

ALLERGAN INC  
Form 424B3  
January 21, 2003

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As filed pursuant to Rule 424(b)(3)  
Registration No: 333-102425

**PROSPECTUS**

**Allergan, Inc.**

\$641,510,000

**ZERO COUPON CONVERTIBLE SENIOR NOTES DUE 2022  
SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES**

On November 6, 2002, we issued the Zero Coupon Convertible Senior Notes Due 2022 in a private placement at an issue price of \$779.41 per note (77.941% of the principal amount at maturity). Selling securityholders will use this prospectus to resell their notes and the shares of common stock issuable upon conversion of their notes.

Except under circumstances described below, we will not pay cash interest on the notes prior to maturity. Instead, on November 6, 2022, the maturity date of the notes, noteholders will receive \$1,000 for each \$1,000 principal amount at maturity of the notes. The issue price per note of \$779.41 per \$1,000 principal amount at maturity represents a yield to maturity of 1.25% per year calculated from November 6, 2002. If certain tax-related events occur and we so elect, the notes will cease to accrete original issue discount, and cash interest will accrue at a rate of 1.25% per annum on the restated principal amount and be payable semi-annually.

Holder may convert their notes at any time on or before the maturity date initially into 11.410 shares of our common stock for each \$1,000 principal amount at maturity of the notes if: (1) the price of our common stock issuable upon conversion of a note reaches specified thresholds, (2) certain credit ratings of the notes are reduced to below specified thresholds, (3) we call the notes for redemption or (4) specified corporate transactions have occurred. The conversion rate will be subject to adjustment for certain events, but not for increases in accreted value. Upon conversion, we may choose to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock.

We may not redeem the notes before November 6, 2005, and prior to November 6, 2007, we may redeem all or a portion of the notes for cash in an amount equal to their accreted value, only if the price for our common stock reaches certain thresholds for a specified period of time. We may, at any time on or after November 6, 2007, redeem all or a portion of the notes for cash in an amount equal to their accreted value. Holders may require us to purchase the notes on the following dates at the following prices: November 6, 2007, at \$829.51; November 6, 2012, at \$882.84; and November 6, 2017, at \$939.60. Any notes purchased on November 6, 2007 will be paid for in cash. For the November 6, 2012 and November 6, 2017 purchase dates, we may choose to pay the purchase price in cash, in shares of our common stock valued at their market price during a specified period, or in a combination of cash and our common stock. If we experience specified types of fundamental changes before November 6, 2007, holders may require us to purchase the notes for cash in an amount equal to the accreted value of the notes. The notes will be unsecured and will rank equally with our other unsecured senior indebtedness.

Prior to this offering, the notes have been eligible for trading in the Private Offerings, Resales and Trading through Automatic Linkages Market, commonly referred to as the Portal Market. Notes sold by means of this prospectus are not expected to remain eligible for trading in the Portal Market but are expected to be traded over the counter. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq Stock Market.

Our common stock trades on the New York Stock Exchange under the symbol AGN. The last reported sales price on January 6, 2003 was \$58.03 per share.

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We will not receive any proceeds from the sale by the selling securityholders of the notes or the common stock issuable upon conversion of the notes. The selling securityholders may offer the notes or the underlying common stock, in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, the common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. The selling securityholders may be deemed to be underwriters as defined in the Securities Act of 1933. If any broker-dealers are used by the selling securityholders, any commissions paid to broker-dealers and, if broker-dealers purchase any notes or common stock as principals, any profits received by such broker-dealers on the resale of the notes as common stock, may be deemed to be underwriting discounts or commissions under the Securities Act of 1933. In addition, any profits realized by the selling securityholders may be deemed to be underwriting commissions. Other than selling commissions and fees and stock transfer taxes, we will pay all expenses of the registration of the notes and the common stock and certain other expenses as set forth in the registration rights agreement.

**Investing in the notes and the common stock issuable upon conversion of the notes involves a high degree of risk. Please consider the Risk Factors beginning on page 7 of this prospectus.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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The date of this prospectus is January 21, 2003

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration or continuous offering process. Under this shelf registration process, selling security holders may from time to time sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities that the selling holders may offer. A selling holder may be required to provide you with a prospectus supplement containing specific information about the selling holder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. A prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading **Where You Can Find More Information About Us and this Offering**.

In this prospectus and any prospectus supplement, unless otherwise indicated, the terms **we**, **us**, **our** and **Allergan** refer to Allergan, Inc., a Delaware corporation, and its consolidated subsidiaries.

**We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. This prospectus and any accompanying supplement to this prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and any accompanying supplement to this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information contained in this prospectus and any supplement to this prospectus is accurate as of the dates on their covers. When we deliver this prospectus or a supplement or make a sale pursuant to this prospectus or a supplement, we are not implying that the information is current as of the date of the delivery or sale.**

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**WHERE YOU CAN FIND MORE INFORMATION ABOUT US AND THIS OFFERING**

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect and copy these reports, proxy statements and other information at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You can also obtain copies of these materials from the Securities and Exchange Commission at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference facility and copying charges. The Securities and Exchange Commission also maintains a web site that contains reports, proxy and information statements and other information regarding issuers, such as Allergan, that file electronically with the Securities and Exchange Commission (<http://www.sec.gov>). You can also inspect reports and other information about us at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

This prospectus incorporates by reference certain information that we have filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934. This means we are disclosing important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and the information that we file later with the Securities and Exchange Commission will automatically update and supersede the information contained in this prospectus. We incorporate by reference the following documents we filed with the Securities and Exchange Commission pursuant to Section 13 of the Securities Exchange Act of 1934:

Annual Report on Form 10-K for the fiscal year ended December 31, 2001;

The Proxy Statement for our 2002 Annual Meeting of Stockholders as filed on Schedule 14A on March 15, 2002;

Quarterly Reports on Form 10-Q for the quarters ended March 29, 2002, June 28, 2002 and September 27, 2002;

Current Reports on Form 8-K filed on November 18, 2002 and December 18, 2002;

The description of our common stock contained in our Registration Statement on Form 8-A dated June 12, 1989, including any amendment or report filed for the purpose of updating such description; and

The description of our Preferred Share Purchase Rights contained in our Registration Statement on Form 8-A dated February 1, 2000, including any amendment or report filed for the purpose of updating such description.

Also incorporated by reference into this prospectus are all documents that we may file with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before the selling securityholders stop offering the securities described in this prospectus. These documents include periodic reports, such as annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy statements. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. You may request a copy of any of these documents and of the indenture, notes and registration rights agreement at no cost by writing us at the following address or calling us at the following phone number:

Investor Relations  
Allergan, Inc.  
2525 Dupont Drive  
Irvine, California 92612-1599  
(714) 246-4500

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Statements made in this prospectus and the information incorporated by reference into this prospectus that are not historical factual statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this section for purposes of complying with those safe harbor provisions. The forward-looking statements include, among other things, statements regarding the intent, belief or expectations of Allergan and its officers and can be identified by the use of terminology such as may, will, expect, believe, intend, plan, estimate, should and other comparable terms or the negative thereof. In addition, we, through our senior management, from time to time make forward-looking oral and written public statements concerning our expected future operations and other developments. You are cautioned that, while forward-looking statements reflect our good faith belief and best judgment based upon current information, they are not guarantees of future performance and are subject to known and unknown risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from expectations, and we disclaim any intention or obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements, whether made in this prospectus or elsewhere, should be considered in context with the risk factors discussed or incorporated by reference in this prospectus and the various disclosures made by us about our businesses in our various public reports incorporated herein by reference.

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**SUMMARY**

*This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus. It does not contain all of the information that is necessary for you to understand this offering or the terms of the notes and the shares of our common stock issuable upon conversion of the notes. You should read carefully this entire prospectus and the documents incorporated by reference herein, including our consolidated financial statements and the related notes thereto.*

**Allergan**

We are a global specialty pharmaceutical company that develops and commercializes products for the eye care, neuromodulator, skin care and other specialty markets. In addition to our discovery-to-development research programs, we have global marketing and sales capabilities in over 100 countries.

Our executive offices are located at 2525 Dupont Drive, Irvine, California 92612, and our telephone number at that address is (714) 246-4500. Our website address is <http://www.allergan.com>. Information on our website does not constitute part of this prospectus.

**Recent Developments**

*Spin-off Transaction*

On June 29, 2002, we completed the spin-off of our subsidiary Advanced Medical Optics, Inc. Prior to the spin-off, we operated two distinct businesses: the specialty pharmaceuticals business and the optical medical device business. The specialty pharmaceuticals business, which we retained following the spin-off, is composed of three product lines: the eye care pharmaceuticals product line, which develops, manufactures and markets prescription and non-prescription products designed to treat disorders of the eye; the skin care product line, which primarily develops, manufactures and markets products designed to treat plaque psoriasis and acne and alpha hydroxy acid products for cosmetic use; and the Botox® purified neurotoxin complex, which is designed to treat disorders characterized by involuntary muscle movements or spasms as well as specific cosmetic applications. The optical medical device business, which is now owned by Advanced Medical Optics, consisted of two businesses: the ophthalmic surgical products business, which developed, manufactured and marketed products that included artificial lenses for the eye, called intraocular lenses, and equipment for cataract and refractive eye surgery; and the contact lens care products business, which developed, manufactured and marketed a broad range of products for use with every available type of contact lens. The spin-off is described more completely in Advanced Medical Optics Form 10 Registration Statement dated May 24, 2002 that has been filed with the Securities and Exchange Commission.



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**The Offering**

Notes Offered	<p>\$641,510,000 principal amount at maturity of Zero Coupon Convertible Senior Notes Due 2022. We will not pay cash interest on the notes prior to maturity, other than as described below under</p> <p style="padding-left: 40px;">Optional Conversion to Semi-Annual Cash Pay Notes upon Tax Event. Each note was issued at a price of \$779.41 and a principal amount at maturity of \$1,000.</p>
Maturity	November 6, 2022.
Yield to Maturity of Notes	1.25% per year (computed on a semi-annual bond equivalent basis) calculated from November 6, 2022.
Conversion Rights	<p>Holder may convert their notes at any time prior to the close of business on November 6, 2022, if:</p> <p style="padding-left: 40px;">the average per share sale price of our common stock reaches specified thresholds;</p> <p style="padding-left: 40px;">Moody's Investors Service, Inc. reduces the credit rating assigned to the notes below Baa3 or Standard &amp; Poor's Ratings Group reduces the credit rating assigned to the notes below BBB-, or the notes are no longer rated by these ratings services;</p> <p style="padding-left: 40px;">we call the notes for redemption;</p> <p style="padding-left: 40px;">we make specified distributions to our stockholders; or</p> <p style="padding-left: 40px;">we become a party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property.</p> <p>For each note of \$1,000 principal amount at maturity converted, we will deliver 11.410 shares of our common stock. Your right to surrender notes for conversion will expire at the close of business on November 6, 2022. The conversion rate may be adjusted under certain circumstances, but will not be adjusted for increases in accreted value. Upon conversion, we may choose to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock.</p>
Ranking	<p>These notes are our general obligations and will not be secured by any collateral. Your right to payment under these notes will be:</p> <p style="padding-left: 40px;">junior to the rights of our secured creditors to the extent of their security in our assets;</p> <p style="padding-left: 40px;">equal with the rights of creditors under our other unsecured unsubordinated debt, including our revolving credit facilities;</p> <p style="padding-left: 40px;">senior to the rights of creditors under debt expressly subordinated to these notes; and</p> <p style="padding-left: 40px;">effectively subordinated to creditors of our subsidiaries.</p>
Original Issue Discount	We issued the notes at an original issue discount for United States federal income tax purposes equal to the principal amount at

maturity of each note

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less the issue price to investors. You should be aware that, although we will not pay interest on the notes, U.S. investors must include accrued original issue discount in their gross income for United States federal income tax purposes prior to the conversion, redemption, sale or maturity of the notes (even if such notes are ultimately not converted, redeemed, sold or paid at maturity). See United States Federal Income Tax Considerations Original Issue Discount.

Sinking Fund

None.

Optional Redemption

We may not redeem the notes before November 6, 2005, and prior to November 6, 2007, we may redeem all or a portion of the notes for cash in an amount equal to their accreted value only if the price for our common stock reaches certain thresholds for a specified period of time. We may, at any time on or after November 6, 2007, redeem all or a portion of the notes for cash in an amount equal to their accreted value. Indicative redemption conditions and prices are set forth in this prospectus on pages 17 and 18.

Purchase of the Notes by Us at the Option of the Holder

Holder may require us to purchase their notes on any one of the following dates at the following prices:

\$829.51 per note on November 6, 2007;

\$882.84 per note on November 6, 2012; and

\$939.60 per note on November 6, 2017.

Any notes purchased by us on November 6, 2007 will be paid for in cash. For the November 6, 2012 and November 6, 2017 purchase dates, we may choose to pay the purchase price in cash or shares of our common stock valued at their market price during a specified period of time, or in a combination of cash and shares of our common stock.

Optional Conversion to Semi-Annual Cash Pay Notes upon a Tax Event

From and after the occurrence of a Tax Event, as defined in this prospectus, at our option, the notes will cease to accrete, and cash interest will accrue on each note from the later of the date of the Tax Event and the date we exercise such option at the rate of 1.25% per year on the restated principal amount (i.e., the accreted value of the note on the later of the date of the Tax Event and the date we exercise such option) and shall be payable semi-annually on the interest payment dates of May 6 and November 6 of each year to holders of record at the close of business on each regular record date immediately preceding such interest payment date. Interest will be computed upon a 360-day year comprised of twelve 30-day months and will initially accrue from the option exercise date, as defined in this prospectus, and thereafter from the last date to which interest has been paid. In such event, the redemption prices, purchase prices and fundamental changes, as defined in this prospectus, will be adjusted as described in this prospectus. However, there will be no changes in a holder's conversion rights.

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Fundamental Change

Upon a fundamental change involving us that occurs before November 6, 2007, each holder may require us to purchase for cash all or a portion of such holder's notes. The purchase price will be equal to the accreted value of the notes on the date of purchase.

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Use of Proceeds	We will not receive any proceeds from the sale by any selling securityholder of the notes or the underlying common stock.
Global Securities	The notes have been issued only in book-entry form, which means that they are represented by one or more permanent global securities registered in the name of The Depository Trust Company, or DTC. The global securities have been deposited with the trustee as custodian for DTC.
Trading	Our common stock is listed on the New York Stock Exchange under the symbol AGN. Prior to this offering, the notes have been eligible for trading in the Private Offerings, Resales and Trading through Automatic Linkages Market, commonly referred to as the Portal Market. Notes sold by means of this prospectus are not expected to remain eligible for trading in the Portal Market but are expected to be traded over the counter. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq Stock Market.

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**RISK FACTORS**

*An investment in the securities offered by this prospectus involves a high degree of risk. You should carefully consider the following factors and other information included or incorporated by reference in this prospectus before deciding to purchase the notes. These risks and uncertainties are not the only ones we face. Others that we do not know about now, or that we do not now think are important, may impair our business or the trading price of our notes.*

**Risks Related to Our Business**

*We operate in a highly competitive business.*

The pharmaceutical industry is highly competitive. This competitive environment requires an ongoing, extensive search for technological innovation. It also requires an ability to market products effectively, including the ability to communicate the effectiveness, safety and value of products to actual and prospective customers. Our competitors often have greater resources than us. This enables them, among other things, to spread their research and development costs over a broader revenue base. In addition to product development, other competitive factors in the pharmaceutical industry include industry consolidation, product quality and price, reputation, service and access to technical information. It is possible that developments by our competitors could make our products or technologies noncompetitive or obsolete. In addition, competition from manufacturers of generic drugs is a major challenge in the United States and is growing internationally.

Prior to December 2000, we were the only manufacturer of a neuromodulator approved by the U.S. Food and Drug Administration, Botox®. Another company has now received FDA approval of a neuromodulator. Our sales of Botox® could be materially and negatively impacted by this competition or competition from other companies that might obtain FDA approval to market a neuromodulator.

In April 2002 the FDA approved Botox® Cosmetic for the temporary improvement in the appearance of moderate to severe glabellar lines in adult men and women age 65 or younger. Botox® Cosmetic is a consumer product. If we fail to anticipate, identify or to react to competitive products or if changing preferences of consumers in the cosmetic marketplace shift to other treatments for the temporary improvement in the appearance of moderate to severe glabellar lines, we may experience a decline in demand for Botox® Cosmetic. We cannot assure you that consumers will continue to prefer Botox® Cosmetic over other treatment options, or that we can or will respond in a timely manner to changes in consumer preferences.

*We could experience difficulties creating bulk toxin needed to produce Botox® purified neurotoxin complex.*

The manufacturing process to create bulk toxin raw material necessary to produce Botox® is technically complex and requires significant lead time. Any failure by us to forecast demand for, or maintain an adequate supply of, bulk toxin and finished product could result in an interruption in the supply of Botox® and a resulting decrease in sales of the product.

*We may experience losses due to product liability claims, product recalls or corrections.*

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims by consumers and other third parties. We have in the past been, and continue to be, subject to various product liability claims. In addition, we have in the past and may in the future recall or issue field corrections related to our products due to manufacturing deficiencies, labeling errors or other safety or regulatory reasons. We cannot assure you that we will not experience material losses due to product liability claims, product recalls or corrections.

*Health care initiatives and other cost-containment pressures could cause us to sell our products at lower prices, resulting in less revenues to us.*

Some of our products are purchased or reimbursed by state and federal government authorities, private health insurers and other organizations, such as health maintenance organizations, or HMOs, and managed care organizations, or MCOs. Third party payors increasingly challenge pharmaceutical product pricing. The trend toward managed healthcare in the United States, the growth of organizations such as HMOs and MCOs, and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and/or a reduction in demand. Such cost containment measures and healthcare reform could affect our ability to sell our products. Furthermore, individual states have become increasingly aggressive in passing legislation and regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on access to certain products, importation from other countries and bulk



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purchasing. If these measures become law, and if these measures impose price controls or otherwise negatively impact our prices, our revenues and financial condition could be materially and adversely affected. We encounter similar regulatory and legislative issues in most other countries outside the United States.

*We are subject to risks arising from currency exchange rate and interest rate fluctuations, which could increase our costs and may cause our profitability to decline.*

We collect and pay a substantial portion of our sales and expenditures in currencies other than the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates affect our operating results. In addition, our interest-bearing investments, loans and borrowings are subject to interest rate change risk. We cannot assure you that future exchange and interest rate movements, inflation or other related factors will not have a material adverse effect on the our sales, gross profit or operating expenses.

*We are subject to risks associated with doing business internationally.*

Our business is subject to other risks generally associated with doing business internationally, including political unrest and changing economic conditions in countries where our products are sold or manufactured. Our management cannot assure you that it can successfully manage these risks or avoid their effects.

*If we are unable to obtain and maintain adequate patent protection for the technologies incorporated into our products, our business and results of operations could suffer.*

Patent protection is generally important in the pharmaceutical industry. Therefore, our future financial success may depend in part on obtaining patent protection for technologies incorporated into our products. We cannot assure you that such patents will be issued, or that any existing or future patents will be of commercial benefit. In addition, it is impossible to anticipate the breadth or degree of protection that any such patents will afford, and we cannot assure you that any such patents will not be successfully challenged in the future. If we are unsuccessful in obtaining or preserving patent protection, or if any products rely on unpatented proprietary technology, we cannot assure you that others will not commercialize products substantially identical to such products. The patents covering several of our medicines are being challenged by generic drug manufacturers. We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with partners, customers, employees and consultants. It is possible that these agreements will be breached or that they will not be enforceable in every instance, and that we will not have adequate remedies for any such breach. It is also possible that our trade secrets will become known or independently developed by our competitors.

*We may be subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products.*

Although we have a corporate policy not to infringe the valid and enforceable patents of others, we cannot assure you that our products will not infringe patents held by third parties. In such event, licenses from those third parties may not be available or may not be available on commercially attractive terms. We may have to defend, and have recently defended, against charges that we violated patents or proprietary rights of third parties. Litigation is costly and time-consuming, and diverts the attention of our management and technical personnel. In addition, if we infringe the intellectual property rights of others, we could lose our right to develop or manufacture products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. An adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing or selling our products, which could harm our business, financial condition, results of operations and cash flows. Please see the Legal Proceedings section of each our Quarterly Report on Form 10-Q for the quarter ending March 29, 2002, our Quarterly Report on Form 10-Q for the quarter ending June 28, 2002, and our Quarterly Report on Form 10-Q for the quarter ending September 27, 2002, and Note 15 to our Consolidated Financial Statements in our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2002, each of which is incorporated herein by reference, for information on current patent litigation.

*The consolidation of drug wholesalers could increase pricing and competitive pressures on pharmaceutical manufacturers, including us.*

We sell our pharmaceutical products primarily through wholesalers. These customers comprise a significant part of the distribution network for pharmaceutical products in the United States. This distribution network is continuing to undergo significant consolidation marked by mergers and acquisitions. As a result, a smaller number of large wholesale distributors control a significant share of the market. We expect that consolidation of drug wholesalers will increase pricing and competitive pressures on



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pharmaceutical manufacturers, including us. In addition, wholesaler purchases may exceed customer demand, resulting in reduced wholesaler purchases in later quarters. We cannot assure you that wholesaler purchases will not decrease as a result of this potential excess buying.

*Our future success depends upon our ability to develop new products, and new indications for existing products, that achieve market acceptance.*

Our future performance will be affected by the market acceptance of products such as Lumigan® and Alphagan® P, as well as FDA approval of new indications for products such as Botox®. We have allocated substantial resources to the development and introduction of new products and indications. New products must be continually developed, tested and manufactured and, in addition, must meet regulatory standards and receive requisite regulatory approvals in a timely manner. Products that we are currently developing may or may not receive the regulatory approvals necessary for marketing. Furthermore, the development and commercialization process is time consuming, costly and subject to numerous factors that may delay or prevent the development and commercialization of new products, including legal actions brought by our competitors. If any of our products cannot be successfully or timely commercialized, our operating results could be adversely affected. Delays or unanticipated costs in any part of the process or our inability to obtain regulatory approval for our products, including failing to maintain manufacturing facilities in compliance with all applicable regulatory requirements, could cause our operating results to suffer. We cannot assure you that new products or indications will be successfully developed, receive regulatory approval or achieve market acceptance. The intrinsic uncertainties associated with research and development efforts and the regulatory process are both discussed in greater detail in the Research and Development and the Government Regulation sections of our Annual Report on Form 10-K for the year ended December 31, 2001.

*We may acquire companies in the future and these acquisitions could disrupt our business.*

As part of our business strategy, we plan to consider, and as appropriate, make acquisitions of technologies, products and businesses, which may result in difficulties in integrating the technologies, products and businesses acquired and/or result in significant charges to earnings that may adversely affect our stock price and financial condition. We regularly review potential acquisitions of technologies, products and businesses complementary to our business. Acquisitions typically entail many risks and could result in difficulties in integrating the operations, personnel, technologies and products of the companies acquired. If we are unable to successfully integrate our acquisitions, we may not obtain the advantages that the acquisitions were intended to create, which may adversely affect our business, results of operations, financial condition and cash flows, our ability to develop and introduce new products and the market price of our stock. In addition, in connection with acquisitions, we could experience disruption in our business or employee base, or key employees of companies that we acquire may seek employment elsewhere, including with our competitors. Furthermore, our products or those of our customers and the products of companies we acquire may overlap, creating conflicts with existing relationships or with other commitments that are detrimental to the integrated businesses.

*Compliance with the extensive government regulations to which we are subject is expensive and time consuming, and may result in the delay or cancellation of product sales, introductions or modifications.*

Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development and manufacturing capabilities. All pharmaceutical companies, including Allergan, are subject to extensive, complex, costly and evolving regulation by the federal government, principally the FDA and to a lesser extent by the U.S. Drug Enforcement Administration, and foreign and state government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other domestic and foreign statutes and regulations govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products. Under certain of these regulations, we are subject to periodic inspection of our facilities, procedures and operations and/or the testing of our products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that we are in compliance with all applicable regulations. In addition, the FDA conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems and processes are in compliance with good manufacturing practices and other FDA regulations. The process for obtaining governmental approval to manufacture pharmaceutical products is rigorous, time-consuming and costly, and we cannot predict the extent to which we may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always a risk that the FDA or other applicable governmental authority will not approve our products, or that the rate, timing and cost of such approvals will adversely affect our product introduction plans or results of operations.

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### **Risks Related to the Offering**

*The market price of the notes could be significantly affected by the market price of our common stock, which can be volatile, and other factors.*

We expect that the market price of our notes will be significantly affected by the market price of our common stock. This may result in greater volatility in the market price of the notes than would be expected for nonconvertible debt securities. From the beginning of fiscal 2001 to January 6, 2003, the reported high and low sales prices for our common stock ranged from a low of \$49.05 per share to a high of \$99.38 per share. The market price of our common stock will likely continue to fluctuate in response to the following factors, some of which are beyond our control:

- quarterly fluctuations in our operating and financial results;
- announcements of new technologies, products and/or pricing by us or our competitors;
- changes in financial estimates and recommendations by financial analysts;
- changes in the ratings of our notes or other securities;
- developments related to litigation or investigations involving us;
- developments relating to patents, proprietary rights or regulatory approvals of our products;
- fluctuations in the stock price and operating results of our competitors;
- changes in government regulation;
- acquisitions and financings; and
- general conditions in the pharmaceutical industry.

In addition, the stock markets in general, including the New York Stock Exchange, recently have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may affect adversely the market prices of the notes and the common stock.

*Changes in our credit ratings or the financial and credit markets could adversely affect the market price of the notes.*

The market price of the notes will be based on a number of factors, including:

- our ratings with major credit rating agencies;
- the prevailing interest rates being paid by companies similar to us; and
- the overall condition of the financial and credit markets.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the price of the notes. In addition, credit rating agencies continually revise their ratings for companies that they follow, including us. The credit rating agencies also evaluate the pharmaceutical industry as a whole and may change their credit rating for us based on their overall view of our industry. We cannot assure you that credit rating agencies will maintain their ratings on the notes. A negative change in our credit rating could have an adverse effect on the market price of the notes.

*The notes will be subordinated to all of our subsidiaries' existing and future indebtedness.*

A substantial portion of our operations is conducted through our subsidiaries. As a result, our cash flow and our consequent ability to service our debt, including the notes, depends in part upon our subsidiaries' cash flows and their payment of those funds to us as dividends, loans, advances or other payments. Additionally, except to the extent we may be a creditor with recognized claims

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against our subsidiaries, the claims of creditors of our subsidiaries will have priority with respect to the assets and earnings of our subsidiaries over claims of our direct creditors, including holders of the notes, even though the subsidiary obligations do not constitute senior indebtedness.

*We may not have the ability to raise the funds necessary to purchase the notes upon a fundamental change or other purchase date, as required by the indenture governing the notes.*

On November 6, 2007, November 6, 2012, November 6, 2017, and upon the occurrence of a fundamental change, as described in the indenture, holders of the notes may require us to purchase their notes. We cannot assure you that we would have sufficient financial resources, or would be able to arrange financing, to pay the purchase price for the notes tendered by the holders. A fundamental change may also constitute an event of default under any other indenture or other agreement governing our then-existing indebtedness and could prohibit us from purchasing the notes without first satisfying covenants under the other indebtedness. If a fundamental change occurred that accelerated our other indebtedness, we cannot assure you that we would have sufficient financial resources, or be able to arrange sufficient financing, to pay the purchase price for the notes and amounts due under the other indebtedness. Failure by us to purchase the notes when required will result in an event of default with respect to the notes and possibly our other outstanding indebtedness.

*You cannot be sure that an active trading market will develop for the notes.*

The notes are a new issue of securities for which there is currently no trading market. Although the notes that were sold to qualified institutional buyers pursuant to Rule 144A are eligible for trading in the PORTAL market, we do not expect that the notes resold pursuant to this prospectus will continue to trade on the PORTAL market. As a result, there may be a limited market for the notes. We do not intend to list the notes on any national securities exchange or on the Nasdaq National Market. We cannot assure you that an active trading market for the notes will develop or be sustained. If an active market is not developed or sustained, the market price and liquidity of the notes may be adversely affected. Accordingly, we cannot assure you that you will be able to sell the notes at a price acceptable to you or at all.

Additionally, the market price of the notes may be adversely affected by changes in the overall market for convertible securities and by changes in our financial performance or prospects, or in the prospects of companies in our industry. The market for the notes may also be significantly affected by the market price of our common stock, which is subject to wide fluctuations in response to a variety of factors discussed elsewhere in these risk factors.

*The notes will be issued at a substantial discount from their principal amount and will therefore trigger certain U.S. federal income tax consequences for the holders of the notes.*

The notes will be issued at a substantial discount from their principal amount. Consequently, the notes will be treated as issued with original issue discount for U.S. federal income tax purposes and you will be required to include such original issue discount in your gross income as it accrues for U.S. federal income tax purposes in advance of receipt of any payment on the notes to which the original issue discount is attributable. To understand how this may affect you, you should seek advice from your own tax advisor prior to purchasing these notes. See

Certain Federal United States Income Tax Considerations for a more detailed discussion of the U.S. federal income tax consequences to the holders of the notes of the purchase, ownership and disposition of the notes.

*Your claim against us will be limited if a bankruptcy proceeding is commenced against us.*

If a bankruptcy proceeding is commenced by us or against us, the claim of a holder of notes is, under Title 11 of the U.S. Code, limited to the issue price of the notes plus that portion of the original issue discount that has accrued from the date of issue to the commencement of the proceeding.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges for the last five fiscal years and for the nine month period ended September 27, 2002. For purposes of these ratios, earnings represents income from continuing operations before provision for income taxes and minority interest and fixed charges, and fixed charges consist of interest expense, and a share of rent expense which is deemed to be representative of an interest factor.

	Fiscal Year					Nine Months Ended
	1997	1998	1999	2000	2001	September 27, 2002
Ratio of earnings to fixed charges	9.9	n/a <sup>(1)</sup>	19.1x	12.0x	11.7x	1.0x <sup>(2)</sup>

- (1) In 1998, earnings were not sufficient to cover fixed charges by \$56.7 million.
- (2) During the nine months ended September 27, 2002, we recorded a \$65.8 million charge for restructuring costs and asset write-offs, substantially all of which related to our spin-off of Advanced Medical Optics, Inc., or AMO, which occurred on June 29, 2002. In addition to these restructuring charges, we also incurred \$41.1 million of duplicate operating expenses during the nine month period ended September 27, 2002 that were associated with the spin-off of AMO. We also incurred a litigation settlement charge of \$118.7 million during the nine month period ended September 27, 2002. Excluding these one-time charges for restructuring costs and asset write-offs, duplicate operating expenses, and the litigation settlement our ratio of earnings to fixed charges for the nine months ended September 27, 2002 would be 13.9x.

**USE OF PROCEEDS**

The selling securityholders will receive all of the proceeds from the sale of notes and the common stock into which the notes may be converted. We will not receive any proceeds. See Selling Securityholders for a list of those persons or entities receiving proceeds from the sale of the notes and underlying common stock.

**Table of Contents****PRICE RANGE OF OUR COMMON STOCK**

Our common stock is traded on the New York Stock Exchange under the symbol AGN. The following table sets forth, for each period indicated, the high and low sale prices for the common stock as reported on the New York Stock Exchange and the dividends per share paid during such periods.

	Common Stock Price		Dividends on Common Stock (per share)
	High	Low	
<b>Year Ended December 31, 2001</b>			
Quarter ended March 30, 2001	99.38	59.00	0.09
Quarter ended June 29, 2001	93.30	71.13	0.09
Quarter ended September 28, 2001	86.25	60.00	0.09
Quarter ended December 31, 2001	78.10	64.26	0.09
<b>Year Ended December 31, 2002</b>			
Quarter ended March 29, 2002	72.35	58.58	0.09
Quarter ended June 28, 2002	67.23	54.01	0.09
Quarter ended September 27, 2002	65.49	49.05	0.09 <sup>(1)</sup>
Quarter ended December 31, 2002	65.08	51.40	0.09

- (1) In addition to the cash dividend paid during this quarter, on June 29, 2002, we completed the spin-off of our former subsidiary Advanced Medical Optics by distributing a dividend to our stockholders consisting of one share of common stock of Advanced Medical Optics for every 4.5 shares of Allergan common stock held by our stockholders of record on June 14, 2002.

On January 6, 2003, the last reported sale price for the common stock on the New York Stock Exchange was \$58.03. As of September 27, 2002, there were approximately 7,388 holders of record of our common stock.

**DIVIDEND POLICY**

Our declaration and payment of cash dividends in the future and the amount thereof will depend upon our results of operations, financial condition, cash requirements, future prospects, limitations imposed by credit agreements or debt securities and other factors deemed relevant by our board of directors. No assurance can be given that cash dividends will continue to be declared and paid at historical levels or at all. Certain financial covenants set forth in our bank credit line agreements and other financing agreements restrict our ability to declare dividends.

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**DESCRIPTION OF NOTES**

The notes were issued under an indenture dated as of November 6, 2002, between Allergan and Wells Fargo Bank, National Association, as trustee. A copy of the indenture is filed as an exhibit to the registration statement of which this prospectus forms a part, is available to prospective investors in the notes upon request to Allergan, and is available for inspection at the corporate trust office of the trustee.

The following summary of certain provisions of the indenture does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of the notes and the indenture. Because the following is only a summary, it does not contain all information that you may find useful.

Definitions of certain terms are set forth under **Certain Definitions** and throughout this description. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the indenture, and those definitions are incorporated herein by reference. As used in this **Description of the Notes**, unless otherwise indicated, the words **we**, **us** and **our** refer to Allergan, Inc., and do not include our subsidiaries.

**General**

The notes:

represent our unsecured senior obligations and rank equally with all of our other unsecured senior indebtedness and are junior to all of our current and future secured indebtedness;

have a \$641,510,000 aggregate principal amount at maturity; and

will mature on November 6, 2022.

Except under circumstances described under **Optional Conversion to Semi-Annual Cash Pay Note Upon Tax Event**, we will not pay cash interest on the notes; rather, the notes will accrete to a principal amount of \$1,000 per note upon maturity, representing a yield to maturity of 1.25% per annum.

The notes are redeemable prior to maturity only in specified circumstances between November 6, 2005 and November 6, 2007, and freely on or after November 6, 2007, as described below under **Optional Redemption**. The notes do not have the benefit of a sinking fund. Principal of the notes is payable, and the transfer of notes is registrable, at the office of the trustee. The trustee is initially serving as paying agent for the notes.

The notes were offered at a substantial discount from their principal amount at maturity. Except as described below under **Optional Conversion to Semi-Annual Cash Pay Note Upon Tax Event**, we will not make periodic cash payments of interest on the notes. Each note of \$1,000 principal amount at maturity was issued at an issue price of \$779.41. The issue date for the notes and the commencement date for the accrual of original issue discount was November 6, 2002. See **Certain United States Federal Income Tax Considerations** **Consequences to U.S. Holders** **Interest Accruals on the Notes**.

The notes were issued only in registered form without coupons in denominations of \$1,000 and any integral multiple of \$1,000 above that amount. No service charge will be made for any registration of transfer or exchange of notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The notes are represented by one or more global securities registered in the name of a nominee of the Depository. See **Book Entry, Delivery and Form**.

**Ranking**

The notes are our general obligations and are not secured by any collateral. Your right to payment under the notes is:

junior to the rights of our secured creditors to the extent of their security in our assets;

equal with the rights of creditors under our other unsecured unsubordinated debt, including our revolving credit facilities;

senior to the rights of creditors under debt expressly subordinated to these notes; and

effectively subordinated to creditors of our subsidiaries.



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### **Conversion Rights**

Holders may surrender their notes, in multiples of \$1,000 principal amount at maturity, for conversion into shares of our common stock in a fiscal quarter (and only during such fiscal quarter) if the Sale Price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than an amount equal to the accreted conversion price per share of our common stock on the last day of the preceding fiscal quarter multiplied by the applicable percentage (as set forth below); provided, however, that in no event shall such amount be less than \$90 per share (subject to adjustment). The initial applicable percentage of the accreted conversion price shall be 125% and shall decline 0.25% every six-month period thereafter to 115% on November 6, 2022. The accreted conversion price per share as of any day will equal the quotient of (i) the Accreted Value to such day, divided by (ii) the number of shares of our common stock issuable upon the conversion of \$1,000 principal amount at maturity of notes on such day.

In addition, holders may convert notes, in multiples of \$1,000 principal amount at maturity, into our common stock at any time prior to the close of business on November 6, 2022, if:

*Credit Ratings.* Moody's Investors Service, Inc. ( Moody's ) reduces the credit rating assigned to the notes below Baa3 or Standard & Poor's Ratings Group ( S&P ) reduces the credit rating assigned to the notes below BBB , or the notes are no longer rated by these ratings services;

*Redemption of Notes.* We call the notes for redemption, at any time prior to the close of business on the second business day prior to the redemption date; or

*Occurrence of Specified Corporate Transactions.* We elect to:

(1) distribute to all holders of our common stock certain rights entitling them to purchase, for a period expiring within 60 days after the date of such distribution, common stock at less than the Sale Price at the time of such distribution; or

(2) distribute to all holders of our common stock assets, debt, securities or certain rights to purchase our securities, which distribution has a per share value as determined by our board of directors exceeding 15% of the Sale Price of our common stock on the day preceding the declaration date for such distribution; or

(3) become a party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property, in which case a holder may surrender notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date for the transaction until 15 days after the actual effective date of such transaction.

In the case of clause (1) or (2), we must notify the holders of notes at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place.

A note for which a holder has delivered a purchase notice or a Fundamental Change purchase notice requiring us to purchase the note may be converted only if such notice is withdrawn in accordance with the indenture.

The initial conversion rate is 11.410 shares of our common stock per note with a principal amount at maturity of \$1,000, subject to adjustment upon the occurrence of certain events described below. The conversion rate will not be adjusted for accrued original issue discount or accrued and unpaid interest, if any.

### **Payment Upon Conversion**

Upon conversion, we may, except where expressly required to the contrary, choose to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock as described below.

*Conversion Prior to Notice of Redemption or Maturity.* If we choose to satisfy all or any portion of our obligation upon conversion, our conversion obligation, at any time other than upon notice of redemption or at maturity in cash, we will notify you through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of our conversion obligation or as a fixed dollar amount) at any time on or before the date that is two business days following receipt of your notice of conversion ( cash settlement notice period ). If we timely elect to pay cash for any portion of the shares of common stock otherwise issuable to



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you, you may retract the conversion notice at any time during the two business day period beginning on the day after the final day of the cash settlement notice period; no such retraction can be made (and a conversion notice shall be irrevocable) if we do not elect to deliver cash in lieu of shares of common stock (other than cash in lieu of fractional shares). Unless the conversion notice has been retracted, settlement (in cash and/or shares) will occur on the business day following the final day of the 10 trading day period beginning on the day after the two business day period beginning on the day of the cash settlement notice period (the cash settlement averaging period). Settlement amounts will be computed as follows:

If we elect to satisfy our entire conversion obligation in shares of our common stock, we will deliver to you a number of shares of our common stock equal to (i) the aggregate principal amount of notes to be converted divided by 1,000 multiplied by (ii) the conversion rate.

If we elect to satisfy our entire conversion obligation in cash, we will deliver to you cash in an amount equal to the product of:

a number equal to (i) the aggregate principal amount of notes to be converted divided by 1,000 multiplied by (ii) the conversion rate, and

the average closing price of shares of our common stock during the cash settlement averaging period on the New York Stock Exchange.

If we elect to satisfy a fixed portion (other than 100%) of our conversion obligation in cash, we will deliver to converting note holders such cash amount ( cash amount ) and a number of shares equal to the excess, if any, of the number of shares of common stock calculated as set forth in the first bullet of this paragraph over the number of shares equal to the sum, for each day of the cash settlement averaging period, of (x) the pro rated portion of the cash amount for such day divided by (y) the closing price of shares of our common stock on such day on the New York Stock Exchange.

If you have exercised your right to require us to purchase your notes as described under Purchase of Notes at the Option of the Holder, you may convert your notes as provided above only if you withdraw your purchase notice or Fundamental Change purchase notice and convert your notes prior to the close of business on the business day immediately preceding the applicable purchase date.

*Conversion Upon Notice of Redemption or Maturity.* If we choose to satisfy all or any portion of our conversion obligation upon notice of redemption or at maturity in cash, we will notify you through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of our conversion obligation or as a fixed dollar amount) at any time on or before the date that is 20 days prior to maturity or redemption. Settlement amounts will be computed in the same manner as set forth above under Conversion Prior to Notice of Redemption or Maturity except that the cash settlement averaging period shall be the 10-day trading day period beginning on the day after the maturity date or redemption date as the case may be. Settlement (in cash and/or shares) will occur on the business day following the final day of such cash settlement averaging period.

*Treatment of Fractional Shares; Effect of Conversion.* In lieu of issuing fractional shares, we will pay an amount of cash based on the Sale Price of our common stock on the trading day immediately preceding the conversion date. On conversion of a note, a holder will not receive any cash payment representing accretion. Our delivery to the holder of the fixed number of shares of our common stock into which the note is convertible, or, as described below under Payment Upon Conversion, cash or a combination of cash and shares of our common stock, together with any cash payment for fractional shares, will be deemed:

to satisfy our obligation to pay the principal amount at maturity of the note;

to satisfy any obligation to pay the increase in Accreted Value from the issue date through the conversion date; and

to satisfy any obligation to pay accrued and unpaid interest, if any.

As a result, Accreted Value is deemed to be paid in full upon conversion, rather than canceled, extinguished or forfeited.

**Conversion Rate Adjustments**

The conversion rate will be adjusted for:

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dividends or distributions on our common stock payable in our common stock, our other capital stock or our subsidiaries' capital stock; subdivisions, combinations or certain reclassifications of our common stock;

distributions to all holders of our common stock of certain rights to purchase our common stock for a period expiring within 60 days at less than the Sale Price at the time;

certain distributions to all holders our common stock of our assets or debt securities or certain rights to purchase our securities (excluding (a) cash dividends or other cash distributions from current or retained earnings unless, within the 12 months preceding the date of payment of such dividends or distributions in respect of which no conversion adjustment has been made, the aggregate amount of all such cash dividends and other cash distributions per share exceeds 15% of the Sale Price on the day preceding the date of declaration of such dividend or other distribution and (b) distributions in connection with a transaction described in the third succeeding paragraph); and

self-tenders by us.

No adjustment in the conversion rate will be required unless such adjustment would require a change of at least 1% of the conversion rate then in effect; provided that any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

However, no adjustment need be made if holders may participate in the transaction (without exercising their conversion option) that would otherwise give rise to such an adjustment. In cases where the fair market value of assets, debt securities or certain rights, warrants or options to purchase our securities distributed to stockholders (a) equals or exceeds the Market Price of our common stock, or (b) such Market Price exceeds the fair market value of such assets, debt securities or rights, warrants or options so distributed by less than \$1.00, rather than being entitled to an adjustment in the conversion rate, the holder will be entitled to receive upon conversion, in addition to the shares of our common stock, the kind and amount of assets, debt securities or rights, warrants or options comprising the distribution that such holder would have received if such holder had converted such holder's notes immediately prior to the record date for determining the stockholders entitled to receive the distribution. The indenture permits us to increase the conversion rate from time to time.

If we are party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of our assets, the right to convert a note into our common stock may be changed into a right to convert it into the kind and amount of securities, cash or other assets of us or another person which the holder would have received if the holder had converted the holder's notes immediately prior to the transaction.

Holders of the notes may, in certain circumstances, be deemed to have received a distribution treated as a dividend for U.S. federal income tax purposes as the result of:

a taxable distribution to holders of our common stock which results in an adjustment of the conversion rate; or

an increase in the conversion rate at our discretion.

If we exercise our option to have cash interest accrue on a note following a Tax Event, the holder will be entitled on conversion to receive the same number of shares of our common stock or other property that the holder would have received if we had not exercised this option. If we exercise this option, notes surrendered for conversion by a holder during the period from the close of business on any regular record date to the opening of business of the next interest payment date, except for notes to be redeemed on a date within this period or on the next interest payment date, must be accompanied by payme