100.2 million, or 40.3%, to $349.0 million in the first quarter of 2014, or 21.6% of product net sales, compared to $248.8 million, or 17.4% of product net sales in the first quarter of 2013. R&D expenses in the first quarter of 2014 include a $65.0 million charge for an upfront payment associated with the in-licensing of certain neurotoxin product candidates currently in development from Medytox, Inc., including a potential liquid-injectable product, that have not yet achieved regulatory approval, a $10.0 million charge for the purchase of certain dermal filler technology under development that has not yet achieved regulatory approval, and $1.8 of R&D expenses related to the realignment of various business functions. Excluding the effect of the charges described above, R&D expenses increased $23.4 million, or 9.4%, to $272.2 million in the first quarter of 2014, or 16.8% of product net sales.The increase in R&D expenses in dollars, excluding these charges, 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, an increase in spending on the next generation of our Aczone® product for the treatment of acne, increased spending on Botox® for the treatment of movement disorders, including juvenile cerebral palsy, an increase in costs associated with our collaboration with Serenity Pharmaceuticals, LLC, or Serenity, related to Ser-120 for the treatment of nocturia, an increase in costs for the development of Levadex® for the acute treatment of migraine acquired in the MAP acquisition, and an increase in spending on development of dermal filler products using our proprietary Vycross™ technology, partially offset by a decrease in spending on Botox® for the treatment of crow's feet lines and a decrease in expenses for potential new treatment applications for Latisse®.

Amortization of Intangible Assets

Amortization of intangible assets decreased $2.9 million to $27.8 million in the first quarter of 2014, or 1.7% of product net sales, compared to $30.7 million, or 2.1% of product net sales, in the first quarter of 2013. The decrease in amortization expense is primarily due to a decline in amortization expense associated with certain licensing assets that became fully amortized at the

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end of the first quarter of 2013 and the impairment of an intangible asset for distribution rights acquired in connection with our 2011 acquisition of Precision Light, Inc. in the fourth quarter of 2013, partially offset by 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.

Restructuring Charges and Integration Costs

2014 Restructuring Plan

In January 2014, we initiated a restructuring plan that affected approximately 280 employees, including a reduction of approximately 150 positions. The restructuring plan includes certain sales force realignments and position eliminations, certain facility relocations and closures in the United States and Europe and the realignment of certain other business support functions. We currently estimate that the total costs related to this restructuring plan will be between $40 million and $45 million, which includes severance and other one-time termination benefits, lease exit and contract termination costs, accelerated depreciation and share-based compensation expenses, and relocation and duplicate operating expenses.

We began to record costs associated with the 2014 restructuring plan in the first quarter of 2014 and expect that the majority of the expenses will be incurred in 2014 with the exception of certain expenses related to the relocation of a minor manufacturing facility to be incurred in 2015. The restructuring charges primarily consist of employee severance, one-time termination benefits and contract termination costs associated with the restructuring plan. In the first quarter of 2014, we recorded restructuring charges of $24.0 million and recognized additional costs of $6.5 million related to accelerated depreciation and share-based compensation expenses and duplicate operating expenses, consisting of $0.8 million of cost of sales, $4.3 million in SG&A expenses and $1.4 million in R&D expenses.

The following table presents the restructuring charges related to the 2014 restructuring plan during the first quarter of 2014:

	Employee Severance	Other	Total
	(in millions)		
Restructuring charges during the three month period ended March 31, 2014	$22.9	$1.1	$24.0
Spending	(8.1)	(0.9)	(9.0)
Balance at March 31, 2014 (included in "Other accrued expenses")	$14.8	$0.2	$15.0

Other Restructuring Activities 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, Inc., we initiated restructuring activities in 2013 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. For the year ended December 31, 2013, we recorded $4.5 million of restructuring charges, including $4.3 million in the first quarter of 2013, primarily consisting of employee severance and other one-time termination benefits for approximately 111 people. In the first quarter of 2014, we recorded an additional $0.4 million of restructuring charges.

Included in the three month period ended March 31, 2014 are a $0.1 million restructuring charge reversal for employee severance and other one-time termination benefits and $0.4 million of R&D expenses related to the realignment of various business functions initiated in prior years. Included in the three month period ended March 31, 2013 are $0.1 million of SG&A expenses related to the realignment of various business functions initiated in prior years.

Included in the three month period ended March 31, 2014 are $0.8 million of SG&A expenses and $0.4 million of R&D expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. Included in the three month period ended March 31, 2013 are $11.4 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. The SG&A expenses for the three month period ended March 31, 2013 primarily consist of investment banking and legal fees.

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Operating Income

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

For the first quarter of 2014, 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 $120.8 million, an upfront licensing fee of $65.0 million for technology that has not achieved regulatory approval and related transaction costs of $0.2 million, a $10.0 million expense for acquired in-process research and development technology and related transaction costs of $0.5 million, income of $0.3 million for changes in the fair value of contingent consideration liabilities, integration and transaction costs of $0.5 million associated with the purchase of various businesses, expenses of $6.9 million related to the realignment of various business functions and other net indirect costs of $9.6 million.

For the first 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 $109.4 million, stockholder derivative litigation costs of $0.6 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 $5.8 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, Inc., integration and transaction costs of $11.4 million associated with the purchase of various businesses and other net indirect costs of $8.0 million.

The following table presents operating income for each reportable segment for the three month periods ended March 31, 2014 and 2013 and a reconciliation of our segments' operating income to consolidated operating income:

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(in millions)	
Operating income:		
Specialty pharmaceuticals	$570.3	$490.0
Medical devices	75.7	54.6
Total segments	646.0	544.6
General and administrative expenses, other indirect costs and other adjustments	213.2	144.1
Amortization of intangible assets (a)	26.6	25.1
Restructuring charges	24.3	4.3
Total operating income	$381.9	$371.1

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

Our consolidated operating income in the first quarter of 2014 was $381.9 million, or 23.6% of product net sales, compared to consolidated operating income of $371.1 million, or 25.9% of product net sales in the first quarter of 2013. The $10.8 million increase in consolidated operating income was due to a $186.6 million increase in product net sales and a $2.9 million decrease in amortization of intangible assets, partially offset by a $0.1 million decrease in other revenues, a $4.6 million increase in cost of sales, a $53.8 million increase in SG&A expenses, a $100.2 million increase in R&D expenses and a $20.0 million increase in restructuring charges.

Our specialty pharmaceuticals segment operating income in the first quarter of 2014 was $570.3 million, compared to operating income of $490.0 million in the first quarter of 2013. The $80.3 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 promotion and R&D expenses.

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Our medical devices segment operating income in the first quarter of 2014 was $75.7 million, compared to operating income of $54.6 million in the first quarter of 2013. The $21.1 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 marketing expenses and an increase in R&D expenses.

Non-Operating Income and Expense

Total net non-operating expense in the first quarter of 2014 was $20.3 million compared to total net non-operating expense of $24.5 million in the first quarter of 2013. Interest income increased $0.2 million to $1.8 million in the first quarter of 2014 compared to $1.6 million in the first quarter of 2013. Interest expense decreased $1.7 million to $15.7 million in the first quarter of 2014 compared to $17.4 million in the first quarter of 2013. Interest expense decreased primarily due to a decrease in accrued statutory interest resulting from a change in estimate related to uncertain tax positions, partially offset by an increase in interest expense 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 $6.4 million in the first quarter of 2014, consisting primarily of net losses on foreign currency derivative instruments and other foreign currency transactions. Other, net expense was $8.7 million in the first quarter of 2013, consisting primarily of $5.0 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.

Income Taxes

Our effective tax rate for the first quarter of 2014 was 28.5%. Included in our earnings before income taxes for the first quarter of 2014 are a $65.0 million upfront payment for the in-licensing of in-process research and development technologies from Medytox, a $10.0 million expense for the purchase of an in-process research and development asset, restructuring charges of $24.3 million, $6.5 million of other expenses for the realignment of certain business functions under our 2014 restructuring plan and $0.3 million of income related to changes in the fair value of contingent consideration associated with certain business combination agreements. In the first quarter of 2014 we recorded no income tax benefits related to the upfront payment for the in-licensing of technology from Medytox or for the changes in the fair value of contingent consideration liabilities, $3.4 million of income tax benefits related to the expense for the purchase of an in-process research and development asset, $6.0 million of income tax benefits related to the restructuring charges and $2.4 million of income tax benefits related to other expenses for the realignment of certain business functions under our 2014 restructuring plan. In the first quarter of 2014, we also recorded income tax benefits of $13.6 million for changes in estimated taxes related to tax positions included in prior year filings, which resulted primarily from the re-measurement of certain transfer pricing positions. Excluding the impact of the pre-tax charges of $105.5 million and the income tax benefits of $25.4 million for the items discussed above, our adjusted effective tax rate for the first quarter of 2014 was 27.5%. We believe that the use of an adjusted effective tax rate provides a more meaningful measure of the impact of income taxes on our results of operations because it excludes the effect of certain items that are not included as part of our core business activities. This allows investors to better determine the effective tax rate associated with our core business activities.

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The calculation of our adjusted effective tax rate for the first quarter of 2014 is summarized below:

	(in millions)
Earnings from continuing operations before income taxes, as reported	$361.6
Upfront payment for the in-licensing of in-process research and development technologies from Medytox	65.0
Expense for the purchase of an in-process research and development asset	10.0
Restructuring charges	24.3
Other expenses associated with the realignment of certain business functions	6.5
Changes in the fair value of contingent consideration liabilities related to business combinations	(0.3)
	$467.1
Provision for income taxes, as reported	$103.1
Income tax benefit (provision) for:	
Upfront payment for the in-licensing of in-process research and development technologies from Medytox	—
Expense for the purchase of an in-process research and development asset	3.4
Restructuring charges	6.0
Other expenses associated with the realignment of certain business functions	2.4
Changes in the fair value of contingent consideration liabilities related to business combinations	—
Changes in estimated taxes related to tax positions included in prior year filings	13.6
	$128.5
Adjusted effective tax rate	27.5%

Our effective tax rate for the first quarter of 2013 was 21.2%. Our effective tax rate for the year ended December 31, 2013 was 26.5%. Included in our earnings before income taxes for 2013 are charges related to changes in the fair value of contingent consideration associated with certain business combination agreements of $70.7 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 $3.1 million, transaction and integration costs associated with business combinations and license agreements of $20.6 million, a loss of $3.7 million related to the impairment of a non-marketable third party equity investment and restructuring charges of $5.5 million. In 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, no 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, $4.8 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 $1.7 million of income tax benefits related to the restructuring charges. In 2013, we also recorded an income tax benefit of $15.1 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 aggregate pre-tax charges of $112.5 million and the income tax benefits of $26.2 million for the items discussed above, our adjusted effective tax rate for 2013 was 26.3%.

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The calculation of our adjusted effective tax rate for the year ended December 31, 2013 is summarized below:

	2013 (in millions)	
Earnings from continuing operations before income taxes, as reported	$1,730.8	
Changes in the fair value of contingent consideration liabilities related to business combinations	70.7	
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	3.1	
Transaction and integration costs associated with business combinations and license agreements	20.6	
Impairment of a non-marketable third party equity investment	3.7	
Restructuring charges	5.5	
	$1,843.3	
Provision for income taxes, as reported	$458.3	
Income tax benefit 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	—	
Transaction and integration costs associated with business combinations and license agreements	4.8	
Impairment of a non-marketable third party equity investment	1.3	
Restructuring charges	1.7	
2012 retroactive U.S. federal research and development tax credit	15.1	
	$484.5	
Adjusted effective tax rate	26.3	%

The increase in the adjusted effective tax rate to 27.5% in the first quarter of 2014 compared to the adjusted effective tax rate for the year ended December 31, 2013 of 26.3% is primarily due to the negative impact of the expiration of the U.S. federal research and development tax credit, an increase in the mix of earnings in higher tax rate jurisdictions and the negative impact of other small changes in certain tax positions related to prior periods.

Earnings from Continuing Operations

Our earnings from continuing operations in the first quarter of 2014 were $258.5 million compared to earnings from continuing operations of $273.0 million in the first quarter of 2013. The $14.5 million decrease in earnings from continuing operations was primarily the result of the increase in the provision for income taxes of $29.5 million, partially offset by the increase in operating income of $10.8 million and the decrease in net non-operating expense of $4.2 million.

Net Earnings Attributable to Noncontrolling Interest

Our net earnings attributable to noncontrolling interest for our majority-owned subsidiaries were $0.6 million and $1.9 million in the first quarter of 2014 and 2013, respectively.

Discontinued Operations

On February 1, 2013, we formally committed to pursue a sale of our obesity intervention business unit, including the assets related to the Lap-Band® gastric band system and the Orbera™ intra-gastric balloon system. Accordingly, beginning in the first quarter of 2013, we have reported the financial results from that business unit as discontinued operations in the consolidated statements of earnings. In the first quarter of 2013, we reported an 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 December 2, 2013, we completed the sale of the obesity intervention business to Apollo Endosurgery, Inc., or Apollo, for cash consideration of $75.0 million, subject to certain adjustments, and certain additional consideration, including a minority equity interest in Apollo with an estimated fair value of $15.0 million and contingent consideration of up to $20.0 million to be paid upon the achievement of certain regulatory and sales milestones.

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At the closing date, the cash consideration was reduced by the amount of inventories held outside of the United States of $7.6 million and net trade accounts receivable and payable of $19.4 million, which we retained pursuant to the sale and transition services agreements with Apollo. We expect to realize the value of these retained assets in the normal course of business within one year from the closing date.

For the year ended December 31, 2013, we reported a total pre-tax loss of $408.2 million ($297.9 million after tax) on the disposal of the obesity intervention business unit net assets. The pre-tax loss includes transaction costs of approximately $2.6 million, consisting primarily of investment banking fees. In the first quarter of 2014, we recognized an additional pre-tax loss of $0.9 million ($0.6 million after tax) on the disposal of the obesity intervention business unit net assets.

The assets of discontinued operations of $5.7 million and $9.0 million as of March 31, 2014 and December 31, 2013, respectively, consist of net trade receivables. The remaining balance of retained inventories at March 31, 2014 was included in continuing operations and will be sold to Apollo pursuant to the transition services agreements.

In connection with the sale of the obesity intervention business, we also entered into certain transitional service agreements designed to facilitate the orderly transfer of business operations to Apollo. These agreements primarily relate to administrative services in the United States and distribution services outside of the United States, all of which are generally to be provided for a period of up to 12 months. We will also manufacture and supply products to Apollo for a transitional period not to exceed 24 months in order to allow Apollo adequate time to obtain regulatory approval for licenses and manufacturing facilities. The continuing cash flows from these agreements are not significant. Net sales made pursuant to the manufacturing and distribution agreements are recorded as product net sales in the consolidated statements of earnings and are reflected as other medical devices product net sales.

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 for the three months ended March 31, 2013:

	(in millions)
Product net sales	$33.3
Operating costs and expenses:	
Cost of sales (excludes amortization of intangible assets)	5.3
Selling, general and administrative	15.8
Research and development	1.5
Amortization of intangible assets	10.3
Earnings from discontinued operations before income taxes	$0.4
Earnings from discontinued operations, net of income taxes	$0.4

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; funds available under our credit facilities; the extent of our stock repurchase program; global economic conditions; funds required for acquisitions and other transactions; and financial flexibility to attract long-term capital on satisfactory terms.

Cash Flow

Historically, we have generated cash from operations in excess of working capital requirements. The net cash provided by operating activities for the first quarter of 2014 was $165.8 million compared to $119.6 million for the

first quarter of 2013. Cash flow from operating activities increased in the first quarter of 2014 compared to the first quarter of 2013 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 trade receivables, accounts payable and accrued expenses, partially offset by an increase in cash used to fund changes in inventories, income taxes and other liabilities. In the first quarter of 2014, we made an upfront payment of

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$65.0 for a license agreement, which was included in our net earnings for the first quarter of 2014. In the first quarter of 2014 and 2013, we paid pension contributions of $4.8 million and $5.6 million, respectively, to our U.S. defined benefit pension plan.

Net cash used in investing activities was $256.8 million in the first quarter of 2014 compared to net cash used in investing activities of $687.4 million in the first quarter of 2013. In the first quarter of 2014, we received $465.6 million from the maturities of short-term investments and collected $1.8 million from the 2013 sale of the obesity intervention business. In the first quarter of 2014, we purchased $664.3 million of short-term investments and paid $10.0 million for a non-marketable equity investment. Additionally, we invested $46.4 million in new facilities and equipment and $3.6 million in capitalized software. In the first quarter of 2013, we received $260.6 million from the maturities of short-term investments. In the first quarter of 2013, we purchased $50.0 million of short-term investments and paid $871.7 million, net of cash acquired, for the acquisition of MAP and received $0.3 million for a purchase price adjustment related to a prior acquisition. Additionally, we invested $23.7 million in new facilities and equipment and $2.7 million in capitalized software. We currently expect to invest between approximately $200 million and $250 million in capital expenditures for manufacturing and administrative facilities, manufacturing equipment and other property, plant and equipment during 2014.

Net cash used in financing activities was $138.5 million in the first quarter of 2014 compared to net cash provided by financing activities of $72.8 million in the first quarter of 2013. In the first quarter of 2014, we repurchased approximately 3.2 million shares of our common stock for $398.0 million, paid $14.9 million in dividends to stockholders and paid contingent consideration of $7.6 million. This use of cash was partially offset by $5.4 million in net borrowings of notes payable, $217.6 million received from the sale of stock to employees and $59.0 million in excess tax benefits from share-based compensation. 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 2023 Notes, and received total proceeds of $598.5 million, net of original discounts. Additionally, in the first quarter of 2013, we received $8.4 million in net borrowings of notes payable, $112.2 million from the sale of stock to employees and $30.8 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 $648.4 million, a cash payment of $3.7 million for offering fees related to the issuance of the 2018 Notes and the 2023 Notes, $14.9 million in dividends paid to stockholders and payments of contingent consideration of $10.1 million.

As of March 31, 2014, $2,507.9 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, 2013, we had approximately $3,828.0 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.

Debt Outstanding and Borrowing Capacity

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

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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 March 31, 2014, 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 March 31, 2014. At March 31, 2014, we had no borrowings under our committed long-term credit facility, $20.0 million in borrowings outstanding under the real estate mortgage, $61.1 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.

Dividends and Stock Repurchase Program

Effective May 5, 2014, our Board of Directors declared a cash dividend of $0.05 per share, payable June 13, 2014 to stockholders of record on May 23, 2014.

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 March 31, 2014, we held approximately 9.6 million treasury shares under this program. We previously entered into a Rule 10b5-1 plan that authorized our broker to purchase our common stock traded in the open market pursuant to our evergreen stock repurchase program. The Rule 10b5-1 plan was subsequently terminated in accordance with its terms. Pursuant to the stock repurchase program, we may also repurchase shares outside of a Rule 10b5-1 plan from time to time in accordance with applicable law.

Trade Receivables Supplemental Information

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 March 31, 2014 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	$21.5	$13.2
Trade receivables from other customers	9.3	16.1
Total trade receivables	$30.8	$29.3
Amount of trade receivables that is past due	$15.7	$9.4
Allowance for doubtful accounts	$6.2	$0.7

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 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 March 31, 2014, we have no significant trade accounts receivable from customers in Greece or Portugal that are primarily funded by their respective sovereign governments.

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As of March 31, 2014, we had trade receivables from a single commercial distributor in Venezuela of approximately $55.6 million, which are subject to currency exchange controls administered by the National Center for Foreign Commerce, or CENCOEX, a Venezuelan government body. The payment of our trade receivables is required to be approved through CENCOEX'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.

Other Liquidity Matters

On September 25, 2013, we announced that we had entered into a license agreement with Medytox, Inc., or Medytox, contingent on obtaining certain government approvals. In January 2014, we closed the transaction. Under the terms of the agreement, we made an upfront payment to Medytox of $65.0 million in January 2014 and Medytox granted us exclusive rights, worldwide outside of Korea with co-exclusive rights in Japan, 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.

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 2014 by generic competition.

At December 31, 2013, we had net pension and postretirement benefit obligations totaling $237.5 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 2014, we expect to pay pension contributions of between $30.0 million and $40.0 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.

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.

We assess the adequacy and effectiveness of our interest rate and foreign exchange hedge positions by continually monitoring our interest rate swap 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 March 31, 2014, 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 month periods ended March 31, 2014 and 2013, we recognized $3.4 million and $3.2 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 March 31, 2014, the remaining unrecognized gain, net of tax, of $1.6 million is recorded as a component of accumulated other comprehensive loss.

At March 31, 2014, we had approximately $61.1 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 $0.6 million. Commercial paper, when outstanding, is issued at current short-term interest rates. Additionally, any future borrowings that are outstanding under the long-term credit facility 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 March 31, 2014 and December 31, 2013.

	March 31, 2014 Maturing in							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$2,236.0	$—	$—	$—	$—	$—	$2,236.0	$2,236.0
Weighted Average Interest Rate	0.09 %	—	—	—	—	—	0.09 %	
Foreign Time Deposits	417.6	—	—	—	—	—	417.6	417.6
Weighted Average Interest Rate	0.33 %	—	—	—	—	—	0.33 %	
Other Cash Equivalents	776.3	—	—	—	—	—	776.3	776.3
Weighted Average Interest Rate	0.38 %	—	—	—	—	—	0.38 %	
Total Cash Equivalents and Short-Term Investments	$3,429.9	$—	$—	$—	$—	$—	$3,429.9	$3,429.9
Weighted Average Interest Rate	0.18 %	—	—	—	—	—	0.18 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$) (a)	$—	$—	$827.7	$20.0	$249.6	$997.8	$2,095.1	$2,169.9
Weighted Average Interest Rate	—	—	3.94 %	5.65 %	1.39 %	3.21 %	3.30 %	
Other Variable Rate (non-US$)	61.1	—	—	—	—	—	61.1	61.1
Weighted Average Interest Rate	8.33 %	—	—	—	—	—	8.33 %	
Total Debt Obligations	$61.1	$—	$827.7	$20.0	$249.6	$997.8	$2,156.2	$2,231.0
Weighted Average Interest Rate	8.33 %	—	3.94 %	5.65 %	1.39 %	3.21 %	3.45 %	

(a) The carrying value of debt obligations maturing in 2016 includes an unamortized amount of $28.1 million related to a terminated interest rate swap associated with the 2016 Notes.

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	December 31, 2013 Maturing in							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Market Value
	(in millions, except interest rates)							
ASSETS								
Cash Equivalents and Short-Term Investments:								
Commercial Paper	$2,016.8	$—	$—	$—	$—	$—	$2,016.8	$2,016.8
Weighted Average Interest Rate	0.07 %	—	—	—	—	—	0.07 %	
Foreign Time Deposits	370.3	—	—	—	—	—	370.3	370.3
Weighted Average Interest Rate	0.39 %	—	—	—	—	—	0.39 %	
Other Cash Equivalents	1,080.4	—	—	—	—	—	1,080.4	1,080.4
Weighted Average Interest Rate	0.16 %	—	—	—	—	—	0.16 %	
Total Cash Equivalents and Short-Term Investments	$3,467.5	$—	$—	$—	$—	$—	$3,467.5	$3,467.5
Weighted Average Interest Rate	0.13 %	—	—	—	—	—	0.13 %	
LIABILITIES								
Debt Obligations:								
Fixed Rate (US$) (a)	$—	$—	$831.0	$20.0	$249.5	$997.8	$2,098.3	$2,163.8
Weighted Average Interest Rate	—	—	3.94 %	5.65 %	1.39 %	3.21 %	3.30 %	
Other Variable Rate (non-US$)	55.6	—	—	—	—	—	55.6	55.6
Weighted Average Interest Rate	6.07 %	—	—	—	—	—	6.07 %	
Total Debt Obligations	$55.6	$—	$831.0	$20.0	$249.5	$997.8	$2,153.9	$2,219.4
Weighted Average Interest Rate	6.07 %	—	3.94 %	5.65 %	1.39 %	3.21 %	3.38 %	

(a) The carrying value of debt obligations maturing in 2016 includes an unamortized amount of $31.5 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 24 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, South African rand and Japanese yen. 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 March 31, 2014 and December 31, 2013. The information is provided in U.S. dollars, as presented in our unaudited condensed consolidated financial statements:

	March 31, 2014		December 31, 2013	
	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	$11.3	101.45	$9.2	103.02
Australian dollar	9.5	0.90	9.3	0.88
Russian ruble	17.5	37.19	16.5	33.42
	$38.3		$35.0	
Estimated fair value	$(0.7)		$0.1	
Foreign currency forward contracts: (Pay U.S. dollar/receive foreign currency)				
Euro	$41.7	1.39	$41.3	1.38
Estimated fair value	$(0.4)		$0.1	
Foreign currency sold — put options:				
Canadian dollar	$115.4	1.07	$95.4	1.04
Mexican peso	13.7	13.16	17.7	13.12
Australian dollar	50.0	0.89	44.8	0.92
Brazilian real	34.9	2.52	29.7	2.42
Euro	217.4	1.36	245.5	1.36
Korean won	14.3	1,064.65	18.5	1,062.71
Turkish lira	24.6	2.15	32.7	2.13
Polish zloty	7.2	3.09	9.7	3.08
Swiss franc	7.2	0.88	9.5	0.88
Russian ruble	13.7	34.29	17.0	34.09
Swedish krona	5.5	6.58	6.8	6.57
South African rand	7.9	10.81	11.0	10.72
Japanese yen	19.9	102.74	22.5	102.75
	$531.7		$560.8	
Estimated fair value	$15.8		$20.2	

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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 March 31, 2014, 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 March 31, 2014, 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 10, "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, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following table discloses the purchases of our equity securities during the first fiscal quarter of 2014.

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)
January 1, 2014 to January 31, 2014	—	$—	—	8,761,705
February 1, 2014 to February 28, 2014	1,561,398	123.11	1,500,000	9,859,965
March 1, 2014 to March 31, 2014	1,607,263	128.01	1,605,300	8,810,526
Total	3,168,661	$125.59	3,105,300	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 March 31, 2014, we held approximately 9.6 million treasury shares under this program. We previously entered into a Rule 10b5-1 plan that authorized our broker to purchase our common stock traded in the open market pursuant to our evergreen stock repurchase program. The Rule 10b5-1 plan was subsequently terminated in accordance with its terms. Pursuant to the stock repurchase program, we may also repurchase shares outside of a Rule 10b5-1 plan from time to time in accordance with applicable law. During the first fiscal quarter of 2014, the difference between total number of shares purchased and total number of shares purchased as part of publicly announced plans or programs is due to 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: May 7, 2014

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)
10.1	Second Amendment to Allergan, Inc. Pension Plan
10.2	Third Amendment to Allergan, Inc. Pension Plan
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 March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Earnings; (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss); (iii) Unaudited Condensed Consolidated Balance Sheets; (iv) Unaudited Condensed Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Condensed Consolidated Financial Statements