

WARNER CHILCOTT PLC

FORM 8-K/A

(Amended Current report filing)

Filed 11/13/09 for the Period Ending 11/12/09

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Sector	Healthcare
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 8-K/A

Current Report

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report: November 13, 2009
Date of earliest event reported: November 12, 2009

Warner Chilcott Public Limited Company
(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction
of incorporation)

0-53772
(Commission
File Number)

98-0626948
(IRS Employer
Identification No.)

Unit 19 Ardee Business Park
Hale Street
Ardee, Co. Louth, Ireland
(Address of principal executive offices, including zip code)

+353 41 685 6983
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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On November 2, 2009, Warner Chilcott plc (the “Company”) filed a Current Report on Form 8-K to report the completion of its acquisition of the global branded prescription pharmaceutical business of The Procter & Gamble Company for approximately \$2.9 billion in cash and the assumption of certain liabilities (the “PGP Acquisition”). In that filing, the Company indicated that it would amend the Form 8-K at a later date to provide financial information required by Item 9.01 in relation to the PGP Acquisition. This amendment is being filed to provide the requisite financial information in Item 9.01 and to provide certain additional information about the Company.

Item 8.01 Other Events

On November 9, 2009, the High Court of Ireland approved the reduction of the \$3,910,472,012 share premium created when Warner Chilcott plc became the ultimate holding company of the Warner Chilcott group in August 2009. This reduction will create distributable reserves of approximately \$3.9 billion, which can be used to fund distributions (including the payment of cash dividends) to shareholders or share buy-backs in future periods. The reduction became effective upon the filing of the order of the High Court of Ireland with the Irish Companies Registration Office on November 12, 2009.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired

The audited combined balance sheets of P&G Pharmaceuticals as of June 30, 2009 and 2008, and the related combined statements of income, equity and cash flows for each of the three years in the period ended June 30, 2009 are filed as Exhibit 99.1 and incorporated by reference into this Item 9.01. In addition, the unaudited combined balance sheets as of September 30, 2009 and June 30, 2009 and the related combined statements of income, equity and cash flows for each of the three month periods ended September 30, 2009 and 2008 are filed as Exhibit 99.2 and incorporated by reference into this Item 9.01.

(b) Pro forma financial information

The required unaudited pro forma financial information with respect to the PGP Acquisition is filed as an Exhibit 99.3 and incorporated by reference into this Item 9.01.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Deloitte & Touche LLP
99.1	P&G Pharmaceuticals audited combined financial statements
99.2	P&G Pharmaceuticals unaudited combined financial statements
99.3	Unaudited pro forma financial information

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

W ARNER C HILCOTT P UBLIC L IMITED C OMPANY

By: /s/ Paul Herendeen

Name: **Paul Herendeen**

Title: **Executive Vice President and Chief Financial Officer**

Date: November 13, 2009

EXHIBIT INDEX

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements No. 333-159829 on Form S-3 and No. 333-161476 on Form S-8 of Warner Chilcott plc of our report dated August 31, 2009, relating to the combined financial statements of Procter & Gamble Pharmaceuticals as of June 30, 2009 and 2008 and for each of the three years in the period ended June 30, 2009 (which report expresses an unqualified opinion and includes explanatory paragraphs regarding the adoption of new accounting pronouncements and allocations of certain corporate costs from The Procter & Gamble Company) appearing in this Current Report on Form 8-K of Warner Chilcott plc.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Cincinnati, Ohio

November 13, 2009

Procter & Gamble Pharmaceuticals

Combined Financial Statements as of
June 30, 2009 and 2008 and for the
Years Ended June 30, 2009, 2008 and 2007
and Independent Auditors' Report

INDEX TO COMBINED FINANCIAL STATEMENTS OF PROCTER & GAMBLE PHARMACEUTICALS

	<u>Page</u>
Combined Financial Statements	
Independent Auditors' Report	1
Combined Statements of Income for the years ended June 30, 2009, 2008 and 2007	2
Combined Balance Sheets as of June 30, 2009 and 2008	3
Combined Statements of Equity for the years ended June 30, 2009, 2008 and 2007	4
Combined Statements of Cash Flows for the years ended June 30, 2009, 2008 and 2007	5
Notes to Combined Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Procter & Gamble Company:

We have audited the combined balance sheets of Procter & Gamble Pharmaceuticals (the "Company") (a combination of wholly owned subsidiaries and operations of The Procter & Gamble Company) as of June 30, 2009 and 2008, and the related combined statements of income, equity and cash flows for each of the three years in the period ended June 30, 2009. As discussed in Note 2, the combined financial statements have been carved out from The Procter & Gamble Company's consolidated financial statements to present the historical financial position, results of operations, and cash flows of The Procter & Gamble Company's pharmaceutical business. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the combined financial statements of the Company include allocations of certain corporate costs from The Procter & Gamble Company. These costs may not be reflective of the actual level of costs which would have been incurred had the Company operated as a separate entity apart from The Procter & Gamble Company.

As discussed in Note 10 to the combined financial statements, the Company adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment to SFAS Nos. 87, 88, 106, and 132(R)*, effective June 30, 2007. As discussed in Note 11 to the combined financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of Financial Accounting Standards Board Statement No. 109*, effective July 1, 2007.

Deloitte & Touche LLP

August 31, 2009

Procter & Gamble Pharmaceuticals
COMBINED STATEMENTS OF INCOME
Years ended June 30, 2009, 2008 and 2007
(Dollars in millions)

	<u>Year ended June 30, 2009</u>	<u>Year ended June 30, 2008</u>	<u>Year ended June 30, 2007</u>
Net sales	\$ 2,317.5	\$ 2,531.7	\$ 2,444.9
Cost of products sold	217.3	248.1	261.9
Gross profit	2,100.2	2,283.6	2,183.0
Selling, general and administrative expense	825.7	999.5	1,034.0
Other operating expense	456.0	603.9	595.9
Operating income	818.5	680.2	553.1
Income taxes	279.2	210.8	163.8
Net income	<u>\$ 539.3</u>	<u>\$ 469.4</u>	<u>\$ 389.3</u>

See notes to combined financial statements.

Procter & Gamble Pharmaceuticals

COMBINED BALANCE SHEETS

June 30, 2009 and 2008

(Dollars in millions)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Current assets:		
Cash & cash equivalents	\$ 2.7	\$ 2.7
Accounts receivable, net	280.7	301.9
Inventories		
Materials and supplies	7.9	16.2
Work in process	33.0	42.6
Finished goods	34.3	47.3
Total inventories	75.2	106.1
Deferred income taxes	59.4	59.3
Prepaid and other current assets	59.3	68.4
Total current assets	<u>477.3</u>	<u>538.4</u>
Property, plant and equipment		
Buildings	83.8	86.0
Machinery and equipment	192.0	220.9
Land	17.8	18.7
Gross property, plant and equipment	293.6	325.6
Accumulated depreciation	(210.2)	(201.7)
Net property, plant and equipment	83.4	123.9
Goodwill	152.8	165.3
Intangible assets, net	208.3	256.6
Net goodwill and intangible assets	361.1	421.9
Deferred income taxes	53.6	55.8
Other noncurrent assets	14.0	17.2
Total assets	<u>\$ 989.4</u>	<u>\$ 1,157.2</u>
Current liabilities:		
Accounts payable	\$ 78.5	\$ 82.9
Accrued expenses and other liabilities	410.5	488.1
Total current liabilities	489.0	571.0
Liability for unrecognized tax benefits	28.0	28.4
Other noncurrent liabilities	110.9	101.3
Total liabilities	<u>627.9</u>	<u>700.7</u>
Commitments and contingencies (Note 12)		
Equity:		
Accumulated other comprehensive income	74.5	118.3
Divisional equity	287.0	338.2
Total equity	361.5	456.5
Total liabilities and equity	<u>\$ 989.4</u>	<u>\$ 1,157.2</u>

See notes to combined financial statements.

Procter & Gamble Pharmaceuticals
COMBINED STATEMENTS OF EQUITY
Years ended June 30, 2009, 2008 and 2007
(Dollars in millions)

	Divisional equity	Accumulated other comprehensive income	Total
Balance at June 30, 2006	\$ 427.7	\$ 43.5	\$ 471.2
Distributions to P&G, net	(471.9)	—	(471.9)
Net income	389.3	—	389.3
Other comprehensive income:			
Currency translation adjustments	—	20.1	20.1
Total comprehensive income			409.4
Adjustment to initially apply new accounting guidance, net of taxes of \$1.1	—	(1.8)	(1.8)
Balance at June 30, 2007	345.1	61.8	406.9
Distributions to P&G, net	(472.2)	—	(472.2)
Net income	469.4	—	469.4
Adoption of new accounting guidance	(4.1)	—	(4.1)
Other comprehensive income:			
Currency translation adjustments	—	52.6	52.6
Defined benefit retirement plans, net of taxes of (\$1.8)	—	3.9	3.9
Total comprehensive income			521.8
Balance at June 30, 2008	338.2	118.3	456.5
Distributions to P&G, net	(590.5)	—	(590.5)
Net income	539.3	—	539.3
Other comprehensive income (loss):			
Currency translation adjustments	—	(41.2)	(41.2)
Defined benefit retirement plans, net of taxes of \$0.7	—	(2.6)	(2.6)
Total comprehensive income			495.5
Balance at June 30, 2009	<u>\$ 287.0</u>	<u>\$ 74.5</u>	<u>\$ 361.5</u>

See notes to combined financial statements.

Procter & Gamble Pharmaceuticals

COMBINED STATEMENTS OF CASH FLOWS

Years ended June 30, 2009, 2008 and 2007

(Dollars in millions)

	<u>Year ended June 30, 2009</u>	<u>Year ended June 30, 2008</u>	<u>Year ended June 30, 2007</u>
Cash and cash equivalents, beginning of year	\$ 2.7	\$ 7.0	\$ 6.7
Operating activities:			
Net income	539.3	469.4	389.3
Depreciation	40.4	32.9	43.7
Amortization of intangible assets	24.4	25.1	24.0
Intangible assets impairments	1.8	2.8	8.3
Net gains on sales and dispositions of assets	(78.5)	(10.3)	(13.5)
Change in deferred income taxes	1.7	(44.7)	(21.6)
Change in accounts receivable	6.7	(6.1)	28.7
Change in inventories	22.6	15.5	3.5
Change in prepaid and other current assets	5.0	(6.0)	4.1
Change in other noncurrent assets	2.5	0.5	(0.4)
Change in accounts payable	(0.3)	(7.6)	14.7
Change in accrued expenses and other liabilities	(64.8)	(82.0)	(16.9)
Change in liability for unrecognized tax benefits	(0.4)	24.3	—
Change in other noncurrent liabilities and other	13.8	29.4	6.3
Total operating activities	<u>514.2</u>	<u>443.2</u>	<u>470.2</u>
Investing activities:			
Purchase of intangible assets	(0.6)	—	(5.0)
Proceeds from sales and dispositions of assets	81.0	34.0	13.5
Capital expenditures	(8.3)	(11.9)	(16.9)
Total investing activities	<u>72.1</u>	<u>22.1</u>	<u>(8.4)</u>
Financing activities:			
Distributions to P&G, net	(586.0)	(470.3)	(461.9)
Total financing activities	<u>(586.0)</u>	<u>(470.3)</u>	<u>(461.9)</u>
Effect of foreign currency on cash & cash equivalents	(0.3)	0.7	0.4
Net change in cash & cash equivalents	<u>—</u>	<u>(4.3)</u>	<u>0.3</u>
Cash and cash equivalents, end of year	<u>\$ 2.7</u>	<u>\$ 2.7</u>	<u>\$ 7.0</u>
Supplemental disclosure:			
Taxes paid (considered remitted to P&G in the period recorded)	\$ 284.3	\$ 258.4	\$ 199.6
Non-cash transfers of fixed assets to P&G, net	\$ 4.5	\$ 1.9	\$ 10.0

See notes to combined financial statements.

Procter & Gamble Pharmaceuticals

NOTES TO COMBINED FINANCIAL STATEMENTS

Fiscal years ended June 30, 2009, 2008 and 2007
(Dollars in millions, except as otherwise specified)

Note 1. Nature of Operations

Procter & Gamble Pharmaceuticals (“The Company”) is a combination of wholly owned subsidiaries and operations within The Procter and Gamble Company (“P&G”).

The Company primarily engages in manufacturing, marketing and distributing prescription pharmaceuticals to wholesalers and retailers, on a global basis, primarily under the Actonel brand, a treatment for postmenopausal osteoporosis, and the Asacol brand, a treatment for inflammatory bowel disease. The Company begins to lose Actonel patent exclusivity in 2014 in the United States and 2010 in Western Europe and Canada. The Company does not have Asacol patent exclusivity in the United Kingdom where it owns the marketing and distribution rights. In geographies in which the Company pays a licensing fee to sell Asacol, patent exclusivity begins to expire in 2013. The Company primarily operates in the United States, Canada and Western Europe.

Note 2. Basis of Presentation

The Company, which comprises all of P&G’s pharmaceuticals business, is subject to a potential transaction that would separate it from P&G. The Company’s combined financial statements reflect the historical financial position, results of operations and cash flows as owned by P&G for all periods presented. Prior to the potential separation transaction, P&G has not accounted for the Company as, and the Company has not been operated as, a stand-alone company for the periods presented. The Company’s historical financial statements have been “carved out” from P&G’s consolidated financial statements and reflect assumptions and allocations made by P&G. The combined financial statements do not fully reflect what the Company’s financial position, results of operations and cash flows would have been had the Company been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of what the Company’s results of operations, financial position and cash flows will be in the future.

The Company’s historical combined financial statements were prepared using P&G’s historical basis in the assets and liabilities of the business. The Company’s historical combined financial statements include all revenues, costs, assets and liabilities directly attributable to its business. In addition, certain expenses reflected in the combined financial statements include allocations of corporate expenses from P&G, which in the opinion of management are reasonable (see further discussion in Note 4). All such costs and expenses have been deemed to have been paid by the Company to P&G in the period in which the costs were recorded. Allocations of current income taxes are deemed to have been remitted, in cash, to P&G in the period the related income taxes were recorded. Amounts due to or from P&G, related to a variety of intercompany transactions including the collection of trade receivables, payment of accounts payable and accrued liabilities, charges of allocated corporate expenses, and payments of taxes paid by P&G on behalf of the Company, have been classified within Divisional equity.

The combined financial statements include the Company and its subsidiaries. Intercompany transactions are eliminated.

For the fiscal year ended June 30, 2009, the Company has evaluated subsequent events for potential recognition and disclosure through August 31, 2009, the date of financial statement issuance.

Note 3. Significant Accounting Policies

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. These estimates and assumptions are based on management’s best knowledge of current events and actions that the Company may undertake in the future. Estimates are used in accounting for, among

other items, collaboration and out-license accruals, product rebate and return reserves, accruals for costs associated with exit or disposal activities (restructuring reserves), useful lives for property, plant and equipment, useful lives for acquired intangible assets, future cash flows associated with goodwill and long-lived asset impairment testing, allocated pension/other post employment benefit costs, stock compensation, deferred tax assets and liabilities, uncertain tax benefits and contingencies. Actual results may differ from these estimates and assumptions.

Revenue Recognition

Sales are recognized when revenue is realized or realizable and has been earned. The revenue recorded includes shipping and handling costs, which generally are included in the invoice price to the customer. The Company recognizes revenue when title to the product, ownership and risk of loss are transferred to the customer, which is the date of shipment to the customer. The Company has established rebate programs with various governmental and managed care organizations who earn cash rebates when prescriptions are dispensed. Sales are made with limited right of return under certain circumstances, primarily product expiration. The Company also offers cash discounts directly to its customers. A provision for estimated rebates, returns and cash discount allowances is recorded as a reduction of sales in the same period that the revenue is recognized and is based on historical experience and business trends. Such amounts recorded were \$417.5, \$397.5, and \$302.5 for fiscal 2009, 2008, and 2007, respectively. Taxes collected on sales are recorded on a net basis.

The Company has agreements with other pharmaceutical companies to co-promote certain pharmaceutical products. Revenues and related product costs are recognized on a gross basis in transactions where the Company is deemed to be the principal in the transaction. Revenues earned based upon a percentage of the co-promotion partners' net sales are recognized, on a net basis, when the co-promote partners ship the related products and title passes to their customers. Expenses related to selling, marketing and research and development activities for co-promotion products are included within Selling, general and administrative expense. Contractual profit sharing payments due to co-promotion partners are included within other operating expense and contractual profit sharing payments due from co-promotion partners are included within Net sales. See Note 5.

Royalty revenue from trademark and patent out-licenses, based on third-party sales, is recognized as earned in accordance with contract terms when third-party sales can be reasonably estimated and collection is reasonably assured. These amounts were \$159.0 in fiscal 2009, \$154.0 in fiscal 2008 and \$125.0 in fiscal 2007 and are included within Net sales.

The Company had net sales in North America of \$1.6 billion, \$1.7 billion and \$1.7 billion for years ended June 30, 2009, 2008 and 2007, respectively. Outside of North America, the Company had net sales, primarily in Western Europe, of \$719.9, \$783.7 and \$765.4 for the years ended June 30, 2009, 2008 and 2007, respectively. Actonel brand net sales were \$1.4 billion, \$1.6 billion and \$1.5 billion for the years ended June 30, 2009, 2008 and 2007, respectively. Asacol brand net sales were \$679.0, \$651.1 and \$613.4 for the years ended June 30, 2009, 2008, and 2007, respectively.

Concentration of Credit Risk and Significant Customers

The Company's largest customers are McKesson HBOC, Cardinal Health, Inc. and AmeriSource Bergen Corporation. For the years ended June 30, 2009, 2008 and 2007, McKesson accounted for 23%, 29% and 28% of gross sales, respectively. Cardinal Health accounted for 24%, 16% and 17% of gross sales and AmeriSource Bergen accounted for 15%, 11% and 7% of gross sales, for the years ended June 30, 2009, 2008 and 2007, respectively. Credit risk arises from the inability of a counterparty to meet the terms of its obligations. The Company has not incurred and does not expect to incur any material credit losses.

Costs of Products Sold

Cost of products sold is primarily comprised of direct materials and supplies consumed in the production of product, as well as production labor, depreciation expense and direct overhead expense necessary to acquire and convert the purchased materials and supplies into finished product. Cost of products sold also includes the costs to distribute products to customers, inbound freight costs, internal transfer costs, warehousing costs and other shipping and handling activities.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expense is primarily comprised of marketing expenses, selling expenses, research and development costs, administrative and other indirect overhead costs, and other miscellaneous operating items.

Research and development costs are expensed as incurred and were \$180.5 in fiscal 2009, \$266.2 in fiscal 2008 and \$301.9 in fiscal 2007. Fiscal 2009 costs were focused on technical support of existing brands rather than investment in new development programs. Upfront and milestone payments paid to third parties in connection with research and development collaborations prior to regulatory approval are expensed as incurred. Payments paid to third parties upon or subsequent to regulatory approval are capitalized as intangible assets and amortized over the remaining economic useful life. Advertising costs include television, print, radio, interactive, print media, Internet and in-store advertising expenses and were \$59.0 in fiscal 2009, \$62.8 in fiscal 2008 and \$51.2 in fiscal 2007.

Other Operating Expense

Other operating expense is comprised primarily of contractual profit sharing costs due to sanofi-aventis, a third party, pursuant to the Company's Actonel co-promotion agreement with sanofi-aventis (see Note 5). Gains associated with brand divestitures totaling \$78.5 in fiscal 2009, \$10.3 in fiscal 2008 and \$13.5 in fiscal 2007 are also included in other operating expense. Fiscal 2009 divestitures included five Western European brands. Also recorded within other operating expense are royalty costs associated with in-license arrangements as well as intangible asset amortization.

Currency Translation

Financial statements of operations outside the United States of America (U.S.) generally are measured using the local currency as the functional currency. Adjustments to translate those statements into U.S. dollars are recorded in Accumulated other comprehensive income. Foreign currency remeasurement gains and losses are immaterial for all periods presented.

Cash Flow Presentation

The statement of cash flow is prepared using the indirect method, which reconciles net earnings to cash flow from operating activities. These adjustments include the removal of timing differences between the occurrence of operating receipts and payments and their recognition in net income. The adjustments also remove cash flow from investing and financing activities, which are presented separately from operating activities.

Cash and Cash Equivalents

As described in Note 4, the Company has historically participated in P&G's cash management system; accordingly substantially all cash derived from or required for the Company's operations is applied to or against Divisional equity. Amounts reflected in cash on the balance sheet relate to demand accounts operated directly by the Company to execute decentralized local transactions.

Accounts Receivable

Receivables are recognized net of provision for payment discounts and allowances for doubtful accounts. The allowance for doubtful accounts was \$0.3 and \$0.3 as of June 30, 2009 and 2008, respectively. The provision for payment discounts was \$5.4 and \$5.1 as of June 30, 2009 and 2008, respectively.

Inventory

Inventory is stated at lower of cost or market. Inventory costs are determined on the first-in, first-out method. Provisions are made for obsolete, slow-moving or defective items when appropriate.

Property, Plant and Equipment

Property, plant and equipment is recorded at historical cost reduced by accumulated depreciation. Depreciation expense is recognized over the assets' estimated useful lives using the straight-line method. Machinery and equipment includes office furniture and fixtures (15 year life), computer equipment and capitalized software (3 to 5 year lives) and manufacturing equipment (3 to 20 year lives). Buildings are depreciated over an estimated useful life of 40 years. Estimated useful lives are periodically reviewed and, when appropriate, changes are made prospectively. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts. There were no impairments for the periods presented.

Goodwill and Intangible Assets

Goodwill balances, resulting from business combinations accounted for under the purchase method, are allocated to reporting units expected to derive the benefits of the acquisition. Goodwill is not amortized, but is evaluated annually for impairment or when indicators of a potential impairment are present. The annual evaluation for impairment of goodwill is based on valuation models that incorporate internal projections of expected future cash flow and operating plans. Management believes these projections and operating plan assumptions are also comparable to those that would be used by other marketplace participants.

The cost of intangible assets with determinable useful lives is amortized on a straight-line basis over the estimated periods benefited. Assets with contractual terms are amortized over their respective legal or contractual lives. When certain events or changes in operating conditions occur, an impairment assessment is performed, impairment losses may be recorded, and lives of intangible assets with determinable lives may be adjusted prospectively. See Note 6.

Costs for Exit and Disposal Activities

The Company records restructuring activities, including costs for one-time termination benefits, in accordance with guidance on accounting for costs associated with exit or disposal activities. Asset impairment costs are recorded in accordance with guidance on accounting for the impairment and disposal of long-lived assets. See Note 8.

Stock-Based Compensation

Certain employees of the Company participate in P&G's various share-based incentive plans under which stock options awards may be granted to certain executives and management. See Note 9.

Income Taxes

The Company is included in P&G's consolidated tax returns in various jurisdictions and accounts for income taxes under the separate return method. Under this approach, the Company determines its tax liability and deferred tax assets and liabilities as if it were filing separate tax returns. See Note 11.

New Accounting Pronouncements and Policies

In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. This new guidance revises the method of accounting for a number of aspects of business combinations and non-controlling interests and will be effective for the Company during its fiscal year beginning July 1, 2009. The adoption of this guidance will not have a material effect on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued new accounting guidance on accounting for collaborative arrangements, which defines collaborative arrangements and requires that transactions with third parties that do not participate in the arrangement be reported in accordance with existing accounting guidance on reporting revenue gross as a principal versus net as an agent. If payments between collaboration partners are not within the scope of other authoritative accounting literature, a reasonable, rational and consistent accounting policy is to be elected with respect to income statement line item classification. This new

guidance will be effective for the Company during its fiscal year beginning July 1, 2009. The adoption of this guidance will not have a material effect on the Company's financial position, results of operations or cash flows.

On July 1, 2008, the Company adopted new accounting guidance on fair value measurements for certain financial assets and liabilities without impact to the Company. The new guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The new guidance is effective for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis beginning July 1, 2009 and will not have a material effect on the Company's financial position, results of operations or cash flows.

Note 4. Related Party Transactions

These statements reflect allocated expenses associated with centralized P&G support functions including: legal, accounting, tax, treasury, internal audit, information technology, human resources and other services. The costs associated with these generally include all payroll and benefit costs as well as overhead costs related to the support functions. P&G also allocated costs to the Company associated with office facilities, corporate insurance coverage and medical, pension, post-retirement and other health plan costs attributed to the Company employees participating in P&G sponsored plans. Allocations are based on a number of utilization measures including headcount, square footage and proportionate effort. Where determinations based on utilization are impracticable, P&G uses other methods and criteria such as net sales that are believed to produce reasonable estimates of costs attributable to the Company. All such amounts have been deemed to have been paid by the Company to P&G in the period in which the costs were recorded.

Central treasury activities include the investment of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt and interest rate management. All P&G funding to the Company since inception has been accounted for as capital contributions from P&G and all cash remittances from the Company to P&G have been accounted for as distributions to P&G. Accordingly, no debt or related interest charges from P&G are reflected in these combined financial statements. For all periods presented, the Company had significant net positive cash flow, which has been accounted for as distributions to P&G.

Note 5. Co-promotion and Licensing Agreements

The Company and sanofi-aventis ("s-a") are parties to an agreement to co-promote Actonel on a global basis, excluding Japan. Pursuant to the agreement, a management committee comprised of equal representation from the Company and s-a is responsible for overseeing the development and promotion of Actonel. The rights and obligations of the Company and s-a are specified by geographic market. In certain geographic markets, the Company and s-a share development and promotion costs as well as product profits based on contractual percentages. Upfront cash incentive payments received by the Company are deferred and amortized to other operating expense/(income) over the remaining contract term.

In geographic markets where the Company is deemed to be the principal in transactions with customers, revenues and related product costs are recognized on a gross basis. The Company's share of development and promotion costs are recognized within Selling, general and administrative expense. Contractual profit sharing costs are recognized in other operating expense. These profit sharing costs were \$472.5 in fiscal 2009, \$546.8 in fiscal 2008 and \$554.8 in fiscal 2007.

In geographic markets where the Company is not the principal in transactions with customers, the Company recognizes revenue, on a net basis, for amounts earned based on s-a's sale transactions with its customers. These amounts were \$153.3 in fiscal 2009, \$164.4 in fiscal 2008 and \$155.0 in fiscal 2007 and are included within Net sales.

The s-a agreement term is until January 1, 2015. In the event either the Company or s-a experience a change-in-control, the other party has the option to either: 1) continue with the co-promotion agreement with the acquiring entity, or 2) require the acquiring entity to purchase its rights and obligations under the agreement for an amount determined by a valuation process specified in the contract. In addition, if the acquiring party is one of three pre-specified entities, a third option is available, to require the acquiring entity to sell its rights and obligations under the agreement for an amount determined by a valuation process specified in the contract.

The Company and Novartis are parties to an agreement to co-promote Enablex, developed by Novartis, in the United States. The Company and Novartis share development and promotion costs pursuant to the agreement. Such costs incurred by the

Company are included within Selling, general and administrative expense. The Company receives a contractual percentage of Novartis' sales of Enablex, which is recorded on a net basis in Net sales. The Company recognized an intangible asset for the initial non-refundable payments to Novartis for the rights granted to the Company under the agreement. These amounts are being amortized to expense over the remaining Enablex patent life of 5 years; amounts are recognized within other operating expense. The Company is obligated to pay Novartis a maximum of \$20.0 by March 31, 2012 if certain clinical and sales milestones are achieved.

The Company acquired the exclusive marketing and distribution rights for Asacol in the United Kingdom in December 2001. The Company recognized an intangible asset for the amounts paid for these rights, which is being amortized over its estimated economic life of 9.5 years remaining. For other geographic markets in which the Company does not own marketing and distribution rights of Asacol, the Company pays a royalty fee based on its net sales of Asacol; amounts are recognized within other operating expense. These amounts were \$30.5 in fiscal 2009, \$25.7 in fiscal 2008, and \$21.0 in fiscal 2007.

Note 6. Goodwill and Intangible Assets

The change in the net carrying amount of goodwill was as follows:

<u>Years ended June</u>	<u>2009</u>	<u>2008</u>
Total goodwill, beginning of year	\$165.3	\$150.8
Divestiture	—	(3.4)
Foreign currency translation	(12.5)	17.9
Total goodwill, end of year	<u>\$152.8</u>	<u>\$165.3</u>

Components of the Company's identifiable intangible assets, all of which have determinable lives, are as follows:

<u>Years ended June</u>	<u>2009</u>			<u>2008</u>			<u>Remaining life</u>
	<u>Gross carrying amount</u>	<u>Accumulated amortization</u>	<u>Net carrying amount</u>	<u>Gross carrying amount</u>	<u>Accumulated amortization</u>	<u>Net carrying amount</u>	
Asacol	\$ 237.1	\$ (93.1)	\$ 144.0	\$ 264.5	\$ (88.0)	\$ 176.5	9.5 yrs
Enablex	70.0	(27.3)	42.7	70.0	(20.5)	49.5	5.0 yrs
All other	59.6	(38.0)	21.6	64.6	(34.0)	30.6	4-13.5 yrs
Total	<u>\$ 366.7</u>	<u>\$ (158.4)</u>	<u>\$ 208.3</u>	<u>\$ 399.1</u>	<u>\$ (142.5)</u>	<u>\$ 256.6</u>	

The amortization expense of intangibles for the years ended June 30, 2009, 2008 and 2007 was \$24.4, \$25.1, and \$24.0, respectively. The Company regularly reviews its products' remaining useful lives based on each product's estimated future cash flows considering the introduction of generic drugs, regulatory changes, changes in contractual arrangements and changes in business strategy. Impairment charges are recognized to the extent an asset's book carrying value exceeds its estimated fair value (derived from discounted cash flow projections). Based on its reviews, the Company recorded non-cash impairment charges on intangible assets for fiscal 2009, 2008, and 2007 of \$1.8, \$2.8, and \$8.3, respectively. The impairment charges relate to several individual Western Europe intangible assets, none of which were individually significant. Estimated amortization expense over the next five years is as follows: 2010 - \$23.0; 2011 - \$22.8; 2012 - \$22.8; 2013 - \$22.6; and 2014 - \$21.0. These estimates do not reflect the impact of future foreign exchange rate changes.

Note 7. Supplemental Financial Information

Selected components of Prepaid and other current assets are set forth below:

Years ended June 30	2009	2008
Royalty receivables	\$33.8	\$27.3
Other	25.5	41.1
Prepaid and other current assets	<u>\$59.3</u>	<u>\$68.4</u>

Selected components of Accrued expenses and other liabilities are set forth below:

Years ended June 30	2009	2008
Sanofi-aventis co-promotion accrual	\$163.6	\$187.2
Product rebates	121.5	131.0
Sales returns	29.2	36.3
Deferred contract incentives - current	8.8	24.3
Other	87.4	109.3
Accrued expenses and other liabilities	<u>\$410.5</u>	<u>\$488.1</u>

Selected components of other noncurrent liabilities are set forth below:

Years ended June 30	2009	2008
Pension liabilities	\$ 65.5	\$ 69.3
Deferred contract incentives - long term	38.9	30.0
Other	6.5	2.0
Other noncurrent liabilities	<u>\$110.9</u>	<u>\$101.3</u>

Note 8. Restructuring

The Company established a number of restructuring programs related to manufacturing and workforce rationalization efforts to maintain a competitive cost structure. Costs for such programs primarily include employee related separation benefits as well as charges related to accelerated depreciation and asset write-downs. The programs primarily relate to moving toward an external (licensing) innovation model and the outsourcing of certain production and technology facilities. Existing restructuring activities are expected to be substantially complete in fiscal 2010. Given the nature and duration of the programs, costs to be incurred in future years are subject to significant judgment to estimate timing and amounts, and may change over time.

The following table summarizes the changes in the restructuring reserve balances:

	Employee separation and other cash related costs	
Reserve balance at June 30, 2007	\$	18.8
Charges		10.2
Payments		(20.4)
Reserve balance at June 30, 2008	\$	<u>8.6</u>
Charges		33.4
Payments		(26.8)
Reserve balance at June 30, 2009	\$	<u>15.2</u>

Employee Related Separation and Other Cash Related Costs

Employee separation and other cash related costs primarily relate to severance packages, outplacement, training and health benefits. The packages are predominantly voluntary and are formula-driven, based on salary levels and past service. The current and planned separations span across the organization, including manufacturing, selling, research and administrative positions. The ending reserve balances are included in Accrued expenses and other liabilities. Separation charges for manufacturing employees and selling, general and administrative employees are included in the Cost of products sold and Selling, general and administrative expense, respectively.

Accelerated Depreciation and Asset Write-Downs

Charges for accelerated depreciation relate to long-lived assets that will be taken out of service prior to the end of their originally established useful lives. The Company has shortened the estimated useful lives of such assets, resulting in incremental depreciation expense over the newly estimated service period. Asset write-downs relate to the establishment of new carrying values for assets held for sale or disposal. These assets are in the process of being removed from service and expected to be disposed of or sold within the next 12 months. These charges represent the write-down of assets to the amount expected to be realized upon sale or disposal. Accelerated depreciation and asset write-down charges related to restructuring activities were \$22.3 and \$9.0 for fiscal 2009 and 2008, respectively. Accelerated depreciation and asset write-down charges for manufacturing assets and other assets are included in Cost of products sold and Selling, general and administrative expense.

Note 9. Stock-Based Compensation

Certain of the Company's employees have been granted P&G stock options under P&G's primary stock-based compensation plan. Under this plan, stock options are granted annually to key managers with exercise prices equal to the market price of the underlying common stock on the date of grant. Grants issued under this plan vest after three years and have a 10-year life. Grants issued from July 1998 through August 2002 vest after three years and have a 15-year life, while grants issued prior to July 1998 vest after one year and have a 10-year life. In addition to the grants made to key managers, a certain number of the Company's employees have been granted P&G stock options for which vesting terms and option periods are not substantially different. There are other grants of restricted stock units.

Total stock-based compensation expense for stock option grants and restricted stock units was \$15.4, \$20.1 and \$23.9 for fiscal 2009, 2008 and 2007, respectively.

A binomial lattice-based model is utilized for the valuation of stock option grants. Assumptions utilized in the model, which are evaluated and revised, as necessary, to reflect market conditions and experience, were as follows:

Years ended June 30	2009	2008	2007
Interest rate	0.7%-3.8%	1.3%-3.8%	4.3%-4.8%
Weighted average interest rate	3.6%	3.4%	4.5%
Dividend yield	2.0%	1.9%	1.9%
Expected volatility	18%-34%	19%-25%	16%-20%
Weighted average volatility	21%	20%	19%
Expected life in years	8.7	8.3	8.7

Because lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed in the preceding table. Expected volatilities are based on a combination of historical volatility of P&G stock and implied volatilities of call options on P&G stock. The Company uses historical data to estimate option exercise and employee termination patterns within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding. The interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes stock option activity under the P&G plans as it relates to employees of the Company:

	Options (in thousands)	Weighted avg. exercise price	Weighted avg. remaining contractual life in years	Aggregate intrinsic value (in millions)
Balance, June 30, 2006	10,525	\$ 45.65		
Granted	1,279	63.36		
Exercised	(461)	36.11		
Transfers in/(out)	(1,164)	45.73		
Balance, June 30, 2007	10,179	\$ 48.23	7.5	\$ 134.7
Granted	870	66.30		
Exercised	(680)	40.76		
Transfers in/(out)	(3,058)	47.70		
Balance, June 30, 2008	7,311	\$ 51.45	7.2	\$ 75.7
Granted	749	49.68		
Exercised	(69)	41.62		
Transfers in/(out)	(2,353)	52.85		
Balance, June 30, 2009	5,638	\$ 50.85	6.6	\$ 25.4
Exercisable, June 30, 2007	6,410	\$ 41.89	6.8	\$ 124.1
Exercisable, June 30, 2008	4,545	44.31	6.3	75.1
Exercisable, June 30, 2009	3,712	46.70	5.5	23.4

The weighted average grant-date fair value of options granted was \$11.52, \$15.87 and \$17.30 per share in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. The total intrinsic value of options exercised was \$1.5, \$18.1 and \$12.4 in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. The total grant-date fair value of options that vested during fiscal 2009, fiscal 2008 and fiscal 2007 was \$21.8, \$21.0 and \$24.5, respectively. Transfers in/(out) represent the net number of options associated with employees transferring in/(out) of the Company from/to P&G.

At June 30, 2009, there was \$13.7 of compensation cost that has not yet been recognized related to nonvested stock options. That cost is expected to be recognized over a remaining weighted average period of 1.6 years under the ongoing P&G plan.

Note 10. Post-retirement Benefits

Multi-employer plans

Certain employees of the Company participate in P&G's pension and other post-retirement employee benefit plans. Most of these plans are accounted for by the Company as multi-employer plans which require the Company to expense its annual contributions.

P&G has defined contribution plans which cover the majority of its U.S. employees, including the employees of the Company. These plans are fully funded. P&G generally makes contributions to participants' accounts based on individual base salaries and years of service. For the primary U.S. defined contribution plan, the contribution rate is set annually. Total contributions for this plan approximated 15% of total participants' annual wages and salaries in fiscal 2009, 2008 and 2007. Defined contribution benefit expenses allocated to the Company were \$19.4, \$22.5 and \$25.4 for fiscal 2009, 2008 and 2007, respectively.

P&G provides defined benefit pension plans for employees who become eligible for these benefits when they meet minimum age and service requirements. Defined benefit pension plan participants are mainly non-U.S. based employees. Retiree defined benefit pension expenses allocated to the Company were \$3.5, \$4.7 and \$3.8 for fiscal 2009, 2008 and 2007, respectively.

P&G provides certain other retiree benefits, primarily health care and life insurance, for employees who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require cost sharing with retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. Retiree benefits expenses allocated to the Company were \$2.5, \$2.7 and \$2.4 for fiscal 2009, 2008 and 2007, respectively.

Legally transferring plans

Defined benefit pension plans in France, Switzerland, Germany and Italy are required by law to be separable by individual business and therefore the funded status of these plans as they relate to the pharmaceuticals business is included in the Company's balance sheet. The following provides a reconciliation of benefit obligations, plan assets, funded status, pension cost and other information related to these plans. The Company uses a June 30 measurement date for defined benefit pension plans and other retiree benefit plans.

Years ended June 30	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 87.5	\$ 81.4
Service cost	2.1	2.8
Interest cost	4.5	4.4
Participants' contributions	0.1	0.1
Actuarial loss (gain)	0.3	(10.7)
Currency translation and other	(12.5)	13.0
Benefits payments	<u>(3.4)</u>	<u>(3.5)</u>
Benefit obligation at end of year	78.6	87.5
Change in plan assets		
Fair value of plan assets at beginning of year	18.7	19.5
Actual return on plan assets	(2.7)	(2.1)
Employer contributions	3.0	3.5
Participants' contributions	0.1	0.1
Currency translation and other	(2.3)	1.2
Benefits payments	<u>(3.4)</u>	<u>(3.5)</u>
Fair value of plan assets at end of year	<u>13.4</u>	<u>18.7</u>
Funded status end of year	<u><u>\$(65.2)</u></u>	<u><u>\$(68.8)</u></u>
Years ended June 30	2009	2008
Classification of net amount recognized		
Other noncurrent assets - prepaid benefit cost	\$ 0.4	\$ 0.6
Accrued expenses and other liabilities - accrued benefit cost	(0.1)	(0.1)
Other noncurrent liabilities - accrued benefit cost	<u>(65.5)</u>	<u>(69.3)</u>
Net amounts recognized at June 30	<u><u>\$(65.2)</u></u>	<u><u>\$(68.8)</u></u>
Amounts recognized in Accumulated other comprehensive income (AOCI)		
Net actuarial loss (gain)	\$ (0.2)	\$ (3.7)
Net prior service cost	<u>1.0</u>	<u>1.2</u>
Net amounts recognized in AOCI	<u><u>\$ 0.8</u></u>	<u><u>\$ (2.5)</u></u>
Change in plan assets and benefit obligations recognized in AOCI		
Net actuarial loss (gain) - current year	\$ 4.2	\$ (7.2)
Amortization of net actuarial loss	0.1	—
Amortization of prior service (cost) / credit	(0.1)	(0.3)
Currency translation and other	<u>(0.9)</u>	<u>1.8</u>
Total change in AOCI	<u><u>\$ 3.3</u></u>	<u><u>\$ (5.7)</u></u>
Net amounts recognized in periodic benefit cost and AOCI	\$ 8.8	\$ 0.4

The accumulated benefit obligation for the plans required by law to be separable by individual business was \$68.2 and \$74.1 at June 30, 2009 and 2008, respectively. On June 30, 2007, we adopted the new accounting guidance on pensions. The adoption of the new guidance resulted in a decrease to Divisional equity as of June 30, 2007, of \$1.8 net of tax of \$1.1, which was reflected as a cumulative effect of a change in accounting principle.

Pension plans with accumulated and projected benefit obligations in excess of plan assets consist of the following:

Year ended June 30	2009
Plans with accumulated and projected benefit obligations in excess of assets	
Projected benefit obligation	\$78.6
Accumulated benefit obligation	68.2
Assets	13.4

Net periodic benefit costs

Components of the net periodic benefit cost were as follows:

Years ended June 30	2009	2008	2007
Components of net periodic benefit cost			
Service Cost	\$ 2.1	\$ 2.8	\$ 3.3
Interest cost	4.5	4.4	3.8
Expected return on plan assets	(1.1)	(1.4)	(1.2)
Amortization of prior service cost	0.1	0.3	0.3
Amortization of net actuarial loss (gain)	(0.1)	—	0.3
Net periodic benefit cost	<u>\$ 5.5</u>	<u>\$ 6.1</u>	<u>\$ 6.5</u>

Amounts expected to be amortized from accumulated other comprehensive income into net period benefit cost during the year ending June 30, 2010, are \$0.1 and \$0.1 related to net actuarial loss and net prior service cost, respectively.

Assumptions

We determine our actuarial assumptions on an annual basis. These assumptions are weighted to reflect each country that may have an impact on the cost of providing retirement benefits. The weighted average assumptions for the defined benefit calculations were as follows:

Years ended June 30	2009	2008
Weighted average assumptions used to determine benefit obligations		
Discount rate	6.2%	6.2%
Rate of compensation increase	2.8%	2.8%
Weighted average assumptions used to determine net periodic pension cost		
Discount rate	6.2%	6.2%
Long term expected return on plan assets	6.8%	7.2%
Rate of compensation increase	2.8%	2.9%

Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. These include historical rates of return of broad equity and bond indices and projected long-term rates of return obtained from pension investment consultants. The expected long-term rates of return for plan assets are 8%-9% for equities and 5%-6% for bonds.

Plan Assets

Our target asset allocation for the year ended June 30, 2009, and actual asset allocation by asset category as of June 30, 2009 and 2008, were as follows:

Asset category	Target asset	Asset allocation at June 30	
	allocation	2009	2008
Equity securities	50%	49%	50%
Debt securities	50%	49%	49%
Cash	0%	2%	1%
Total	100%	100%	100%

Our investment objective for defined benefit retirement plan assets is to meet the plans' benefit obligations, while minimizing the potential for future required Company plan contributions. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term investment return and risk. Target ranges for asset allocations are determined by matching the actuarial projections of the plans' future liabilities and benefit payments with expected long-term rates of return on the assets, taking into account investment return volatility and correlations across asset classes. Plan assets are diversified across several investment managers and are generally invested in liquid funds that are selected to track broad market equity and bond indices. Investment risk is carefully controlled with plan assets rebalanced to target allocations on a periodic basis and continual monitoring of investment managers' performance relative to the investment guidelines established with each investment manager.

Cash Flows

Management's best estimate of cash requirements for the defined benefit retirement plans for the year ending June 30, 2010, is approximately \$4.4. This is comprised of \$0.2 in expected benefit payments from the Company directly to participants of unfunded plans and \$4.2 of expected contributions to funded plans. Expected contributions are dependent on many variables, including the variability of the market value of the plan assets as compared to the benefit obligation and other market or regulatory conditions. In addition, we take into consideration our business investment opportunities and resulting cash requirements. Accordingly, actual funding may differ significantly from current estimates.

Total benefit payments expected to be paid to participants, which include payments funded from the Company's assets, as discussed above, as well as payments paid from the plans, are as follows:

Expected benefit payments

2010	\$ 4.8
2011	3.8
2012	3.9
2013	4.0
2014	3.9
2015-2019	23.7

Note 11. Income Taxes

Income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and are adjusted for any changes in such rates in the period of change.

Earnings before income taxes consisted of the following:

Years ended June 30	2009	2008	2007
United States	\$646.7	\$523.2	\$377.6
International	171.8	157.0	175.5
Total	<u>\$818.5</u>	<u>\$680.2</u>	<u>\$553.1</u>

The provision for income taxes consisted of the following:

Years ended June 30	2009	2008	2007
Current tax expense			
U.S. Federal	\$242.2	\$220.5	\$166.2
International	38.0	32.3	26.7
U.S. State and local	4.1	5.6	6.7
Total current tax expense	<u>284.3</u>	<u>258.4</u>	<u>199.6</u>
Deferred tax expense			
U.S. Federal	(16.0)	(40.3)	(22.7)
International and other	10.9	(7.3)	(13.1)
Total deferred tax expense	<u>(5.1)</u>	<u>(47.6)</u>	<u>(35.8)</u>
Total tax expense	<u>\$279.2</u>	<u>\$210.8</u>	<u>\$163.8</u>

A reconciliation of the U.S. federal statutory income tax rate to our actual income tax rate is provided below:

Years ended June 30	2009	2008	2007
U.S. Federal statutory income tax rate	35.0%	35.0%	35.0%
Country mix impacts of foreign operations	-1.6%	-5.2%	-7.6%
State taxes	0.6%	0.9%	1.0%
Other	0.1%	0.3%	1.2%
Effective income tax rate	<u>34.1%</u>	<u>31.0%</u>	<u>29.6%</u>

We have undistributed earnings of foreign subsidiaries of approximately \$522.5 at June 30, 2009, for which deferred taxes have not been provided. Such earnings are considered indefinitely invested in the foreign subsidiaries. If such earnings were repatriated, additional tax expense may result, although the calculation of such additional taxes is not practicable.

On July 1, 2007, we adopted new accounting guidance on the accounting for uncertainty in income taxes. The adoption of the new guidance resulted in a decrease to Divisional equity as of July 1, 2007, of \$4.1, which was reflected as a cumulative effect of a change in accounting principle, with a corresponding increase to the net liability for unrecognized tax benefits. The impact primarily reflects the accrual of additional statutory interest and penalties as required by the new accounting guidance, partially offset by adjustments to existing unrecognized tax benefits to comply with measurement principles. Additionally, the Company historically classified unrecognized tax benefits in accrued expenses and other liabilities. As a result of the adoption of the new guidance, unrecognized tax benefits not expected to be paid in the next 12 months were reclassified to noncurrent liabilities.

A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows:

Years ended June 30	2009	2008
Beginning balance	\$23.3	\$ 85.6
Decrease in tax positions for prior years	—	(66.4)
Increase in tax positions for current years	0.8	2.1
Settlements with tax authorities	(1.2)	—
Currency translation	(1.2)	2.0
Balance at June 30	<u>\$21.7</u>	<u>\$ 23.3</u>

The Company is subject to taxation in over 10 taxable jurisdictions, and at any point in time, has several audits underway at various stages of completion. We evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statutes of limitations. Such adjustments are reflected in the tax provision as appropriate. The Company has made a concerted effort to bring its audit inventory to a more current position. We have done this by working with tax authorities to conduct audits for several open years at once. We have tax years open ranging from 1997 and forward. We are generally not able to reliably estimate the ultimate settlement amounts until the close of the audit. While we do not expect material changes, it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions will significantly increase or decrease within the next 12 months related to the audits described above. At this time we are not able to make a reasonable estimate of the range of impact on the balance of unrecognized tax benefits or the impact on the effective tax rate related to these items.

Included in the total unrecognized tax benefit at June 30, 2009 is \$20.5 that, if recognized, would impact the effective tax rate in future periods.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2009 and 2008, we had accrued interest of \$6.0 and \$4.8 and penalties of \$0.3 and \$0.3, respectively, that are not included in the above table. During the fiscal years ended June 30, 2009 and 2008, we recognized \$1.2 and (\$8.8) in interest, respectively. During the fiscal years ended June 30, 2009 and 2008, we recognized \$0.03 and \$0.02 in penalties, respectively.

Deferred income tax assets and liabilities are comprised of the following:

Years ended June 30	2009	2008
Deferred tax assets		
Goodwill and other intangible assets	\$ 22.6	\$ 23.8
Fixed assets	14.0	7.2
Loss and other carryforwards	7.3	7.8
Pension and postretirement benefits	3.9	2.7
Accrued marketing and promotion expense	2.4	2.0
Accrued compensation and benefits	1.8	1.9
Inventory	1.5	1.5
Other	65.0	73.8
Valuation allowances	(3.7)	—
Total deferred tax assets	<u>\$114.8</u>	<u>\$120.7</u>
Deferred tax liabilities		
Goodwill and other intangible assets	1.6	1.8
Fixed assets	0.2	4.4
Total deferred tax liabilities	<u>\$ 1.8</u>	<u>\$ 6.2</u>

Net operating loss carry forwards were \$24.3 and \$26.1 at June 30, 2009 and 2008, respectively. If unused, the full amount will expire in 2020.

Note 12. Commitments and Contingencies

Purchase Commitments

The Company has purchase commitments for materials, supplies, services and property, plant and equipment as part of the normal course of business. Commitments made under take-or-pay obligations are as follows: fiscal 2010 - \$5.0, fiscal 2011 - \$3.1, fiscal 2012 - \$3.0, fiscal 2013 - \$2.8, fiscal 2014 - \$2.6 and \$1.0 thereafter. Such amounts represent future purchases in line with expected usage to obtain favorable pricing. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not expect to incur penalty provisions for early termination that would materially affect its financial condition, cash flow or results of operations.

Operating Leases

The Company leases certain property and equipment for varying periods. Operating lease expense was \$5.6, \$5.9 and \$5.6 in fiscal 2009, 2008 and 2007, respectively. Future minimum rental commitments under non-cancelable operating leases are as follows: fiscal 2010 - \$4.2, fiscal 2011 - \$2.3, fiscal 2012 - \$1.0, fiscal 2013 - \$0.9, fiscal 2014 - \$0.9 and \$1.3 thereafter.

Guarantees

The Company has not issued any financial guarantees on behalf of suppliers or customers.

Litigation

The Company is subject to various legal proceedings and claims covering a wide range of matters such as product liability and patent litigation arising out of the normal course of business.

In October 2007, Medeva Pharma Suisse AG and the Company filed a patent infringement lawsuit against Roxane Laboratories, Inc. ("Roxane") in the U.S. District Court for the District of New Jersey (the "Court"). This lawsuit was filed in response to a notice that Roxane had filed an Abbreviated New Drug Application (ANDA) with the U.S. FDA seeking approval for a generic version of the Company's Asacol product. The lawsuit asserts that by filing what is known as a "Paragraph IV Certification" as part of its ANDA, Roxane is infringing one of the patents that protects the Asacol product. That patent is owned by Medeva Pharma Suisse AG and is exclusively licensed to the Company. By law, the lawsuit will delay FDA's approval of Roxane's proposed generic product for a period of the earlier of 30 months from the filing of the lawsuit (March 2010) or resolution of the patent infringement lawsuit by the Court. Resolution of the lawsuit in the Company's favor will prevent Roxane from marketing its generic product in the U.S. before expiration of the asserted patent in July 2013. We cannot at this time predict the outcome of the lawsuit or its final financial impact, or whether the FDA will otherwise find that Roxane's product is approvable. However, patent litigation of this nature has some risk, and an unappealable adverse outcome or unfavorable settlement could materially impact future financial results for the Company.

As of July 2009, the Company is a defendant in 70 cases involving 78 plaintiffs who allege, among other things, that our bisphosphonate prescription drug Actonel caused them to suffer osteonecrosis of the jaw (ONJ). These cases have been filed in either federal or state courts in the U.S., except for one lawsuit in provincial court in Canada. Sanofi-aventis co-promotes Actonel with the Company and is a defendant in most of the cases, and in some of the cases, manufacturers of other bisphosphonate products are also named as defendants. Plaintiffs have typically asked for unspecified monetary and injunctive relief, as well as attorney's fees. In addition we are aware of three other potential claimants who are under a tolling agreement suspending the statutes of limitation related to their claims. We are in the initial stages of discovery in the litigation, and cannot at this time predict the outcome of these lawsuits and claims or their financial impact. However, substantial damage awards or settlements in this litigation could materially impact future financial results for the Company.

With respect to other legal proceedings and claims, while considerable uncertainty exists, in the opinion of management and its counsel the ultimate resolution of the various lawsuits and claims will not materially affect the financial position, cash flows or results of operations of the Company.

The Company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the business to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Based on currently available information, we do not believe the ultimate resolution of environmental remediation will have a material adverse effect on our financial position, cash flow or results of operations.

Note 13. Subsequent Events

Effective August 7, 2009, the Company sold its rights to market Actonel in Japan to Ajinomoto Company for \$210.0. Prior to the sale, the Company out-licensed these marketing rights to Ajinomoto in exchange for ongoing royalty payments based on the level of sales generated by Ajinomoto. The total royalty income recognized under that arrangement was \$44.5, \$36.3 and \$32.9 in fiscal 2009, 2008 and 2007, respectively, which is included within Net sales.

On August 24, 2009, P&G signed an agreement to sell the P&G Pharmaceutical business to Warner Chilcott for an up-front cash payment of \$3.1 billion. The transaction is expected to close by the end of the 2009 calendar year, pending necessary regulatory approvals.

Procter & Gamble Pharmaceuticals

Condensed Combined Financial Statements as of
September 30, 2009 and June 30, 2009 and for the
Three Months Ended September 30, 2009 and 2008

**INDEX TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS OF
PROCTER & GAMBLE PHARMACEUTICALS**

Condensed Combined Financial Statements	Page
Condensed Combined Statements of Income for the three months ended September 30, 2009 and 2008	1
Condensed Combined Balance Sheets as of September 30, 2009 and June 30, 2009	2
Condensed Combined Statements of Cash Flows for the three months ended September 30, 2009 and 2008	3
Notes to Unaudited Condensed Combined Financial Statements	4

Procter & Gamble Pharmaceuticals

CONDENSED COMBINED STATEMENTS OF INCOME (Unaudited)
Three months ended September 30, 2009 and 2008
(Dollars in millions)

	Three months ended	Three months ended
	September 30, 2009	September 30, 2008
Net sales	\$ 577.7	\$ 602.0
Cost of products sold	44.9	59.8
Gross profit	532.8	542.2
Selling, general and administrative expense	166.1	220.2
Net gains on sales and dispositions of assets	(193.5)	(35.8)
Other operating expense	131.3	135.2
Operating income	428.9	222.6
Income taxes	144.9	75.6
Net income	\$ 284.0	\$ 147.0

See notes to unaudited condensed combined financial statements.

Procter & Gamble Pharmaceuticals

CONDENSED COMBINED BALANCE SHEETS (Unaudited)
September 30, 2009 and June 30, 2009
(Dollars in millions)

	<u>September 30, 2009</u>	<u>June 30, 2009</u>
Current assets:		
Cash & cash equivalents	\$ 4.4	\$ 2.7
Accounts receivable, net	260.5	280.7
Inventories		
Materials and supplies	12.9	7.9
Work in process	31.7	33.0
Finished goods	29.6	34.3
Total inventories	74.2	75.2
Deferred income taxes	59.8	59.4
Prepaid and other current assets	44.4	59.3
Total current assets	<u>443.3</u>	<u>477.3</u>
Property, plant and equipment		
Buildings	84.1	83.8
Machinery and equipment	196.8	192.0
Land	18.2	17.8
Gross property, plant and equipment	299.1	293.6
Accumulated depreciation	(224.0)	(210.2)
Net property, plant and equipment	<u>75.1</u>	<u>83.4</u>
Goodwill	156.7	152.8
Intangible assets, net	208.0	208.3
Net goodwill and intangible assets	<u>364.7</u>	<u>361.1</u>
Deferred income taxes	53.1	53.6
Other noncurrent assets	12.9	14.0
Total assets	<u>\$ 949.1</u>	<u>\$ 989.4</u>
Current liabilities:		
Accounts payable	\$ 54.4	\$ 78.5
Accrued expenses and other liabilities	429.6	410.5
Total current liabilities	<u>484.0</u>	<u>489.0</u>
Liability for unrecognized tax benefits	28.0	28.0
Other noncurrent liabilities	117.0	110.9
Total liabilities	<u>629.0</u>	<u>627.9</u>
Commitments and contingencies (Note 12)		
Equity:		
Accumulated other comprehensive income	81.9	74.5
Divisional equity	238.2	287.0
Total equity	<u>320.1</u>	<u>361.5</u>
Total liabilities and equity	<u>\$ 949.1</u>	<u>\$ 989.4</u>

See notes to unaudited condensed combined financial statements.

Procter & Gamble Pharmaceuticals

CONDENSED COMBINED STATEMENTS OF CASH FLOWS (Unaudited)
Three months ended September 30, 2009 and 2008
(Dollars in millions)

	Three months	Three months
	ended	ended
	September 30,	September 30,
	2009	2008
Cash and cash equivalents, beginning of period	\$ 2.7	\$ 2.7
Operating activities:		
Net income	284.0	147.0
Depreciation	5.8	8.2
Amortization of intangible assets	6.1	6.7
Net gains on sales and dispositions of assets	(193.5)	(35.8)
Change in deferred income taxes	—	0.6
Change in accounts receivable	22.5	39.0
Change in inventories	2.7	0.9
Change in prepaid and other current assets	15.6	(0.6)
Change in other noncurrent assets	1.2	0.7
Change in accounts payable	(25.0)	(12.2)
Change in accrued expenses and other liabilities	(1.5)	1.2
Change in other noncurrent liabilities and other	3.0	(5.6)
Total operating activities	<u>120.9</u>	<u>150.1</u>
Investing activities:		
Proceeds from sales and dispositions of assets	210.0	37.0
Capital expenditures	(0.8)	(2.1)
Total investing activities	<u>209.2</u>	<u>34.9</u>
Financing activities:		
Distributions to P&G, net	(328.6)	(184.1)
Total financing activities	<u>(328.6)</u>	<u>(184.1)</u>
Effect of foreign currency on cash & cash equivalents	0.2	(0.3)
Net change in cash & cash equivalents	<u>1.7</u>	<u>0.6</u>
Cash and cash equivalents, end of period	<u>\$ 4.4</u>	<u>\$ 3.3</u>
Supplemental disclosure:		
Taxes paid (considered remitted to P&G in the period recorded)	\$ 145.0	\$ 77.9
Non-cash transfers of fixed assets to P&G, net	\$ 4.2	\$ 1.8

See notes to unaudited condensed combined financial statements.

Procter & Gamble Pharmaceuticals

NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

Three months ended September 30, 2009 and 2008

(Dollars in millions, except as otherwise specified)

Note 1. Nature of Operations

Procter & Gamble Pharmaceuticals (“The Company”) is a combination of wholly owned subsidiaries and operations within The Procter and Gamble Company (“P&G”).

The Company primarily engages in manufacturing, marketing and distributing prescription pharmaceuticals to wholesalers and retailers, on a global basis, primarily under the Actonel brand, a treatment for postmenopausal osteoporosis, and the Asacol brand, a treatment for inflammatory bowel disease. The Company begins to lose Actonel patent exclusivity in 2014 in the United States (U.S.) and 2010 in Western Europe and Canada. The Company does not have Asacol patent exclusivity in the United Kingdom where it owns the marketing and distribution rights. In geographies in which the Company pays a licensing fee to sell Asacol, patent exclusivity begins to expire in 2013 under the current ownership. The Company primarily operates in the United States, Canada and Western Europe.

On August 24, 2009, P&G signed an agreement to sell the P&G Pharmaceuticals business to Warner Chilcott PLC for a cash payment of \$3.1 billion (the “Transaction”). See Note 13.

Note 2. Basis of Presentation

These unaudited condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these unaudited condensed combined financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flow for the interim periods reported. However, such financial statements may not be fully representative of annual results.

These statements should be read in conjunction with the Company’s Combined Financial Statements as of June 30, 2009 and 2008 and for the years ended June 30, 2009, 2008 and 2007. The results of operations for the three-month period ended September 30, 2009 are not necessarily indicative of annual results.

The Company, which comprises all of P&G’s pharmaceuticals business, will separate from P&G upon the closing of the Transaction. The Company’s combined financial statements reflect the historical financial position, results of operations and cash flows as owned by P&G for all periods presented. Prior to the Transaction, P&G has not accounted for the Company as, and the Company has not been operated as, a stand-alone company for the periods presented. The Company’s historical financial statements have been “carved out” from P&G’s consolidated financial statements and reflect assumptions and allocations made by P&G. The combined financial statements do not fully reflect what the Company’s financial position, results of operations and cash flows would have been had the Company been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of what the Company’s results of operations, financial position and cash flows will be in the future.

The Company’s historical combined financial statements were prepared using P&G’s historical basis in the assets and liabilities of the business. The Company’s historical combined financial statements include all revenues, costs, assets and liabilities directly attributable to its business. In addition, certain expenses reflected in the combined financial statements include allocations of corporate expenses from P&G, which in the opinion of management are reasonable. All such costs and expenses have been deemed to have been paid by the Company to P&G in the period in which the costs were recorded. Allocations of current income taxes are deemed to have been remitted, in cash, to P&G in the period the related income taxes were recorded. Amounts due to or from P&G related to a variety of intercompany transactions, including the collection of trade receivables, payment of accounts payable and accrued liabilities, charges of allocated corporate expenses, and current income taxes paid by P&G on behalf of the Company, have been classified within Divisional equity.

The combined financial statements include the Company and its subsidiaries. Intercompany transactions are eliminated.

For the three months ended September 30, 2009, the Company has evaluated subsequent events for potential recognition and disclosure through November 6, 2009.

Note 3. New Accounting Pronouncements and Policies

On July 1, 2009, the Company adopted new accounting guidance on business combinations and non-controlling interests. This new guidance revises the method of accounting for a number of aspects of business combinations and non-controlling interests. The adoption of this guidance did not impact the Company's financial position, results of operations or cash flows.

On July 1, 2009, the Company adopted new accounting guidance on accounting for collaborative arrangements, which defines collaborative arrangements and requires that transactions with third parties that do not participate in the arrangement be reported in accordance with existing accounting guidance on reporting revenue gross as a principal versus net as an agent. If payments between collaboration partners are not within the scope of other authoritative accounting literature, a reasonable, rational and consistent accounting policy is to be elected with respect to income statement line item classification. The adoption of this guidance did not impact the Company's financial position, results of operations or cash flows.

On July 1, 2008, the Company adopted new accounting guidance on fair value measurements for certain financial assets and liabilities. The new guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of this guidance did not impact the Company's financial position, results of operations or cash flows. On July 1, 2009, the Company adopted new accounting guidance on fair value measurements for non-financial assets and liabilities recognized or disclosed on a non-recurring basis. The adoption of this guidance did not materially impact the Company's financial position, results of operations or cash flows.

Note 4. Royalty Arrangements

Royalty revenue from trademark and patent out-licenses, based on third-party sales, is recognized as earned in accordance with contract terms when third-party sales can be reasonably estimated and collection is reasonably assured. These amounts were \$41.2 and \$38.6 for the three months ended September 30, 2009 and 2008, respectively, and are included within Net sales.

Note 5. Co-promotion Agreement with sanofi-aventis

The Company and sanofi-aventis ("s-a") are parties to an agreement to co-promote Actonel on a global basis, excluding Japan. Pursuant to the agreement, a management committee comprised of equal representation from the Company and s-a is responsible for overseeing the development and promotion of Actonel. The rights and obligations of the Company and s-a are specified by geographic market. In certain geographic markets, the Company and s-a share development and promotion costs as well as product profits based on contractual percentages. Upfront cash incentive payments received by the Company are deferred and amortized to Other operating expense over the remaining contract term.

In geographic markets where the Company is deemed to be the principal in transactions with customers, revenues and related product costs are recognized on a gross basis. The Company's share of development and promotion costs are recognized within Selling, general and administrative expense. Contractual profit sharing costs are recognized in Other operating expense. These profit sharing costs were \$110.8 and \$123.8 for the three months ended September 30, 2009 and 2008, respectively.

Note 6. Japan Licensing Agreement Sale

Effective August 7, 2009, the Company sold its rights to market Actonel in Japan to Ajinomoto Company. Proceeds of \$210.0 were received at closing, including \$10.0 for Japanese consumption taxes which were paid by the Company prior to September 30, 2009. The Company recognized a gain on the sale of \$193.8 during the three months ended September 30, 2009. Prior to the sale, the Company out-licensed these marketing rights to Ajinomoto in exchange for ongoing royalty payments based on the level of sales generated by Ajinomoto.

Note 7. Goodwill

The change in the net carrying amount of goodwill was as follows:

	September 30,
Period ended	2009
Total goodwill, beginning of period	\$ 152.8
Foreign currency translation	3.9
Total goodwill, September 30, 2009	<u>\$ 156.7</u>

Note 8. Supplemental Financial Information

Selected components of Prepaid and other current assets are set forth below:

	September 30,	June 30,
<u>Period ended</u>	<u>2009</u>	<u>2009</u>
Royalty receivables	\$ 23.6	\$ 33.8
Other	20.8	25.5
Prepaid and other current assets	<u>\$ 44.4</u>	<u>\$ 59.3</u>

Selected components of Accrued expenses and other liabilities are set forth below:

	September 30,	June 30,
<u>Period ended</u>	<u>2009</u>	<u>2009</u>
Sanofi-aventis co-promotion accrual	\$ 178.0	\$163.6
Product rebates	122.3	121.5
Sales returns	27.3	29.2
Other	102.0	96.2
Accrued expenses and other liabilities	<u>\$ 429.6</u>	<u>\$410.5</u>

Selected components of Other noncurrent liabilities are set forth below:

	September 30,	June 30,
<u>Period ended</u>	<u>2009</u>	<u>2009</u>
Pension liabilities	\$ 67.2	\$ 65.5
Deferred contract incentives - long term	45.9	38.9
Other	3.9	6.5
Other noncurrent liabilities	<u>\$ 117.0</u>	<u>\$110.9</u>

Comprehensive Income

Total comprehensive income is comprised primarily of net earnings and net currency translation gains and losses. Total comprehensive income for the three months ended September 30, 2009 and 2008 was \$291.3 and \$117.2, respectively.

Note 9. Stock-Based Compensation

Total stock-based compensation expense for stock option grants and restricted stock units was \$3.2 and \$4.8 for the three months ended September 30, 2009 and 2008, respectively.

Note 10. Post-retirement Benefits

Legally transferring plans

Defined benefit pension plans in France, Switzerland, Germany and Italy are required by law to be separable by individual business and therefore the funded status of these plans as they relate to the pharmaceuticals business is included in the Company's balance sheet.

Components of the net periodic benefit cost were as follows:

<u>Three months ended</u>	September 30,	September 30,
	<u>2009</u>	<u>2008</u>
Service cost	\$ 0.5	\$ 0.6
Interest cost	1.2	1.2
Expected return on plan assets	(0.2)	(0.3)
Net periodic benefit cost	<u>\$ 1.5</u>	<u>\$ 1.5</u>

Note 11. Income Taxes

The Company is included in P&G's consolidated tax returns in various jurisdictions and accounts for income taxes under the separate return method. Under this approach, the Company determines its tax liability and deferred tax assets and liabilities as if it were filing separate tax returns.

Income taxes are recognized for the amount of taxes payable for the current period and for the impact of deferred tax liabilities and assets, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and are adjusted for any changes in such rates in the period of change.

The provision for income taxes consisted of the following:

<u>Three months ended</u>	September 30,	September 30,
	<u>2009</u>	<u>2008</u>
Current tax expense		
U.S. Federal	\$ 131.2	\$ 66.1
International	11.6	10.7
U.S. state & local	2.2	1.1
Total current tax expense	<u>145.0</u>	<u>77.9</u>
Deferred tax expense		
U.S. Federal	(2.2)	(4.3)
International and other	2.1	2.0
Total deferred tax expense	<u>(0.1)</u>	<u>(2.3)</u>
Total tax expense	<u>\$ 144.9</u>	<u>\$ 75.6</u>

The total effective tax rate of 33.8% differs from the U.S. statutory rate of 35.0% primarily due to the impact of U.S versus foreign pre-tax income mix and the effect of U.S. state income taxes.

Note 12. Commitments and Contingencies

Litigation

The Company is subject to various legal proceedings and claims covering a wide range of matters such as product liability and patent litigation arising out of the normal course of business.

In October 2007, Medeva Pharma Suisse AG and the Company filed a patent infringement lawsuit against Roxane Laboratories, Inc. (“Roxane”) in the U.S. District Court for the District of New Jersey (the “Court”). This lawsuit was filed in response to a notice that Roxane had filed an Abbreviated New Drug Application (ANDA) with the U.S. FDA seeking approval for a generic version of the Company’s Asacol product. The lawsuit asserts that by filing what is known as a “Paragraph IV Certification” as part of its ANDA, Roxane is infringing one of the patents that protects the Asacol product. That patent is owned by Medeva Pharma Suisse AG and is exclusively licensed to the Company. By law, the lawsuit will delay FDA’s approval of Roxane’s proposed generic product for a period of the earlier of 30 months from the filing of the lawsuit (March 2010) or resolution of the patent infringement lawsuit by the Court. Resolution of the lawsuit in the Company’s favor will prevent Roxane from marketing its generic product in the U.S. before expiration of the asserted patent in July 2013. We cannot at this time predict the outcome of the lawsuit or its final financial impact, or whether the FDA will otherwise find that Roxane’s product is approvable. However, patent litigation of this nature has some risk, and an unappealable adverse outcome or unfavorable settlement could materially impact future financial results for the Company.

The Company is a defendant in 78 cases involving 86 plaintiffs who allege, among other things, that our bisphosphonate prescription drug Actonel caused them to suffer osteonecrosis of the jaw (ONJ). These cases have been filed in either federal or state courts in the U.S., except for one lawsuit in provincial court in Canada. Sanofi-aventis co-promotes Actonel with the Company and is a defendant in most of the cases, and in some of the cases, manufacturers of other bisphosphonate products are also named as defendants. Plaintiffs have typically asked for unspecified monetary and injunctive relief, as well as attorney’s fees. In addition, we are aware of three other potential claimants who are under a tolling agreement suspending the statutes of limitation related to their claims. We are in the initial stages of discovery in the litigation, and cannot at this time predict the outcome of these lawsuits and claims or their financial impact. However, substantial damage awards or settlements in this litigation could materially impact future financial results for the Company.

With respect to other legal proceedings and claims, while considerable uncertainty exists, in the opinion of management and its counsel the ultimate resolution of the various lawsuits and claims will not materially affect the financial position, cash flows or results of operations of the Company.

The Company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the business to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Based on currently available information, we do not believe the ultimate resolution of environmental remediation will have a material adverse effect on our financial position, cash flow or results of operations.

Note 13. Subsequent Events

On October 30, 2009, P&G closed the transaction to sell the P&G Pharmaceutical business to Warner Chilcott PLC for a cash payment of \$2.9 billion, representing the agreed-upon purchase price of \$3.1 billion, net of \$0.2 billion in certain closing adjustments.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information has been prepared to reflect estimated adjustments to the financial condition and results of operations of the Company to give effect to:

(i) The September 23, 2009 definitive asset purchase agreement (the “LEO Transaction Agreement”) with LEO Pharma A/S (“LEO”) pursuant to which LEO paid to the Company \$1.0 billion in cash in order to terminate the Company’s exclusive license to distribute LEO’s DOVONEX and TACLONEX products (including all products in LEO’s development pipeline) in the United States and to acquire certain assets related to the Company’s distribution of DOVONEX and TACLONEX products in the United States (the “LEO Transaction”); the transaction was approved by the respective boards of directors of the Company and LEO, and closed simultaneously with the execution of the LEO Transaction Agreement; and

(ii) The acquisition from The Procter & Gamble Company (“P&G”) of P&G’s global branded pharmaceutical business (“PGP”) consummated on October 30, 2009 (the “PGP Acquisition”). The PGP Acquisition was funded through cash on hand and borrowings under the Company’s new senior secured credit facilities. At the closing of the PGP Acquisition on October 30, 2009, the Company borrowed \$1.0 billion under a five-year Term A loan facility and \$1.6 billion under a five-and-a-half-year Term B loan facility. See Note 5 below for a further description of the new senior secured credit facilities.

The unaudited pro forma condensed combined financial statements as of and for the nine months ended September 30, 2009 are based on our historical unaudited consolidated financial statements and the historical audited and unaudited combined financial statements of PGP. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2008 is based on our historical audited consolidated financial statements and the historical audited and unaudited combined financial statements of PGP. Our historical audited consolidated financial statements were filed with our Annual Report on Form 10-K for the year ended December 31, 2008, and our historical unaudited financial statements as of and for the nine months ended September 30, 2009 were filed with our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009. The historical audited and unaudited combined financial statements of PGP are filed with our Current Report on Form 8-K of which this Exhibit 99.3 forms a part. PGP’s audited combined financial statements are presented with the income statement for each financial year ending on June 30. Notes 7 and 8 below describe the method of calculating the statement of operations of PGP for the year ended December 31, 2008, and for the nine months ended September 30, 2009, respectively.

The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes and assumptions as well as the historical consolidated financial statements and related notes of Warner Chilcott and the historical combined financial statements and related notes of PGP. Now that the PGP Acquisition has been completed, we will conduct a review of PGP’s accounting policies in an effort to determine if differences in accounting policies require restatement or reclassification of PGP’s results of operations or financial position to conform to our accounting policies and classifications. As a result of a preliminary review, we have made certain reclassifications within these pro forma financial statements. In particular, we have reclassified royalty obligations related to the global collaboration agreement with Sanofi from other operating expense in PGP’s combined financial statements to selling expense in the pro forma condensed combined financial statements in the amount of \$537.9 million for the year ended December 31, 2008 and \$315.4 million for the nine months ended September 30, 2009. After further review, we may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on these pro forma condensed combined financial statements. During the preparation of these pro forma condensed combined financial statements, we were not aware of any further

material differences other than those described above between the accounting policies of the two companies, and accordingly, these pro forma condensed combined financial statements do not assume any further material differences in accounting policies between the two companies.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2008 and the nine months ended September 30, 2009 assumes that the LEO Transaction and the PGP Acquisition (and the related financing thereof) occurred on January 1, 2008. The unaudited pro forma condensed combined balance sheet as of September 30, 2009 assumes that the PGP Acquisition (and the related financing thereof) occurred on September 30, 2009 (the LEO Transaction is included in our historical balance sheet as of September 30, 2009). The unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only and is not necessarily indicative of the condensed consolidated financial position or results of operations that would have been realized had the LEO Transaction or the PGP Acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated condensed consolidated financial position or future results of operations that the combined company will experience. The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the LEO Transaction and the PGP Acquisition, (2) factually supportable and (3) with respect to the unaudited pro forma condensed combined statements of operations, are expected to have a continuing impact on the combined results. Accordingly, the accompanying unaudited pro forma condensed combined statements of operations do not include any synergies that may be achievable subsequent to the LEO Transaction and the PGP Acquisition, or the impact of any one-time transaction costs.

PGP's historical condensed combined financial statements have been "carved out" from P&G's consolidated financial statements and reflect certain assumptions and allocations made by P&G. PGP's historical condensed combined financial statements include all revenues, costs, assets and liabilities directly attributable to the PGP business. In addition, certain expenses reflected in the condensed combined financial statements include allocations of corporate expenses from P&G. As part of the PGP Acquisition, we entered into a transition services agreement, under which P&G will provide certain services to us that were previously provided when PGP was wholly-owned by P&G. The costs of the transition services agreement, in the aggregate, are expected to be consistent with the costs that P&G has historically allocated to PGP, and no additional adjustments are required with respect to costs to be incurred under the transition services agreement.

The PGP Acquisition has been accounted for as a business purchase combination using the acquisition method of accounting under the provisions of Accounting Standard Codification ("ASC") No. 805, "Business Combinations", ("ASC 805"), and applying the pro forma assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information. The acquisition method of accounting uses the fair value concepts defined in ASC 820, "Fair Value Measurements and Disclosures." ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the PGP Acquisition date and that the fair value of acquired in-process research and development ("IPR&D") be recorded on the balance sheet regardless of the likelihood of success of the related product or technology as of the completion of the PGP Acquisition. The process for estimating the fair values of IPR&D, identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, timing and probability of success to complete in-process projects and projecting regulatory approvals. Under ASC 805, transaction costs are not included as a component of consideration transferred and will be expensed as incurred. The excess of the purchase price (consideration transferred), if any, over the estimated amounts of identifiable assets and liabilities of PGP as of the effective date of the acquisition will be allocated to goodwill in accordance with ASC 805. The purchase price allocation is subject to completion of our analysis of the

fair value of the assets and liabilities of PGP as of the effective date of the PGP Acquisition. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. These adjustments could be material. The final valuation is expected to be completed as soon as practicable but no later than one year from the consummation of the acquisition on October 30, 2009. The establishment of the fair value of the consideration for the acquisition, and the allocation to identifiable tangible and intangible assets and liabilities requires the extensive use of accounting estimates and management judgment. We believe the fair values assigned to the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions based on data currently available.

If the fair value of an asset or liability that arises from a contingency can be determined, the asset or liability would be recognized in accordance with ASC 450, "Accounting for Contingencies" ("ASC 405"). If the fair value is not determinable and the ASC 450 criteria are not met, no asset or liability is recognized.

**Unaudited pro forma condensed combined statement of operations
for the year ended December 31, 2008**

	Year Ended December 31, 2008					Pro forma
	WC	Adjustments for the LEO Transaction (1)	WC post LEO Transaction	PGP(7)	Pro forma adjustments	
	(\$ in millions)					
Revenue						
Net sales	\$919.0	\$ (276.7)	\$ 642.3	\$2,454.0	\$ (39.1)(2)	\$3,057.2
Other revenue	19.1	—	19.1	—	—	19.1
Total revenue	938.1	(276.7)	661.4	2,454.0	(39.1)	3,076.3
Costs, Expenses and Other						
Cost of sales (excluding amortization and impairment of intangible assets)	198.8	(101.2)	97.6	263.6	—	361.2
Selling, general and administrative	192.7	(11.1)	181.6	1,190.5	—	1,372.1
Research and development	50.0	(0.3)	49.7	231.8	—	281.5
Amortization of intangible assets	223.9	(19.6)	204.3	24.8	468.1(4)	697.2
Impairment of intangible assets	163.3	—	163.3	2.8	—	166.1
Interest (income)	(1.3)	—	(1.3)	—	—	(1.3)
Interest expense	94.4	(58.5)	35.9	—	180.3(5)	216.2
Income / (loss) before taxes	16.3	(86.0)	(69.7)	740.5	(687.5)	(16.7)
Provision / (benefit) for income taxes	24.7	(1.0)	23.7	242.4	(189.7)(6)	76.4
Net (loss) / income	<u>\$ (8.4)</u>	<u>\$ (85.0)</u>	<u>\$ (93.4)</u>	<u>\$ 498.1</u>	<u>\$ (497.8)</u>	<u>\$ (93.1)</u>
Earnings / (loss) per share:						
Basic	\$ (0.03)		\$ (0.37)			\$ (0.37)
Diluted	(0.03)		(0.37)			(0.37)

**Unaudited pro forma condensed combined statement of operations
for the nine months ended September 30, 2009**

	Nine Months Ended September 30, 2009					Pro forma
	WC	Adjustments for the LEO Transaction(1)	WC post LEO Transaction	PGP(8)	Pro forma adjustments	
	(\$ in millions)					
Revenue						
Net sales	\$ 732.6	\$ (187.8)	\$ 544.8	\$ 1,686.3	\$ (26.0)(2)	\$ 2,205.1
Other revenue	17.0	—	17.0	—	—	17.0
Total revenue	749.6	(187.8)	561.8	1,686.3	(26.0)	2,222.1
Costs, Expenses and Other						
Cost of sales (excluding amortization and impairment of intangible assets)	140.1	(69.8)	70.3	167.8	—	238.1
Selling, general and administrative	158.9	(7.4)	151.5	735.6	(17.7)(3)	869.4
(Gain) on sale of assets	(393.1)	393.1	—	(193.5)	193.5(2)	—
Research and development	47.4	(0.2)	47.2	121.7	—	168.9
Amortization of intangible assets	171.0	(16.1)	154.9	18.4	298.4(4)	471.7
Impairment of intangible assets	—	—	—	1.8	—	1.8
Interest (income)	(0.1)	—	(0.1)	—	—	(0.1)
Interest expense	57.3	(31.1)	26.2	—	127.9(5)	154.1
Income / (loss) before taxes	568.1	(456.3)	111.8	834.4	(628.1)	318.1
Provision / (benefit) for income taxes	44.5	(16.4)	28.1	283.2	(232.8)(6)	78.5
Net income / (loss)	<u>\$ 523.6</u>	<u>\$ (439.9)</u>	<u>\$ 83.7</u>	<u>\$ 551.2</u>	<u>\$ (395.3)</u>	<u>\$ 239.6</u>
Earnings per share:						
Basic	\$ 2.09		\$ 0.33			\$ 0.96
Diluted	2.09		0.33			0.96

Notes to unaudited pro forma condensed combined statement of operations

- (1) Reflects adjustment to give effect to the operations of the LEO Transaction. The Company used approximately \$481.8 million of the proceeds from the LEO Transaction to repay the entire remaining principle balance of the loans outstanding under its prior senior secured credit facilities of \$479.8 million, as well as accrued and unpaid interest and fees of \$2.0 million. This repayment resulted in the termination of the prior senior secured credit facilities.
- (2) Reflects the exclusion of royalty income and the gain on sale of an asset associated with the Ajinomoto license agreement that was excluded from the PGP Acquisition.
- (3) Reflects the elimination of advisory, legal and regulatory costs that were directly attributable to the PGP Acquisition but that are not expected to have a continuing impact on the combined entity's results.
- (4) Reflects the adjustment to historical intangible amortization expense previously recorded by PGP to reflect the new fair value of intangible assets acquired as part of the PGP Acquisition calculated as follows:

	Weighted Average Useful Life	Estimated Fair Value	Amortization	
			Year Ended December 31,	Nine Months Ended September 30,
			2008	2009
(\$ in millions)				
Brand Intellectual Property ("IP")	Eight years	\$2,615.2	\$ 492.9	\$ 316.8
IPR&D	Indefinite	308.6	—	—
Total brand IP		<u>\$2,923.8</u>	<u>\$ 492.9</u>	<u>\$ 316.8</u>
Removal of PGP historical intangible assets amortization		\$ (208.0)	\$ (24.8)	\$ (18.4)
Total adjustment		<u>\$2,715.8</u>	<u>\$ 468.1</u>	<u>\$ 298.4</u>

- (5) Reflects the inclusion of interest expense related to the new debt issued in connection with the PGP Acquisition. The proceeds from the LEO Transaction were used to repay the prior senior secured credit facilities, and the related interest expense was adjusted as part of the LEO Transaction adjustments within the pro forma condensed combined statement of operations. Pro forma adjusted interest expense was calculated as follows:

	Year Ended December 31, 2008	Nine Months Ended September 30, 2009
(\$ in millions)		
New debt issued:		
Revolver commitment fee(a)	\$ 1.9	\$ 1.4
Term A loan facility(b)	52.9	35.1
Term B loan facility(c)	91.7	68.1
Delayed draw term loan(d)	3.0	—
Amortization of debt issue costs and other(e)	30.8	23.3
Total adjustment	<u>\$ 180.3</u>	<u>\$ 127.9</u>
Interest on existing notes(f)	35.9	26.2
Pro forma adjusted interest expense(g)	<u>\$ 216.2</u>	<u>\$ 154.1</u>

- (a) Reflects a commitment fee of 75 basis points applied to the fully undrawn revolver of \$250.0 million. If drawn, interest rates would be consistent with the Term B loan.
- (b) Reflects interest expense on the variable rate senior secured Term A loan at a rate of 5.50%. Borrowings under the senior secured credit facilities generally bear interest based on a margin over, at our option, the base rate or the reserve-adjusted LIBOR (with a LIBOR floor of 2.25%). At November 12, 2009, LIBOR was below the floor set at 2.25%. As a result, 2.25% plus 325 basis points (the fixed portion of the interest rate) is used for the calculation of interest expense on this facility. Pro forma interest expense assumes scheduled principal payments as specified in the new senior secured credit facilities agreement, as if the debt were issued on January 1, 2008. See (g) below for sensitivity of a 0.125% change in the interest rate on variable rate debt.
- (c) Reflects interest expense on the variable rate senior secured Term B loan at a rate of 5.75%. Borrowings under the senior secured credit facilities generally bear interest based on a margin over, at our option, the base rate or the reserve-adjusted LIBOR (with a LIBOR floor of 2.25%). At November 12, 2009, LIBOR was below the floor set at 2.25%. As a result, 2.25% plus 350 basis points

(the fixed portion of the interest rate) is used for the calculation of interest expense on this facility. Pro forma interest expense assumes scheduled principal payments as specified in the new senior secured credit facilities agreement, as if the debt were issued on January 1, 2008. See (g) below for sensitivity of a 0.125% change in the interest rate on variable rate debt.

- (d) The Term B loan has a delayed draw term loan facility of \$350 million. We did not draw down on the facility at closing. However, there is a commitment fee of 175 basis points for 180 days after the closing of the PGP Acquisition, at which point the facility terminates if the facility has not been borrowed at such time.
- (e) Reflects debt amortization expense related to the new debt structure of the combined entity, based on \$147.4 million in financing fees incurred, which will be amortized over the weighted average life of the debt of 5.1 years.
- (f) Reflects interest expense and debt amortization expense related to the existing senior subordinated notes, with a fixed interest rate of 8.75%.
- (g) If the variable interest rate was to increase or decrease by 0.125% from the rates assumed, pro forma interest expense would change by approximately \$3.2 million for the fiscal year ended December 31, 2008 and \$2.4 million for the nine months ended September 30, 2009.
- (6) For purposes of determining the estimated income tax expense for PGP and pro forma adjustments reflected in the unaudited pro forma condensed combined statement of operations, an estimated weighted average statutory tax rate has been applied, based upon the various jurisdictions of the pro forma combined company where pre-tax profits and adjustments are reasonably expected to occur. The effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities, including repatriation decisions, cash needs and the geographical mix of income.
- (7) The fiscal year for PGP, as reflected in its audited financial statements, ends on June 30, and adjustments were required to present the combined statement of operations for the year ended December 31, 2008. To this end, unaudited interim financial information of PGP was prepared for the six months ended December 31, 2007 and 2008. The table below shows the method of calculation, including pro forma reclassifications.

	Year Ended June 30, 2008	Less: Six Months Ended December 2007	Plus: Six Months Ended December 2008	Year Ended December 31, 2008
(\$ in millions)				
Revenue				
Total revenue	\$ 2,531.7	\$ 1,286.6	\$ 1,208.9	\$ 2,454.0
Costs, expenses and other				
Cost of sales (excluding amortization and impairment of intangible assets)	273.8	141.5	131.3	263.6
Selling, general and administrative	1,283.6	656.6	563.5	1,190.5
Research and development	266.2	123.4	89.0	231.8
Amortization of intangible assets	25.1	12.4	12.1	24.8
Impairment of intangible assets	2.8	—	—	2.8
Interest (income)	—	—	—	—
Interest expense	—	—	—	—
Income before taxes	680.2	352.7	413.0	740.5
Provision for income taxes	210.8	109.3	140.9	242.4
Net income	<u>\$ 469.4</u>	<u>\$ 243.4</u>	<u>\$ 272.1</u>	<u>\$ 498.1</u>

Certain reclassifications have been made between the six months ended December 31, 2007 and 2008 financial information of PGP and the pro forma condensed combined financial statements. These reclassifications are outlined as follows:

Gross profit per the condensed combined financial statements of PGP amounted to \$1,092.1 million and \$1,156.3 million for the six months ended December 31, 2008 and 2007, respectively. A reclassification of royalty expense related to ASACOL has been made from Other operating expense, as per the financial information of PGP, to cost of sales for the unaudited pro forma condensed combined financial information, in the amount of \$14.5 million and \$11.2 million for the six months ended December 31, 2008 and 2007, respectively.

Other operating expense per the condensed combined financial statements of PGP amounted to \$238.1 million and \$313.6 million for the six months ended December 31, 2008 and 2007, respectively. These costs have been reclassified in their entirety to Selling, general and administrative expenses for the unaudited pro forma condensed combined financial information.

Selling, general and administrative expenses per the financial information of PGP amounted to \$441.0 million and \$490.0 million for the six months ended December 31, 2008 and 2007, respectively. Research and development costs in the amount of \$89.0 million and \$123.4 million for the six months ended December 31, 2008 and 2007, respectively, have been reclassified from Selling, general and administrative expenses and included as a separate line. Amortization of intangibles in the amount of \$12.1 million and \$12.4 million for the six months ended December 31, 2008 and 2007, respectively, have been reclassified from Selling, general and administrative expenses and included as a separate line.

- (8) The fiscal year for PGP, as reflected in its audited financial statements, ends on June 30, and adjustments were required to present the combined statement of operations for the nine months ended September 30, 2009. To this end, unaudited interim financial information of PGP was prepared for the three months ended September 30, 2008 and 2009 and for the six months ended December 31, 2008. The table below shows the method of calculation, including pro forma reclassifications.

	Year Ended June 30, 2009	Less: Six Months Ended December 2008	Plus: Three Months Ended September 2009	Nine Months Ended September 30, 2009
(\$ in millions)				
Revenue				
Total revenue	\$ 2,317.5	\$ 1,208.9	\$ 577.7	\$ 1,686.3
Costs, expenses and other				
Cost of sales (excluding amortization and impairment of intangible assets)	247.8	131.3	51.3	167.8
Selling, general and administrative	1,044.5	563.5	254.6	735.6
(Gain) on sale of assets	—	—	(193.5)	(193.5)
Research and development	180.5	89.0	30.3	121.7
Amortization of intangible assets	24.4	12.1	6.1	18.4
Impairment of intangible assets	1.8	—	—	1.8
Interest (income)	—	—	—	—
Interest expense	—	—	—	—
Income before taxes	818.5	413.0	428.9	834.4
Provision for income taxes	279.2	140.9	144.9	283.2
Net income	<u>\$ 539.3</u>	<u>\$ 272.1</u>	<u>\$ 284.0</u>	<u>\$ 551.2</u>

Certain reclassifications have been made between the condensed combined financial statements of PGP for the three months ended September 30, 2009 and the pro forma condensed combined financial statements. These reclassifications are outlined as follows:

Gross profit per the condensed combined financial statements of PGP amounted to \$532.8 million. A reclassification of royalty expense related to ASACOL has been made from Other operating expenses as per the financial information of PGP, to cost of sales for the unaudited pro forma condensed combined financial information, in the amount of \$6.4 million.

Other operating expense per the condensed combined financial statements of PGP amounted to \$131.3 million. These costs have been reclassified in their entirety to Selling, general and administrative expenses for the unaudited pro forma condensed combined financial information.

Selling, general and administrative expenses per the condensed combined financial statements of PGP amounted to \$166.1 million. Research and development expenses in the amount of \$30.3 million have been reclassified from Selling, general and administrative expenses and included as a separate line. Amortization of intangibles in the amount of \$6.1 million has been reclassified from Selling, general and administrative expenses and included as a separate line.

Unaudited pro forma condensed combined balance sheet as of September 30, 2009

	As of September 30, 2009			Pro Forma
	Historical			
	WC	PGP	Adjustments (\$ in millions)	
Assets				
Current assets:				
Cash and cash equivalents	\$ 753.7	\$ 4.4	\$ (541.0)(9)	\$ 217.1
Accounts receivable, net	110.7	260.5	—	371.2
Inventories, net	68.8	74.2	77.9(10a)	220.9
Prepaid expenses and other current assets	85.9	104.2	(59.8)(11)	130.3
Total current assets	1,019.1	443.3	(522.9)	939.5
Property, plant and equipment, net	87.3	75.1	—	162.4
Intangible assets, net	611.4	208.0	2,715.8(10c)	3,535.2
Goodwill	998.7	156.7	(156.7)(10)	998.7
Other non-current assets	9.7	66.0	94.3(12)	170.0
Total assets	<u>\$2,726.2</u>	<u>\$ 949.1</u>	<u>\$ 2,130.5</u>	<u>\$5,805.8</u>
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	\$ 144.6	\$ 54.4	\$ —	\$ 199.0
Accrued expenses and other current liabilities	204.3	429.6	(28.6)(10d)	605.3
Income taxes payable	7.3	—	—	7.3
Current portion of long-term debt	—	—	116.0(13)	116.0
Total current liabilities	356.2	484.0	87.4	927.6
Long-term debt, excluding current portion	380.0	—	2,484.0(13)	2,864.0
Other non-current liabilities	96.4	145.0	(111.5)(10e)	129.9
Total liabilities	<u>832.6</u>	<u>629.0</u>	<u>2,459.9</u>	<u>3,921.5</u>
Stockholders' equity	1,893.6	320.1	(329.4)(14)	1,884.3
Total liabilities and stockholders' equity	<u>\$2,726.2</u>	<u>\$ 949.1</u>	<u>\$ 2,130.5</u>	<u>\$5,805.8</u>

Notes to unaudited pro forma condensed combined balance sheet as of September 30, 2009

- (9) Reflects the net effect to cash resulting from the following:

Issuance of debt:	
Face value (see note 13)	\$ 2,600.0
Fees and discount (see note 9a)	<u>(147.4)</u>
	2,452.8
PGP Acquisition:	
Purchase price (see note 10)	(3,100.0)
Adjustments (see note 9b)	115.7
Fees (see note 9c)	<u>(9.3)</u>
	<u>(2,993.6)</u>
Net change	<u>\$ (541.0)</u>

- (a) Reflects financing fees associated with the new debt structure.
- (b) Reflects our estimate of adjustments to the purchase price for PGP in respect of certain liabilities to be funded by PGP.
- (c) Reflects estimated fees and expenses incurred in connection with the PGP Acquisition, including the advisory fees, other transaction costs and professional fees. Total estimated fees incurred amounted to \$27.0 million, \$17.7 million of which was incurred and is reflected within our September 30, 2009 historical financial statements.
- (10) Reflects adjustments to record assets acquired and liabilities assumed at their estimated fair values, as of September 30, 2009. Estimated values have been based on a preliminary purchase price of \$2,984.3 million. Allocation of the purchase price was based on currently available information and could change materially upon receipt of more detailed information. The preliminary purchase price allocation is as follows:

Calculation of consideration:	
Purchase price	\$3,100.0
Adjustments	<u>(115.7)</u>
Total consideration	<u>\$2,984.3</u>
Preliminary allocation of consideration:	
Historical book value of net assets	320.1
Eliminate historical goodwill	(156.7)
Eliminate historical intangible assets	(208.0)
Inventory(10a)	77.9
Deferred tax assets(10b)	(112.9)
Intangible assets(10c)	2,923.8
Accrued expenses and other current liabilities(10d)	28.6
Other noncurrent liabilities(10e)	<u>111.5</u>
	<u>\$2,984.3</u>

Total pro forma consideration in the table above differs from the actual purchase price consideration of \$2,919.3 million paid on the closing date (October 30, 2009) due to the additional month between the pro forma acquisition date (September 30, 2009) and actual acquisition date, resulting in a differing amount of purchase price adjustments.

- (a) At the time of the acquisition, inventories are required to be measured at fair value, which we believe will approximate net realizable value. In general, the fair valuation of inventories will result in an increase over book value to market value. We have estimated the fair value adjustment to inventories using information about the inventory of major products (principally ACTONEL and ASACOL) and utilizing assumptions (including profit margins and turnover ratios) to establish a net realizable value. The impact of the adjustment is not reflected in the unaudited pro forma condensed combined statement of operations because the adjustment will not have a continuing impact. However, the inventory adjustment will result in an increase in materials and production costs in periods subsequent to the completion of the acquisition when related inventories are sold.

- (b) Reflects the elimination of net deferred tax assets, valued at zero under purchase accounting, driven by Section 338(h)(10)/338 (g) elections made regarding the portion of the PGP Acquisition structured as stock transactions. This estimate is preliminary and is subject to change based on our final determination of the fair value of assets acquired and liabilities assumed. See also Notes (11) and (12) below.
- (c) Of the total estimated consideration of \$2,984.3 million, approximately \$2,923.8 million has been allocated to identified intangible assets, of which \$2,615.2 million represents currently marketed products that are expected to be amortized over a weighted average useful life on an accelerated basis of approximately 8 years, and approximately \$308.6 million has been allocated to identified IPR&D intangible products. Pro forma intangible assets on the face of the balance sheet of \$3,535.2 million is comprised of WC post LEO Transaction intangible assets of \$611.4 million and the intangible assets on acquisition of \$2,923.8 million.

The IPR&D will be capitalized and accounted for as an indefinite-lived intangible asset and will be subject to impairment testing until the completion or abandonment of the project. Upon successful completion and launch of each project, we will make a separate determination of useful life of the IPR&D intangible, and subsequent amortization will be recorded as an expense. As the IPR&D intangibles are not currently marketed, no amortization of these items is reflected in the unaudited pro forma condensed combined statements of operations.

The fair value of identifiable intangible assets is determined primarily using the “income approach,” which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the significant assumptions inherent in the development of the identifiable intangible asset valuations, from the perspective of a market participant, include the estimated net cash flows for each year for each project or product (including net revenues cost of sales, research and development costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset’s life cycle, competitive trends impacting the asset and each cash flow stream and other factors. The major risks and uncertainties associated with the timely and successful completion of the IPR&D projects include legal risk and regulatory risk. The underlying assumptions used to prepare the discounted cash flow analysis may change or projects may not be completed to commercial success on time or at all. For these and other reasons, actual results may vary significantly from estimated results.

- (d) Reflects the exclusion of (i) the write-off of \$8.8 million of the current portion of historical deferred revenue and (ii) \$14.8 million and \$5.0 million for restructuring and bonus accruals, respectively, which will not be transferred as part of the PGP Acquisition.
 - (e) Reflects (i) the write-off of \$45.9 million of historical non-current deferred revenue, (ii) an adjustment of \$67.3 million to reduce pension and post-employment obligations to their fair value of zero, reflecting their fully funded status upon transfer in accordance with the purchase agreement governing the PGP Acquisition, and net of (iii) \$1.7 million recognized by PGP for a UK pension liability, for which PGP provided an equal amount of cash.
- (11) Reflects the elimination of the current portion of deferred tax assets consistent with Note (10)(b) above of \$59.8 million.
 - (12) Reflects (i) the recognition of the of deferred financing costs on the issuance of new debt of \$147.4 million, net of (ii) the elimination of \$53.1 million of long term deferred tax assets, consistent with Note 10(b) above.
 - (13) Reflects the issuance of \$2.6 billion of new debt under the new senior secured credit facilities.
 - (14) Reflects the elimination of PGP’s historical equity accounts upon the PGP Acquisition and the recognition of \$9.3 million in additional transaction fees related to the PGP Acquisition.