ALLERGAN INC
Form 10-Q
August 09, 2006

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

COMMISSION FILE NUMBER 1-10269

ALLERGAN, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	95-1622442
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2525 DUPONT DRIVE, IRVINE, CALIFORNIA	92612
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ.

As of August 3, 2006, there were 153,755,944 shares of common stock outstanding (including 2,959,099 shares held in treasury).

ALLERGAN, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2006
INDEX

Table of Contents

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

	Three months ended		Six months ended	
	June 30, 2006	June 24, 2005	June 30, 2006	June 24, 2005
Revenues				
Product net sales	$787.0	$591.0	$1,402.2	$1,118.2
Other revenues	14.7	3.6	25.2	6.5
Total revenues	801.7	594.6	1,427.4	1,124.7
Operating costs and expenses				
Cost of sales	168.2	107.2	265.5	200.1
Selling, general and administrative	337.5	245.1	611.4	458.1
Research and development	140.3	90.7	809.7	172.0
Amortization of acquired intangible assets	24.8	5.1	29.9	7.2
Restructuring charges	5.7	10.3	8.5	37.7
Operating income (loss)	125.2	136.2	(297.6)	249.6
Non-operating income (expense)				
Interest income	12.3	6.1	21.5	11.6
Interest expense	(20.5)	(4.6)	(28.3)	(9.1)
Unrealized (loss) gain on derivative instruments, net	(0.2)	1.1	(1.2)	1.2
Other, net	(4.5)	(0.7)	(5.2)	3.8
	(12.9)	1.9	(13.2)	7.5
Earnings (loss) before income taxes and minority interest	112.3	138.1	(310.8)	257.1
Provision for income taxes	37.8	104.1	59.7	143.3
Minority interest expense	0.3	0.6	0.1	0.5
Net earnings (loss)	$ 74.2	$ 33.4	$ (370.6)	$ 113.3
Earnings (loss) per share:				
Basic	$ 0.49	$ 0.26	$ (2.60)	$ 0.87
Diluted	$ 0.49	$ 0.25	$ (2.60)	$ 0.86

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and equivalents	$ 895.2	$1,296.3
Trade receivables, net	356.4	246.1
Inventories	183.4	90.1
Other current assets	212.5	193.1
Total current assets	1,647.5	1,825.6
Investments and other assets	276.5	258.9
Deferred tax assets		123.2
Property, plant and equipment, net	566.1	494.0
Goodwill	1,797.0	9.0
Intangibles, net	1,092.7	139.8
Total assets	$5,379.8	$2,850.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 59.0	$ 169.6
Convertible notes, net of discount		520.0
Accounts payable	132.6	92.3
Accrued compensation	90.4	84.8
Other accrued expenses	231.8	177.3
Income taxes	20.3	
Total current liabilities	534.1	1,044.0
Long-term debt	855.8	57.5
Long-term convertible notes, net of discount	750.0	
Deferred tax liabilities	149.2	
Other liabilities	222.5	181.0
Commitments and contingencies		
Minority interest	1.3	1.1
Stockholders equity:		
Preferred stock, $.01 par value; authorized 5,000,000 shares; none issued		
Common stock, $.01 par value; authorized 300,000,000 shares; issued 153,756,000 shares as of June 30, 2006 and 134,255,000 shares as of December 31, 2005	1.5	1.3
Additional paid-in capital	2,307.9	417.7
Accumulated other comprehensive loss	(29.7)	(50.6)
Retained earnings	901.3	1,305.1

	3,181.0	1,673.5
Less treasury stock, at cost (3,006,000 shares as of June 30, 2006 and 1,431,000 shares as of December 31, 2005, respectively)	(314.1)	(106.6)
Total stockholders equity	2,866.9	1,566.9
Total liabilities and stockholders equity	$5,379.8	$2,850.5

See accompanying notes to unaudited condensed consolidated financial statements.

4

Table of Contents

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

	Six months ended June 30, 2006	Six months ended June 24, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	$ (370.6)	$ 113.3
Non-cash items included in earnings:		
In-process research and development charge	579.3	
Depreciation and amortization	65.7	37.5
Amortization of original issue discount and debt issuance costs	7.6	4.9
Amortization of net realized gain on interest rate swap	(0.3)	
Deferred income taxes	(13.7)	1.0
Loss on investments and disposal of fixed assets	3.4	
Unrealized loss (gain) on derivative instruments	1.2	(1.2)
Expense of share-based compensation plans	32.0	7.1
Minority interest expense	0.1	0.3
Restructuring charge	8.5	37.7
Changes in assets and liabilities:		
Trade receivables	(32.3)	(43.8)
Inventories	16.9	1.9
Other current assets	4.4	(6.6)
Other non-current assets	(1.0)	3.5
Accounts payable	8.4	21.4
Accrued expenses	(10.0)	(26.3)
Income taxes	4.5	57.7
Other liabilities	18.2	7.1
Net cash provided by operating activities	322.3	215.5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Inamed, net of cash acquired	(1,328.3)	
Additions to property, plant and equipment	(49.3)	(20.4)
Additions to capitalized software	(9.0)	(6.9)
Additions to intangible assets	(11.0)	(99.3)
Proceeds from sale of investments	0.3	
Proceeds from sale of property, plant and equipment	3.2	1.3
Other, net		0.2
Net cash used in investing activities	(1,394.1)	(125.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends to stockholders	(28.3)	(26.1)
Proceeds from issuance of senior notes	797.7	
Proceeds from issuance of convertible senior notes	750.0	

Debt issuance costs	(19.3)	
Bridge credit facility borrowings	825.0	
Bridge credit facility repayments	(825.0)	
Repayments of convertible borrowings	(521.9)	
Net repayments of notes payable	(110.5)	(8.6)
Sale of stock to employees	79.0	16.0
Payments to acquire treasury stock	(307.8)	(94.3)
Net proceeds from settlement of interest rate swap	13.0	
Excess tax benefits from share-based compensation	15.0	
Net cash provided by (used in) financing activities	666.9	(113.0)
Effect of exchange rate changes on cash and equivalents	3.8	0.9
Net decrease in cash and equivalents	(401.1)	(21.7)
Cash and equivalents at beginning of period	1,296.3	894.8
Cash and equivalents at end of period	$ 895.2	$ 873.1
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest (net of capitalization)	$ 9.4	$ 5.1
Income taxes, net of refunds	$ 73.4	$ 86.1

On March 23, 2006, the Company completed the acquisition of Inamed Corporation. In exchange for the common stock of Inamed Corporation, the Company issued common stock with a fair value of $1,859.3 million and paid $1,328.3 million in cash, net of cash acquired. In connection with the acquisition, the Company acquired assets with a fair value of $3,759.6 million and assumed liabilities of $469.3 million.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Allergan, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2005. The Company prepared the condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006 or any other period(s).

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation. Beginning with the second fiscal quarter of 2006, the Company reports amortization of acquired intangible assets on a separate line in its statements of operations, which includes the amortization of the intangible assets acquired in connection with the Inamed acquisition, as well as the amortization of other intangible assets previously reported in cost of sales, selling, general and administrative expenses, and research and development expenses. For the three month period ended June 24, 2005, a total of $5.1 million of intangible asset amortization was reclassified, consisting of $4.5 million previously classified in cost of sales and $0.6 million previously classified in research and development expenses. For the six month period ended June 24, 2005, a total of $7.2 million of intangible asset amortization was reclassified, consisting of $5.7 million previously classified in cost of sales, $0.2 million previously classified in selling, general and administrative expenses, and $1.3 million previously classified in research and development expenses. Intangible asset amortization for the six month period ended June 30, 2006 includes a total reclassification of $5.1 million, representing the reclassification of $4.3 million, $0.1 million and $0.7 million from cost of sales, selling, general and administrative expenses, and research and development expenses, respectively, previously reported for the three month period ended March 31, 2006.

Share-Based Payments

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payment* (SFAS No. 123R), which requires measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. Under SFAS No. 123R, the fair value of share-based payment awards is estimated at grant date using an option pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. Prior to the adoption of SFAS No. 123R, the Company accounted for share-based awards using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Under the intrinsic value method, no share-based compensation cost was recognized for awards to employees or directors if the exercise price of the award was equal to the fair market value of the underlying stock on the date of grant.

The Company adopted SFAS No. 123R using the modified prospective application method. Under the modified prospective application method, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards and awards that are outstanding on the adoption effective date that are subsequently modified or cancelled. Estimated compensation expense for awards outstanding and unvested on the adoption effective date is recognized over the remaining service period using the compensation cost calculated for *pro forma* disclosure purposes under SFAS No. 123.

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

Pre-tax share-based compensation expense recognized under SFAS No. 123R for the three month period ended June 30, 2006 was $16.6 million, which consisted of compensation related to employee and director stock options of $11.3 million, employee and director restricted share awards of $3.0 million and $2.3 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under SFAS No. 123R for the six month period ended June 30, 2006 was $31.9 million, which consisted of compensation related to employee and director stock options of $21.4 million, employee and director restricted share awards of $4.8 million and $5.7 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the three month period ended June 24, 2005 was $3.4 million, which consisted of compensation related to employee and director restricted share awards of $1.3 million and $2.1 million related to stock contributed to employee benefit plans. Pre-tax share-based compensation expense recognized under APB No. 25 for the six month period ended June 24, 2005 was $7.0 million, which consisted of compensation related to employee and director restricted share awards of $2.2 million and $4.8 million related to stock contributed to employee benefit plans. There was no share-based compensation expense recognized during the three and six month periods ended June 24, 2005 related to employee or director stock options. The income tax benefit related to recognized share-based compensation was $6.0 million and $11.5 million for the three and six month periods ended June 30, 2006, respectively. The income tax benefit related to recognized share-based compensation was $1.2 million and $2.5 million for the three and six month periods ended June 24, 2005, respectively.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based awards. The determination of fair value using the Black-Scholes model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards and projected employee stock option exercise behaviors. Prior to the adoption of SFAS No. 123R the Company used an estimated stock price volatility based on the Company s five year historical average. Upon adoption of SFAS No. 123R the Company changed its estimated volatility calculation to an equal weighting of the Company s ten year historical average and the average implied volatility of at-the-money options traded in the open market. The Company believes this method provides a more accurate estimate of stock price volatility over the expected life of the share-based awards. Employee stock option exercise behavior is estimated based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

The Company recognizes share-based compensation cost over the requisite service period using the straight-line single option method. Since share-based compensation under SFAS No. 123R is recognized only for those awards that are ultimately expected to vest, an estimated forfeiture rate has been applied to unvested awards for the purpose of calculating compensation cost. SFAS No. 123R requires these estimates to be revised, if necessary, in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. In the Company s *pro forma* information required under SFAS No. 123 prior to January 1, 2006, the Company accounted for forfeitures as they occurred.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, *Transitional Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance additional paid-in capital pool (APIC Pool) related to tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

Recently Adopted Accounting Standards

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154). SFAS No. 154 requires retrospective application to prior-period financial statements of changes in accounting principles, unless a new accounting pronouncement provides specific transition provisions to the contrary or it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The Company adopted the provision of SFAS No. 154 in its first fiscal quarter of 2006. The adoption did not have a material effect on the Company s consolidated financial statements.

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

New Accounting Standards Not Yet Adopted

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity s first fiscal year that begins after September 15, 2006, which is the Company s fiscal year 2007. The Company does not expect the adoption of SFAS No. 155 to have a material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109,* which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for fiscal years beginning after December 15, 2006, which is the Company s fiscal year 2007. The Company has not yet evaluated the potential impact of adopting FIN 48 on its consolidated financial statements.

2. Inamed Acquisition

On March 23, 2006, the Company completed the acquisition of Inamed Corporation (Inamed), a global healthcare company that develops, manufactures, and markets a diverse line of products, including breast implants, a range of dermal products to correct facial wrinkles and products for the treatment of obesity.

The Inamed acquisition was completed pursuant to an agreement and plan of merger, dated as of December 20, 2005, and subsequently amended as of March 11, 2006, by and among the Company, its wholly-owned subsidiary Banner Acquisition, Inc., and Inamed and an exchange offer made by Banner Acquisition to acquire Inamed shares for either $84.00 in cash or 0.8498 of a share of the Company s common stock, subject to proration so that 45% of the aggregate Inamed shares tendered were exchanged for cash and 55% of the aggregate Inamed shares tendered were exchanged for shares of the Company s common stock. In the exchange offer the Company paid approximately $1.31 billion in cash and issued 16,194,051 shares of common stock through Banner Acquisition, acquiring approximately 93.86% of Inamed s outstanding common stock. Following the exchange offer, the remaining outstanding shares of Inamed common stock were acquired for approximately $81.7 million in cash and 1,010,576 shares of Allergan common stock through the merger of Banner Acquisition with and into Inamed in a merger in which Inamed survived as Allergan s wholly-owned subsidiary. As a final step in the plan of reorganization, the Company merged Inamed into Inamed, LLC, a wholly-owned subsidiary of the Company. The consideration paid in the merger does not include shares of the Company s common stock and cash that were paid to former Inamed option holders for outstanding options to purchase shares of Inamed common stock, which were cancelled in the merger and converted into the right to receive an amount of cash equal to 45% of the in the money value of the option and a number of shares of the Company s common stock with a value equal to 55% of the in the money value of the option. Subsequent to the merger, the Company issued 237,066 shares of common stock and paid $17.9 million in cash to satisfy its obligation to the option holders. The fair value of these shares of Company common stock and cash paid to option holders of Inamed common stock were included in the calculation of the purchase price detailed below.

The following table summarizes the components of the Inamed purchase price:

	(in millions)
Fair value of Allergan shares issued	$1,859.3
Cash consideration	1,409.3
Transaction costs	21.7
	$3,290.3

Table of Contents

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

The value of the shares of Company common stock used in determining the purchase price was $106.60 per share, based on the closing price of the Company s common stock on December 20, 2005, the effective date of the merger agreement.

Purchase Price Allocation

The Inamed purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date (March 23, 2006). The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The Company expects that all such goodwill will not be deductible for tax purposes.

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

	(in millions)
Current assets	$ 310.1
Property, plant & equipment	64.7
Identifiable intangible assets	971.9
In-process research and development	579.3
Goodwill	1,787.7
Other non-current assets, primarily deferred tax assets	45.9
Accounts payable and accrued liabilities (a)	(109.2)
Deferred tax liabilities current and non-current	(336.3)
Other non-current liabilities	(23.8)
	$3,290.3

(a) Accounts payable and accrued liabilities include approximately $9.7 million of recognized liabilities related to the involuntary termination and relocation of certain Inamed employees in accordance with the Emerging Issues Task Force (EITF) in EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (EITF 95-3).

The Company s fair value estimates for the purchase price allocation may change during the allowable allocation period, which is up to one year from the acquisition date, if additional information becomes available.

In-process Research and Development

In conjunction with the Inamed acquisition, the Company recorded a charge to in-process research and development expense of $579.3 million for acquired in-process research and development assets that the Company determined were not yet complete and had no alternative future uses in their current state. In the second quarter of 2006, the Company adjusted its estimate of the value of acquired in-process research and development expense by $16.5 million from the original estimate of $562.8 million recorded in the first quarter of 2006. These assets are composed of Inamed s silicone breast implant technology for use in the United States, Inamed s Juvéderm dermal filler technology for use in the United States, and Inamed s BioEnterics Intragastric Balloon (BIB®) technology for use in the United States, which were all subject to approval by the FDA in the United States on the Inamed acquisition date.

The estimated fair value of the in-process research and development assets was determined based on the use of a discounted cash flow model using an income approach for the acquired technologies. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding the successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates ranging from 12% to 15%. Material net cash inflows were estimated to begin in 2006 for the silicone breast implants and Juvéderm and in 2008 for the BIB® system. Gross margin and expense levels were estimated to be consistent with Inamed s historical results.

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

The major risks and uncertainties associated with the timely and successful completion of the acquired in-process projects consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. The major risks and uncertainties associated with the core technology consist of the Company s ability to successfully utilize the technology in future research projects. No assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of the projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from estimated results.

Identifiable Intangible Assets

Acquired identifiable intangible assets include product rights for approved indications of currently marketed products, customer relationships, trademarks and core technology for saline-filled and silicone-filled breast implants, dermal fillers, and obesity intervention products. The amounts assigned to each class of intangible assets and the related weighted average amortization periods are summarized in the following table:

	Value of intangible assets acquired (in millions)	Weighted-average amortization period
Developed technology	$ 796.4	15.4 years
Core technology	113.3	16.0 years
Customer relationships	42.3	3.1 years
Trademarks	19.9	5.0 years
Total	$ 971.9	

Pro Forma Results of Operations

Unaudited *pro forma* operating results for the Company, assuming the acquisition of Inamed occurred January 1, 2006 and 2005 and excluding any *pro forma* charge for in-process research and development costs, inventory fair value adjustments and Inamed share-based compensation expense in 2006 and transaction costs are as follows:

(in millions, except per share amounts)	Three months ended June 30, 2006	Three months ended June 24, 2005	Six months ended June 30, 2006	Six months ended June 24, 2005
	(in millions, except per share amounts)			
Product net sales	$787.0	$705.6	$1,501.6	$1,338.1
Total revenues	$801.7	$709.2	$1,526.8	$1,344.6
Net earnings	$108.0	$ 32.1	$ 211.3	$ 102.8
Basic earnings per share	$ 0.72	$ 0.22	$ 1.40	$ 0.69
Diluted earnings per share	$ 0.71	$ 0.21	$ 1.37	$ 0.69

The *pro forma* information is not necessarily indicative of the actual results that would have been achieved had the acquisition occurred as of January 1, 2006 and 2005, or the results that may be achieved in the future.

3. Restructuring Charges, Integration Costs and Transition/Duplicate Operating Expenses

Restructuring and Integration of Inamed Operations

In connection with the March 2006 Inamed acquisition, the Company initiated a global restructuring and integration plan to merge Inamed s operations with the Company s operations and to capture synergies through the centralization of certain general and administrative and commercial functions. Specifically, the restructuring and integration activities involve eliminating certain general and administrative positions, moving key commercial Inamed functions to the Company s locations around the world, integrating Inamed s distributor operations with the Company s existing distribution network and integrating Inamed s information systems with the Company s information systems.

Table of Contents

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

The Company has incurred, and anticipates that it will continue to incur, restructuring charges and charges relating to severance, relocation and one-time termination benefits, payments to public employment and training programs, integration and transition costs, and contract termination costs in connection with the Inamed restructuring. The Company currently estimates that the total pre-tax charges resulting from the restructuring, including integration and transition costs, will be between $63.0 million and $78.0 million, all of which are expected to be cash expenditures. In addition to the pre-tax charges, the Company expects to incur capital expenditures of approximately $20.0 million to $25.0 million, primarily related to the integration of information systems.

The foregoing estimates are based on assumptions relating to, among other things, a reduction of approximately 53 positions, principally general and administrative positions at Inamed locations. These workforce reduction activities began in the second quarter of 2006 and are expected to be substantially completed by the close of the fourth quarter of 20 of members to be determined from time to time by the Board. The members shall be designated by the Board of Directors, and all members of the Committee shall be independent pursuant to Rule 4200(a)(15) of The Nasdaq Stock Market Rules (except as permitted by Rule 4350(c)(3)(C)), or the applicable rule governing director independence of such other national market system or exchange on which the Company's stock may be traded from time to time, or any successor rules. All of the members shall also be "non-employee" directors as defined by Rule 16b-3 under the Securities Exchange Act of 1934 and a majority of the members shall be "outside directors" as defined by Section 162(m) of the Internal Revenue Code. If any members are not "outside directors" as defined by Section 162(m) of the Internal Revenue Code, such member(s) shall recuse themselves from participating in discussion regarding, or voting on, matters that require the approval of "outside directors" under Section 162(m) of the Internal Revenue Code. III. MEETINGS The Committee shall meet at least four (4) times annually, or more frequently as the Committee may from time to time determine may be appropriate. Unless the Board has previously designated the Chair, the members of the Committee shall designate a Chair by majority vote. Two or more committee members shall constitute a quorum. Teleconferences may also be held at such other times as shall be reasonably requested by the Chair of the Board, Chair of the Committee, independent auditor, or the Company's financial management. At the invitation of the Committee Chair, the meetings will be attended by the Chair of the Board, Chief Executive Officer, representatives from any compensation consultant retained by the Company, and/or other persons as are appropriate to matters under consideration. IV. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE The duties and responsibilities of the Committee shall include the following: 1. Assist management and the Board of Directors in defining an executive composition policy that (a) supports overall business strategy and objectives; (b) attracts and retains key executives; (c) links compensation with business objectives and organization performance in good and bad times; and (d) provides competitive compensation opportunities. 2. Determine the total compensation package, including salaries, bonuses, stock options, benefits and other compensation arrangements, for the Chief Executive Officer and other executive officers of the Company. The Chief Executive Officer may not be present at Committee meetings during discussions of Chief Executive Officer compensation. B-1 3. Exercise all authority of the Board of Directors under, and administer in accordance with the terms of, each of the Company's equity-based compensation plans or profit sharing plans, including, without limitation, the 1994 Stock Option Plan, 2002 Stock Incentive Plan, 2002 Non-Employee Directors' Stock Plan and any Employee Stock Purchase Plan (each, as amended and/or restated from time to time, the "Plans"). Such authority shall include, without limitation, such activities as: * participating in the establishment of option guidelines and general size of overall grants; * selecting participants in the Plans; * interpreting the Plans; * making grants and awards under the Plans; * determining rules, regulations and guidelines relating to the Plans as the Committee may deem necessary or proper; and * modifying existing or canceling existing grants and submitting new ones (with the consent of the grantees); and * carrying out other duties not inconsistent with the Plans or this Charter. 4. Approve new incentive plans. 5. Approve changes to the outside directors' compensation program in respect of competitiveness and plan design. 6. Approve major benefit programs of the Company. 7. Oversee performance evaluations of the Company's executive officers and issues regarding management succession. 8. Prepare the Compensation Committee report required to be included in the Company's annual proxy statement. 9. The Committee shall have the authority to engage independent advisors, including compensation consultants, at Company expense as the Committee may determine necessary in carrying out its responsibilities hereunder. 10. Review this Charter on an annual basis and make recommendations to the Board of Directors concerning any changes deemed appropriate. 11. Report actions of the Committee periodically to the Board of Directors with such recommendations for action as the Committee deems appropriate. 12. Maintain minutes or other records, either separately or within the minutes of the Board of Directors, of meetings and activities of the Committee. B-2 EXHIBIT C NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER (ADOPTED: MARCH 2004) I. STATEMENT OF PURPOSE The Nominating and Corporate Governance Committee (the "Committee") will assist the Board of Directors (the "Board") of Stereotaxis, Inc. (the "Company") in evaluating potential Director nominees, overseeing the composition and structure of the Board and the committees thereof and developing and implementing the Company's corporate governance standards. II. COMPOSITION OF THE COMMITTEE The Committee shall be comprised of at least three members of the Board of Directors, with the number of members to be determined from time to time by the Board. The members shall be designated by the Board of Directors, and all members of the Committee shall be independent pursuant to Rule 4200(a)(15) of The Nasdaq Stock Market Rules (except as permitted by Rule 4350(c)(4)(C)), or the applicable rule governing director independence of such other national market system or exchange on which the Company's stock may be traded from time to time, or any successor rules. III. MEETINGS The Committee shall meet at least four (4) times annually, or more frequently as the Committee may from time to time determine may be appropriate. Unless the Board has previously designated the Chair, the members of the Committee shall designate a Chair by majority vote. Two or more committee members shall constitute a quorum. Teleconferences may also be held at such other times as shall be reasonably requested by the Chair of the Board, Chair of the Committee, independent auditor, or the Company's financial management. At the invitation of the Committee Chair, the meetings will be attended by the Chair of the Board, Chief Executive Officer, representatives from any director search firm retained by the Company, and/or other persons as are appropriate to matters under consideration. IV. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE The duties and responsibilities of the Committee shall include the following: 1. Oversee the structure and operations of the Board and suggest to the Board any recommended changes thereto. 2. The Committee shall adopt (i) a policy regarding the Committee's consideration of candidates proposed by shareholders; (ii) a description of the minimum criteria, as well as special skills and qualities, that the Committee believes are necessary for one or more of the Company's Directors to possess; and (iii) a description of the Committee's process for identifying and evaluating Director nominees (including candidates recommended by shareholders). 3. The Committee shall identify, evaluate and recommend to the Board for determination all nominees for Board membership, whether such nominees are for the slate of Director nominees to be proposed to shareholders or nominees to be elected by the Board to fill vacancies on the Board. C-1 4. The Committee identifies potential Director nominees from numerous sources, including, but not limited to, other members of the Board, members of the Company's management, director search firms and the Company's shareholders. 5. Recommend to the Board committee structure and responsibilities, committee appointments, committee chairs and the rotation of chairperson and committee appointments as the Committee may determine to be in the best interests of the Company. 6. Evaluate the effect of any change in the personal or professional status of any Director and request that the Board request the resignation of any such Director if necessary. 7. Develop and recommend to the Board a set of corporate governance guidelines and principals applicable to the Company and review issues that arise in connection with such guidelines and principles. 8. The Committee shall have the authority to engage independent advisors, including director search firms, at Company expense, as the Committee may determine necessary in carrying out its responsibilities hereunder. 9. Review this Charter on an annual basis and make recommendations to the Board of Directors concerning any changes deemed appropriate. 10. Report actions of the Committee periodically to the Board of Directors with such recommendations for action as the Committee deems appropriate. 11. Maintain minutes or other records, either separately or within the minutes of the Board of Directors, of meetings and activities of the Committee. C-2 YOUR VOTE IS IMPORTANT STEREOTAXIS, INC. VOTE BY INTERNET / TELEPHONE 24 HOURS A DAY, 7 DAYS A WEEK INTERNET TELEPHONE MAIL -------- --------- ---- https://www.proxyvotenow.com/stxs 1-866-353-7811 o Go to the website address listed OR o Use any touch-tone telephone. OR o Mark, sign and date your proxy card. above. o HAVE YOUR PROXY CARD READY. o Detach your proxy card. O HAVE YOUR PROXY CARD READY. o Follow the simple recorded o Return your proxy card in the o Follow the simple instructions that instructions. postage-paid envelope provided. appear on your computer screen. ------------------------------- 1-866-353-7811 CALL TOLL-FREE TO

VOTE -------------------------------- / / DETACH PROXY CARD HERE -- PLEASE SIGN, DATE AND RETURN /X/ THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE. VOTES MUST BE INDICATED (X) IN BLACK OR BLUE INK. THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSALS 1 AND 2. 1. To elect three Class I directors to serve until our 2008 annual meeting of stockholders and one Class II director to serve until our 2006 annual meeting of stockholders; FOR WITHHOLD ALL / / FOR ALL / / EXCEPTIONS / / Nominees Class I: 01 Abhi Acharya, 02 David W. Benfer and 03 Gregory R. Johnson Nominee Class II: 04 Robert J. Messey (INSTRUCTIONS: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THAT NOMINEE'S NAME AND CHECK THE "EXCEPTIONS" BOX ABOVE.) FOR AGAINST ABSTAIN / / / / / / 2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2005; and 3. In their discretion, the proxies are authorized to vote upon any other business as may properly come before the meeting. To change your address, please mark this box. / / To include any comments, please mark this box. / / ---------------------------- S C A N L I N E ---------------------------- Please sign exactly as name(s) appear hereon. Joint owners should each sign personally. When signing as executor, administrator, corporation officer, attorney, agent, trustee, guardian or in other representative capacity, please state your full title as such. ---------------------------------- -- Date Share Owner sign here Co-Owner sign here -- STEREOTAXIS, INC SOLICITED BY THE BOARD OF DIRECTORS FOR USE AT THE ANNUAL MEETING OF STOCKHOLDERS OF STEREOTAXIS, INC. - MAY 11, 2005 The undersigned hereby appoints Fred A. Middleton, Bevil J. Hogg and James M. Stolze or any of them, attorneys and proxies, with full power of substitution and revocation in each, for and on behalf of the undersigned, and with all the powers the undersigned would possess if personally present, to vote at the above Annual Meeting to be held at Company's principal offices at 4041 Forest Park Avenue, St. Louis, Missouri 63108 on Wednesday, May 11, 2005, commencing at 9:00 a.m. Central time. This proxy, when properly executed, will be voted as directed by the stockholder. If no direction is given, when the duly executed proxy is returned, the shares represented by this proxy will be voted FOR proposals 1 and 2 and, in the discretion of the proxies, on such other business as may properly come before the meeting. All in accordance with the Company's proxy statement, receipt of which is hereby acknowledged. (Continued, and to be signed and dated, on the reverse side.) STEREOTAXIS, INC. P.O. BOX 11200 NEW YORK, N.Y. 10203-0200 APPENDIX Page 22 of the proxy statement contains a Performance Graph. The information contained within the graph is presented in a tabular format immediately following the graph.