



RESULTS MATTER

 **ALLERGAN**
2013 ANNUAL REPORT

**DOCKET
ALARM**

Find authenticated court documents without watermarks at docketalarm.com.

Allergan is a company that consistently delivers solid results. Financially, we have achieved mid-teens sales growth on a compounded annual basis over the past 15 years, with strong year-over-year earnings growth as well. Commercially, we have benefited from a broad and balanced portfolio of products that are market leaders in several important and growing categories. And scientifically, we continue to deliver on our promising pipeline. These are significant results, and they matter. They demonstrate Allergan's winning formula for achieving consistent growth despite a challenging business and health care environment. They illustrate the value of rooting our success in strong and durable relationships with our customers. And they point to a promising future. Results matter to the many people who have a stake in Allergan – our customers, patients, investors, employees and partners. That is why we will stay focused on delivering strong results: day after day, quarter after quarter, year after year.

Table of Contents

Letter To Our Investors	1	Financial Summary	16
Eye Care	6	Reconciliation of Non-GAAP Adjustments	18
Facial Aesthetics	8	Board of Directors	20
Pipeline	10	Executive Committee	22
Emerging Markets	12	Corporate Overview and Stockholders' Information	24
2013 Accolades	14		

To Our Investors

RESULTS THAT MATTER

In 2013, we were once again able to deliver strong results, in line with our long term aspirations of growing revenues in local currencies in excess of 10% per annum and growing adjusted Earnings per Share around the mid teens. In fact, we reported strong 12.4% revenue growth in local currencies and 11.7% growth in U.S. Dollars. Adjusted non-GAAP Diluted Earnings per Share increased 18.1% in 2013 over 2012, after we continued to invest into the long term drivers of success, namely Research & Development (R&D), where we increased our investment to \$1,034.7 million, an increase of 13.1%, all on a non-GAAP basis.¹ We were encouraged by the acceleration of revenue growth in the second half of the year as the company benefited from many product approvals since 2010 from the U.S. Food & Drug Administration (FDA) and the commensurate regulatory agencies around the world; and furthermore, from a strengthening of many major economies, buoyant market conditions, as well as from market share gains in most of our product categories. In general, we observed weakening competition from the principal players in our markets, as they adjusted to imperatives under new ownership, focused on improving short term financial performance or made cutbacks after losing patent exclusivities. In ophthalmology, Merck & Co, a key competitor for decades, announced their exit by divesting their products in the U.S. to another company.

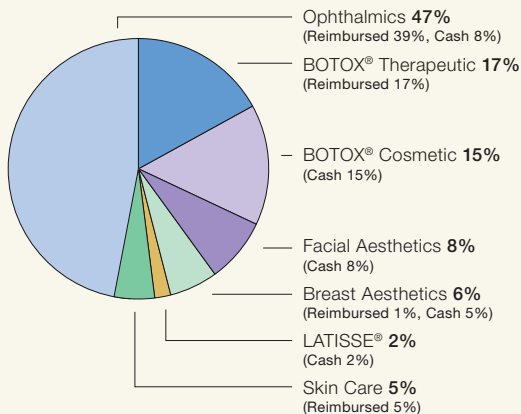
Our operating performance throughout 2013 was strong. In fact, this performance got progressively stronger during the year driven by a broad array of products across virtually all of our regions. We reported a record adjusted non-GAAP gross margin at 87.3%, an increase of 80 basis points from 2012, as we benefited from decreased royalty payments to third parties and a decrease in the manufacturing cost of goods by 0.3%, as a percentage of product net sales. In fact, as a testament to our long term investment in R&D and the creation of intellectual property, for the first time in 2013 our royalty payments were exceeded by royalties received, principally from Senju and GlaxoSmithKline in Japan and from Alcon regarding our out-license of certain brimonidine glaucoma technology. Reduction in cost of goods was the result of leveraging the small number of highly capitalized pharmaceutical and medical plants in our global network with rising volumes, high capacity utilization and targeted investments in automation and efficiency. In addition, we generated a record of just over \$1.5 billion in free cash flow, which has provided us considerable balance sheet strength for making potential acquisitions and in-licensing technology to further drive the prospects for long term growth of the company. In the last 15 months we acquired SkinMedica for approximately \$350 million and MAP Pharmaceuticals (MAP) for approximately \$870 million. The SkinMedica acquisition brought us the leading position in the fast growing U.S. physician dispensed category² and an ability to expand our already very broad offering of medical aesthetics products; the MAP acquisition brought us LEVADEX[®], a self-administered breath activated orally inhaled dihydroergotamine product, currently under review by the FDA, for the acute treatment of migraine. This is a complementary product to BOTOX[®] (onabotulinumtoxinA) for chronic migraine. Whilst the product indications are distinct, there is a considerable overlap in the physician groups treating migraine patients. Given the pressures facing the worldwide pharmaceutical and medical device industries, we are pleased with the earnings results achieved after absorbing considerable mandated taxes and fees. As our contribution to the costs of healthcare reform in the U.S., Allergan paid approximately \$130 million to the U.S. Government in terms of increased rebates, fees and taxes including the Medical Device tax, an increase of approximately \$30 million from 2012.

¹ The adjusted amounts represent certain non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to GAAP financial measures, please refer to pages 18 and 19 of this Annual Report.
² Physician-Dispensed Topicals: Ongoing Product Innovation, Medical Insight, Inc., July 2013

Worldwide Sales – Broad and Balanced Portfolio

FY 2013 – \$6.2 Billion¹ (+12%)^{*}

~62% Reimbursed vs. ~38% Cash Pay

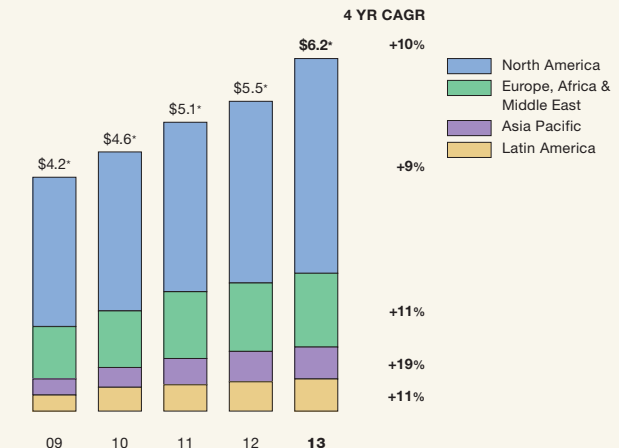


¹ Excludes Obesity Intervention product net sales
^{*} Growth in Local Currency

Global Reach

Balanced Revenue Growth Across All Operating Regions

(in billions of dollars)



^{*} Excludes Obesity Intervention product net sales in all periods



SOME CHALLENGES IN 2013

Of course, the year was not without some challenges. As a company focused on delivering long term revenue growth, we regularly and objectively review where we should focus our financial and managerial resources. In spite of the clear need to address obesity worldwide, sales of our obesity intervention products were recently in decline, principally due to patients experiencing barriers to access in terms of coverage by their healthcare plans, to patient co-pays and, in addition, to recent surgeon adoption of an alternative bariatric procedure. Having declared the LAP-BAND® System and ORBERA® gastric balloon, the latter sold outside the United States, as a discontinued business in early 2013, we were pleased that we were able to divest this product line in December to Apollo Endosurgery. This divestiture will enable us to concentrate our management resources on the many growth products in our businesses. Strategically, we have no interest in maintaining product lines with declining sales growth in our portfolio.

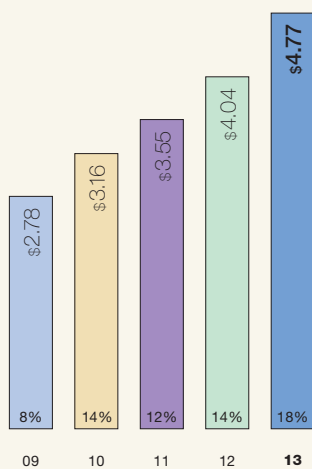
Although we have been highly successful in securing product approvals, with no less than 11 such FDA approvals since the beginning of 2010, the R&D process in pharmaceuticals and medical devices abounds with technical and scientific challenges. We experienced some of these, resulting in delays in 2013. Regarding LEVADEX®, which we had acquired from MAP, we received input from the FDA regarding the manufacturing process and required additional data from additional production lots. In order to fully satisfy the FDA's demands and to control quality standards, we acquired MAP's third-party canister filling supplier in early 2013. Our response to the FDA's complete response letter was filed in December 2013 and we expect to receive FDA approval for the product in the second quarter of 2014.

Subsequent to our in-license of *DARPin*® technology, for the treatment of macular degeneration, from Molecular Partners in Zurich in 2012, we conducted our initial clinical trial that could have provided data to allow us to advance directly into phase 3 trials, demonstrate longer duration compared to existing products, and allow us to decrease overall development time. Unfortunately, we did not have the results to support going directly into phase 3 and decided to adopt a new clinical protocol that is similar to those used by earlier competitive products, which has led to a one to two year delay in the program. We remain excited, however, by the promise of this technology to bring a differentiated, superior product to market to lessen the burden of this disease for patients.

Regarding bimatoprost scalp, the same active pharmaceutical ingredient (API) in LATISSE® (bimatoprost ophthalmic solution) 0.03%, approved for the growth of eyelashes, the results of our phase 2 trial for male and female scalp hair loss were insufficient to proceed to phase 3. As the formulation was well tolerated, a decision was made to conduct an additional phase 2 trial with a higher concentration of API from the previous phase 2. Male patients with androgenic alopecia have been enrolling in this trial, and we expect the trial to complete by mid-year 2015.

Finally, investors experienced some concerns regarding Allergan's ability to defend its patents regarding RESTASIS® (cyclosporine ophthalmic emulsion) 0.05% for therapeutic chronic dry eye and LUMIGAN® 0.01% for glaucoma. In early 2014, a U.S. District Court in Texas ruled that all five of the LUMIGAN® 0.01% patents in suit are valid and infringed, and enjoined the generics from launching their products until the patents expire, the last of which expires in 2027. Several generic companies have filed appeals to the U.S. Court of Appeals but would need to convince the Court to invalidate or find non-infringement of all five patents to be successful. Regarding RESTASIS®, we believe it will remain the only product approved by FDA and several regulatory agencies abroad for therapeutic chronic dry eye for some length of time. The clinical requirements were onerous for Allergan and we too did not receive approval upon our first

Mid Teens EPS Growth Aspiration
Non-GAAP Diluted Earnings Per Share¹



Ability to Leverage SG&A
Non-GAAP SG&A as a Percentage of Sales¹



¹ The adjusted amounts represent certain non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to GAAP financial measures, please refer to pages 18 and 19 of this Annual Report. 2009 and 2010 include the obesity intervention business.



David E.I. Pyott, CBE, Chairman of the Board & Chief Executive Officer

submission to FDA. Several other programs from other companies have suffered similar issues. Given the value of RESTASIS[®] with sales approaching \$1 billion in the U.S. alone, it is not so surprising that the Office of Generic Drugs at FDA issued a draft guidance for public comment on how generic companies could present a clinical package to secure approval for a generic of RESTASIS[®]. Given earlier comments by officials both in the Review Division, the group responsible for approving new drugs, as well as by others in the Generics Division, it was however surprising that this Draft Guidance established a pathway based solely on in vitro assays. In addition to Allergan, 22 medical societies, patient groups and consumer groups submitted comments, all raising concerns about public health and safety if generics were to be approved of our complex “oil in water” emulsion formulation. Given the key importance of our formulation, method of use and manufacturing process in ophthalmic pharmaceuticals, Allergan was able to secure four new patents, originally filed in the early 2000’s at the U.S. Patent Office, and listed in the Orange Book in January and February 2014. We have also filed a Citizen’s Petition with the Generics Division of the FDA. All of this provides us several legal avenues to vigorously defend RESTASIS[®]. Whilst Watson Pharmaceuticals (Actavis) notified us that they submitted a generic RESTASIS[®] filing with FDA, they also admitted the agency refused to receive that submission for filing. The status of any generic filings is currently unclear but the situation may become more clear by the middle of 2014, and we are confident that we have taken all of the appropriate steps to protect our therapeutic dry eye franchise.

POWER AND SUSTAINABILITY OF GROWING MARKETS

Notwithstanding these challenges, Allergan remains in an extremely strong and enviable position. We are the No. 1 or No. 2 player in each of our therapeutic areas with our markets enjoying strong growth and continuing growth potential³ as we address the therapeutic needs of an aging world population that, aesthetically, would also like to maintain a youthful appearance. These market positions, combined with our presence in all continents of the world and considerable investment in R&D, makes us an ideal partner or natural purchaser for companies with technology assets in our fields. Our long term track record has demonstrated our ability to not only invent products internally, but also to shepherd externally acquired technologies through the processes of clinical development, approval by regulatory agencies and to successful reimbursement and adoption in the marketplace.

BALANCED GROWTH ACROSS SPECIALTIES AND GEOGRAPHIES

A strong company built to last demonstrates strong growth across countries as well as product lines, and this was the case for Allergan in 2013. Most of our operating regions, namely North America pharmaceuticals; the U.S. Medical Aesthetics business unit;

³ Mixture of public information (earnings releases, earnings calls, 10Ks, 10Qs), AGN internal data, syndicated marketing research reports, analyst reports, Internet searches, competitive intelligence, market trackers, etc. for U.S. Dollar sales at actual rates for four quarters ending September 2013.

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.