

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934 OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 For the fiscal year ended DECEMBER 31, 2010 OR

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

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number 001-31269

ALCON, INC.

(Exact name of Registrant as specified in its charter)

ALCON, INC.

(Translation of Registrant's name into English)

Switzerland

(Jurisdiction of incorporation or organization)

Bösch 69, P.O. Box 62, Hünenberg, Switzerland

(Address of principal executive offices)

**Elaine E. Whitbeck, General Counsel & Corporate Secretary, Alcon Inc., 6201 South Freeway, TA7-1, Fort Worth, Texas, USA 76134-2099; 817-293-0450; AlconSECContact@Alcon.com**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Common Shares, par value CHF 0.20 per share

The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

302,390,266 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

**Large Accelerated Filer**  **Accelerated Filer**  **Non-accelerated Filer**

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

**U.S. GAAP**  **International Financial Reporting Standards as issued by the International Accounting Standards Board**  **Other**

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

**Item 17**  **Item 18**

If this report is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## INTRODUCTION AND USE OF CERTAIN TERMS

Trademarks used by Alcon, Inc. ("Alcon") appear in italic type in this report and are the property of or are licensed by one of our subsidiaries.

In this report, the trademark product brand names refer to the products noted below.

<b>Product Brand Name</b>	<b>Referenced Product</b>
<i>A-OK</i> <sup>®</sup>	<i>A-OK</i> <sup>®</sup> ophthalmic knives
<i>Accurus</i> <sup>®</sup>	<i>Accurus</i> <sup>®</sup> surgical system
<i>AcrySof</i> <sup>®</sup>	<i>AcrySof</i> <sup>®</sup> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>CACHET</i> <sup>™</sup>	<i>AcrySof</i> <sup>®</sup> <i>CACHET</i> <sup>™</sup> phakic lens
<i>AcrySof</i> <sup>®</sup> <i>IQ</i>	<i>AcrySof</i> <sup>®</sup> <i>IQ</i> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup>	<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> <i>Multifocal Toric</i>	<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> <i>Multifocal Toric</i> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> +3.0	<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> +3.0 intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>IQ Toric</i>	<i>AcrySof</i> <sup>®</sup> <i>IQ Toric</i> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>Natural</i>	<i>AcrySof</i> <sup>®</sup> <i>Natural</i> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>ReSTOR</i> <sup>®</sup>	<i>AcrySof</i> <sup>®</sup> <i>ReSTOR</i> <sup>®</sup> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>ReSTOR</i> <sup>®</sup> <i>Toric</i>	<i>AcrySof</i> <sup>®</sup> <i>ReSTOR</i> <sup>®</sup> <i>Toric</i> intraocular lens
<i>AcrySof</i> <sup>®</sup> <i>Toric</i>	<i>AcrySof</i> <sup>®</sup> <i>Toric</i> intraocular lens
<i>ALCON</i> <sup>®</sup>	<i>ALCON</i> <sup>®</sup> house trademark
<i>ALLEGRETTO</i> <sup>™</sup>	<i>ALLEGRETTO</i> <sup>™</sup> laser system
<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-400</i>	<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-400</i> laser
<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-500</i>	<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-500</i> laser
<i>ALLEGRETTO WAVE</i> <sup>®</sup> <i>Eye-Q</i>	<i>ALLEGRETTO WAVE</i> <sup>®</sup> <i>Eye-Q</i> 400 Hz laser
<i>ALLEGRO ANALYZER</i> <sup>®</sup>	<i>ALLEGRO ANALYZER</i> <sup>®</sup> wavefront system
<i>ALLEGRO</i> <sup>™</sup>	<i>ALLEGRO</i> <sup>™</sup> biometry system
<i>ALLEGRO OCULYZER</i> <sup>®</sup>	<i>ALLEGRO OCULYZER</i> <sup>®</sup> pentacam diagnostic device
<i>ALLEGRO TOPOLYZER</i> <sup>®</sup>	<i>ALLEGRO TOPOLYZER</i> <sup>®</sup> corneal topography system
<i>AquaLase</i> <sup>®</sup>	<i>AquaLase</i> <sup>®</sup> liquefaction device
<i>AZARGA</i> <sup>®</sup>	<i>AZARGA</i> <sup>®</sup> ophthalmic suspension
<i>Azopt</i> <sup>®</sup>	<i>Azopt</i> <sup>®</sup> ophthalmic suspension
<i>Betoptic S</i> <sup>®</sup>	<i>Betoptic S</i> <sup>®</sup> ophthalmic suspension
<i>BSS Plus</i> <sup>®</sup>	<i>BSS Plus</i> <sup>®</sup> irrigating solution
<i>CiloDex</i> <sup>®</sup>	<i>CiloDex</i> <sup>®</sup> otic solution
<i>CIPRODEX</i> <sup>®*</sup>	<i>CIPRODEX</i> <sup>®</sup> otic suspension
<i>Cipro</i> <sup>®</sup> <i>HC</i> <sup>*</sup>	<i>Cipro</i> <sup>®</sup> <i>HC</i> Otic
<i>CONSTELLATION</i> <sup>®</sup>	<i>CONSTELLATION</i> <sup>®</sup> vitreoretinal system
<i>Custom Pak</i> <sup>®</sup>	<i>Custom Pak</i> <sup>®</sup> surgical procedure packs
<i>DisCoVisc</i> <sup>®</sup>	<i>DisCoVisc</i> <sup>®</sup> viscosurgical device
<i>DuoTrav</i> <sup>®</sup> (EU)	<i>DuoTrav</i> <sup>®</sup> ophthalmic solution
<i>DuoTrav</i> <sup>®</sup> <i>APS</i> (EU)	<i>DuoTrav</i> <sup>®</sup> <i>APS</i> ophthalmic solution
<i>DuoVisc</i> <sup>®</sup>	<i>DuoVisc</i> <sup>®</sup> viscoelastic system
<i>DUREZOL</i> <sup>®</sup>	<i>DUREZOL</i> <sup>®</sup> ophthalmic emulsion/steroid
<i>EXPRESS</i> <sup>®</sup>	<i>EXPRESS</i> <sup>®</sup> contact lens care solutions
<i>EX-PRESS</i> <sup>®</sup>	<i>EX-PRESS</i> <sup>®</sup> glaucoma filtration device
<i>Grieshaber</i> <sup>®</sup>	<i>Grieshaber</i> <sup>®</sup> surgical instruments
<i>ICAPS</i> <sup>®</sup>	<i>ICAPS</i> <sup>®</sup> dietary supplements
<i>Infiniti</i> <sup>®</sup>	<i>Infiniti</i> <sup>®</sup> vision system
<i>Laureate</i> <sup>®</sup>	<i>Laureate</i> <sup>®</sup> compact phacoemulsification system
<i>LEGACY</i> <sup>®</sup>	<i>LEGACY</i> <sup>®</sup> surgical system
<i>LenSx</i> <sup>®</sup>	<i>LenSx</i> <sup>®</sup> laser system
<i>Maxitrol</i> <sup>®</sup>	<i>Maxitrol</i> <sup>®</sup> ophthalmic suspension or ointment
<i>Moxeza</i> <sup>™*</sup>	<i>Moxeza</i> <sup>™</sup> 0.5% ophthalmic solution

<b>Product Brand Name</b>	<b>Referenced Product</b>
NEVANAC <sup>®</sup>	NEVANAC <sup>®</sup> ophthalmic suspension
Opatanol <sup>®</sup> (EU)	Opatanol <sup>®</sup> ophthalmic solution
OPTI-FREE <sup>®</sup>	OPTI-FREE <sup>®</sup> contact lens care solutions
OPTI-FREE <sup>®</sup> EVERMOIST <sup>™</sup>	OPTI-FREE <sup>®</sup> EVERMOIST <sup>™</sup> multi-purpose disinfecting solution
OPTI-FREE <sup>®</sup> EXPRESS <sup>®</sup> No-Rub <sup>®</sup>	OPTI-FREE <sup>®</sup> EXPRESS <sup>®</sup> No-Rub <sup>®</sup> contact lens care solution
OPTI-FREE <sup>®</sup> RepleniSH <sup>®</sup>	OPTI-FREE <sup>®</sup> RepleniSH <sup>®</sup> multi-purpose disinfecting solution
OZil <sup>®</sup>	OZil <sup>®</sup> torsional hand piece/technology
Pataday <sup>™</sup>	Pataday <sup>™</sup> ophthalmic solution
Patanase <sup>®</sup>	Patanase <sup>®</sup> nasal spray
Patanol <sup>®</sup>	Patanol <sup>®</sup> ophthalmic solution
Perfluoron <sup>®</sup>	Perfluoron <sup>®</sup> perfluoro-n-octane liquid
ProVisc <sup>®</sup>	ProVisc <sup>®</sup> ophthalmic viscosurgical device
Silikon <sup>®</sup>	Silikon <sup>®</sup> ophthalmic surgical oil
SOFZIA <sup>®</sup>	SOFZIA <sup>®</sup> preservative system
Systane <sup>®</sup>	Systane <sup>®</sup> lubricant eye drops
Systane <sup>®</sup> Balance	Systane <sup>®</sup> Balance lubricant eye drops
Systane <sup>®</sup> Ultra	Systane <sup>®</sup> Ultra lubricant eye drops
Tears Naturale <sup>®</sup>	Tears Naturale <sup>®</sup> lubricant eye drops
TobraDex <sup>®</sup>	TobraDex <sup>®</sup> ophthalmic suspension or ointment
TobraDex <sup>®</sup> ST	TobraDex <sup>®</sup> ST ophthalmic suspension
Tobrex <sup>®</sup>	Tobrex <sup>®</sup> ophthalmic solution or ointment
TRAVATAN <sup>®</sup>	TRAVATAN <sup>®</sup> ophthalmic solution
TRAVATAN <sup>®</sup> APS	TRAVATAN <sup>®</sup> APS ophthalmic solution
TRAVATANZ <sup>®</sup>	TRAVATANZ <sup>®</sup> ophthalmic solution
TRIESENCE <sup>®</sup>	TRIESENCE <sup>®</sup> injectable suspension
Vegamox <sup>®</sup> * (Japan)	Vegamox <sup>®</sup> ophthalmic solution
Vigadexa <sup>®</sup>	Vigadexa <sup>®</sup> ophthalmic solution
Vigamox <sup>®</sup> *	Vigamox <sup>®</sup> ophthalmic solution
VISCOAT <sup>®</sup>	VISCOAT <sup>®</sup> ophthalmic viscosurgical device
WaveLight <sup>®</sup>	WaveLight <sup>®</sup> refractive suite

\* Cipro<sup>®</sup> and CIPRODEX<sup>®</sup> are registered trademarks of Bayer AG, licensed to Alcon by Bayer Schering Pharma AG. Moxifloxacin, the primary ingredient in Vigamox<sup>®</sup>, Vegamox<sup>®</sup> and Moxeza<sup>™</sup>, is licensed to Alcon by Bayer Schering Pharma AG.

Avelox<sup>®</sup> is a trademark of Bayer Schering Pharma AG. Zaditor<sup>®</sup> is a trademark of Novartis AG. Timoptic-XE<sup>®</sup> is a trademark of Merck & Co., Inc. Lucentis<sup>®</sup> is a trademark of Genentech, Inc.

In this report, references to "\$", "U.S. \$", "U.S. dollars" and "United States dollars" are to the lawful currency of the United States of America, references to "CHF" and "Swiss francs" are to the lawful currency of the Swiss Confederation, references to "euro" are to the lawful currency of the member states of the European Monetary Union that have adopted or that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union, and references to Japanese yen are to the lawful currency of Japan. Unless otherwise stated, figures provided are under United States generally accepted accounting principles ("U.S. GAAP"). Unless we specify otherwise, all references in this report to "we," "our," "us," "the Company" and "our Company" refer to Alcon, Inc. and its subsidiaries.

This report uses certain terms defined below.

<b>Term</b>	<b>Definition</b>
Affordable Care Act	Health Care and Education Reconciliation Act of 2010
AMD	Age-related macular degeneration
ANDA	Abbreviated New Drug Application
ANDS	Abbreviated New Drug Submission
AOMT	Otitis media in the presence of tympanostomy tubes
AREDS	National Eye Institute's Age Related Eye Disease Study
ASC	Accounting Standards Codification
ASERP	Alcon Supplemental Executive Retirement Plan
BAC	Benzalkonium chloride
CEO	Chief Executive Officer
CMS	The Centers for Medicare and Medicaid Services
CP Program	Alcon's Commercial Paper Program
(the) Company	Alcon, Inc. and its subsidiaries
DCP	Alcon Executive Deferred Compensation Plan
DTC	Depository Trust Company
EPS	Earnings Per Share
ESCP	Alcon's Executive Salary Continuation Plan
EU	European Union
EUCMS	Concerned member state of the European Union
Evaluation Date	End of the period covered by this annual report
Exchange Act	U.S. Securities Exchange Act of 1934
External auditors	The primary Alcon Group external auditors and additional external auditors specific to the Company subsidiary
FASB	Financial Accounting Standards Board
FDA	United States Food and Drug Administration
FDAAA	Food and Drug Administration Amendments Act of 2007
FTC	U.S. Federal Trade Commission
IFRS	International Financial Reporting Standards
IPO	The initial public offering of approximately 69,750,000 of Alcon, Inc.'s common shares on March 20, 2002
IRB	Institutional Review Board
IRC	U.S. Internal Revenue Code
LASIK	Laser-Assisted In Situ Keratomileusis
MGD	Meibomian gland dysfunction
NDA	New Drug Application
Non-U.S. Holder	A holder that is not a U.S. Holder (see definition of U.S. Holder below)
NSAID	Non-steroidal anti-inflammatory drug
NYSE	New York Stock Exchange
OTC	Over-the-Counter drugs available without a prescription
PMA	Pre-Market Approval
Purchase and Option Agreement	Purchase and Option Agreement between Nestlé S.A. and Novartis AG dated as of April 6, 2008
REMS	Risk evaluation and mitigation strategies discussed in the FDAAA
RMS	Reference member state of the European Union
RSU(s)	Restricted share unit(s)
SAB	Staff Accounting Bulletin published by the SEC
SEC	United States Securities and Exchange Commission
Second Stage Closing	The purchase and sale of Nestlé's remaining Alcon shares to Novartis under the Purchase and Option Agreement

<b>Term</b>	<b>Definition</b>
Securities Act	U.S. Securities Act of 1933, as amended
Separation Agreement	Separation Agreement between Nestlé and Alcon described in Item 7.B.5
Services Agreement	Guarantee Fee and Commercial Paper Program Services Agreement, as described in Item 7.B, "Related Party Transactions."
Shareholders Agreement	Shareholders Agreement between Nestlé and Novartis dated as of April 6, 2008
SSAR(s)	Share-settled stock appreciation right(s)
Swiss Holder	Security holder as defined in Item 10.E.
TSR	Total shareholder return
U.S. GAAP	United States generally accepted accounting principles
U.S. Holder	Security holder as defined in Item 10.E.
VHCA	Veterans Health Care Act

References to the ophthalmic industry in this report do not include eyeglasses or contact lenses. This report relies on and refers to statistics regarding the ophthalmic industry. Where specified, these statistics reflect the Company's internal estimates. Otherwise, we obtained these statistics from various third-party sources that we believe are reliable, but we have not independently verified these third-party statistics. Unless otherwise specified, all market share information was based on units sold.

Statements in this report regarding the Company's market share position are from the following sources:

- pharmaceutical products--IMS Research;
- surgical products--internal estimates prepared using industry data;
- consumer products--AC Nielsen, IMS Research, selected other third party data providers and company estimates.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, (the "Securities Act") and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act") relating to our business and the sectors in which Alcon and its subsidiaries and interests operate. These forward-looking statements are contained principally in the sections entitled "Key Information," "Information on the Company," "Operating and Financial Review and Prospects," "Financial Information," "Additional Information," and "Quantitative and Qualitative Disclosures about Market Risk." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by our forward-looking statements. Forward-looking statements include, but are not limited to, statements about: the progress of our research and development programs; the receipt of regulatory approvals; competition in our industry; the impact of pending or future litigation; the impact of any future product recalls; changes in, or the failure or inability to comply with, governmental regulation; the opportunities for growth, whether through internal development or acquisitions; exchange rate fluctuations; general economic conditions; and trends affecting the ophthalmic industry, our financial condition or results of operations.

Words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "intend," "estimate," "project," "predict," "potential" and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in this report in greater detail under the subheadings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements represent our estimates and assumptions only as of the date of this report and are not intended to give any assurance as to future results. Factors that might cause future results to differ include, but are not limited to, the following:

- failure to consummate the merger with Novartis AG may cause volatility in our share price;
- resources devoted to research and development may not yield new products that achieve commercial success;
- the production and launch of commercially viable products may take longer and cost more than expected;
- competition may lead to worse than expected financial condition and results of operations;
- changes in reimbursement procedures and/or amounts by third-party payors;
- changes caused by regulatory or market forces in the prices we receive for our products;
- changes in the global economic environment in which we operate, as well as changes in the economic conditions in our markets;
- currency exchange rate fluctuations may negatively affect our financial condition and results of operations;
- the impact of any future events with material unforeseen impacts, including, but not limited to, war, natural disasters, or acts of terrorism;
- supply and manufacturing disruptions could negatively impact our financial condition or results of operations;
- inability to attract qualified personnel, which could negatively impact our ability to grow our business;
- difficulty protecting our intellectual property rights;
- pending or future litigation may negatively impact our financial condition and results of operations;
- government regulation or legislation may negatively impact our financial condition or results of operations;
- product recalls or withdrawals may negatively impact our financial condition or results of operations;
- the occurrence of environmental liabilities arising from our operations; and
- the occurrence of any losses from property and casualty, general liability, business interruption and environmental liability risks could negatively affect our financial condition because we self-insure against those risks through our captive insurance subsidiaries.

You should read this report completely and with the understanding that Alcon's actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except to the extent required under the federal securities laws and the rules and regulations promulgated by the United States Securities and Exchange Commission ("SEC"), we undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not Applicable.

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

### ITEM 3. KEY INFORMATION

#### A. SELECTED FINANCIAL DATA

The following tables present our selected historical consolidated financial data in accordance with U.S. GAAP. This information should be read along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 5 of this report and the consolidated financial statements, including the accompanying notes thereto, included in Item 18 of this report.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions, except per share data)				
<b>Statement of Earnings Data:</b>					
Sales.....	\$ 7,179	\$ 6,499	\$ 6,294	\$ 5,599	\$ 4,897
Cost of goods sold .....	1,675	1,614	1,472	1,398	1,215
Gross profit.....	5,504	4,885	4,822	4,201	3,682
Selling, general and administrative.....	2,070	1,935	1,961	1,694	1,399
Research and development .....	747	665	619	564	512
In process research and development.....	--	--	--	9	--
Amortization of intangibles .....	60	24	29	51	199
Other operating expenses.....	152	--	--	--	--
Operating income .....	2,475	2,261	2,213	1,883	1,572
Interest income.....	29	46	76	69	74
Interest expense .....	(9)	(16)	(51)	(50)	(43)
Other, net .....	32	22	(155)	27	14
Earnings before income taxes.....	2,527	2,313	2,083	1,929	1,617
Income taxes .....	317	306	36	343	269
Net earnings .....	\$ 2,210	\$ 2,007	\$ 2,047	\$ 1,586	\$ 1,348
Basic weighted-average common shares outstanding.....	301	299	298	298	304
Diluted weighted-average common shares outstanding.....	304	301	301	302	309
Basic earnings per common share.....	\$ 7.34	\$ 6.72	\$ 6.86	\$ 5.32	\$ 4.43
Diluted earnings per common share.....	\$ 7.27	\$ 6.66	\$ 6.79	\$ 5.25	\$ 4.37
Dividends paid on common shares .....	\$ 1,037	\$ 1,048	\$ 750	\$ 613	\$ 417
Dividends paid per common share: U.S. \$.....	\$ 3.44	\$ 3.50	\$ 2.50	\$ 2.04	\$ 1.38
Dividends paid per common share: Swiss CHF.....CHF	3.95 CHF	3.95 CHF	2.63 CHF	2.50 CHF	1.68 CHF
<b>Cash Flow Data:</b>					
Cash provided by (used in):					
Operating activities.....	\$ 2,375	\$ 2,416	\$ 2,032	\$ 1,470	\$ 1,406
Investing activities.....	(1,705)	(390)	(365)	(227)	(166)
Financing activities.....	(1,150)	(1,481)	(1,333)	(607)	(1,225)
	<b>At December 31,</b>				
	2010	2009	2008	2007	2006
	(in millions)				
<b>Balance Sheet Data:</b>					
Current assets.....	\$ 6,069	\$ 5,833	\$ 5,219	\$ 4,825	\$ 3,462
Working capital .....	4,278	3,858	3,029	1,963	1,461
Total assets.....	10,073	8,686	7,551	7,016	5,427
Long term debt, net of current maturities .....	--	56	61	52	49
Total shareholders' equity .....	7,252	5,905	4,691	3,375	2,914



## Exchange Rates

Fluctuations in the exchange rate between the Swiss franc and the U.S. dollar will affect the conversions into U.S. dollars of any cash dividends paid in Swiss francs on our common shares. In addition, these and other fluctuations in the exchange rates of the currencies of our various local operations affect our results of operations and financial condition as presented in our financial statements.

The following table sets forth, for the periods indicated, information concerning the exchange rate between Swiss francs and U.S. dollars based upon the spot rate at the close of market, as published by Bloomberg Finance L.P.:

Fiscal Year	Exchange Rate for 1 U.S. Dollar			
	Period End (1)	Average (1) (2)	High	Low
2006 .....	1.2201	1.2529	1.3228	1.1923
2007 .....	1.1335	1.2000	1.2535	1.0969
2008 .....	1.0687	1.0824	1.2254	0.9844
2009 .....	1.0352	1.0850	1.1852	0.9964
2010 .....	0.9352	1.0423	1.1631	0.9352

- (1) The closing spot rate at each period end and the average rate for each period differed from the exchange rates used in the preparation of our financial statements.
- (2) Represents the average of the daily rates as published by Bloomberg Finance L.P. during the period.

The following table sets forth the high and low closing spot rate for the Swiss franc for each of the prior six months:

Month	Exchange Rate for 1 U.S. Dollar			
	Period End	Average	High	Low
September 2010 .....	0.9825	1.0011	1.0198	0.9758
October 2010 .....	0.9824	0.9688	0.9904	0.9530
November 2010 .....	1.0034	0.9852	1.0036	0.9584
December 2010 .....	0.9352	0.9670	1.0023	0.9352
January 2011 .....	0.9440	0.9566	0.9737	0.9334
February 2011 .....	0.9289	0.9494	0.9732	0.9264

Although we have translated selected Swiss franc amounts in this report into U.S. dollars for convenience, this does not mean that the Swiss franc amounts referred to could have been, or could be, converted into U.S. dollars at these rates or any other rate.

**B. CAPITALIZATION AND INDEBTEDNESS**

Not Applicable.

**C. REASONS FOR THE OFFER AND USE OF THE PROCEEDS**

Not Applicable.

**D. RISK FACTORS**

*If the events discussed in these Risk Factors occur, our business, financial condition, results of operations or cash flows could be materially adversely affected. In such a case, the market price of our common shares could decline. The risks described below are not the only ones that may exist. Additional risks not currently known by us or that we deem immaterial also may impair our business operations.*

## **Risks Related to Our Business and Industry**

### **Resources devoted to research and development may not yield new products that achieve commercial success.**

We devote substantial resources to research and development. The research and development process is expensive and prolonged, and it entails considerable risk. Development of a new product, from discovery through testing and registration to initial product launch, typically takes between eight and fifteen years or more for a pharmaceutical product and between three and seven years or more for a medical device. Each of these periods varies considerably depending on the product and the country where registration is sought. Because of the risk associated with our research and development, products we are currently developing may not obtain the regulatory approvals required for us to market such products successfully or they may take longer than we expect to gain necessary governmental, regulatory or other approval. They may cost more to develop and may be less successful than we currently anticipate, or than other therapies that are presently or soon may be on the market. We can make no assurances that any of the projects currently in our development pipeline will result in commercially successful products.

### **If we fail to keep pace with advances in our industry or fail to persuade physicians to adopt new products we introduce, customers may not buy our products and our sales and profits may decline.**

The pharmaceutical, medical device and over-the-counter industries are characterized by continual product development, constant innovation in products and techniques, frequent new product introductions and price competition. Our future growth depends, in part, on our ability to develop products which are more effective in treating diseases and disorders of the eye or that incorporate the latest technologies. In addition, we must be able to manufacture new products and effectively persuade a sufficient number of eye care professionals and/or consumers to use the new products we introduce. Sales of our existing products may decline rapidly if a new competing product is introduced by one of our competitors or if we announce a new product that, in either case, represents a substantial improvement over our existing products. Similarly, if we fail to make sufficient investments in research and development programs, our current and planned products could be surpassed by more effective or advanced products.

### **We may not successfully develop and launch replacements for our products that lose patent protection.**

Most of our major products are covered by patents that give us a degree of market exclusivity during the term of the patent. Upon patent expiration, our competitors may introduce products using the same technology. As a result, our sales and profits could decline significantly due to increased competition. In addition, we may not be able to develop and successfully launch more advanced replacement products before these and other patents expire.

For instance, our successful combination ocular anti-infective/anti-inflammatory product, *TobraDex*<sup>®</sup> ophthalmic suspension and ointment, lost its exclusive marketing position in the United States in January 2009. Both a competitor and our Falcon Pharmaceuticals subsidiary launched generic versions of *TobraDex*<sup>®</sup> suspension in early January 2009.

### **We depend on proprietary technologies and may not be able to protect our intellectual property rights adequately.**

We currently hold approximately 7,000 patents and have more than 4,000 pending patent applications. We rely on a combination of contractual provisions, confidentiality procedures and patent, trademark, copyright and trade secrecy laws to protect the proprietary aspects of our technology. These legal measures afford limited protection and may not prevent our competitors from gaining access to our intellectual property and proprietary information. Any of our patents may be challenged, invalidated, circumvented or rendered unenforceable. From time to time, we have faced challenges of our intellectual property rights and face current challenges to some of our key products. Furthermore, we cannot ensure that any pending patent application held by us will result in an issued patent or that, if patents are issued to us, such patents will provide meaningful protection against competitors or competitive technologies. Any litigation to protect our intellectual property rights could result in substantial expense, may reduce our profits and may not be successful. In addition, we may be exposed to future litigation by third parties based on claims that our products infringe their intellectual property rights. This risk is exacerbated by the fact that the validity and breadth of patents in our industry frequently involve complex legal issues that are not easily resolved.

The Company, either alone or jointly with its commercial partners, has filed fourteen North American patent infringement actions against six different generic drug companies. With the exception of international generic challenges, all of these generic drug companies are seeking U.S. Food and Drug Administration ("FDA") approval to market generic versions of the Company's products, under what are known as Abbreviated New Drug Applications ("ANDAs").

Each infringement action was filed after the Company received notice that one or more of the generic drug companies had filed an ANDA seeking approval to sell a generic version of a Company product. As part of its ANDA, each generic drug company challenged one or more patents covering a Company product. Our products subject to generic challenges include *Vigamox*<sup>®</sup> antibiotic ophthalmic solution, *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> anti-allergy ophthalmic solutions, and *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup> ophthalmic solutions. In the United States, as a result of filing the lawsuits, the FDA must delay approval of the related ANDAs for 30 months unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. In Canada, filing of the lawsuits secured a 24-month delay in approval from the Minister of Health, which can be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should any generic drug company succeed in overcoming all applicable patents and secure regulatory approval, it would be entitled to sell a generic product that would compete with the Company's product in the United States or Canada. Such competition would be expected to impact significantly the Company's sales and profits. More information on these suits can be found at Item 8.A.7, "Legal Proceedings."

On December 18, 2008, James M. Nielsen, M.D. filed a patent infringement suit against Alcon, Inc. and Alcon Laboratories, Inc. in the U.S. District Court for the Northern District of Texas in Dallas. Dr. Nielsen is asserting that his U.S. Patent No. 5,158,572 entitled "Multifocal Intraocular Lens" is being infringed by the Company's *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> intraocular lens. The patent, which expired at the end of October 2009, was previously licensed to Advanced Medical Optics, Inc. The Company filed its Answer January 12, 2009. The Answer included a counterclaim for a declaratory judgment that the patent-in-suit is invalid and not infringed. The case had been set for trial in August 2010 but has been postponed. No new trial date has been set. Summary judgment motions were filed by both parties January 7, 2011. Alcon is seeking summary judgment on noninfringement, invalidity and laches, while Dr. Nielsen is seeking partial summary judgment on invalidity and laches/estoppels. On January 10, 2011, the court ordered that both parties' motions be stricken and refiled in a "cross-motion" format, the briefing for which was extended by the court until the end of March 2011. An adverse ruling by the court, while possible, would not be expected to impact significantly the Company's sales and profits.

On January 22, 2009, Elan Pharma International Ltd. sued two of the Company's subsidiaries, Alcon Laboratories, Inc. and Alcon Research, Ltd., in the U.S. District Court for the Eastern District of Texas in Sherman, alleging infringement of two Elan patents on nanoparticle technology (U.S. Patent Nos. 5,298,262 and 5,429,842). The complaint claims that the Company's *Azopt*<sup>®</sup> product and, potentially, other products infringe the two patents. The Company answered and counterclaimed on May 12, 2009. Elan then moved to dismiss certain of the Company's affirmative defenses and counterclaims. The Company has filed an amended answer and counterclaims providing greater detail with respect to the Company's inequitable conduct counterclaims. The case has been set for trial on October 17, 2011. The Company believes that it has strong defenses and intends to defend itself vigorously. An adverse ruling by the court, however, could impact significantly the Company's sales and profits.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

Any litigation or claims against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, intellectual property litigation or claims could force us to do one or more of the following: cease selling or using any of our products that incorporate the asserted intellectual property, which would adversely affect our sales and profits; obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and redesign or, in the case of trademark claims, rename our products to avoid infringing the intellectual property rights of third parties, which may not be possible and could be costly and time-consuming even if it is possible to do so.

**A portion of our sales comes from elective surgical procedures or elections to utilize advanced technology options in surgery. Economic conditions and price competition may cause sales of our products used in these types of elective surgical procedures to decline and reduce our profitability.**

Sales of products used in elective surgical procedures have been and may continue to be adversely impacted by economic conditions. Generally, the costs of elective surgical procedures are borne by individuals with limited reimbursement from their medical insurance providers or government programs. Accordingly, individuals may be less willing to incur the costs of these procedures in weak or uncertain economic conditions, there may be a decline in the number of these procedures, there may be a decline in the amount we realize for each procedure and the market for equipment used in such procedure may be negatively impacted.

**Inability of users of our products to obtain adequate reimbursement or maintain the current level of reimbursement from third-party payors could limit market acceptance of our products or reduce the prices we receive for our products, which could impact adversely our sales and profits.**

The initiatives of managed care organizations and governments to contain healthcare costs in the United States and in other countries are placing an increased emphasis on the delivery of more cost-effective medical therapies. This emphasis has, and in the future could, adversely affect sales and prices of our products. Patients, consumers, physicians, hospitals and other healthcare providers may be reluctant to purchase our products if they do not receive adequate reimbursement for the cost of our pharmaceutical and surgical products and for procedures performed using our products from both governmental and private third-party payors. For example:

- Major third-party payors for hospital services, including government insurance plans, Medicare, Medicaid and private healthcare insurers, have substantially revised their payment methodologies during the last few years, resulting in stricter standards for and lower levels of reimbursement of hospital and outpatient charges for some medical procedures.
- Increased pressures to reduce government healthcare spending could lower our effective average selling price. In the United States, the Centers for Medicare and Medicaid Services ("CMS") impose controls on the prices at which medical devices and physician-administered drugs used in ophthalmic surgery are reimbursed for Medicare patients. Many private third-party payors use CMS guidelines in determining reimbursement levels. In addition, recent government initiatives, such as the U.S. Medicare Part D outpatient prescription drug benefit and the Affordable Care Act, or future government initiatives may negatively impact the number of units we sell or the price we realize for our pharmaceutical products.
- Most European Union ("EU") member states impose controls on whether products are reimbursable by national or regional health service providers and on the prices at which medicines and medical devices are reimbursed under state-run healthcare schemes. Some member states operate reference pricing systems in which they set national reimbursement prices by reference to those in other member states. Increased pressures to reduce government healthcare spending and increased transparency of prices, following the adoption of the European euro, have meant that an increasing number of governments have adopted this approach. Ever-tighter budgetary constraints also mean that many jurisdictions are increasingly focusing on health economics-based assessment to determine whether technologies represent an appropriate use of national healthcare budgets. The major EU economies, such as France, Germany and the United Kingdom, have led the way with the development of sophisticated systems, but in almost every European country there is likely to be some form of health technology assessment before the government issues guidance or grants reimbursement or procurement approval for an expensive new technology. Furthermore, with increased price transparency, parallel importation of pharmaceuticals from lower price level countries to higher priced markets has grown, and these parallel imports lower our effective average selling price.

- Japan also imposes controls on the prices at which medicines and medical devices are reimbursed under the national healthcare schemes. Due to increased pressures to reduce government healthcare spending, the Japanese government continues to seek cuts where possible, and is actively promoting the use of generic products.
- Managed care organizations in the United States restrict the pharmaceutical products that doctors in those organizations can prescribe through the use of formularies, the lists of drugs that physicians are permitted to prescribe to patients in a managed care organization. Exclusion of our pharmaceutical products from these formularies or additional price concessions necessary to be included on formularies could have an adverse effect on our revenues and profits.
- Competitors may introduce generic products that compete directly or indirectly with our products and such generic products may have preferential positions on formularies or reduce our unit sales and prices.
- There are proposed and existing laws and regulations governing product prices that may negatively affect the profitability of companies in the healthcare industry.
- There have been recent initiatives by third-party payors to challenge the prices charged for medical products, which could affect our profitability.
- Reductions in the prices for our products in response to these trends could reduce our profits. Moreover, our products may not be covered in the future by third-party payors. The failure of our products to be so covered could cause our profits to decline.
- In March 2010, the United States government enacted the Affordable Care Act legislation that is expected to have far reaching implications for the healthcare industry. This legislation will increase rebates pharmaceutical manufacturers must pay to the Medicaid program, impose new discount obligations on pharmaceutical manufacturers with respect to Medicare Part D, potentially affect reimbursement for pharmaceutical and medical device products through a greater emphasis on comparative effectiveness, impose an annual fee on pharmaceutical manufacturers and an excise tax on medical device products, impose additional reporting requirements surrounding interactions with healthcare providers, and affect the manner in which insurers provide medical coverage. We expect that these changes will reduce the reimbursement for our products and negatively impact selling prices, increase rebates and fees that we provide to the federal and various state governments, increase the cost of our insurance plans and increase administrative costs associated with compliance activities. "Overview of Our Business – U.S. Healthcare Reform" in Item 5 provides more discussion of these changes.

**The FDA and other regulators may authorize sales of competitive prescription pharmaceuticals on a non-prescription basis, which could reduce the demand for and profitability of our prescription products.**

In October 2006 and at the request of the holder of both the patent and the New Drug Application ("NDA"), the FDA revised the status of the allergy drug Zaditor<sup>®</sup> (Novartis AG) from "prescription only" to "over-the-counter," or "OTC." The approval by the FDA of the sale of this and other pharmaceutical products without a prescription may reduce demand for our competing prescription products and, accordingly, reduce our profits. Medicines regulators in other jurisdictions have similar powers to authorize OTC switches, either on their own initiative or in response to an approval-holder's request. Managed care organizations or other third-party payors may petition the FDA or other medicines regulators to permit sales of some of our pharmaceutical products on a non-prescription basis, which could reduce our profits.

**Changes in inventory levels or fluctuations in buying patterns by our large wholesale and large retail customers may adversely affect our sales and earnings and add to their variability from quarter to quarter. We also face additional risks due to the concentration of certain sales with large retail and wholesale customers.**

A significant portion of our pharmaceutical and eye care products are sold to major pharmaceutical and healthcare distributors and major retail chains in the United States. Consequently, our sales and quarterly growth comparisons may be affected by fluctuations in the buying patterns of major distributors, retail chains and other trade buyers. These fluctuations may result from seasonality, pricing, large retailers' and wholesalers' buying decisions or other

factors. We can provide no assurance that large retail and wholesale purchases will not decrease as a result of fluctuations in buying patterns. Additionally, we are exposed to a concentration of credit risk to these customers that, if affected by financial difficulty, could materially and adversely affect our financial results.

**The global nature of our business may result in fluctuations and declines in our sales and profits.**

Our products are sold in more than 180 countries. We have more than 75 local operations worldwide and more than half of our revenues in 2010 came from customers outside the United States.

The results of operations and the financial position of our local operations are generally reported in the relevant local currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, exposing us to currency translation risk. In 2010, our most significant currency exposures were to the euro, the Japanese yen, the Brazilian real and the Canadian dollar versus the U.S. dollar.

The exchange rates between these and other foreign currencies and the U.S. dollar may fluctuate substantially. In addition, we are exposed to transaction risk because some of our expenses are incurred in a different currency from the currency in which our revenues are received. Fluctuations in the value of the U.S. dollar against other currencies have had in the past, and may have in the future, a material adverse effect on our operating margins and profitability.

Economic, social and political conditions, laws, practices and local customs vary widely among the countries in which we sell our products. Our operations outside the United States are subject to a number of risks and potential costs, including lower profit margins, less stringent protection of intellectual property and economic, political and social uncertainty in countries in which we operate, especially in emerging markets. These and other risks may have a material adverse effect on our operations in any particular country and on our business as a whole. For example, many emerging markets have currencies that fluctuate substantially. If currencies devalue and we cannot offset with price increases, our products may become less profitable. Inflation in emerging markets also can make our products less profitable and increase our exposure to credit risks. We have experienced currency fluctuations, social and political conditions, inflation and volatile economic conditions, which have impacted our profitability in the past in several markets and we may experience such impacts in the future.

The current economic and financial crisis appears to be affecting many of the markets in which we operate. As a result, there is a risk that consumers may reduce their expenditures on prescription drugs, over-the-counter healthcare products and other healthcare spending to help cope with hard economic times. In addition, governments may come under increasing pressure to reduce healthcare expenditures as a result of lower revenue and increased demand for other government services during this financial crisis. Both of these items could have a negative impact on our sales and profits.

We have significant outstanding receivable balances that are dependent upon either direct or indirect payment by various governmental entities across the world. The ultimate payment of these receivables is dependent on the ability of these governments to maintain liquidity primarily through borrowing capacity, particularly in the European Union. If certain governments are not able to maintain access to liquidity through borrowing capacity, the ultimate payment of their respective portion of outstanding receivables could be at risk and impact profits and cash flow.

**We single-source many of the active ingredients and components used in our products and interruptions in the supply of these raw materials could disrupt our manufacturing of specific products and cause our sales and profitability to decline.**

We single-source active ingredients contained in a majority of our pharmaceutical and consumer eye care products, including *ProVisc*<sup>®</sup>, *DisCoVisc*<sup>®</sup> and *VISCOAT*<sup>®</sup> surgical viscoelastic devices, both *Systane*<sup>®</sup> and *Systane*<sup>®</sup> *Ultra* lubricant eye drops, both *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> ophthalmic solutions and *Vigamox*<sup>®</sup> moxifloxacin ophthalmic solution. In these cases, obtaining the required regulatory approvals, including from the FDA, to use alternative suppliers may be a lengthy process. In many cases, we use single-source suppliers for other components and raw materials used in our products. The loss of any of these or other significant suppliers or the inability of any such supplier to meet performance and quality specifications, requested quantities or delivery schedules could cause our sales and profitability to decline and have a negative impact on our customer relations. In addition, a significant price increase from any of our single-source suppliers could cause our profitability to decline if we cannot increase our

prices to our customers. In order to ensure sufficient supply, we may determine that we need to provide financing to some of our single-source suppliers, which could increase our financial exposure to such suppliers.

**In many cases, we manufacture a product at a single-source facility, and an inability to produce a sufficient quantity of, or any disruption in the manufacturing of, a product at the relevant facility could impair our ability to fill customer orders and could reduce our sales.**

In some cases, we manufacture a product, including some of our key products, at a single manufacturing facility. In many cases, regulatory approvals of our products are limited to a specific approved manufacturing facility. If we fail to produce enough of a product at a facility, or if our manufacturing process at that facility is disrupted, we may be unable to deliver that product to our customers on a timely basis. A failure to deliver products on a timely basis could lead to customer dissatisfaction and damage our reputation. Significant delays in the delivery of our products or a delay in the delivery of a key product also could negatively impact our sales and profitability.

Some of our products are manufactured or assembled by third parties under contract. Business conditions and regulatory actions may lead to recalls of products assembled or manufactured by these companies, may result in delays in shipments of such products or may cause these contractors to abandon their contract manufacturing agreements. Any of these occurrences could have a negative impact on sales and profitability.

**Unauthorized or illegal importation of products from countries with lower prescription drug and medical device prices to countries with higher prescription drug and medical device prices may result in lowering the prices we receive for our products.**

In the United States and elsewhere, our products are subject to competition from lower priced versions of our products and competing products from Canada, Mexico and other countries where there are government imposed price controls or other market dynamics that make the products lower priced. The ability of patients and other customers to obtain these lower priced imports has grown significantly as a result of regulatory harmonization and common market or trade initiatives, such as those underpinning the European Union, and the internet. Despite government regulations in some countries aimed at limiting low priced imports, the volume of imports may continue to rise due to the limited enforcement resources, as well as political pressure to permit the imports as a mechanism for expanding access to lower priced medicines. In addition, legislative proposals are being considered in the United States at both the federal and state levels to relax U.S. import laws.

The importation of foreign products adversely affects our profitability in the United States and elsewhere. This impact could become more significant in the future, and the impact could be even greater if there are further changes to the law or if state or local governments take further steps to import products from abroad.

**We are subject to extensive government regulation related to (i) the review and market approval of drugs and medical devices, (ii) ongoing compliance and reporting obligations for products with post-approval review and (iii) ongoing pricing and reimbursement reviews for drugs and devices. These government regulations require internal processes that increase our costs to secure and maintain market registration of our drug and device products. Government regulation also could prevent us from selling our products.**

The research, development, testing, manufacturing, sale and marketing of our products are subject to extensive governmental regulation. Government regulation includes inspection of and controls over testing, manufacturing, safety and environmental controls, efficacy, labeling, advertising, marketing, promotion, record keeping, reporting, the sale and distribution of pharmaceutical products, import, export, samples and electronic records and electronic signatures. We are also subject to government regulation with respect to the prices we charge and the rebates we offer or pay to customers, including rebates paid to certain governmental entities. Government regulation substantially increases the cost of developing, manufacturing and selling our products.

In the United States, we must obtain FDA approval for each pharmaceutical product that we market and FDA approval or clearance for each medical device that we market, and additional approvals or clearances may be required for product changes. The FDA approval process is typically lengthy and expensive, and approval is never certain. Products distributed outside the United States are also subject to government regulation, which may be equally or more demanding. Our potential products could take a significantly longer time than we expect to gain regulatory approval or may never gain approval. If a regulatory authority delays approval of a potentially significant

product, our market value and operating results may decline. Even if the FDA or another regulatory agency approves a product, the approval may limit the indicated uses for a product, may otherwise limit our ability to promote, sell and distribute a product or may require post-marketing studies or impose other post-marketing obligations. If we are unable to obtain regulatory approval of our products, we will not be able to market these products, which would result in a decrease in our sales. Currently, we are actively pursuing approval for a number of our products from regulatory authorities and conducting other pre-market procedures in a number of countries, including, among others, the United States, countries in the European Union and Japan. Continued growth in our sales and profits will depend, in part, on the timely and successful introduction and marketing of some or all of these products.

The clinical trials required to obtain regulatory approvals are complex and expensive and their outcomes are uncertain. We incur substantial expense for, and devote significant time to, clinical trials, yet we cannot be certain that the trials will result in the commercial sale of a product. Positive results from preclinical studies and early clinical trials do not ensure positive results in later clinical trials that form the basis of an application for regulatory approval. We may suffer significant setbacks in clinical trials, even after earlier clinical trials show promising results. Any of our products may produce undesirable side effects that could cause us, regulatory authorities or research sites to interrupt, delay or halt clinical trials of a pharmaceutical or medical device candidate. We, the FDA or another regulatory authority, an Institutional Review Board or a Safety Data Monitoring Committee charged with overseeing the research to protect study subjects may suspend or terminate clinical trials at any time if we or they believe the trial participants face unacceptable health risks.

Noncompliance with applicable legal regulatory requirements can result in fines, injunctions, penalties, mandatory recalls or seizures, suspensions of production, denial or withdrawal of pre-marketing approvals and criminal prosecution.

The FDA and other regulatory bodies across the world also have authority to request repair, replacement or refund of the cost of any device we manufacture or distribute.

**We may be subject to penalties if we fail to comply with post-approval legal and regulatory requirements and our products could be subject to restrictions or withdrawal from the market.**

Our manufacturing, sales, promotion and other activities following product approval are subject to regulation by numerous regulatory and law enforcement authorities, including, in the United States, the FDA, the U.S. Federal Trade Commission, the Department of Justice, the CMS, other divisions of the Department of Health and Human Services and state and local governments. Any product for which we currently have or may obtain marketing approval, or clearance, along with the associated manufacturing processes, any post-approval clinical data that we might be required to collect, any adverse events and malfunctions associated with the products, and any advertising and promotional activities for the product, are subject to continual recordkeeping and reporting requirements, review and periodic inspections by regulatory authorities. Our advertising and promotional activities are subject to stringent regulatory rules and oversight. In the past, we have had to change or discontinue promotional materials because of regulatory agency requests, and we are exposed to that possibility in the future and also to the possibility of new civil monetary penalties that have been established for violative promotion of drug products to consumers.

New requirements and industry guidelines have been adopted to require the posting of ongoing drug and device clinical trials on public registries, and the disclosure of designated clinical trial results. We must continually review adverse event and other available safety information that we receive concerning our products and make expedited and periodic reports to regulatory authorities. In any given situation, we may consider whether to implement a voluntary product recall. We might be required to report to the FDA certain drug and medical device recalls, device malfunctions or product defects and failures to meet federal electronic product standards. In the United States, any free samples we distribute to physicians must be carefully monitored and controlled, and must otherwise comply with the requirements of the Prescription Drug Marketing Act, as amended, and FDA regulations. In addition, certain of our products must comply with child-resistant packaging requirements under the Poison Prevention Packaging Act and Consumer Product Safety Commission regulations.

Our sales, marketing, research and other scientific/educational programs also must comply with rules governing the promotion of medicines and devices, anti-bribery rules and related laws, such as the anti-kickback and fraud and abuse provisions of the Social Security Act, as amended, the Foreign Corrupt Practices Act, the False Claims Act, as



amended, the privacy provisions of the Health Insurance Portability and Accountability Act and similar state laws. Pricing and rebate programs must comply with the Medicaid drug rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended, the Veterans Health Care Act of 1992, as amended, and the Deficit Reduction Act of 2005, as amended. The statutes and regulations governing the various price reporting requirements are complex and have changed over time, and the U.S. government has not given clear guidance on many issues. In addition, recent statutory and regulatory developments have not yet been applied by the government or courts to specific factual situations. We believe that the Company is in compliance with all applicable government price reporting requirements, but there is the potential that the CMS, other regulatory and law enforcement agencies or a court could arrive at different interpretations, with adverse financial or other consequences for the Company. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws. Some European Union bodies and most European Union member states and Japan impose controls and restrictions that are similar in nature or effect to those described above.

In recent years, several states in the United States, including California, Connecticut, Maine, Massachusetts, Minnesota, Nevada, New Hampshire, New Mexico, Texas, Vermont and West Virginia, as well as the District of Columbia, have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities, and/or register their sales representatives, as well as prohibiting pharmacies and other healthcare entities from providing certain physician prescribing data to pharmaceutical companies for use in sales and marketing. Similar legislation is being considered in other states and at the federal level in the United States. Many of these requirements are new and their breadth and application is uncertain, and most apply only to drugs; however, certain legislation (e.g., California, Connecticut, Massachusetts, Nevada and Vermont) also applies to devices.

Depending on the circumstances, failure to meet these applicable legal and regulatory requirements can result in criminal prosecution, fines or other penalties, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, private "qui tam" actions brought by individual whistleblowers in the name of the government or refusal to allow us to enter into supply contracts, including government contracts, any of which could have a material adverse effect on our financial condition.

**We may be subject to governmental, regulatory and other legal proceedings that have a significant negative effect on our results of operations.**

We are obligated to comply with the laws of each of the many countries in which we operate, covering a broad range of activities. Despite our efforts, any failure to comply with law could lead to substantial liabilities that may not be covered by insurance, and could affect our business and reputation.

As further discussed in Item 8.A.7, "Legal Proceedings," we are subject to various legal proceedings, including legal proceedings relating to Novartis's January 2010 merger proposal. We may also be subject to additional legal proceedings in the future. Such proceedings could relate to, among other things, product liability, commercial disputes, employment and wrongful discharge, antitrust, securities, sales and marketing practices, health and safety, environmental, tax, privacy, intellectual property matters and the proposed merger with Novartis. Such proceedings are inherently unpredictable, and large verdicts sometimes occur. As a consequence, we may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations or cash flows, and the price of our common shares may be affected by speculation concerning the potential outcome of legal proceedings.

We are subject to governmental oversight and associated civil and criminal enforcement relating to drug and medical device advertising, promotion and marketing, and such enforcement is evolving and intensifying. Other parties, including private plaintiffs, also are commonly bringing suit against pharmaceutical and medical device companies, alleging off-label marketing and other violations. Given the significant risks associated with such enforcement and suits, we have adopted enhanced compliance controls over our advertising, marketing and promotional activities, among other areas. However, there remains substantial risk in this area given evolving enforcement theories and increasing claims brought by governmental and private parties.

**New legal and regulatory requirements could make it more difficult for us to obtain approvals for our product candidates and could limit or make more burdensome our ability to commercialize any approved products.**

The Food and Drug Administration Amendments Act of 2007 ("FDAAA") contains significant regulatory requirements affecting pharmaceutical and medical device manufacturers. These requirements share some of the broad themes in recently adopted legal requirements for drugs in the European Union. For drugs, the FDAAA grants the FDA extensive new authority to impose post-approval clinical study and clinical trial requirements, require safety-related changes to product labeling, review advertising aimed at consumers and require the adoption of risk management plans, referred to in the legislation as risk evaluation and mitigation strategies ("REMS"). The REMS may include requirements for special labeling or medication guides for patients, special communication plans to healthcare professionals and restrictions on distribution and use. For example, if the FDA makes the necessary findings, it might require that a new product be used only by physicians with certain specialized training, only in certain designated healthcare settings or only in conjunction with special patient testing and monitoring.

The legislation also includes requirements for drugs and devices for providing the public with information on ongoing clinical trials through a clinical trial registry and for disclosing clinical trial results to the public through a clinical trial database, renewed requirements for conducting trials to generate information on the use of products in pediatric patients, new requirements to pay the FDA a fee in order to obtain advisory review of certain drug consumer television advertisements and new penalties, for example, for false or misleading consumer drug advertisements. Other proposals have been made to impose additional requirements on drug and device approvals, further expand post-approval requirements and restrict sales and promotional activities.

States require the registration of manufacturers and wholesale distributors of pharmaceutical and medical device products in that state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. New requirements also have been imposed in some states and certain markets outside the United States and proposed in other states, requiring us to provide paper or electronic pedigrees with the drugs that we distribute to help establish their authenticity and to track their movement from the manufacturer through the chain of distribution.

These new federal and state requirements and additional requirements that have been proposed, and might be adopted, may make the process more difficult or burdensome for us to obtain approval of our product candidates. In addition, any approvals we receive may be more restrictive or come with onerous post-approval requirements, our ability to commercialize approved products successfully may be hindered and our business may be harmed as a result.

**We may implement a product recall or voluntary market withdrawal and could be exposed to significant product liability claims; we may have to pay significant amounts to those harmed and may suffer from adverse publicity as a result.**

The manufacturing and marketing of pharmaceuticals and medical devices, including surgical equipment and instruments, involve an inherent risk that our products may prove to be defective and cause a health risk. In that event, we may voluntarily implement a recall or market withdrawal or may be required to do so by a regulatory authority. We have recalled products in the past and, based on this experience, believe that the occurrence of a recall could result in significant costs to us, potential disruptions in the supply of our products to our customers and adverse publicity, all of which could harm our ability to market our products. A recall of one of our products or a product manufactured by another manufacturer could impair sales of other similar products we market as a result of confusion concerning the scope of the recall. A product recall also could lead to a regulatory agency inspection or other regulatory action.

From time to time, we are named as a defendant in product liability lawsuits, and although we believe we are not currently subject to any material product liability proceedings, we may incur material liabilities relating to product liability claims in the future, including claims arising out of procedures performed using our surgical equipment. Prior to 2005, we relied on a combination of self-insurance and third-party insurance to cover potential product liability claims. Since January 1, 2005, we no longer purchase third party product liability insurance coverage for this risk. The combination of insurance coverage (if any), cash flows and reserves may not be adequate to satisfy product liabilities that we may incur in the future. Even meritless claims could subject us to adverse publicity, hinder us from

securing insurance coverage in the future and require us to incur significant legal fees. Successful product liability claims brought against us could have a material adverse effect on our results of operations or our financial condition.

**Our activities involve hazardous materials and may subject us to environmental liability.**

Our manufacturing, research and development practices involve the controlled use of hazardous materials. We are subject to federal, state and local laws and regulations in the various jurisdictions in which we have operations, governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. Although we believe that our safety and environmental procedures for handling and disposing of these materials comply with legally prescribed standards, we cannot completely eliminate the risk of accidental contamination or injury from these materials. Remedial environmental actions or compliance with environmental laws could require us to incur substantial unexpected costs which would materially and adversely affect our results of operations or our financial position. If we were involved in a major environmental accident or found to be in substantial non-compliance with applicable environmental laws, we could be held liable for damages or penalized with fines that could be material.

Prior to 2005, we relied on a combination of self-insurance and third-party insurance to cover potential environmental liability claims. Since January 1, 2005, we no longer purchase insurance coverage for this risk. The combination of insurance coverage (if any), cash flows and reserves may not be adequate to satisfy environmental liabilities that we may incur in the future. Any environmental claims could subject us to adverse publicity, hinder us from securing insurance coverage in the future and require us to incur significant legal fees. Successful environmental liability claims brought against the Company could have a material adverse effect on our results of operations or our financial condition.

**We do not purchase third-party insurance to cover almost all of our property and casualty, business interruption and liability risks. We continue to purchase insurance from third parties when required by law and for the personal side of directors' and officers' liability insurance.**

The pharmaceutical and medical device business involves an inherent risk of product liability and any claims of this type could have an adverse impact on us. Furthermore, we have all the risks of property and casualty, general liability, business interruption and environmental liability exposures that are typical of a public enterprise with manufacturing and marketing activities. Prior to 2005, we relied on a combination of self-insurance through our captive insurance subsidiaries and third-party insurance to cover potential claims from these risks. Since March 31, 2005, we no longer purchase any form of insurance from third parties except for insurance coverage required by law to be purchased from third parties, such as workers' compensation and automobile insurance. Consequently, we are exposed to all self-insured risks. However, we purchase the personal side of directors' and officers' liability insurance from a third party.

Although our Company assets, our internally generated cash flows and third-party insurance coverage have been adequate to provide for liability claims in the past, there can be no assurance that future liability claims and other losses from these risks can be covered by our insurance coverage limits for past activities, Company assets and future cash flows. Any significant losses from these risks could have a material adverse effect on our results of operations or our financial condition.

**We may not successfully complete and integrate strategic acquisitions to expand or complement our business.**

As part of our growth strategy, we evaluate and pursue strategic business acquisitions to expand or complement our business. Such ventures may bring new products, increased market share or new customers to Alcon's prominent position in the ophthalmic industry. We cannot ensure that suitable acquisition candidates will be identified. Acquisition activities can be thwarted by overtures from competitors for the targeted candidates, governmental regulation (including market concentration limitations) and replacement product developments in our industry. Further, after an acquisition, successful integration of the venture can be complicated by corporate cultural differences, difficulties in retention of key personnel, customers and suppliers, and coordination with other products and processes. Also, acquisitions could divert management's attention from our existing business and could result in liabilities being incurred that were not known at the time of acquisition or the creation of tax or accounting issues. If we fail to timely recognize or address these matters or to devote adequate resources to them, we may fail to achieve our growth strategy or otherwise not realize the intended benefits of any acquisition.

**We face risks arising from possible union legislation in the United States.**

There is a possibility that the proposed Employee Free Choice Act may be enacted in the United States. If passed, the Employee Free Choice Act would make it easier for unions to win elections and could result in more labor relations requirements and union activity in our business. This legislation potentially could increase our costs and could have a material adverse effect on our overall competitive position.

**The March 11, 2011 earthquake and tsunami in Japan may adversely affect our operations in Japan.**

On March 11, 2011, a significant portion of Japan suffered damage from a major earthquake and accompanying tsunami. Our office in Tokyo reported that all of our employees there were safe and that damage to the Company's physical assets was not significant to the Company on a consolidated basis. However, damage to the country's energy supplies, infrastructure and distribution channels has been significant and may cause adverse consequences in the future. As a result, we expect that our operations in Japan will be adversely affected in 2011 by factors that may include reduced sales, increased costs and expenses, and disruptions to the operations of our suppliers and business partners. We are unable to determine the extent of the impact of this event on our operations and financial condition in the future with any level of precision at the date of this report.

**Risks Related to Our Relationship with Novartis**

**We will be controlled by Novartis AG as long as it owns a majority of our common shares, and our other shareholders will be unable to affect the outcome of a shareholder vote during that time.**

At December 31, 2010, Novartis AG, a Swiss corporation, owned approximately 77% of our outstanding common shares. Because Novartis's interests may differ from those of our other shareholders, actions Novartis takes with respect to us may be unfavorable to our other shareholders. Minority holders of common shares will not be able to affect the outcome of most shareholder votes so long as Novartis owns at least a majority of our outstanding common shares. So long as it owns at least a majority of our common shares, Novartis will be able to control, among other things, the outcome of shareholder votes relating to the following: the election and removal of all of our directors; amendments to our Articles of Association; payment of dividends; changes to our capital structure; and appointment and removal of our statutory and group auditors.

On December 14, 2010, Alcon's board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at \$168 per share for the Alcon shares it does not currently own, comprised of a combination of Novartis shares (or American Depositary Shares in lieu thereof) and, if necessary, a cash contingent value amount to result in a total value of \$168 per share. The merger agreement precludes the payment of dividends by Alcon and contains limitations on our ability to take certain actions without the prior consent of Novartis. Completion is conditional, among other things, on two-thirds approval by the shareholders of Alcon. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger.

For further details on the proposed merger, please refer to Item 7.B, "Related Party Transactions" and the Merger Agreement dated December 14, 2010 between Novartis AG and Alcon, Inc., included as Exhibit 4.13 to this report. Additional information concerning the proposed merger is included in the registration statement on Form F-4 filed by Novartis with the United States Securities and Exchange Commission on December 23, 2010 and subsequent amendments thereto.

**Because Novartis controls us, conflicts of interest between Novartis and us could be resolved in a manner unfavorable to us.**

Various conflicts of interest between Alcon and Novartis could arise. For example, ownership interests of directors or officers of Alcon in Novartis shares or service as a director or officer of both Alcon and Novartis could create, or appear to create, potential conflicts of interest when a director or officer is faced with decisions that could have different implications for the two companies, such as disagreement over the desirability of a potential acquisition opportunity, employee retention or recruiting or our dividend policy.

**We cannot assure you that all conditions to the merger will be completed and the merger consummated.**

The merger is subject to the satisfaction of closing conditions, including the approval of our and Novartis's shareholders, and we cannot assure you that the merger will be completed. In the event the merger is not completed, we may be subject to many risks, including the costs related to the proposed merger, such as legal, accounting, and advisory fees, which must be paid even if the merger is not completed. If the merger is not completed, the market price of our common stock could decline.

**Sales or distributions of our common shares by Novartis could depress the market price for our common shares.**

Novartis may, at any time, sell all or part of our common shares that it owns or it may distribute those common shares to its shareholders. There can be no assurance that any of our other shareholders will be included in any transaction in the event Novartis sells its interest in us to another party or that any of our shareholders will realize a premium with respect to their common shares as a result of such transaction or any other disposition of our common shares by Novartis. In addition, sales or distributions by Novartis of substantial amounts of our common shares in the public market or to its shareholders could adversely affect prevailing market prices for our common shares. Novartis is not subject to any contractual obligation to maintain its respective ownership positions in our shares.

**Risks Related to the Securities Markets and Ownership of Our Common Shares**

**The price of our common shares may fluctuate.**

The market price of our common shares may fluctuate significantly in response to factors, both within and outside our control, such as announcements of innovations and discoveries or new products by us or our competitors, developments concerning intellectual property rights and regulatory approvals, changes in estimates of our financial performance, changes in recommendations by securities analysts and developments with respect to the proposed merger with Novartis. To the extent that there are sales of substantial amounts of common shares in the public market in connection with or immediately following exercise by the holders of employee stock options or share-settled stock appreciation rights, the market price of our common shares may decrease significantly.

The stock market in general sometimes experiences extreme price and volume fluctuations. The market prices of securities of pharmaceutical and medical device companies have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. These market fluctuations could result in extreme volatility in the price of our common shares, which could cause a decline in the value of our common shares. You should be aware also that for the size of our company, Alcon has relatively fewer shares that trade on a daily basis than other similar companies in our industry. As a result, price volatility of our shares may be greater when the trading volume of our common shares is low.

**Risks Related to Our Jurisdiction of Incorporation**

**We are incorporated in Switzerland and Swiss law governs our internal corporate affairs.**

We are a corporation incorporated under the laws of Switzerland. The rights of holders of our common shares are governed by Swiss corporate law and by our Articles of Association. In particular, Swiss corporate law limits the ability of a shareholder to challenge resolutions or actions of our board of directors in court. Shareholders generally are not permitted to file a suit to reverse a decision or action by directors but are permitted to seek damages for breaches of fiduciary duty. Shareholder claims against a director for breach of fiduciary duty would, as a matter of Swiss law, have to be brought at our place of incorporation in the Canton of Zug, Switzerland, or at the domicile of the involved director. In addition, under Swiss law, any claims by shareholders against us must be brought exclusively at our place of incorporation.

Under Swiss corporate law, we are required to declare dividends in Swiss francs. As a result, any currency fluctuations between the U.S. dollar and the Swiss franc will affect the dollar value of the dividends we pay.

In addition, in several instances we follow Swiss corporate governance practices instead of the corporate governance practices applicable to a U.S. company under New York Stock Exchange ("NYSE") listing standards, as permitted by the NYSE. A summary of the principal areas of difference is provided under Item 16G, "Corporate Governance."

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

###### **General Information**

The entity that is now Alcon, Inc. was originally incorporated in Switzerland in 1971 as Société Fromagère Nestlé S.A., and, after a change of our name to Alcon Universal S.A. in 1978, was registered in the Commercial Register of the Canton of Zug on March 13, 1992. Effective on December 21, 2001, we changed our name to Alcon, Inc. We are subject to the laws of Switzerland. Our principal executive offices are located at Bösch 69, P.O. Box 62, 6331, Hünenberg, Switzerland, and our telephone number is +41-41-785-8888. Our principal United States offices are located at 6201 South Freeway, Fort Worth, Texas 76134-2099. The telephone number at those offices is (817) 293-0450 and the fax number is (817) 568-7111.

In this document, "IPO" refers to the initial public offering of approximately 69,750,000 of Alcon's common shares on March 20, 2002. Prior to the IPO, Alcon, Inc. was a wholly owned subsidiary of Nestlé.

###### **Important Events in the History of the Company in 2010**

###### **Change of Control and Proposed Merger**

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of \$143.18 per share. This sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. The option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of \$181 per share and the 4.1 million shares at the first stage price of \$143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of \$181 per share or a premium of approximately 20.5% above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of \$143.18 per share.

For further details on the Purchase and Option Agreement, please refer to the following link at the SEC's web site: [http://www.sec.gov/Archives/edgar/data/1114448/000110465908045488/a08-18409\\_1ex2d1.htm](http://www.sec.gov/Archives/edgar/data/1114448/000110465908045488/a08-18409_1ex2d1.htm).

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of \$180 per share in cash, pursuant to the Purchase and Option Agreement. Upon consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards plan (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share.

The proposed merger would be contingent upon, among other things, approval by the Alcon board of directors. Alcon's Independent Director Committee believes Alcon's Organizational Regulations provide that the Alcon board of directors may only approve the proposed merger if a majority of the Independent Director Committee so recommends; however, we cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders.

### **Merger Agreement of December 14, 2010**

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at \$168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares (or American Depositary Shares in lieu thereof) and, if necessary, a cash contingent value amount to result in a total value of \$168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee unanimously recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares and American Depositary Shares to be issued as merger consideration on the SIX Swiss Exchange and the New York Stock Exchange, respectively. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has indicated its intention, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic products will be integrated into Alcon.

For further details on the proposed merger, please refer to Item 7.B, "Related Party Transactions" and the Merger Agreement dated December 14, 2010 between Novartis AG and Alcon, Inc., included as Exhibit 4.13 to this report. Additional information concerning the proposed merger is included in the registration statement on Form F-4 filed by Novartis with the United States Securities and Exchange Commission on December 23, 2010 and subsequent amendments thereto.

### **Capital Expenditures, Acquisitions and Divestitures for the Last Three Years (January 1, 2008 through December 31, 2010):**

The Company's capital expenditures for property, plants and equipment, to expand and upgrade manufacturing facilities, research and development facilities and other infrastructure, for the years ended December 31, 2010, 2009 and 2008 were \$309 million, \$342 million and \$302 million, respectively.

In 2009, we broke ground to build a facility in Singapore that will manufacture pharmaceuticals to be distributed throughout most of Asia. Initial construction has been completed, and we plan for the 331,000 square foot facility to be fully functional in 2012.

## **LenSx Acquisition**

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complementary technology in cataract surgery. The *LenSx*<sup>®</sup> laser enables surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and the creation of certain corneal incisions. Without this technology, these steps are done manually with surgical instruments.

The Company paid \$367 million in cash at closing to LenSx shareholders for their shares. The acquisition also provides for maximum contingent payments of \$383 million based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones. The Company recorded, as part of the purchase price, \$72 million for the estimated fair value of the contingent consideration and \$12 million in cash paid to a LenSx shareholder for an intangible asset integral to the purchase.

Note 18 to the consolidated financial statements provides more information on this acquisition.

## **Sirion Asset Purchase**

In the first quarter of 2010, we also purchased certain intangible assets from Sirion Holdings, Inc. The intangible assets included the technology and licenses to manufacture, market and sell *DUREZOL*<sup>®</sup> ophthalmic steroid for post-surgical ocular pain and inflammation.

## **Optonol Acquisition**

In January 2010, we acquired Optonol, Ltd., a medical device company that develops, manufactures and markets novel miniature surgical implants used to lower intraocular pressure in patients with glaucoma. With this acquisition, Alcon acquired Optonol's *EX-PRESS*<sup>®</sup> glaucoma filtration device. This medical device complements Alcon's pharmaceutical products that lower intraocular pressure in patients with glaucoma and ocular hypertension and has been additive to the Company's growth.

The device is currently reimbursed in the U.S by Medicare and other payors, and it is also approved and currently marketed in Europe, Canada, Australia and several other countries. Because the product is already approved in the United States and other major markets, it began contributing commercially in the first quarter of 2010.

## **ESBATEch Acquisition**

On September 15, 2009, the Company acquired ESBATEch AG, a Swiss biotechnology company. The Company paid ESBATEch shareholders \$150 million in cash at closing and may pay possible contingent payments of up to \$439 million based upon the achievement of future research and development milestones that would be expected to create value for Alcon. The Company recorded, as part of the purchase price, the estimated fair value of \$71 million related to the contingent payments. This valuation was based on the Company's estimates of the probability and timing of these contingent payments.

ESBATEch is a clinical-stage biotechnology company that has been developing a pipeline of proprietary single-chain antibody fragment therapeutics for topical and local delivery for safe and convenient therapy. ESBATEch has advanced its antibody fragment technology to preclinical and clinical stages in the eye for various diseases. The company has several stable and soluble single-chain antibody fragments in development, with its most advanced product candidate progressed into Phase I and II studies relating to the treatment of inflammatory ocular diseases.

The acquisition included all rights to ESBATEch's technology for therapeutic application to the eye, including age-related macular degeneration, diabetic macular edema, glaucoma, dry eye and uveitis. Substantially all of the employees of ESBATEch joined Alcon. The ESBATEch acquisition expanded Alcon's research capability outside of small molecules to the field of proteins, antibodies and other large molecules. This subsidiary has been converted and renamed, "ESBATEch, an Alcon Biomedical Research Unit GmbH."



Note 18 to the consolidated financial statements provides more information on this acquisition.

### **WaveLight Acquisition**

On November 9, 2007, Alcon completed a voluntary tender offer for WaveLight AG, a German company, culminating in Alcon's acquisition of 77.4% of the issued shares of WaveLight. In the fourth quarter of 2008, Alcon acquired additional shares of WaveLight. WaveLight develops, manufactures and markets innovative refractive laser and diagnostic systems, including the *ALLEGRETTO*<sup>™</sup> laser system for refractive eye surgery.

On March 4, 2009, a Domination Agreement was registered and became effective. The Domination Agreement allowed Alcon to instruct WaveLight with regard to operational and financial matters, as well as the efficient integration of both companies. Seventy-nine shareholders have filed applications for appraisal proceedings against the Company relative to the cash compensation and guarantee dividend offered in the Domination Agreement. So far no court hearing has been scheduled.

In October 2009, the German requirements were met to complete the acquisition of the outstanding minority shares of WaveLight by way of a "squeeze-out." As a result, WaveLight became wholly owned by the Company, and the listing of the shares of WaveLight was terminated. One hundred shareholders have filed applications for appraisal proceedings against the Company relative to the cash compensation offered in the course of the "squeeze-out." So far no court hearing has been scheduled.

Before the end of 2009, the Domination Agreement was terminated by way of a mutual agreement between Alcon, Inc. and WaveLight AG. In addition the shares held in WaveLight were transferred to Alcon Refractive Horizons, LLC. On April 15, 2010, the legal form of WaveLight AG, a stock corporation under German law (*AG*), was changed to a limited liability company under German Law (*GmbH*).

### **Capital Expenditures, Acquisitions and Divestitures Currently Underway:**

In 2010, capital expenditures were made to add manufacturing capacity and upgrades to our Fort Worth, Texas, Puurs, Belgium, Huntington, West Virginia, Cork, Ireland, Kaysersberg, France, Houston, Texas, and Sinking Spring, Pennsylvania, manufacturing facilities and to continue construction of a new manufacturing plant in Singapore. Capital expenditures were also made to upgrade and expand our research and development facilities and administrative facilities in Fort Worth and in Zurich, Switzerland (ESBATEch). We had capital expenditure commitments of \$53 million at December 31, 2010. We expect to fund these capital projects through operating cash flow and, if necessary, short term borrowings.

The Company has not announced any other acquisitions or divestitures subsequent to December 31, 2010.

## **B. BUSINESS OVERVIEW**

Alcon is a research and development driven, global medical specialty company predominantly focused on eye care. We develop, manufacture and market pharmaceuticals, surgical equipment and devices and consumer eye care products to treat primarily diseases and disorders of the eye. Our broad range of products represents one of the strongest portfolios in the ophthalmic industry. We believe we have the largest commitment to ophthalmic research and development of any company worldwide. Currently, our products are sold in over 180 countries, and we are present in every significant market in the world where ophthalmology is practiced. In 2010, we had sales of \$7.2 billion, operating income of \$2.5 billion and net earnings of \$2.2 billion.

### **Our Products**

Our broad range of products represents one of the strongest portfolios in the ophthalmic industry, with high-quality and technologically advanced products across all major product categories. Our leadership position across most of our product categories enhances our ability to extend our product offerings, through the launch of new and innovative products, and to expand our geographic reach into ophthalmic markets worldwide. We manage our business through two business segments: Alcon United States and Alcon International. Our portfolio spans three key ophthalmic categories: pharmaceutical, surgical and consumer eye care products. See notes 10 and 11 to the consolidated financial statements for a three-year history of our sales by segment and category.

## Our Pharmaceutical Products

We are a global leader in ophthalmic pharmaceuticals. We develop, manufacture and market a broad offering of prescription ophthalmic pharmaceutical products.

The following table lists our principal pharmaceutical products:

<b>Glaucoma</b>	<b>Ocular Anti-Infectives/ Anti-Inflammatories</b>	<b>Ocular Allergy</b>	<b>Generics</b>	<b>Otic/Nasal</b>
<i>TRAVATAN</i> <sup>®</sup>	<i>Vigamox</i> <sup>®</sup> / <i>Vegamox</i> <sup>®</sup> (1)	<i>Patanol</i> <sup>®</sup> / <i>Opatanol</i> <sup>®</sup>	Timolol GFS	<i>Cipro</i> <sup>®</sup> HC Otic (1)
<i>TRAVATANZ</i> <sup>®</sup>	<i>Moxeza</i> <sup>™</sup> (1)	<i>Pataday</i> <sup>™</sup>	Pred Acetate	<i>CIPRODEX</i> <sup>®</sup> (1)
<i>TRAVATAN</i> <sup>®</sup> APS	<i>TobraDex</i> <sup>®</sup>		Dorzolamide	<i>Patanase</i> <sup>®</sup>
<i>DuoTrav</i> <sup>®</sup>	<i>TobraDex</i> <sup>®</sup> ST		Dorzolamide/Timolol	
<i>AZARGA</i> <sup>®</sup>	<i>Tobrex</i> <sup>®</sup>		Ciprofloxacin	
<i>Azopt</i> <sup>®</sup>	<i>NEVANAC</i> <sup>®</sup>		Brimonidine	
<i>Betoptic S</i> <sup>®</sup>	<i>Maxitrol</i> <sup>®</sup>		Trifluridine	
	<i>DUREZOL</i> <sup>®</sup>		Tobramycin/ dexamethasone	

- (1) *Cipro*<sup>®</sup> and *CIPRODEX*<sup>®</sup> are registered trademarks of Bayer AG, licensed to Alcon by Bayer Schering Pharma AG. Moxifloxacin, the primary ingredient in *Vigamox*<sup>®</sup>, *Vegamox*<sup>®</sup> and *Moxeza*<sup>™</sup>, is licensed to Alcon by Bayer Schering Pharma AG.

### Glaucoma Treatment

In 2010, sales of our glaucoma products were \$1,277 million, or 41.7% of our total pharmaceutical sales.

*TRAVATAN*<sup>®</sup> ophthalmic solution competes in the prostaglandin analogue class of glaucoma treatments. Prostaglandin analogues are the largest class of compounds currently available to reduce intraocular pressure, which is a primary characteristic of glaucoma. In 2010, we converted in the United States to the exclusive distribution of a newer formulation of *TRAVATAN*<sup>®</sup> called *TRAVATANZ*<sup>®</sup> ophthalmic solution. *TRAVATANZ*<sup>®</sup> replaces the preservative benzalkonium chloride ("BAC") with our proprietary *SOFZIA*<sup>®</sup> preservative system. Outside the United States, we also market *DuoTrav*<sup>®</sup> ophthalmic solution, which combines the prostaglandin in *TRAVATAN*<sup>®</sup> with a beta blocker, timolol. We received approval and commenced the launch of this product in Japan in 2010 to further expand our glaucoma franchise. Brands containing our proprietary prostaglandin have been launched in more than 100 countries. Introduction of *TRAVATAN*<sup>®</sup> APS ophthalmic solution, which replaces BAC with a commonly used ocular preservative, is planned in 2011 for Europe.

In late 2008, we received approval from the European Medicines Agency to launch *AZARGA*<sup>®</sup> ophthalmic suspension, a fixed combination for the treatment of glaucoma containing a topical carbonic anhydrase inhibitor and a beta blocker. We have launched *AZARGA*<sup>®</sup> in most European markets and several other markets outside the United States. In addition, we offer *Azopt*<sup>®</sup> and *Betoptic S*<sup>®</sup> ophthalmic suspensions, both of which utilize separate classes of compounds. *Azopt*<sup>®</sup> is a topical carbonic anhydrase inhibitor that has shown to be an excellent adjunctive therapy when used with other glaucoma therapies, including prostaglandin analogues.

These products are important to our glaucoma franchise and currently make up a majority of our glaucoma products sales. We expect our glaucoma products to continue to contribute to our sales growth.

### Anti-Infectives, Anti-Inflammatories and Combination Therapies

We currently manufacture and market a broad range of drugs to treat bacterial, viral and fungal infections of the eye and to control ocular inflammation. In 2010, combined sales of our ocular anti-infectives, ocular anti-inflammatories and combination therapies were \$980 million, or 32.0% of our total pharmaceutical sales.

Our leading ocular anti-infective product is *Vigamox*<sup>®</sup> ophthalmic solution, utilizing moxifloxacin to treat bacterial conjunctivitis. During 2006, we received approval and launched *Vigamox*<sup>®</sup> in Japan under the trade name *Vegamox*<sup>®</sup> ophthalmic solution. In November 2010, the FDA approved *Moxeza*<sup>™</sup> 0.5% ophthalmic solution, using

the same active ingredient as found in *Vigamox*<sup>®</sup>, moxifloxacin, to treat bacterial conjunctivitis. *Moxeza*<sup>™</sup> is a new formulation that improves bioavailability, provides an increased concentration of drug to the conjunctiva, thus allowing for twice-daily treatment. Launch of *Moxeza*<sup>™</sup> in the United States is planned for early 2011.

During 2005, we launched a topical non-steroidal anti-inflammatory drug ("NSAID") in the U.S. market for the treatment of pain and inflammation associated with cataract surgery. *NEVANAC*<sup>®</sup> ophthalmic suspension is unique because it is a prodrug where the drug is converted to the active ingredient only after it enters the eye. *NEVANAC*<sup>®</sup> was approved in Japan during 2010.

Our combination ocular anti-infective/anti-inflammatory products, *TobraDex*<sup>®</sup> ophthalmic suspension and ointment, combine a broad-spectrum antibiotic with a proven anti-inflammatory. Our exclusive rights to sell *TobraDex*<sup>®</sup> in the United States expired as of January 2009 and in most other countries in March 2009. Both a competitor and our Falcon Pharmaceuticals subsidiary launched generic versions of *TobraDex*<sup>®</sup> suspension in early January 2009. The generic competition for *TobraDex*<sup>®</sup> has resulted in a reduction in sales in the United States due to loss in market share and reduced price. Sales of *TobraDex*<sup>®</sup> outside the United States have not been significantly impacted.

In September 2010, we launched *TobraDex*<sup>®</sup> ST suspension, a new formulation of tobramycin and dexamethasone that utilizes a new suspension technology incorporating pharmaceutical-grade xanthan gum and requires only half the amount of dexamethasone as our original *TobraDex*<sup>®</sup> suspension. *TobraDex*<sup>®</sup> ST suspension offers dual therapy by providing rapid relief for patients who are suffering from inflammation and infection due to acute blepharitis and other conditions involving ocular inflammation and infection or risk of infection.

In 2010, we acquired the rights in the United States for *DUREZOL*<sup>®</sup> emulsion, a topical ophthalmic corticosteroid used to treat postoperative inflammation and pain associated with ocular surgery. *DUREZOL*<sup>®</sup> emulsion received approval from the FDA in 2008 and was the first ophthalmic steroid to be approved for both postoperative inflammation and pain.

#### *Ocular Allergy*

We market and manufacture products for the treatment of ocular allergies. In 2010, sales of our ocular allergy pharmaceutical products were \$539 million, or 17.6% of our total pharmaceutical sales. The allergy market is seasonal, peaking in the spring and again, but to a lesser extent, in the fall.

*Patanol*<sup>®</sup> ophthalmic solution was the first ocular allergy product with a dual-action active ingredient, which acts as both an antihistamine and a mast-cell stabilizer. During 2006, we received approval and launched *Patanol*<sup>®</sup> in Japan, the second largest ophthalmic allergy market. We have a co-marketing agreement in Japan with Kyowa Hakko Kirin Co., Ltd., a leading Japanese pharmaceutical company, whereby Kyowa promotes *Patanol*<sup>®</sup> to non-eye care physicians and we promote the product to eye care physicians. In February 2007, we launched in the United States the first once-a-day ocular prescription allergy medicine, *Pataday*<sup>™</sup> ophthalmic solution, which is a new formulation utilizing an increased concentration of olopatadine, the active ingredient in *Patanol*<sup>®</sup>. According to Wolters Kluwer Health Source Prescription Audit, *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> were the leading ophthalmic topical anti-allergy prescription products in the United States in 2010. We currently sell *Patanol*<sup>®</sup> in more than 95 countries.

#### *Otic/Nasal Products*

We also market combination anti-infective/anti-inflammatory products for ear infections. *CIPRODEX*<sup>®</sup> otic suspension, for the treatment of otitis media in the presence of tympanostomy tubes ("AOMT") and of otitis externa, commonly known as swimmer's ear, is marketed in the United States and a small number of countries outside the United States. In addition, we market *Cipro*<sup>®</sup> HC Otic for the treatment of otitis externa in over 30 countries. Sales of our otic products are seasonal, with a higher percentage of prescriptions written during the summer months.

*Patanase*<sup>®</sup> nasal spray was approved by the FDA in April 2008 and currently is marketed in the United States for the relief of the symptoms of allergic rhinitis in patients six years of age and older.

## Generic Pharmaceuticals

We established Falcon Pharmaceuticals in 1994 to manufacture and market generic ophthalmic and otic pharmaceutical products in the United States. Falcon's sales in 2010 were \$200 million, or 6.5% of our total global pharmaceutical sales. Falcon currently manufactures and markets approximately 35 generic pharmaceutical products.

Falcon's largest product in 2010 was Brimonidine 0.15% for the treatment of glaucoma and accounted for 27% of Falcon's sales. Alcon has exclusive rights to manufacture and sell this product, which is the sole generic form of Allergan's branded product, Alphagan<sup>®</sup> P, through January 2022. Falcon's second largest product, Timolol GFS, was the sole generic pharmaceutical approved by the FDA as an AB therapeutically equivalent substitute for Merck's Timoptic-XE<sup>®</sup>. Merck's patent covering Timoptic-XE<sup>®</sup> expired in September 2006, allowing other generic competitors to receive approval of a therapeutically equivalent version of Timoptic-XE<sup>®</sup>. In December 2009, a competitor launched an authorized generic version of Merck's Timoptic-XE<sup>®</sup>, which negatively impacted our sales and profits in 2010.

In January 2009, Falcon launched a generic tobramycin/dexamethasone combination drug in response to other competitive generics that were introduced to compete with our *TobraDex*<sup>®</sup> branded product. Our generic version comprised almost 16% of Falcon's sales in 2010.

Falcon's other principal generic products include Prednisolone Acetate (used for the treatment of inflammation of the eye), Timolol Solution (for the treatment of glaucoma), Trifluridine (used to treat viral infections of the eye), Dorzolamide and Dorzolamide/Timolol combination (for the treatment of glaucoma), Ketorolac (used to treat allergy and for the eye), Ciprofloxacin (used to treat infections of the eye) and Neomycin and Polymyxin B Sulfates and Hydrocortisone otic and ophthalmic suspension (sterile antibacterial and anti-inflammatory combination products for the treatment of bacterial infections in the ear and the eye, respectively).

## Our Surgical Products

We are the global leader in ophthalmic surgical products and manufacture and market the most comprehensive product offering available today.

The following table lists our principal surgical products:

<b>Cataract</b>	<b>Refractive</b>	<b>Vitreoretinal</b>	<b>General Surgical</b>
<i>Infiniti</i> <sup>®</sup> vision system	<i>ALLEGRETTO WAVE</i> <sup>®</sup>	<i>CONSTELLATION</i> <sup>®</sup> surgical system	<i>BSS Plus</i> <sup>®</sup> surgical irrigating solution
<i>Infiniti</i> <sup>®</sup> , <i>AquaLase</i> <sup>®</sup> and <i>OZil</i> <sup>®</sup> surgical instruments	<i>Eye-Q</i> 400 Hz laser	<i>Accurus</i> <sup>®</sup> surgical system	<i>Custom Pak</i> <sup>®</sup> surgical procedure packs
<i>Infiniti</i> <sup>®</sup> consumables	<i>ALLEGRO ANALYZER</i> <sup>®</sup> wavefront system	<i>Accurus</i> <sup>®</sup> cassettes and probes, including 23 gauge and 25 gauge vitreoretinal instrumentation	<i>A-OK</i> <sup>®</sup> surgical knives
<i>Laureate</i> <sup>®</sup> compact phacoemulsification system	<i>ALLEGRO TOPOLYZER</i> <sup>®</sup> corneal topography system	<i>Grieshaber</i> <sup>®</sup> microsurgical instruments	<i>EX-PRESS</i> <sup>®</sup> glaucoma filtration device
<i>LenSx</i> <sup>®</sup> laser	<i>ALLEGRO OCULYZER</i> <sup>®</sup> pentacam diagnostic device	<i>Perfluoron</i> <sup>®</sup> liquid	
<i>AcrySof</i> <sup>®</sup> intraocular lenses	<i>ALLEGRO</i> <sup>™</sup> biometry system	<i>Silikon</i> <sup>®</sup> 1000 ophthalmic surgical oil	
- <i>AcrySof</i> <sup>®</sup> <i>Natural</i>	<i>AcrySof</i> <sup>®</sup> <i>CACHET</i> <sup>™</sup> phakic lens		
- <i>AcrySof</i> <sup>®</sup> <i>IQ</i>	<i>WaveLight</i> <sup>®</sup> Refractive Suite		
- <i>AcrySof</i> <sup>®</sup> <i>ReSTOR</i> <sup>®</sup>	EX 500 Excimer 500 Hz laser		
- <i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup>	<i>FS200</i> femtosecond laser		
- <i>AcrySof</i> <sup>®</sup> <i>Toric</i>			
- <i>AcrySof</i> <sup>®</sup> <i>IQ Toric</i>			
- <i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> <i>Multifocal Toric</i>			
Viscoelastic devices			
- <i>DuoVisc</i> <sup>®</sup>			
- <i>DisCoVisc</i> <sup>®</sup>			
- <i>VISCOAT</i> <sup>®</sup>			
- <i>ProVisc</i> <sup>®</sup>			

## Cataract Surgery

We support our global market leadership in cataract surgical products by providing a comprehensive offering of surgical equipment, single-use and disposable products. Sales of our products for cataract surgery in 2010 were \$2,604 million, or 80.9% of our total surgical sales. We currently market products for cataract surgery in substantially all of our markets.

The *Infiniti*<sup>®</sup> vision system, our most advanced lens removal system, has been widely accepted by surgeons around the globe. Continued customer interest in the *Infiniti*<sup>®</sup> vision systems will maintain or expand our position as the worldwide leader in lens removal systems. The *Infiniti*<sup>®</sup> vision system has been advanced continually since its introduction in 2003, with the latest advancement being the addition of the *OZil*<sup>®</sup> torsional handpiece in 2006. *OZil*<sup>®</sup> is a proprietary technology utilizing torsional oscillation and ultrasound to more efficiently emulsify the lens. Many surgeons who have adopted *OZil*<sup>®</sup> torsional technology have reported a more efficient, more effective and safer lens removal procedure. In addition, many customers with existing *Infiniti*<sup>®</sup> vision systems chose to upgrade their units with *OZil*<sup>®</sup> torsional technology.

Our portfolio of surgical products allows us to compete effectively in developing as well as developed markets. In late 2007, we launched the *Laureate*<sup>®</sup> compact phacoemulsification system as a replacement for the *LEGACY*<sup>®</sup> surgical system in selected markets. The *Laureate*<sup>®</sup> provides excellent fluidics and traditional longitudinal ultrasound capabilities and is designed to support surgical procedures and practices in developing markets.

Our comprehensive line of single-use products for cataract procedures includes the cassettes used in the *Infiniti*<sup>®</sup>, *Laureate*<sup>®</sup> and *LEGACY*<sup>®</sup> surgical systems, a full line of viscoelastics to protect delicate tissues of the eye during the procedure, surgical knives and surgical irrigating solutions. The Company holds market-leading positions in each of these product lines.

In 2010, we acquired the *LenSx*<sup>®</sup> laser system with LenSx Lasers, Inc. This laser is the first femtosecond laser to receive FDA clearance for use in cataract surgery. The *LenSx*<sup>®</sup> system is indicated for anterior capsulotomy, phacofragmentation and the creation of single plane and multi-plane arc incisions in the cornea during cataract surgery, providing a precise laser alternative to certain manual steps within the traditional cataract procedure. The innovative *LenSx*<sup>®</sup> laser platform enables surgeons to perform some of the most delicate manual steps of cataract surgery with image-guided visualization and micron level laser precision. The *LenSx*<sup>®</sup> laser enhances a surgeon's ability to predictably create a well-centered anterior capsulorhexis of exact diameter, and to effectively fragment the lens for removal with minimized phaco time and power. In addition, certain corneal incisions can be made with the *LenSx*<sup>®</sup> laser system, reducing or eliminating the use of knives in the cataract procedure.

Our *AcrySof*<sup>®</sup> intraocular lenses are the most frequently implanted intraocular lenses in the world. *AcrySof*<sup>®</sup> intraocular lenses are made of the first material specifically engineered for use in an intraocular lens. More than 50 million *AcrySof*<sup>®</sup> intraocular lenses have been implanted since introduction.

Our *AcrySof*<sup>®</sup> *IQ* intraocular lens is the first intraocular lens to combine an aspheric design with ultraviolet and blue-light-filtering. This unique combination of technology allows the *AcrySof*<sup>®</sup> *IQ* to provide improved contrast sensitivity and image quality.

In 2005, we introduced a new class of lens to correct presbyopia called the *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> +4.0 diopter add power intraocular lens. This lens has a unique optical system that incorporates an apodized diffractive, refractive design that provides distance, near and intermediate vision for the patient following lens removal surgery, thereby significantly reducing the patient's need for or dependence on eyeglasses. In 2007, we launched the next advancement in this technology with the *AcrySof*<sup>®</sup> *IQ ReSTOR*<sup>®</sup> aspheric intraocular lens. This lens incorporates aspheric correction designed specifically for the *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> apodized diffractive, refractive design. In 2009, we further enhanced this product with the launch of the *AcrySof*<sup>®</sup> *IQ ReSTOR*<sup>®</sup> +3.0 diopter add power intraocular lens, which provides an improved full range of vision for patients.

In late 2005 and early 2006, we received regulatory approvals for the *AcrySof*<sup>®</sup> *Toric* intraocular lens in several major markets, including the United States. The *AcrySof*<sup>®</sup> *Toric* intraocular lens is a lens that corrects for various levels of pre-existing astigmatism in cataract patients and was launched globally in 2006. In 2009, we received

regulatory approvals and launched the *AcrySof® IQ Toric*, which incorporates the aspheric technology with a toric design.

In 2010, Alcon launched the *AcrySof® IQ ReSTOR® Multifocal Toric* intraocular lens outside the U.S. The *AcrySof® IQ ReSTOR® Multifocal Toric* intraocular lens brings together the multifocal performance of the *AcrySof® IQ ReSTOR®* with the precise astigmatism correction of the *AcrySof® Toric* intraocular lens. Alcon completed its CE Mark of the *AcrySof® IQ ReSTOR® Toric* intraocular lens during the second quarter of 2010, and this lens is now available in many major markets that recognize the CE Mark. The Company plans to file a Pre-Market Application ("PMA") for the lens with the FDA in early 2012.

Our advanced technology intraocular lenses provide significant visual benefits to patients above standard monofocal intraocular lenses. Our pricing strategy for advanced technology intraocular lenses captures this additional value through higher pricing. This approach impacts the market penetration of advanced technology intraocular lenses in the majority of countries, as patients must pay incremental charges above the cost of traditional cataract surgery to obtain an advanced technology intraocular lens and, in some markets, must pay out-of-pocket for the entire surgical procedure and the intraocular lens.

In May 2005, CMS issued a ruling that allows cataract patients in the United States to choose an intraocular lens that provides additional refractive benefits through the treatment of presbyopia such as the *AcrySof® ReSTOR®*. Under this policy, Medicare will reimburse normal amounts under the covered benefit for cataract surgery, and patients may elect to pay for the non-covered charges. In January 2007, CMS issued a similar ruling allowing Medicare beneficiaries to choose an intraocular lens with the added benefit of treating astigmatism, such as the *AcrySof® Toric* lens. These CMS rulings, which allow for bifurcated payment, have increased the market acceptance of our advanced technology intraocular lenses in the United States. Such bifurcated systems are not generally available in other countries at this time, but we are pursuing efforts to expand them.

#### *Vitreoretinal Surgery*

Our vitreoretinal surgical product offering is one of the most comprehensive in the industry for surgical procedures for the back of the eye. In 2010, sales of our products for vitreoretinal surgery were \$424 million, or 13.2% of our total surgical sales. We are the global market leader in vitreoretinal products, and we currently market our vitreoretinal surgical products in substantially all of the countries in which we sell products.

The *Accurus®* surgical system integrates all automated, non-laser surgical functions used in vitreoretinal surgery. Some *Accurus®* models also can be used for cataract removal. In late 2008, we introduced the *CONSTELLATION®* surgical system in the United States and other global markets. The *CONSTELLATION®* delivers a higher level of control to the physician and more efficiency through higher cutting rates. The *CONSTELLATION®* is also available with embedded laser technology. On May 6, 2010, we commenced a voluntary corrective action on our *CONSTELLATION®* vision system that the FDA classified as a Class 1 recall. We submitted a 510(k) application to the FDA requesting approval of software and hardware modifications to the system. In November 2010, we received a clearance letter from the FDA on our application. This action did not have a material impact on our financial results.

In addition to the *CONSTELLATION®* and *Accurus®*, we also sell a full line of vitreoretinal products, including surgical therapeutics, lasers, ultrasound diagnostics and hand-held microsurgical instruments. In 2004, we launched a series of instruments for use in new small gauge (25 gauge) posterior segment surgical procedures. We have continued our development in this area by expanding our micro-incision technology product offering in the fourth quarter of 2006 by launching a new 23 gauge system of consumable products for posterior segment procedures. These new offerings enhanced our *Accurus®* and *CONSTELLATION®* consumable products portfolio.

#### *Custom Pak® Surgical Procedure Packs*

To provide convenience, efficiency and value for ophthalmic surgeons, we have developed the *Custom Pak®* surgical procedure pack. We market our *Custom Pak®* for cataract, refractive and vitreoretinal surgical procedures. Unlike conventional surgical procedure packs, the *Custom Pak®* allows ophthalmic surgeons and their staff to customize and sequence the products included in the surgical procedure pack. For a single price, our *Custom Pak®*

includes our single-use products required for the procedure, combined with products not manufactured by Alcon. We believe that our *Custom Pak*<sup>®</sup> allows ophthalmic surgeons to improve their efficiency in the operating room, and this gives us the opportunity to provide access to our single-use products in a value-added package.

#### *Glaucoma Filtration Devices*

In early 2010, Alcon finalized its acquisition of Optonol, Ltd., a medical device company that develops, manufactures and markets the *EX-PRESS*<sup>®</sup> glaucoma filtration device. This technology is approved and marketed in the United States, Europe, Canada, Australia and several other markets. The device is a novel miniature surgical implant designed to lower intraocular pressure in patients with open-angle glaucoma. With an external diameter of 400 microns and an overall length of just 2.64 mm, the shunt is implanted under the scleral flap to enhance outflow of aqueous humor and reduce intraocular pressure. The *EX-PRESS*<sup>®</sup> device creates consistent and predictable outcomes when used as part of trabeculectomy procedures.

#### *Refractive Surgery*

In 2010, sales of our laser refractive products and related technology fees were \$117 million, or 3.6% of our total surgical sales. Our refractive sales include all sales related to our ownership of WaveLight.

The WaveLight's *ALLEGRETTO WAVE*<sup>®</sup> Eye-Q 400 Hz laser has been widely accepted by surgeons around the globe because it is fast, reliable and precise while offering multiple treatment protocols. Alcon continues to integrate the WaveLight operations within the global Alcon infrastructure and has established WaveLight as Alcon's Center of Excellence for refractive laser technologies.

In 2010, Alcon launched the *WaveLight*<sup>®</sup> Refractive Suite, which includes the new EX500 Excimer 500Hz excimer laser and the FS200 femtosecond laser. The FS200 technology is designed to create a corneal flap as part of the Laser-Assisted In Situ Keratomileusis ("LASIK") refractive procedure. This technology represents the next leap forward in exceptional flap customization and patient outcomes.

#### ***Our Consumer Eye Care Products***

We currently market our contact lens care and artificial tears products in most of the countries where we sell products, and we market ocular vitamins in selected markets.

The following table lists our principal products in these areas:

<b>Contact Lens Care</b>	<b>Artificial Tears</b>	<b>Ocular Vitamins</b>
<i>OPTI-FREE</i> <sup>®</sup> <i>RepleniSH</i> <sup>®</sup> multi-purpose disinfecting solution	<i>Systane</i> <sup>®</sup> lubricant eye drops (multiple formulations)	<i>ICAPS</i> <sup>®</sup> dietary supplements (multiple formulations)
<i>OPTI-FREE</i> <sup>®</sup> <i>EXPRESS</i> <sup>®</sup> <i>No Rub</i> <sup>®</sup> multi-purpose disinfecting solution	<i>Systane</i> <sup>®</sup> <i>Ultra</i> lubricant eye drops (multiple formulations)	
<i>OPTI-FREE</i> <sup>®</sup> <i>RepleniSH</i> <sup>®</sup> rewetting drops	<i>Systane</i> <sup>®</sup> <i>Balance</i> lubricant eye drops <i>Tears Naturale</i> <sup>®</sup> lubricant eye drops (multiple formulations)	

#### *Contact Lens Care Products*

The vast majority of our contact lens care products is comprised of disinfecting solutions to remove harmful micro-organisms on contact lenses, with a smaller amount of sales coming from cleaners to remove undesirable film and deposits from contact lenses and lens rewetting drops to improve wearing comfort for contact lenses. Sales of our contact lens disinfectants in 2010 were \$471 million, or 52.7% of our total consumer eye care sales.

In late 2005, we received approval in the United States to market *OPTI-FREE*<sup>®</sup> *RepleniSH*<sup>®</sup>, our fastest growing multi-purpose disinfecting solution, which is approved for silicone hydrogel and all other soft contact lenses. This product utilizes a novel wetting and reconditioning technology to provide lasting comfort and is now our flagship brand in most key markets. *OPTI-FREE*<sup>®</sup> *EXPRESS*<sup>®</sup> *No Rub*<sup>®</sup> multi-purpose disinfecting solution was the first

multi-purpose disinfecting solution to obtain FDA approval to make a "no rub" claim. *OPTI-FREE<sup>®</sup> EXPRESS<sup>®</sup> No Rub<sup>®</sup>* utilizes a multi-purpose disinfecting solution with high-capacity disinfection and superior protein cleaning benefits, without requiring rubbing of the contact lenses. We currently market this product in most major markets throughout the world.

#### *Other Vision Care Products*

We manufacture and market artificial tears to treat dry eye syndrome and vitamins formulated to promote good ocular health. We offer a complete line of products for the dry eye sufferer. *Systane<sup>®</sup>* lubricating eye drops has been launched in more than 95 countries. *Systane<sup>®</sup>* has an "in-the-eye" gelling formula that provides long-lasting relief of dry-eye symptoms. In August 2008, we launched *Systane<sup>®</sup> Ultra* lubricating eye drops, which have a unique gel-like network designed to lubricate and protect the ocular surface. Upon administration to the eye, the artificial tear spreads smoothly over the surface of the eye and provides lasting comfort of a more viscous drop but causes minimal blurring of vision. In July 2010, we launched in the United States our *Systane<sup>®</sup> Balance* lubricant eye drops, designed specifically for dry eye patients with meibomian gland dysfunction ("MGD"). MGD is a significant cause of dry eye signs and symptoms for many patients; *Systane<sup>®</sup> Balance* restores the lipid layer and re-establishes the natural tear film helping to prevent tear film evaporation and to provide lubrication in dry eye patients with MGD. Outside the United States, our second largest selling artificial tears brand is the *Tears Naturale<sup>®</sup>* line of products.

We market a variety of formulations of *ICAPS<sup>®</sup>* dietary supplements, including an Age Related Eye Disease Study ("AREDS") formula, one with extra Lutein and Zeaxanthin formula and an AREDS-based multi-vitamin that promotes eye health. In June 2008, we launched an *ICAPS<sup>®</sup> 2 x day*, SoftGel with the same ingredients of our original AREDS formula, which is a 4 x day tablet.

#### **Sales and Marketing**

We are present in every significant market in the world where ophthalmology and optometry are practiced and currently our products are sold in over 180 countries. We conduct our sales and marketing activities through more than 55 local operating entities and more than 25 representative/branch offices around the world. We have a global sales force of approximately 4,000 sales representatives consisting of approximately 1,000 sales representatives in the United States, our largest market, and approximately 3,000 sales representatives outside the United States. All of our surgical technical service in the United States and a high percentage of that service outside the United States are provided by service technicians employed directly by Alcon. In countries where we do not have local operations or a scientific office, we use distributors to sell and handle the physical distribution of our products. Outside the United States, our ten largest markets by sales are Japan, Brazil, France, Canada, Spain, Germany, Italy, Australia, China and the United Kingdom.

We organize our selling efforts around pharmaceutical, surgical and consumer eye care products and customize these efforts to the medical practice needs of each customer. In addition to direct promotion of our products, our sales representatives provide customers with access to clinical education programs, data from clinical studies and technical service assistance.

In each of our markets, we rely on our strong relationships with eye care professionals to maintain and expand our market share. Relationships between manufacturers of products paid for by federal and state healthcare programs and healthcare professionals are regulated by a series of federal and state laws and regulations, such as the Federal Anti-Kickback Statute, that restrict the types of financial relationships with referral sources that are permissible. We engage healthcare professionals to serve as clinical consultants, to participate on advisory boards and to conduct presentations regarding our products. In addition, we have established or sponsor several long-standing programs that provide training and education to eye care professionals. We currently have permanent surgical training facilities in several countries around the world on six continents. These facilities introduce ophthalmologists to our surgical equipment and cataract products through hands-on training in surgical techniques while exposing them to leading ophthalmologists. If one or more of these activities were found to be in violation of the Federal Anti-Kickback Statute or comparable state laws, we could be subject to government criminal and/or civil enforcement proceedings, and exclusion from Medicare, Medicaid and other federal and state healthcare programs. Imposition of any of these penalties could have a material adverse effect on our business, financial condition and results of operations.



Most of our global marketing efforts are supported by advertising in trade publications and by marketing and sales representatives attending regional and national medical conferences. We reinforce our marketing efforts with targeted and timely promotional materials that our sales force presents to both the eye care and other professionals in the office, hospital or surgery center setting. We supplement these marketing efforts through direct mailings to eye care professionals and e-detailing. To coordinate the totality of our sales efforts, including technical service after the sale, we use an integrated customer relationship management system in many markets. Moreover, in the United States and Japan, we sometimes use direct-to-consumer advertising to promote selected products.

While we market all of our products by calling on medical professionals, our direct customers and distribution methods differ across business lines. Although physicians write prescriptions, distributors, wholesalers, hospitals, government agencies and large retailers are the main direct customers for our pharmaceutical products. We primarily sell our surgical products directly to hospitals and ambulatory surgical centers, although we sell through distributors in certain markets outside the United States. In the United States, over 90% of our contact lens care products are sold to large grocery, drug, club and general (mass) merchandise retailers. Outside the United States, we sell most of our consumer eye care products directly to retailers and optical chains, while a smaller amount is sold to distributors for resale directly to smaller retailers and eye care professionals. No single customer accounted for more than 10% of our global sales in 2010.

As a result of changes in healthcare economics, managed care organizations have become the largest group of payors for healthcare services in the United States. In an effort to control prescription drug costs, almost all managed care organizations use a formulary that lists specific drugs that can be prescribed and/or the amount of reimbursement for each drug. We have a dedicated managed care sales team that actively seeks to optimize formulary positions for our products.

## **Research and Development**

We have the largest research and development commitment to ophthalmology of any eye care company worldwide. Our research and development organization consists of approximately 1,900 employees, including a significant number of individuals who are either M.D.s, doctors of optometry or Ph.D.s. Our researchers have extensive experience in the field of ophthalmology and frequently have academic or practitioner backgrounds to complement their commercial experience. We organize our research teams around our pharmaceutical, surgical and consumer eye care products. Candidates for pharmaceutical, biopharmaceutical and contact lens care product development originate from our internal research, from our extensive relationships with academic institutions and from our licensing of molecules and other technologies from other companies. Our surgical design concepts are internally developed by staff engineers and scientists who, in addition to their own research, gather ideas from ophthalmic surgeons and clinicians in the involved fields. Our research and development organization has been designed to drive global registration of products through a central research facility in Fort Worth, Texas, combined with regionally based clinical and regulatory personnel in approximately 40 countries outside the United States.

We have invested more than \$3 billion over the last five years and plan to increase our investment in research and development as a percent of sales over the next three years. In 2010, we expanded our ability to conduct internal research and development of biologic molecules for treating ocular diseases by further investing in Alcon ESBA Tech, an Alcon Biomedical Research Unit GmbH.

We enter into license agreements in the ordinary course of our business for active pharmaceutical ingredients and development technologies. We have a number of agreements with pharmaceutical and biotech companies that allow us to screen compounds for potential uses in the eye. Based on compounds of interest from our screening activities, we have in place a number of contracts with companies for development of new molecular entities for ophthalmic products.

Our research and development department maintains an extensive network of relationships with scientists working in university laboratories and with leading ophthalmologists, inventors and investigators in the pharmaceutical and surgical products fields. The principal purpose of these collaborative scientific interactions is to take advantage of leading-edge research from academic investigators and recognized surgeons to complement our internal technical capabilities.

We also fund the Alcon Research Institute, which seeks to encourage, advance and support vision research. It is the largest corporately funded research organization devoted to eye research in the world. The institute's activities are planned and directed by a fully autonomous Scientific Advisory Committee that is comprised of distinguished ophthalmologists and vision scientists. The institute has worldwide representation with the expectation that advances in the diagnosis and treatment of ocular diseases are dependent upon basic and clinical research carried out by independent investigators in institutions throughout the world.

### ***Product Development***

We are developing new products to treat diseases and conditions in all key ophthalmic categories: pharmaceutical, surgical and consumer eye care products. We also have targeted development activities in the otic area specifically focused on leveraging compounds we use for ocular treatments into these areas.

The following table includes additional detail about a number of these products in development, including their expected regulatory submission dates in the European Union (EU), Japan (Jpn) and the United States (U.S.). We also expect to file for approval of these products in most of the countries where we currently market our products. We maintain a significant regulatory presence in major countries to support the filing process in those countries.

<b>Name</b>	<b>Condition</b>	<b>Expected Submission Date</b>	<b>Status at December 31, 2010 (1)</b>
<b>Pharmaceutical</b>			
<u>Ophthalmology</u>			
<i>DuoTrav</i> <sup>®</sup> APS	Glaucoma	EU Filed	Filed
<i>AZARGA</i> <sup>®</sup>	Glaucoma	Jpn 2012	Phase III
New combination	Glaucoma	U.S. 2012	Phase III
		EU 2013 or later	
<i>NEVANAC</i> <sup>®</sup> , new indication	Anti-inflammatory	EU Filed	Filed
Nepafenac, new formulation	Anti-inflammatory	U.S. 2012	Phase III
		EU 2012	
<i>DUREZOL</i> <sup>®</sup> , new indication	Anti-inflammatory	U.S. 2011	Phase III
<i>Pataday</i> <sup>™</sup>	Ocular allergy	Jpn Filed	Filed
AL-43,546	Dry eye	Jpn 2013 or later	Phase II
<i>TRIESENCE</i> <sup>®</sup> injectable suspension	Retinal surgery	EU Filed	Filed
<u>Otic/Nasal</u>			
<i>CiloDex</i> <sup>®</sup> otic solution	Otic infections	EU Filed (2)	Withdrawn (3)
Moxifloxacin/dexamethasone	Otic infections	U.S. 2012 (4)	Phase III
		EU 2012 or later	
<b>Surgical</b>			
<i>AcrySof</i> <sup>®</sup> <i>IQ Toric</i> diopter range expansion	Cataract	U.S. Filed	Filed
		Jpn Filed	
<i>AcrySof</i> <sup>®</sup> <i>IQ Toric</i> low diopter range expansion	Cataract	U.S. 2012	Advanced development
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> Multifocal Toric lens	Cataract	U.S. 2012	Advanced development
		Jpn 2011	
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> Toric diopter range expansion	Cataract	U.S. 2012 or later	Advanced development
<i>AcrySof</i> <sup>®</sup> <i>IQ ReSTOR</i> <sup>®</sup> distant dominant	Cataract	U.S./EU 2012 or later	Advanced development
<i>Infiniti</i> <sup>®</sup> upgrade	Cataract	U.S./EU 2011	Advanced development
		Jpn 2012	
<i>LenSx</i> laser	Cataract	EU/Jpn 2011	Advanced development
<i>AcrySof</i> <sup>®</sup> <i>CACHET</i> <sup>™</sup> angle-supported phakic lens	Refractive	U.S. Filed	Filed
		Jpn 2012	Advanced development
<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-500</i> laser	Refractive	U.S. Filed	Filed
<i>ALLEGRETTO</i> <sup>™</sup> <i>EX-400</i> laser	Refractive	Jpn Filed	Filed
<b>Consumer Eye Care</b>			
New formulation	Dry Eye	U.S./EU 2011	Advanced development
Lens comfort drop	Lens solution	U.S./EU 2012	Early development
<i>OPTI-FREE</i> <sup>®</sup> silicone hydrogel	Lens solution	U.S. Filed	Filed
New lens solution	Lens solution	U.S./EU 2011	Advanced development
<i>ICAPS</i> <sup>®</sup> R2	Ocular vitamin	EU 2011	Advanced development
<i>ICAPS</i> <sup>®</sup> AREDS2	Ocular vitamin	U.S./EU 2012 or later	Early development

- (1) For a description of the FDA approval process, see "– Government Regulation" below.
- (2) This application was filed in Denmark, France, Germany, Italy, Spain and the United Kingdom.
- (3) This application was withdrawn in November 2010 for administrative reasons and will be refiled early in 2011.
- (4) The FDA issued a notice in the fall of 2007 advising companies that they were increasing the requirements for anti-infective clinical studies and that clinical programs previously agreed upon may not be sufficient to support approval. Review of our NDA confirmed the need for an additional clinical study which was initiated in a timely manner.

## **Pharmaceutical Product Development**

We are developing new products to treat ophthalmic diseases in three major therapeutic areas: glaucoma, retina, and cornea (infection and inflammation, dry eye and allergy). We also have ongoing development activities in the otic therapeutic area specifically focused on leveraging compounds we use for ocular treatments.

**Glaucoma.** Our research into glaucoma seeks to improve patient care and address unmet medical needs in the management of glaucoma. We continue to investigate novel compounds with new mechanisms of action that may provide new or increased clinical benefits for lowering intraocular pressure or treating glaucoma. Additionally, we look to provide patient treatment options by (i) combining multiple intraocular pressure lowering medications into a single administration in order to facilitate patient compliance, and (ii) improving the ocular surface health relative to the chronic use of topical ocular medications.

Reformulations of our *TRAVATAN*<sup>®</sup> and *DuoTrav*<sup>®</sup> formulations to eliminate benzalkonium chloride, a commonly used ocular preservative, are examples of projects intended to provide additional clinical benefit for glaucoma patients by maintaining or improving their ocular surface health. Both of these projects advanced during 2010 and, assuming regulatory approval, should enter the European markets in 2011.

We have also initiated development of a novel fixed combination glaucoma product designed to provide diurnal adjunctive intraocular pressure lowering benefit when used adjunctively to a prostaglandin. This novel combination does not contain timolol and thereby improves the potential safety profile for patients with pulmonary or cardiovascular considerations who are in need of an ocular hypertensive medication.

**Retina.** We remain committed to addressing the unmet medical needs in the treatment of retinal diseases, including developing treatments for "wet" age-related macular degeneration ("AMD"), "dry" AMD, geographic atrophy, diabetic retinopathy and diabetic macular edema. In late 2009, we completed enrollment into our first clinical evaluation study of AL-8309b as a topical ocular treatment for geographic atrophy. We also initiated in 2010 our Phase I/II clinical program for AL-39,324, a potential treatment for "wet" AMD and diabetic retinopathy. AL-39,324 is a receptor tyrosine kinase inhibitor that acts to block the receptor to which VEGF binds. Additionally, during 2009, we signed a licensing agreement with Potentia for a compound with a novel mechanism of action that has the potential to be effective in treating "wet" AMD, "dry" AMD and also in preventing the conversion from "dry" AMD to "wet" AMD. We anticipate initiating a clinical evaluation of this compound during 2011.

**Cornea** (infection and inflammation, dry eye and allergy). We initiated our confirmatory development program for a new formulation of nepafenac that is targeted to treat post-surgical ocular inflammation with twice-per-day dosing in 2010. This development program is expected to be completed in 2011. We completed in 2010 a clinical program supporting a new indication for *NEVANAC*<sup>®</sup> in Europe related to prevention of post-surgical macular edema. Our clinical development program for AL-43,546 as a dry eye candidate in Japan is progressing. We also filed during 2010 an NDA in Japan for *Pataday*<sup>™</sup>, requesting an improved dosing regimen relative to other allergy products currently on the market in Japan.

**Otic.** During 2010, we initiated our second confirmatory study of our moxifloxacin/dexamethasone fixed combination product as a potential treatment for otitis media. This study is expected to complete during 2011.

## **Surgical Product Development**

We currently have products in development in the three primary areas of our surgical markets: cataract, vitreoretinal and refractive surgery.

**Cataract Surgery.** We continue to strengthen our *AcrySof*<sup>®</sup> intraocular lens and *Infiniti*<sup>®</sup> instrumentation franchises. In 2009, the FDA approved the *AcrySof*<sup>®</sup> *IQ Toric* lens. This new lens corrects not only for astigmatism, but also for spherical aberrations to provide improved contrast sensitivity and a higher quality of vision. Our research and development efforts are focused on creating new lens models of this design in order to permit a greater number of people to benefit from this new technology. We also are working on projects that combine the multi-focal, aspheric and toric technologies to correct both pre-existing astigmatism and presbyopia following lens replacement. We

introduced the *AcrySof® IQ ReSTOR® Multifocal Toric* in Europe during 2010 and are presently conducting clinical studies to support a PMA filing in the United States early in 2012.

In addition to providing new lenses to the market for improving the quality of vision, we remain committed to working with cataract surgeons to help improve the effectiveness and efficiency of their surgical procedures. As part of this effort, Alcon acquired *LenSx®* which has developed a femtosecond laser that can be used in cataract surgery for anterior capsulotomy, phaco-fragmentation and the creation of single plane and multi-plane arc incisions in the cornea. This new instrument has received regulatory clearance in the United States. Requests for regulatory clearance in the EU and Japan are expected to be filed in 2011.

We have also advanced the development of our next generation phacoemulsification system to support the surgical needs in the operating room of the future. As we expect this process to take several years, we continue to introduce enhancements and features to our current surgical platforms and equipment used during cataract surgery. Key areas of focus continue to be advancements in technology to facilitate lens removal and designing new methods to reduce the potential for the occurrence of posterior capsule opacification.

***Vitreoretinal Surgery.*** We continue to develop new micro-incision vitrectomy consumables, handheld accessories and illumination products designed to respond to the increased needs of ophthalmic surgeons for instrument performance. Our efforts in this area will continue to focus on improving the surgical experience for both the patient and surgeon by the application of new technologies to facilitate the procedure and minimize trauma to the patient.

***Refractive Surgery.*** The Company filed a PMA for the approval of the *AcrySof® CACHET™* angle-supported phakic intraocular lens in the United States during the second half of 2009. This new lens is made from the biocompatible *AcrySof®* lens material and provides near-sighted patients with moderate to high degrees of myopia an intraocular lens treatment option that preserves the crystalline lens and has been shown to provide excellent visual results during clinical trials.

Alcon acquired majority control of WaveLight AG in 2007 and has been working to expand the surgical offerings from WaveLight's technology. We presently are conducting clinical studies to expand the indications for use of WaveLight's *ALLEGRETTO WAVE® Eye-Q* 400 Hz laser in the United States. The clinical studies are designed to demonstrate the safety and efficacy of topography-guided laser eye surgery. Approval of this indication will allow physicians to conduct primary treatments utilizing the topography-guided algorithm or to re-treat patients who may be dissatisfied with their initial LASIK surgery.

Additionally, WaveLight has completed the development of an *ALLEGRETTO WAVE®* with a 500 Hz laser for refractive surgery, as well as a femtosecond laser (FS-200) for the creation of corneal flaps. Regulatory clearances for marketing of both have been achieved in Europe and are presently in process in the United States. Development of WaveLight's next generation excimer laser platform has already been initiated. This next generation platform will have improved ergonomics and enhanced performance capabilities.

We also look for synergies between the refractive product development and the cataract surgery product development. We are presently working with technology from the diagnostic group of WaveLight to assist with pre-operative biometry for cataract patients and the selection of intraocular lens power.

### ***Consumer Eye Care Product Development***

We currently are developing a variety of products in the areas of contact lens care, OTC dry eye and vitamins that promote ocular health. Our focus in the contact lens care area is to build on the disinfecting capabilities of our existing solutions with new molecules that optimize disinfecting efficacy while maintaining comfort and convenience for patients. This focus has resulted in the development of *OPTI-FREE® EVERMOIST™* multi-purpose disinfecting solution, which is designed to provide optimum disinfection and prolonged comfortable lens wear time with new contact lens materials, especially the rapidly growing silicone hydrogel lens segment. This new product was CE Marked and filed with the FDA in the last half of 2010.

Developing new active ingredients and compounds for over-the-counter products that treat dry eye remains a point of focus for addressing the consumer needs in this important area. In addition to *Systane® Balance* ocular

emulsion, which was released to the market in 2010 to help provide ocular comfort to lipid deficient patients, we also have initiated development of a novel formulation to provide prolonged ocular surface protection for the more moderately-severe dry eye patient. These formulations are each designed to address a portion of the spectrum of needs of the various patient segments of the dry eye target population.

In the ocular health area, we continue to develop new formulations for addressing consumer requirements for promoting ocular health. We plan to release a new omega-3-containing vitamin product in the EU during 2011. We also continue to support the National Eye Institute's Age-Related Eye Disease Study 2 (AREDS2) study to determine if oral supplementation with omega-3 fatty acids and/or lutein and zeaxanthin reduces the progression to advanced AMD. The results of this study will be used to guide the development of new formulations of our ICAPS<sup>®</sup> vitamins that may be more effective in reducing the risk of progression to advanced AMD.

## **Manufacturing and Supplies**

### ***Manufacturing***

We generally organize our manufacturing facilities along product categories, with most plants being primarily dedicated to the manufacture of either surgical equipment and surgical medical devices or pharmaceutical and contact lens care products. Our functional division of plants reflects the unique differences in regulatory requirements governing the production of surgical medical devices and pharmaceuticals, as well as the different technical skills required of employees in these two manufacturing environments. Except for our most recently acquired plants, all of our manufacturing plants in the United States and Europe are ISO 13485 and ISO 14001:2004 certified. The inclusion into ISO 14001 of the plants from the recent acquisitions of WaveLight, Optonol, ESBATech and LenSx will be considered in 2011.

We employ cost-reduction programs, known as continuous improvement programs, involving activities such as cycle-time reductions, efficiency improvements, automation, plant consolidations and material negotiation programs as a means to reduce manufacturing and component costs. To comply with good manufacturing practices and to improve the skills of our employees, we train our direct labor manufacturing staff throughout the year. Our professional employees are trained in various aspects of management, regulatory and technical issues through a combination of in-house seminars, local university classes and trade meetings.

As of December 31, 2010, we employed approximately 2,100 people to manufacture our pharmaceutical and contact lens care products at seven facilities in the United States, Belgium, France, Spain, Brazil and Mexico. Additionally, we are in the commissioning and validation phase for a new pharmaceutical plant in Singapore, which is targeted to start up in late 2012. As of December 31, 2010, we employed approximately 3,300 people to manufacture surgical equipment and other surgical medical devices at ten facilities in the United States, Belgium, Switzerland, Ireland, Germany and Israel. Currently, we manufacture substantially all of our pharmaceutical, contact lens care and surgical products internally and rely on third-party manufacturers for only a small number of products.

Due to the complexity of certain manufacturing technologies and the costs of constructing and maintaining duplicate facilities, a number of our key products are manufactured at only one of our facilities. Some of these key products include:

<b>Products</b>	<b>Facility</b>
U.S. liquid ophthalmic products	Fort Worth, Texas
Intraocular lenses (1)	Huntington, West Virginia
<i>ProVisc</i> <sup>®</sup> , <i>VISCOAT</i> <sup>®</sup> , <i>DuoVisc</i> <sup>®</sup> and <i>DisCoVisc</i> <sup>®</sup> viscoelastics	Puurs, Belgium
<i>OPTI-FREE</i> <sup>®</sup> <i>EXPRESS</i> <sup>®</sup> <i>No Rub</i> <sup>®</sup> , <i>OPTI-FREE</i> <sup>®</sup> <i>RepleniSH</i> <sup>®</sup> solutions (2)	Fort Worth, Texas
<i>Accurus</i> <sup>®</sup> , <i>LEGACY</i> <sup>®</sup> , <i>Infiniti</i> <sup>®</sup> <i>CONSTELLATION</i> <sup>®</sup> vision systems	Irvine, California
<i>WaveLight</i> <sup>®</sup> <i>ALLEGRETTO WAVE</i> <sup>®</sup> <i>Eye-Q</i> lasers	Pressath, Germany
<i>Cipro</i> <sup>®</sup> <i>HC</i> , <i>Patanase</i> <sup>®</sup> products	Barcelona, Spain
<i>Vigadexa</i> <sup>®</sup> ophthalmic solution	Sao Paulo, Brazil

- (1) The Cork, Ireland, facility manufactures certain *AcrySof*<sup>®</sup> intraocular lenses for the European markets and certain Latin American markets; the remainder of the world markets continues to be sourced mainly from the Huntington, West Virginia facility.
- (2) The Sao Paulo, Brazil, facility produces contact lens care products for Brazil and other South American markets.

### ***Supplies***

The active ingredients used in our pharmaceutical and consumer eye care products are sourced from facilities that meet the regulatory requirements of the FDA or other applicable health regulatory authorities. Because of the proprietary nature and complexity of the production of these active ingredients, a number of them are only available from a single FDA-approved source. The majority of active chemicals, biological raw materials and selected inactive chemicals are acquired pursuant to long term supply contracts. The sourcing of components used in our surgical products differs widely due to the breadth and variety of products. A number of the components used in our medical device products are also single-sourced. When supplies are single-sourced, we try to maintain a sufficient inventory consistent with prudent practice and production lead-times and to take other steps necessary to ensure our continued supply. The prices of our supplies are generally not volatile.

### **Competition**

The ophthalmic industry is highly competitive and subject to rapid technological change and evolving industry requirements and standards. Companies within our industry compete on technological leadership and innovation, quality and efficacy of their products, relationships with eye care professionals and healthcare providers, breadth and depth of product offering and pricing. The presence of these factors varies across our product offerings. We provide a broad line of proprietary eye care products and compete in all major product categories in the ophthalmic market with the exception of contact lenses and eyeglasses. Even if our principal competitors do not have a comparable range of products, they can, and often do, form strategic alliances and enter into co-marketing agreements to achieve comparable coverage of the ophthalmic market. We face strong local competitors in some markets, especially in Japan.

### ***Pharmaceutical***

Competition in the ophthalmic pharmaceutical market is characterized by category leadership of products with superior technology, including increases in clinical effectiveness (e.g., new compounds, new drug delivery systems, formulations and combination products), the development of therapies for previously untreated conditions (e.g., AMD) and competition based on price from competing brands or generic pharmaceuticals.

Our main competitors in the pharmaceutical market are Allergan, Inc., Bausch & Lomb Incorporated, Pfizer, Inc., Merck & Co., Inc., Daiichi Pharmaceutical Co., Ltd., Inspire Pharmaceuticals Inc., ISTA Pharmaceuticals Inc., Vistakon Pharmaceuticals, LLC (a Johnson & Johnson company), Genentech Inc. and Santen Pharmaceutical Co., Ltd.

### ***Surgical***

Superior technology and product performance give rise to category leadership in the ophthalmic surgical market. Service and long term relationships are also key factors in this competitive environment. Surgeons rely on the quality, convenience, value and efficiency of a product and the availability and quality of technical service. While we compete throughout the field of ophthalmic surgery, our principal competitors vary somewhat in each area. We compete with Bausch & Lomb Incorporated and Abbott Medical Optics, Inc. across most of the ophthalmic surgical market, and with national or regional companies, such as Carl Zeiss Meditec AG and Hoya Corporation, in selected markets.

### ***Consumer Eye Care Products***

The consumer eye care business is characterized by competition for market share in a maturing market through the introduction of products that provide superior technology or effectiveness. Recommendations from eye care

professionals and customer brand loyalty, as well as our product quality and price, are key factors in maintaining market share in these products. Our principal competitors in contact lens care products are Bausch & Lomb Incorporated, Abbott Medical Optics, Inc., CIBA VISION Corporation (a Novartis company) and, in Japan, Rohto Pharmaceutical Co., Ltd. We compete with Allergan, Inc., Abbott Medical Optics, Inc., Bausch & Lomb Incorporated, Johnson & Johnson and Novartis in artificial tears products and Bausch & Lomb Incorporated in ocular vitamins. All consumer eye care markets include significant competition from private label store brands, which generally are less costly to the consumer.

## **Intellectual Property**

We strive to protect our investment in the research, development, manufacturing and marketing of our products through the use of patents, trademarks, copyrights, trade secrets and other intellectual property. We own or have rights to a number of patents, trademarks, copyrights, trade secrets and other intellectual property directly related and important to our businesses. As of December 31, 2010, we owned more than 1,500 U.S. patents and pending U.S. patent applications and approximately 9,500 corresponding patents and patent applications outside the United States.

We believe that our patents are important to our business but that no single patent, or group of related patents, currently is of material importance in relation to our business as a whole. Patents for individual products extend for varying periods of time according to the date a patent application is filed or a patent is granted and the term of patent protection available in the jurisdiction granting the patent. The scope of protection provided by a patent can vary significantly from country to country.

Our strategy is to develop patent portfolios for our research and development projects in order to obtain market exclusivity for our products in our major markets. Although the expiration of all patents for a product normally results in the loss of market exclusivity, we may continue to derive commercial benefits from these products. We routinely monitor the activities of our competitors and other third parties with respect to their use of the Company's intellectual property. When appropriate, we will enforce our intellectual property rights to ensure that we are receiving the market exclusivity they afford us. Similarly, we will staunchly defend our right to develop and market products against unfounded claims of infringement by others. We will aggressively pursue or defend our position in the appropriate courts if the dispute cannot otherwise be promptly resolved.

In addition to our patents and pending patent applications in the United States and selected non-U.S. markets, we use proprietary know-how and trade secrets in our businesses. In some instances, we also obtain from third parties licenses of intellectual property rights, principally patents, which are important to our businesses.

Worldwide, all of our major products are sold under trademarks that we consider in the aggregate to be important to our businesses as a whole. We consider trademark protection to be particularly important in the protection of our investment in the sales and marketing of our pharmaceutical and contact lens care and general eye care products. The scope and duration of trademark protection varies widely throughout the world. In some countries, trademark protection continues only as long as the mark is used. Other countries require registration of trademarks and the payment of registration fees. Trademark registrations are generally for fixed, but renewable, terms.

We rely on copyright protection in various jurisdictions to protect the exclusivity of the code for the software used in our surgical equipment. The scope of copyright protection for computer software varies throughout the world, although it is generally for a fixed term which begins on the date of copyright registration.

## **Government Regulation**

### ***Overview***

We are subject to comprehensive government controls governing the research, design, clinical and non-clinical development, manufacturing, labeling, advertising, promotion, safety and other reporting, storage, distribution, import, export, sale and marketing of our products in essentially all countries of the world. National health regulatory agencies generally require pre-approval of pharmaceuticals and medical devices prior to their entry into that country's marketplace. In addition, European Union Notified Bodies audit and govern applicable Quality Management System requirements, including ISO 13485:2003 and assess devices for compliance with the Medical Device Directive 93/42/EEC and applicable European and international standards. The certifications obtained are accepted by



Australia as well. Japan also has requirements for quality management system regulations for medical device manufacturers. State and local laws also apply to our activities. This section summarizes the applicable regulations in the United States, European Union and Japan. Please also refer to "Risk Factors – Risks Related to Our Business and Industry – We are subject to extensive government regulation ...."

### ***Pharmaceutical Development and Registration Process in the United States***

The pharmaceutical research, development and registration process in the United States is typically intensive, uncertain, lengthy and rigorous and can generally take several years, or more, depending on the product under consideration. During pre-clinical testing, studies are conducted to demonstrate the activity of the compound against the targeted disease in animal models and to evaluate the effects of the new drug candidate on other organ systems in order to assess its potential therapeutic effectiveness relative to its safety. This testing includes studies on the chemical and physical stability of candidate formulations, as well as biological testing of the compound. Pre-clinical testing is subject to good laboratory practice requirements. Failure to follow these requirements can invalidate the data, among other things.

In order for human clinical studies of a new drug to commence in the United States, an Investigational New Drug Application, or "IND," must be filed with the FDA; similar notifications are required in other countries. Informed consent also must be obtained from study participants. In general, studies may begin in the United States without specific approval by the FDA after a 30-day review period has passed. However, the FDA may prevent studies from moving forward, and may suspend or terminate studies once initiated. Studies are also subject to review by independent Institutional Review Boards ("IRB"), responsible for overseeing studies at particular sites and protecting human research study subjects. An IRB may prevent a study from beginning or suspend or terminate a study once initiated.

Clinical testing generally follows a prescribed format that involves initial exposure to normal, non-diseased subjects in Phase I clinical trials, followed by exposure of patients with disease to the new drug candidate in larger Phase II and Phase III clinical trials. United States law requires that studies conducted to support approval of a new drug be "adequate and well-controlled" as a way to control possible bias. This generally means that a control, either a placebo or a drug already approved in the market for the same disease, is used as a reference. Studies also must be conducted and monitored in accordance with good clinical practice and other requirements.

Following the completion of clinical trials, we thoroughly analyze the data to determine if the clinical trials successfully demonstrate safety and efficacy. If they do, in the case of a drug product, a New Drug Application, or "NDA," is filed with the FDA along with proposed labeling for the product and information about the manufacturing processes and facilities that will be used to ensure product quality. Each NDA submission requires a substantial user fee payment for which the FDA has committed generally to review and make a decision concerning approval within 10 months, and of a new "priority" drug within six months. However, final FDA action on the NDA can take substantially longer and also may involve review and recommendations by an independent FDA advisory committee. The FDA also can refuse to accept and review an NDA that it deems incomplete or not properly reviewable.

Before final action on a submission, the FDA may conduct a pre-approval inspection of our manufacturing facility to assess conformance to current good manufacturing practice requirements and also may inspect sites of clinical investigators involved in our clinical development program to ensure their conformance to good clinical practices. The FDA may not approve an NDA, or may require revisions to the product labeling, require that additional studies be conducted prior to or as a condition of approval, or impose other limitations or conditions on product distribution, including, for example, adoption of a special risk management plan. Following approval, if new information arises related to safety or other issues, the FDA may impose post-approval clinical study and clinical trial requirements, require safety-related changes to product labeling, require the review of advertising or impose a new or modified risk management plan.

A different but similar application is used for biological products, and generally equivalent FDA review, approval and post-approval procedures and requirements apply.

Generic drugs are approved through a different, abbreviated process. Generally an Abbreviated New Drug Application, or "ANDA", is filed with the FDA. The ANDA must seek approval of a drug product that has the same active ingredient(s), dosage form, strength, route of administration, and conditions of use (labeling) as a so-called "reference listed drug" approved under an NDA with full supporting data to establish safety and effectiveness. Only

limited exceptions exist to this ANDA sameness requirement, including certain limited variations approved by the FDA through a special petition process. The ANDA also generally contains limited clinical data to demonstrate that the product covered by the ANDA is absorbed in the body at the same rate and to the same extent as the reference listed drug. This is known as bioequivalence. In addition, the ANDA must contain information regarding the manufacturing processes and facilities that will be used to ensure product quality, and must contain certifications to patents listed with the FDA for the reference listed drug.

Special procedures apply when an ANDA contains certifications stating that a listed patent is invalid or not infringed, and if the owner of the patent or the NDA for the reference listed drug brings a patent infringement suit within a specified time, an automatic stay bars FDA approval of the ANDA for a specified period of time pending resolution of the suit or other action by the court. The first complete ANDA filed with the FDA that contains a certification challenging the patents listed with the FDA for a reference listed drug is also eligible to receive 180 days of exclusivity during which the FDA is prohibited from approving subsequent ANDAs. This period of 180-day exclusivity is subject to certain forfeiture events.

As a general matter, the amount of testing and effort that is required to prepare and submit an ANDA is substantially less than that required for an NDA. Conducting the necessary formulation development work, performing the bioequivalence testing and preparing the ANDA typically takes one to three years, although the time can be shorter or longer. FDA review and approval can take from less than one year to two years or longer.

In addition to the NDA and ANDA procedures, there is an additional approval mechanism known as a 505(b)(2) application. A 505(b)(2) application is a form of an NDA where the applicant does not have a right to reference all or some of the data being relied upon for approval. Under current regulations and FDA policies, 505(b)(2) applications can be used where the applicant is relying in part on published literature or on findings of safety or effectiveness in another company's NDA. This might be done, for example, where the applicant is seeking approval for a new use for a drug that has already been approved for a different use or for a different formulation of the same drug that is already approved for the same use. The use of 505(b)(2) applications is the subject of ongoing legal controversy, and it is thus not clear what the permitted use of a 505(b)(2) application might be in the future.

For biologics licensed under the Public Health Service Act, Congress in March 2010 enacted a new abbreviated approval pathway under which a so-called biosimilar product may be approved based in part on a reference to a previously approved highly similar product of another applicant. A similar approval pathway has existed in Europe for a number of years. In the U.S., there are a number of issues of implementation that remain to be developed by the FDA, and it is not clear at this time how the new law will operate or what effects it will have on the biologics market.

### ***Medical Device Development and Registration Process in the United States***

Medical devices, including intraocular lenses and surgical equipment used in cataract procedures, vitreoretinal procedures and laser refractive surgery, are also subject to regulation in the United States by the FDA. Approval to market new device products is, in general, achieved by a process not unlike that for new pharmaceuticals, requiring submission of extensive pre-clinical and clinical evaluations in a new product application. The process of developing data sufficient to support a regulatory filing on a new device is costly and generally requires at least several years for completion.

In the United States, medical devices are classified by the FDA as Class I, Class II or Class III based upon the level of risk presented by the device. Class I devices present the least risk and are generally exempt from the requirement of pre-market review. Certain Class II devices are also exempt from pre-market review. Most Class II devices and certain Class III devices are marketed after submission of a pre-market notification under a process which is known as a 510(k) notification procedure. The pre-market notification must demonstrate that the proposed device is "substantially equivalent" to a legally marketed "predicate device" which requires a showing that the device has the same intended use as the predicate device, and either has the same technological characteristics or has different technological characteristics that do not raise different questions of safety and effectiveness than the predicate device. Clinical study data are sometimes necessary to demonstrate substantial equivalence. A 510(k) submission is subject to a user fee payment. Most Class III devices and devices not substantially equivalent to a predicate device are subject to the most stringent regulatory review and cannot be marketed for commercial sale in the United States until the FDA grants approval of a Pre-Market Approval ("PMA") application for the device. The

PMA filing is subject to a substantial user fee payment, and PMA supplement applications are also subject to user fees. Modifications of the device or its intended use after 510(k) clearance might require the submission of a new 510(k), and in some cases a change in intended use might require a PMA.

A PMA must contain proposed directions for use of the device, information about the manufacturing processes and facilities, technical information and reports of nonclinical laboratory studies of the device, clinical data demonstrating that the device is safe and effective for its intended use, certain information regarding pediatric subpopulations and other information required by the FDA. The FDA may refer a PMA for review by an advisory panel of outside experts for a recommendation regarding approval of the application. Clinical trials for a medical device must be conducted in accordance with FDA requirements, including informed consent from study participants, and review and approval by an IRB, and, additionally, FDA authorization of an Investigational Device Exemption application must be obtained for significant risk devices. The FDA may prevent studies from moving forward, and may suspend or terminate studies once initiated. The FDA may conduct a pre-approval inspection of our manufacturing facility, and also may inspect clinical investigators and clinical sites involved in our clinical trials program.

If the FDA's evaluation of a PMA is favorable, the FDA typically issues an "approvable letter" requiring the applicant to agree to comply with specific conditions, to supply specific additional data or information or to finalize the labeling, in order to secure final approval of the PMA application. Once the conditions contained in the approvable letter are satisfied, the FDA will issue a PMA order for the approved indications, which can be more limited than those originally sought by the manufacturer. The PMA order can include post-approval conditions that the FDA believes are necessary to ensure the safety and effectiveness of the device including, among other things, post-market studies or restrictions on labeling, promotion, sale, distribution and use. Products manufactured and distributed pursuant to a PMA are subject to extensive, ongoing regulation by the FDA. The FDA review of a PMA application generally takes one to two years from the date the application is accepted for filing but may take significantly longer. Supplemental PMA filings may be required prior to implementing product changes or manufacturing changes.

### ***Pharmaceutical and Medical Device Registration Outside the United States***

#### *European Union*

In the European Union, our products are subject to extensive regulatory requirements, such as the CE marking requirement for medical devices which, beyond the European Union, is recognized by markets such as Australia. As in the United States, the marketing of medicinal products has for many years been subject to the granting of marketing authorizations by regulatory agencies. Particular emphasis is also being placed on more sophisticated and faster procedures for reporting of adverse events to the competent authorities and on proactive management of risks associated with products.

#### *Pharmaceutical Development and Registration Process in the European Union*

In common with the United States, the various phases of pre-clinical and clinical research are subject to significant regulatory controls. The regulatory controls on clinical trials of medicines in the European Union are now largely harmonized following the implementation of the Clinical Trials Directives 2001/20/EC and 2005/28/EC. Compliance with the national implementations of Directive 2001/20/EC and Directive 2005/28/EC has been mandatory from May 1, 2004 and January 29, 2006, respectively. However, variations in the member state regimes continue to exist.

All member states currently require regulatory and institutional or other central or regional ethics review board approval of interventional clinical trials for medicines. Both regulators and ethics committees also require the submission of adverse event reports during a study and a copy of the final study report.

In the European Union, approval of new medicinal products can be obtained only through one of two processes:

- *Mutual recognition or decentralized procedure.* These procedures allow an applicant to submit applications in European Union member states of its choosing. Companies whose products are ineligible for the centralized

procedure may choose to use either the mutual recognition procedure or the decentralized procedure. Unlike the centralized procedure (see below), which results in a single EU-wide approval, these procedures result in individual, national marketing authorizations in each member state that participates.

The mutual recognition procedure and the decentralized procedure are similar in many respects. The applicant selects a member state that takes primary responsibility for the review and approval of the application: the so-called reference member state ("RMS"). Other states of the applicant's choosing, each a concerned member state ("EUCMS"), are expected to recognize the RMS decision to approve the product and must do so unless they identify a major public health concern. The procedures differ only in the timing of this EUCMS phase. In the mutual recognition procedure, it occurs after the RMS has granted a marketing authorization, while in the decentralized procedure it occurs after the RMS has prepared a positive assessment report and drafts of the summary of product characteristics, product labeling and packaging.

In both cases, an EUCMS can only object if it can identify a potential serious risk to public health. The EUCMS and RMS then have 90 days within which to raise and resolve such issues with the assistance of the Co-ordination Group for the Mutual Recognition and Decentralized Procedures - Human ("CMDH") within the European Medicines Agency. If any disagreement remains after 90 days, the issue is referred to the Committee for Medicinal Products for Human Use (CHMP) within the European Medicines Agency for an opinion and ultimately a binding European Commission decision. The mutual recognition/decentralized processes result in separate national marketing authorizations in the RMS and each EUCMS.

- *Centralized procedure.* This procedure is mandatory for products developed by means of a biotechnological process, for orphan drugs and for new chemical entities for which the therapeutic indication is the treatment of acquired immune deficiency syndrome, cancer, neurodegenerative disorder, diabetes, auto-immune diseases or other immune dysfunctions or viral diseases. The procedure is also optional for other new active substances and other products that constitute "a significant therapeutic, scientific or technical innovation." Under this procedure, an application is submitted to the European Medicines Agency. Two European Union member states are appointed to conduct an initial evaluation of each application. These countries each prepare an assessment report; the reports are then used as the basis of a scientific opinion of the Committee for Medicinal Products for Human Use. If this opinion is favorable, it is sent to the European Commission, which drafts a decision. After consulting with the member states, the European Commission adopts a decision and grants a marketing authorization, which is valid throughout the European Union and confers the same rights and obligations in each of the member states as a marketing authorization granted by that member state.

The European Union expanded its membership by ten in May 2004 and two more countries joined on January 1, 2007, bringing the total to 27 EU member states. Several other European countries outside the European Union, particularly the non-European Union members of the European Economic Area, i.e., Norway, Iceland and Liechtenstein, accept European Union review and approval as a basis for their own national approval.

#### *Medical Device Development and Registration Process in the European Union*

The European Union regulatory regime for most medical devices became mandatory in June 1998. Under this regime, a medical device may be placed on the market within the European Economic Area if it conforms to certain "essential requirements." The most fundamental essential requirement is that a medical device must be designed and manufactured in such a way that it will not compromise the clinical condition or safety of patients, or the safety and health of users and others. Other requirements include that the device must achieve the performances intended by the manufacturer and be designed, manufactured and packaged in a suitable manner. To assist manufacturers in satisfying the essential requirements, the European Commission has requested the preparation of standards applicable to medical devices. These include standards governing common requirements, such as sterilization and safety of medical electrical equipment, and product standards for certain types of medical devices. There are also harmonized standards relating to design and manufacture. While not mandatory, compliance with these standards is viewed as the easiest way to satisfy the essential requirements as a practical matter. Compliance with a standard developed to implement an essential requirement also creates a rebuttable presumption that the device satisfies that essential requirement.

In order to demonstrate safety and efficacy for their medical devices, manufacturers must conduct clinical investigations in accordance with the requirements of Annex X to the Medical Device Directive 93/42/EEC and applicable European and ISO Standards, as implemented or adopted in the European Union member states. The resulting data are introduced into the product development cycle for next-generation or new products and considered as a part of design controls and risk management practices in place. Clinical trials for medical devices usually require the approval of an ethics review board and the prior notification of the study to European regulators. Both regulators and ethics committees also require the submission of adverse event reports during a study and may request a copy of the final study report.

Manufacturers must demonstrate that their devices conform to the relevant essential requirements through a conformity assessment procedure. The nature of the assessment depends upon the classification of the device. The classification rules are mainly based on three criteria: the length of time the device is in contact with the body, the degree of invasiveness and the extent to which the device affects the anatomy. Medical devices in all but the lowest risk classification are also subject to a notified body conformity assessment. Notified bodies are often private entities and are authorized or licensed to perform such assessments by government authorities. Manufacturers usually have some flexibility to select conformity assessment procedures for a particular class of device and to reflect their circumstances, e.g., the likelihood that the manufacturer will make frequent modifications to its products. Conformity assessment procedures require an assessment of available clinical evidence, literature data for the product and post-market experience in respect of similar products already marketed. Notified bodies also may review the manufacturer's quality systems. If satisfied that the product conforms with the relevant essential requirements, the notified body issues a certificate of conformity, which the manufacturer uses as a basis for its own declaration of conformity and application of the CE mark.

Manufacturers must comply with requirements for reporting incidents and field safety corrective actions associated with medical devices. In addition, a process for reporting certain events has been established between the Company and its primary Notified Body (TUV PS, Germany, ID # 0123).

#### *Japan*

In Japan, our largest market outside the United States, the regulatory process is also quite complex. Pre-marketing approval and clinical studies are required, as is governmental reimbursement approval for most medical devices and pharmaceuticals. These requirements are comparable to those in the United States or in Europe. The introduction of major amendments to the pharmaceutical regulations in 2005 is notable in this respect. First, they expanded the Japanese regulatory focus to the manufacturing processes of medical devices and pharmaceuticals, both in Japan and overseas. As a result, demonstration of good manufacturing practice or quality management systems, and disclosure of the manufacturing process are part of the requirements for marketing approval. Each of the foreign manufacturers is required to be accredited by the Japanese authorities.

Historically, Japan required that all clinical data submitted in support of a new drug application be performed on Japanese patients. Since 1998, Japan has accepted overseas patient data when submitted along with a "bridging" study, which demonstrates that Japanese and non-Japanese subjects react comparably to the product. This approach enables companies like ours to reduce the time to approval and introduction of new drugs into the Japanese market, and we are currently employing these approaches to petition for approval of new ocular drugs in Japan. More recently, the authorities are intensifying the efforts to speed up the approval process and recommend active use of an "international joint trial" which may enable approval with a limited number of Japanese subjects.

Medical devices are similarly classified into three categories, corresponding to the level of potential risks to the human life and health. The category with the lowest risk (Class I) may be marketed without product-specific approval or other regulatory action. The highest risk category products, including most implant devices, are required to file for marketing approval, whereas devices in the middle category can be marketed subject to third-party certification of compliance with applicable Japan Industrial Specifications. The clinical trial requirement remains ambiguous and the authorities' response varies from time to time. Generally, devices representing a new technology are required to demonstrate clinical safety and efficacy for approval.

In 2005, Japan introduced the Drug Master File, which enables compound developers to protect their confidential data. The Japanese Drug Master File allows manufacturers of active pharmaceutical ingredients to file in confidence

manufacturing process and other sensitive information with the authorities to which Japanese licensees may refer in their new drug application.

In a recent development, the Japanese government extended the "exclusivity" period of active pharmaceutical ingredients, which is separate from patent protection, from six to eight years. No abbreviated generic application will be accepted during this period. In 2009, the Japanese authorities announced a guideline for approval of "biosimilar" drugs, and approval for these drugs can be granted under a less onerous data requirement.

### ***Other Regulation***

#### *Ongoing Reporting and Recordkeeping*

Following approval, a pharmaceutical or device company generally must engage in various monitoring activities and continue to submit periodic and other reports to the applicable regulatory agencies, including reporting cases of adverse events and device malfunctions, and maintaining appropriate design control and quality control records. Some medical devices also may be subject to tracking requirements. The FDA is in the process of implementing or considering a number of changes to its postmarket requirements for medical devices, including developing a proposed rule for a unique device identification ("UDI") system and other changes to enhance postmarket surveillance for medical devices. In addition, there are requirements and industry guidelines to require the posting of ongoing drug and device clinical trials on public registries, and the disclosure of designated clinical trial results.

#### *Advertising and Promotion*

Drug and medical device advertising and promotion are subject to federal and state regulations. In the United States, the FDA regulates company and product promotion, including direct-to-consumer advertising. Violative materials may lead to FDA enforcement action, including, for drugs, the imposition of civil monetary penalties utilizing new authority the FDA has been granted. The U.S. Federal Trade Commission ("FTC") also has certain authority over medical device advertising. In the European Union, the promotion of prescription medicines is subject to intense regulation and control, including a prohibition on direct-to-consumer advertising. Some European Union member states also restrict the advertising of medical devices. The restrictions vary from state to state. Some subject only those medical devices that are reimbursed under state healthcare systems and/or that are intended for professional use to specific advertising and promotion restrictions. Others restrict the advertising and promotion of devices for the treatment or diagnosis of certain listed conditions. In Japan, advertising and marketing of medical devices are subject to a government recommendation and industry self-regulations. Advertising of unapproved or uncertified medical devices, for which pre-marketing approval/certification is mandatory, is subject to criminal penalty.

#### *Manufacturing*

In the United States, the European Union and Japan, the manufacturing of our products is subject to comprehensive and continuing regulation. These regulations require us to manufacture our products in specific approved facilities and in accordance with their quality system rules and/or current Good Manufacturing Practices, and to list or notify our products and register or authorize our manufacturing establishments with the government agencies, such as the FDA. These regulations also impose certain organizational, procedural and documentation requirements upon us with respect to manufacturing and quality assurance activities. Our manufacturing facilities are subject to comprehensive, periodic inspections by the FDA and/or other regulatory agencies.

#### *Lasers*

In the United States, our lasers are subject to the Electronic Product Radiation Control provisions of the Federal Food, Drug, and Cosmetic Act, previously codified as the Radiation Control for Health and Safety Act, which are administered by the Center for Devices and Radiological Health of the FDA. This law requires laser manufacturers to file new product and annual reports, comply with performance standards and maintain quality control, product testing and sales records. In addition, lasers sold to end users must comply with labeling and certification requirements. Various warning labels must be affixed to the laser depending on the class of the product under the performance standard.

The FDA undertook various initiatives in 2009 with respect to ophthalmic laser devices used for Laser-Assisted In Situ Keratomileusis ("LASIK"), a surgical procedure that uses an excimer laser to permanently change the shape of the cornea. These initiatives have included FDA letters to eye care professionals with information about advertising and promotion, and letters to ambulatory surgical centers regarding adverse event reporting requirements for device user facilities. In March 2009, the FDA officially recognized the new LASIK standard from the American National Standards Institute (ANSI) entitled "Laser Systems for Corneal Reshaping." On October 15, 2009, the FDA announced the launch of a collaborative study with the National Eye Institute and the Department of Defense to examine the potential impact on quality of life from LASIK. The goal of the LASIK Quality of Life Collaboration Project is to determine the percentage of patients with significant quality of life problems after LASIK surgery and identify predictors of these problems. One phase of this project is a national, multi-center clinical trial, including evaluation of subpopulations who may be vulnerable to adverse effects from the procedure, expected to end in 2012. The FDA opened a public docket for LASIK so that any interested person can pose comments or concerns regarding LASIK. In addition, in January 2011, a citizen petition was filed seeking to have the FDA withdraw the PMA approvals for LASIK devices and take certain other regulatory actions with respect to these devices.

In the European Union, medical device rules regulate lasers intended for medical purposes. Depending on the class and purpose of each laser, member states also may impose additional restrictions and controls, such as limitations on those entitled to use the products and the facilities where their use is permitted. Similarly, Japan's medical device regulations cover laser products for medical treatment purposes, and the authorities do not allow the use of lasers for aesthetic purposes by non-doctors.

#### *Other*

Our manufacturing, sales, promotion and other activities following product approval are subject to regulation by numerous regulatory and law enforcement authorities, including, in the United States, the FDA, the FTC, the Department of Justice, CMS, other divisions of the Department of Health and Human Services, the Consumer Product Safety Commission and state and local governments. Among other laws and requirements, our post-approval manufacturing and promotion activities must comply with the Federal Food, Drug, and Cosmetic Act and the implementing regulations of the FDA, and we must submit post-approval reports required by these laws. We must file marketing authorization variations or supplemental applications with the FDA or other regulators and obtain their approval for labeling, manufacturing and other product changes, depending on the nature of the changes. Our distribution of pharmaceutical samples to physicians must comply with applicable rules, including the Prescription Drug Marketing Act. We must comply with state laws that require the registration of manufacturers and wholesale distributors of pharmaceutical and medical device products in that state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Certain of our products must comply with child-resistant packaging requirements under the Poison Prevention Packaging Act and Consumer Product Safety Commission regulations.

Our sales, marketing and scientific/educational programs must comply with the medicines advertising and anti-bribery rules and related laws, such as anti-kickback provisions of the Social Security Act, the Foreign Corrupt Practices Act, the False Claims Act, the Veterans Health Care Act ("VHCA") and similar state laws. Our pricing and rebate programs must comply with pricing and reimbursement rules, including the Medicaid drug rebate requirements of the Omnibus Budget Reconciliation Act of 1990. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. Under the VHCA, we are required to offer certain drugs at reduced prices established by statutory formulas to a number of federal agencies, including the Veterans Administration and the Department of Defense, the Public Health Service and certain private Public Health Service designated entities in order to participate in other federal funding programs, including Medicare and Medicaid. Participation under VHCA requires submission of pricing data and calculation of discounts and rebates pursuant to complex statutory formulas, as well as the entry into government procurement contracts governed by the Federal Acquisition Regulations. In addition, legislative changes purport to require that discounted prices be offered for certain Department of Defense funded purchases through its TRICARE retail pharmacy program via a rebate system.

Several states have enacted legislation requiring pharmaceutical and medical device companies to establish marketing compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities and/or register their sales representatives, as well as to prohibit pharmacies and other healthcare entities from providing certain physician prescribing data to pharmaceutical companies for use in sales and marketing, and to prohibit certain other sales and marketing practices. All of our activities are potentially subject to federal and state consumer protection and unfair competition laws. Finally, certain jurisdictions have other trade and export regulations from time to time to which our business is subject, such as technology or environmental export controls and political trade embargoes. Most European Union member states and Japan impose controls and restrictions that are similar in nature or effect.

Depending on the circumstances, failure to meet these applicable regulatory requirements can result in criminal prosecution, fines or other penalties, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, private "qui tam" actions brought by individual whistleblowers in the name of the government or refusal to allow us to enter into supply contracts, including government contracts. In addition, even if we comply with FDA and other requirements, new information regarding the safety or effectiveness of a product could lead the FDA to modify or withdraw a product approval.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 ("Affordable Care Act") was signed into law. The Affordable Care Act will substantially change the way that health care is financed by both governmental and private insurers and significantly affect the pharmaceutical industry. The Affordable Care Act contains a number of provisions, including provisions governing enrollment in federal health care programs, reimbursement changes, the increased use of comparative effectiveness research in health care decision-making, and enhancements to fraud and abuse requirements and enforcement, that will affect existing government health care programs and will result in the development of new programs.

A number of provisions contained in the new law may adversely affect our net revenue for our marketed products and any future products. In 2010, the new law, among other things, increases the minimum basic Medicaid rebate for branded prescription drugs from 15.1% to 23.1% and requires pharmaceutical manufacturers to pay states rebates on prescription drugs dispensed to Medicaid managed care enrollees. In addition, the Affordable Care Act increases the additional Medicaid rebate on "line extensions" (such as extended release formulations) of solid oral dosage forms of branded products, revises the definition of average manufacturer price by changing the classes of purchasers included in the calculation, and expands the entities eligible for discounted 340B pricing.

Beginning in 2011, the new law will require drug manufacturers to provide a 50% discount on prescriptions for branded products filled while the beneficiary is in the Medicare Part D coverage gap, also known as the "donut hole." In addition, the Affordable Care Act will impose a significant annual fee on companies that manufacture or import branded prescription drug products. The fee (which is not deductible for federal income tax purposes) will be based on the manufacturer's market share of sales of branded drugs and biologics (excluding orphan drugs) to, or pursuant to coverage under, specified U.S. government programs. The new law will also impose an excise tax on medical devices starting in 2013.

The Affordable Care Act also includes substantial new provisions affecting compliance, including reporting provisions that relate to transfers of value to health care providers and to the distribution of product samples to health care providers. In addition, the federal government has been given additional enforcement authority.

We are unable to predict the future course of federal or state health care legislation and regulations, including regulations that will be issued to implement provisions of the Affordable Care Act. The Affordable Care Act and further changes in the law or regulatory framework that reduce our revenues or increase our costs could also have a material adverse effect on our business, financial condition and results of operations and cash flows.

### ***Environmental, Health and Safety***

We are subject to a wide range of laws and regulations relating to protection of the environment and employee health and safety, both in the United States and elsewhere. In addition, internal corporate policies and procedures provide a common format for managing these aspects of our business. Our manufacturing facilities, research and development and other support operations undergo regular internal audits relating to environmental, health and safety requirements. Our facilities in the United States are required to comply with applicable Environmental Protection



Agency and Occupational Safety and Health Administration regulations, as well as state laws and regulations. Our facilities outside the United States are required to comply with locally mandated regulations that vary by country. In an effort to ensure ongoing compliance with applicable environmental laws and regulations, we have a program to monitor regulations affecting our products, packaging and operations, as well as ongoing rates of waste, water, air emissions, ozone depletion components and energy consumption. We also are aware and monitoring issues regarding climate change regulations but have not identified impacts on our operations of a material nature.

Currently we have seven ISO 14001 certifications inclusive of twelve locations. These include our European pharmaceutical and surgical manufacturing facilities in Puurs, Belgium, Cork, Ireland, and Kaysersberg, France, and our manufacturing and research and development operations in Barcelona, Spain, and Schaffhausen, Switzerland. North American operations certified under a Corporate Certificate include our manufacturing facilities in Sinking Spring, Pennsylvania, Irvine, California, Houston, Texas, Huntington, West Virginia, and Fort Worth, Texas. Our manufacturing facilities in Mexico City, Mexico, and Sao Paulo, Brazil, are also ISO 14001 certified. Certification possibilities for the recent acquisitions of WaveLight, AG, ESBATech AG, Optonol, Ltd. and LenSx Lasers, Inc. will be discussed in 2011. Based upon our reviews and the outcome of local, state and federal inspections, we believe that our manufacturing facilities are in substantial compliance with all applicable environmental, health and safety requirements.

We are not aware of any pending environmental, health or safety litigation or significant financial obligations arising from current or past operations that are likely to have a material adverse impact on our financial position. There can be no assurance, however, that environmental health or safety liabilities relating to properties owned or operated by us or waste generated by us will not develop in the future, and we cannot predict whether any such problems, if they were to develop, could require significant expenditures on our part. In addition, we are unable to predict what legislation or regulations may be adopted or enacted in the future with respect to environmental health and safety protection.

### ***Price Controls***

In many of the markets where we operate, the prices of pharmaceutical products are subject to direct price controls (by law) and to drug reimbursement programs with varying price control mechanisms.

In the United States, debate over the reform of the healthcare system has resulted in an increased focus on pricing. Although there are currently no government price controls over private sector purchases in the United States, federal legislation requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to enable them to be eligible for reimbursement under certain public healthcare programs, and proposals have been made to increase the rebate levels. Various states have adopted mechanisms under Medicaid and otherwise that seek to control drug prices, including by disfavoring certain higher priced drugs and by seeking supplemental rebates from manufacturers. In the absence of new government regulation, managed care has become a potent force in the market place that increases downward pressure on the prices of pharmaceutical products. The Medicare Part D outpatient prescription drug benefit is provided primarily through private entities, which attempt to negotiate price concessions from pharmaceutical manufacturers. The United States government is prohibited by law from interfering in price negotiations between manufacturers and Medicare drug plan sponsors, but some members of Congress are pursuing legislation that would permit the United States government to use its purchasing power to negotiate discounts from pharmaceutical companies, which would likely have a negative impact on the pricing of prescription drugs. In addition, the law contains triggers for Congressional consideration of cost containment measures for Medicare in the event Medicare cost increases exceed a certain level. These cost containment measures could include certain limitations on prescription drug prices.

This focus on pricing is evidenced in the provisions of the Affordable Care Act, the comprehensive health care reform legislation that was enacted in 2010. Among other things, the new law imposes greater Medicaid rebates on manufacturers, requires manufacturers to offer a 50% discount to Medicare Part D beneficiaries in the program's coverage gap, expands the entities eligible for discounted 340B pricing, imposes a new annual fee on branded pharmaceutical manufacturers, and lays the foundation for the use of comparative effectiveness research in health care decision-making. We expect that pressures on pricing and operating results will continue through implementation of the Affordable Care Act and other legislative and administrative developments.

In the European Union, governments influence the price of pharmaceutical products and medical devices through their pricing and reimbursement rules and control of national healthcare systems that fund a large part of the cost of such products to consumers. The approach taken varies from member state to member state. Some jurisdictions operate positive and/or negative list systems under which products may only be marketed once a reimbursement price has been agreed. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits. The downward pressure on healthcare costs in general, particularly prescription drugs, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products, as exemplified by the National Institute for Health and Clinical Excellence in the United Kingdom, which evaluates the health economics data supporting new medicines and passes reimbursement recommendations to the government. In addition, in some countries cross-border imports from low-priced markets (parallel imports) exert a commercial pressure on pricing within a country.

In Japan, reimbursement prices of drug products and medical devices are determined by the National Health Ministry biannually, under the national health insurance. The Ministry reviews the reimbursement prices of individual products biannually. In 2010, the Japanese government raised the overall reimbursement of medical service fees by 0.2% for the first time in over 10 years. However, it reduced the drug reimbursement rates by 5.75% and introduced a new additional rate reduction for the innovative products when generic products are approved. The downward pressure is likely to remain because of persistent budget deficits. Compensation for medical devices often takes the form of doctors' fees, which can be modified from time to time with additions of technologies using new medical devices.

### **C. ORGANIZATIONAL STRUCTURE**

Alcon, Inc. is the parent holding company of the worldwide group of Alcon companies. Alcon, Inc. owns 100% of the common voting stock in Alcon Holdings Inc., the holding company for our U.S. operations. The U.S. operations include a diverse group of subsidiaries that perform manufacturing, selling, marketing, distribution and research functions. Our larger U.S. subsidiaries are:

- Alcon Laboratories, Inc., which performs selling, marketing and distribution activities in the United States, with physical locations in Texas, California, Maryland and Hawaii; and
- Alcon Research, Ltd., which is responsible for Alcon's U.S. manufacturing and research and development operations with physical locations in Texas, California, West Virginia and Pennsylvania.

Alcon, Inc. also directly or indirectly owns numerous operating subsidiaries located outside the United States, with substantial presence in Europe, Japan, South America, Canada and Australia. These international subsidiaries are primarily engaged in selling, marketing and distribution activities; however, several international subsidiaries conduct manufacturing operations and a few maintain small research facilities. Our larger international subsidiaries, all of which are wholly owned by Alcon, Inc., are:

- Alcon Pharmaceuticals Ltd. (Switzerland), which operates as our international trading company and European Shared Services Center;
- S.A. Alcon Couvreur-N.V., our international financing entity, which also operates as a distribution and manufacturing company;
- Trinity River International Investments (Bermuda) Ltd., which manages Alcon's international portfolio of investments; and
- Trinity River Insurance Co. Ltd., which provides a wide range of insurance coverage for Alcon affiliates worldwide.

Exhibit 8.1 provides a shorter list of significant subsidiaries, as defined by the SEC.

### **D. PROPERTY, PLANTS AND EQUIPMENT**

Our principal executive offices and registered office are located at Bösch 69, P.O. Box 62, 6331 Hünenberg, Canton of Zug, Switzerland. The principal offices for our United States operations are located at 6201 South Freeway, Fort Worth, Texas 76134.

We believe that our current manufacturing and production facilities have adequate capacity for our medium-term needs. To ensure that we have sufficient manufacturing capacity to meet future production needs, we regularly review the capacity and utilization of our manufacturing facilities. The FDA and other regulatory agencies regulate

the approval for use of manufacturing facilities for pharmaceuticals and medical devices, and compliance with these regulations requires a substantial amount of validation time prior to start-up and approval. Accordingly, it is important to our business that we ensure we have sufficient manufacturing capacity to meet our future production needs. We presently anticipate expanding the capacity of ten of our manufacturing facilities over the next two years. The "History and Development of the Company" at the beginning of this Item 4 provides additional discussion of capital expenditures underway.

The following table sets forth, by location, approximate size and principal use of our main manufacturing and other facilities at December 31, 2010:

Location	Approximate Size	Principal Use(s)	Owned/ Leased
<b>United States:</b>			
	(sq. feet)		
Fort Worth, Texas	1,668,000	Research and development, administrative buildings, warehouse	Owned
Fort Worth, Texas	118,000	Warehouse	Leased
Fort Worth, Texas	346,000	Pharmaceutical, contact lens care and surgical solutions	Owned
Fort Worth, Texas	344,000	Pharmaceutical and small volume consumer products	Owned
Houston, Texas	391,000	Surgical ( <i>Custom Pak</i> <sup>®</sup> and consumables)	Owned
Irvine, California	210,000	Surgical (electronic instruments and consumables), research and development, warehouse	Leased
Huntington, West Virginia	151,000	Surgical (intraocular lenses)	Owned
Huntington, West Virginia	114,000	Surgical (advanced optical devices)	Owned
Sinking Spring, Pennsylvania	165,000	Surgical (hand-held instruments and consumables)	Owned
Elkridge, Maryland	142,000	Distribution warehouse	Leased
Aliso Viejo, California	30,000	Surgical ( <i>LenSx</i> <sup>®</sup> laser equipment)	Leased
<b>Outside the United States:</b>			
Barcelona, Spain	444,000	Pharmaceutical, contact lens care, research and development	Owned
Puurs, Belgium	594,000	Pharmaceutical, contact lens care, surgical (viscoelastics and <i>Custom Pak</i> <sup>®</sup> ) and administrative	Owned
Kaysersberg, France	160,000	Pharmaceutical and contact lens care	Owned
Sao Paulo, Brazil	90,000	Pharmaceutical and contact lens care	Owned
Sao Paulo, Brazil	89,000	Administrative and warehouse	Leased
Cork, Ireland	147,000	Surgical (intraocular lenses)	Owned
Schaffhausen, Switzerland	18,000	Surgical (microsurgical instruments)	Owned
Schaffhausen, Switzerland	26,000	Surgical (microsurgical instruments)	Leased
Mexico City, Mexico	31,000	Pharmaceutical and contact lens care	Owned
Mexico City, Mexico	60,000	Administrative building and warehouse	Owned
Erlangen, Germany	71,000	WaveLight administrative, research and development	Leased
Pressath, Germany	28,000	Surgical ( <i>WaveLight</i> <sup>®</sup> refractive equipment)	Leased
Neve Llan, Israel	11,000	Surgical (glaucoma filtration devices)	Leased
Singapore	331,000	Pharmaceutical plant under construction	Owned

In addition to these principal facilities, we have office facilities worldwide. These facilities are generally leased. In three countries, we lease or sublease facilities from Nestlé. These offices are located in Brazil, Norway and South Africa. Pursuant to the terms of the Shareholders Agreement, these Shared Site Agreements will continue in effect for the remainder of their terms and may or may not be renewed.

We believe that all of our facilities and our equipment in those facilities are in good condition and are well maintained.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

We have no unresolved written comments from the SEC staff regarding our periodic reports under the Exchange Act received more than 180 days before the end of the fiscal year to which this annual report relates.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis in conjunction with our financial statements and notes thereto included elsewhere in this report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.*

#### Overview of Our Business

##### *General*

Alcon, Inc. ("Alcon") and its subsidiaries (collectively, the "Company") develop, manufacture and market pharmaceuticals, surgical equipment and devices and consumer eye care products that treat eye diseases and disorders and promote the general health and function of the human eye. Founded in 1945, we have local operations in over 75 countries and our products are sold in more than 180 countries around the world. In 1977, we were acquired by Nestlé S.A. Since then, we have operated largely as an independent company, separate from most of Nestlé's other businesses, and have grown our annual sales from \$82 million to more than \$7 billion primarily as a result of internal development and selected acquisitions. In March 2002, Nestlé sold slightly less than 25% of its ownership of Alcon through an initial public offering. In two transactions in 2008 and 2010, Nestlé sold all of its Alcon common shares to Novartis AG, a Swiss corporation that now owns the majority of Alcon's common shares. The remaining shares continue to be traded on the New York Stock Exchange. In December 2010, Alcon entered into an agreement to merge with and into Novartis, subject to the approval of each company's shareholders and certain other closing conditions.

We conduct our global business through two business segments: Alcon United States and Alcon International. Alcon United States includes sales to unaffiliated customers located in the United States of America, excluding Puerto Rico. Alcon United States operating profit is derived from operating profits within the United States. Alcon International includes sales to all other unaffiliated customers.

Each business segment markets and sells products principally in three product categories of the ophthalmic market: (i) pharmaceutical (prescription drugs); (ii) surgical equipment and devices (cataract, vitreoretinal and refractive); and (iii) consumer eye care (contact lens disinfectants and cleaning solutions, artificial tears and ocular vitamins). Business segment operations generally do not include research and development, manufacturing, share-based compensation and other corporate functions. We market our products to eye care professionals as well as to the direct purchasers of our products, such as hospitals, surgery centers, managed care organizations, health maintenance organizations, government agencies/entities and individuals.

##### *Change of Majority Ownership and Proposed Merger*

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of \$143.18 per share. That sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. The option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of \$181 per share and the 4.1 million shares at the first stage price of \$143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of \$181 per share or a 20.5% premium above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of \$143.18 per share.

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of \$180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. On December 15, 2010, after extensive negotiations between Novartis and the Alcon Independent Director Committee, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at \$168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares (or American Depositary Shares in lieu thereof) and, if necessary, a cash contingent value amount to result in a total value of \$168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

For further details on the proposed merger, please refer to Item 7.B, "Related Party Transactions" and the Merger Agreement dated December 14, 2010 between Novartis AG and Alcon, Inc., included as Exhibit 4.13 to this report. Additional information concerning the proposed merger is included in the registration statement on Form F-4 filed by Novartis with the United States Securities and Exchange Commission on December 23, 2010 and subsequent amendments thereto.

Statements in the following discussion and analysis relating to our business strategies, operating plans, planned expenditures, expected capital requirements and other forward-looking statements regarding our business do not take into account potential future impacts of our proposed merger with Novartis.

#### *LenSx Lasers Acquisition*

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complementary technology in cataract surgery. LenSx's laser will enable surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and creation of certain corneal incisions. Previously these steps were done manually with surgical instruments.

The Company paid approximately \$367 million in cash at closing to LenSx shareholders for their shares and agreed to maximum contingent payments of approximately \$383 million based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones. The Company recorded, as part of the purchase price, \$72 million for the estimated fair value of the contingent consideration and \$12 million in cash paid to a LenSx shareholder for an intangible asset integral to the purchase.

Between the acquisition date and December 31, 2010, LenSx had no revenues and its costs and expenses were not significant. Note 18 to the consolidated financial statements provides more information on this acquisition.

#### *ESBATech Acquisition*

On September 15, 2009, the Company acquired ESBATech AG, a Swiss biotechnology company. The Company paid ESBATech shareholders \$150 million in cash at closing and may pay possible contingent payments of up to \$439 million based upon the achievement of future research and development milestones that would be expected to create value for Alcon. The Company recorded, as part of the purchase price, the estimated fair value of \$71 million related to the contingent payments. This valuation was based on the Company's estimates of the probability and timing of these contingent payments.

ESBATEch is a clinical-stage biotechnology company that has been developing a pipeline of proprietary single-chain antibody fragment therapeutics for topical and local delivery for safe and convenient therapy. ESBATEch has advanced its antibody fragment technology to preclinical and clinical stages in the eye for various diseases. The company has several stable and soluble single-chain antibody fragments in development, with its most advanced product candidate progressed into Phase I and II studies relating to the treatment of inflammatory ocular diseases.

The acquisition included all rights to ESBATEch's technology for therapeutic application to the eye, including age-related macular degeneration, diabetic macular edema, glaucoma, dry eye and uveitis. Substantially all of the employees of ESBATEch joined Alcon. The ESBATEch acquisition expanded Alcon's research capability outside of small molecules to the field of proteins, antibodies and other large molecules.

Note 18 to the consolidated financial statements provides more information on this acquisition.

#### *U.S. Healthcare Reform*

In March 2010, the United States government enacted legislation that is expected to have far reaching implications for the healthcare industry. The U.S. Department of Health and Human Services has broad discretion to interpret certain sections of these new laws, and numerous regulations are anticipated to follow. The more significant changes and their estimated effects on the Company for 2010 and future years are discussed below.

- Beginning January 1, 2010, the legislation increases the Medicaid drug rebate minimum percentage for single source and innovator multiple source drugs from 15.1% to 23.1% of average manufacturer price and for non-innovator multiple source drugs from 11% to 13%. The legislation further extends this drug rebate to utilization made through risk-based, Medicaid managed care plans. This portion of the legislation was effective as of the date of enactment (March 23, 2010). The impact of this legislation has been to increase rebates paid by Alcon. It also may have an indirect impact on overall rebates paid to managed care organizations.
- Beginning January 1, 2011, pharmaceutical manufacturers must enter into agreements with the U.S. government to provide a 50% discount on covered brand name Medicare Part D drugs for eligible Part D enrollees in the coverage gap. The legislation required the U.S. government to establish a model agreement with pharmaceutical manufacturers. This has been completed and most manufacturers, including the Company, have signed the agreement. The discounts are excluded from "Best Price" for Medicaid rebate purposes. This will increase the Company's discounts beginning in 2011. To the extent patients were foregoing purchasing their medicines once they entered the Medicare Part D coverage gap, this provision could result in a modest increase in prescriptions, although at a lower price.
- The legislation also expands the section 340B drug discount program eligibility to the outpatient settings of qualified children's hospitals, free-standing cancer centers, critical access hospitals, rural referral facilities, and sole community hospitals with disproportionate share adjustment percentages equal to or greater than 8%. This will effectively increase volume to those facilities where we offer larger discounts.
- The legislation imposes a non-deductible pharmaceutical industry fee, requiring brand manufacturers to pay an annual fee in the aggregate of \$2.5 billion in 2011, escalating to \$4.1 billion in 2018. The fee is allocated to individual companies based on each manufacturer's proportion of total specified government program sales as a percentage of the entire brand manufacturing industry total of specified government program sales. There were no fees recognized in 2010. If the legislation had applied to 2010 and based on our 2009 sales and our assumptions about which sales will be subject to the fee, we estimate its effect on the Company would have been less than \$10 million.
- The legislation imposes a 2.3% excise tax on the sale of medical devices (as defined in section 201(h) of the Federal Food, Drug and Cosmetic Act) intended for humans. This provision becomes effective for sales after December 31, 2012 and will likely be imposed on a majority of the Company's surgical revenue but will exclude sales of our over-the-counter products such as contact lens disinfectants, artificial tears, and ocular vitamins. If the legislation had applied to 2010 and based on our 2009 sales

and our assumptions about which products will be subject to the tax, we estimate its effect on the Company would have been less than \$30 million.

- The legislation likely will increase the population that will have access to drugs by expanding Medicaid eligibility to 133% of the Federal Poverty Level. It also will create separate health benefit exchanges through which individuals and small businesses can purchase coverage. Quantifying this impact is not possible at this time. This portion of the legislation does not go into effect until January 1, 2014.

Finally, the legislation changes the taxation of subsidies received by employers as a result of funding prescription drug benefits for retirees under the Medicare Prescription Drug Improvement and Modernization Act of 2003. The elimination of this benefit resulted in an initial \$25 million charge to income taxes in the first quarter of 2010 and is expected to add an annual income tax cost of approximately \$4 million at today's tax rates.

The provisions in the first and third bulleted paragraphs above decreased sales by approximately \$20 million in 2010.

### *Market Environment*

Demand for healthcare products and services is increasing in established markets as a result of aging populations and the emergence of new drug therapies and medical devices. Likewise, demand for healthcare products and services in emerging markets is increasing primarily due to the adoption of medically advanced technologies and improvements in living standards. As a result of these factors, healthcare costs are rising at a faster rate than macroeconomic growth in many countries. This faster rate of growth has led governments and other purchasers of healthcare products and services, either directly or through patient reimbursement, to exert pressure on the prices of healthcare products and services. These cost-containment efforts vary by market.

In the United States, Medicare reimbursement policies and the influence of managed care organizations continue to impact the pricing of healthcare products and services. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 continues to present opportunities and challenges for pharmaceutical companies. Many states also have implemented more aggressive price control programs and more liberal generic substitution rules that could result in price reductions. In addition, managed care organizations use formularies and their buying power to demand more effective treatments at lower prices. Both governments and managed care organizations support increased use of generic pharmaceuticals at the expense of branded pharmaceuticals. We are well-positioned to address this market opportunity with Falcon Pharmaceuticals, Ltd., our generic pharmaceutical business. We also use third-party data to demonstrate both the therapeutic and cost effectiveness of our branded pharmaceutical products. Moreover, to achieve and maintain attractive positions on formularies, we continue to introduce medically advanced products that differentiate us from our competitors.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 placed additional pressure on policy makers to offset the cost of the prescription drug benefit by controlling budgets for reimbursement to surgical facilities. This may affect our industry's ability to maintain current pricing levels. New technologies for surgical procedures are being challenged to substantiate that their higher costs are accompanied by clinical improvements for Medicare beneficiaries. We prepare for these challenges by gathering the scientific and clinical data that demonstrate to Medicare that the products in our pipeline are cost-effective when their higher costs are compared to their measurable benefits.

Outside the United States, third-party payor reimbursement of patients and healthcare providers and prices for healthcare products and services vary significantly and, in the case of pharmaceuticals, are generally lower than those in the United States. In Western Europe, where government reimbursement of healthcare costs is widespread, governments often require price reductions. The economic integration by European Union members and the introduction of the euro also have impacted pricing in these markets, as more affluent member countries are requesting prices for healthcare products and services comparable to those in less affluent member countries.

In most of the emerging markets in Latin America and Asia, average income levels are relatively low, government reimbursement for the cost of healthcare products and services is limited and prices and demand are sensitive to general economic conditions. However, demand for our products in many developing countries has been rising.

In Japan, longer regulatory approval times impact the timing of marketing our pharmaceutical products there in comparison to other markets. In addition, the Japanese National Health Ministry reviews prices of individual pharmaceutical products and health services biannually. These reviews have resulted in price decreases, including a 5.75% decline in overall drug reimbursement in 2010. Reductions in reimbursement levels put downward price pressure on products we supply.

#### *Currency Fluctuations*

Our products are sold in over 180 countries and we sell products in a number of currencies in our Alcon International business segment. Our consolidated financial statements, which are presented in U.S. dollars, are impacted by currency exchange rate fluctuations through both translation risk and transaction risk. Translation risk is the risk that our financial statements for a particular period are affected by changes in the prevailing exchange rates of the various currencies of our subsidiaries relative to the U.S. dollar. Transaction risk is the risk that the currency structure of our costs and liabilities deviates to some extent from the currency structure of our sales proceeds and assets.

Our translation risk exposures are principally to the euro, Japanese yen, Brazilian real and Canadian dollar. With respect to transaction risk, because a significant percentage of our operating expenses are incurred in the currency in which sales proceeds are received, we do not have a significant net exposure. In addition, most of our assets that are denominated in currencies other than the U.S. dollar are supported by loans or other liabilities of similar amounts denominated in the same currency. From time to time, we purchase or sell currencies forward to hedge currency risk in obligations or receivables; these transactions are designed to address transaction risk, not translation risk. More recently, Venezuela has experienced an official currency devaluation and high inflation, but our exposure there is not significant to our consolidated financial condition.

Generally, a weakening of the U.S. dollar against other currencies has a positive effect on our overall sales and, to a lesser extent, profits, while a strengthening of the U.S. dollar against other currencies has a negative effect on our overall sales and, to a lesser extent, profits. We experienced positive currency impacts during 2010 and 2008. During these years the U.S. dollar weakened against most major currencies, positively impacting our sales and, to a lesser extent, profits. However, in 2009, as other major currencies weakened against the dollar, our sales and profits were negatively affected. We refer to the effects of currency fluctuations and exchange rate movements throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, which we have computed by applying translation rates from the prior comparative period to the more recent period amounts and comparing those results to the more recent period actual results.

#### *Operating Revenues and Expenses*

We generate revenues largely from sales of ophthalmic pharmaceutical products, ophthalmic surgical equipment and devices and consumer eye care products. Our operating revenues and operating income are affected by various factors, including unit volume, price, currency fluctuations, acquisitions, licensing and the mix between lower-margin and higher-margin products.

Sales of ophthalmic pharmaceutical products are primarily driven by the development of safe and effective products that can be differentiated from competing products in the treatment of ophthalmic diseases and disorders and increased market acceptance of these new products. Inclusion of pharmaceutical products on managed care formularies covering the largest possible number of patients is another key competitive factor. We face significant competition in ophthalmic pharmaceuticals, including competition from other companies with an ophthalmic focus and from larger pharmaceutical companies. In general, sales of our pharmaceutical products are not affected by general economic conditions, although we face pressure from governments and from managed care organizations in the United States to reduce prices. Alcon has continued to increase market share in most of its major specialties, which has provided some offset to the recent market softness. We experience seasonality in our ocular allergy medicines, with a large increase in sales in the spring and a lesser increase during the fall and also in our otic



products, which have significantly larger sales in the summer months than at other times of the year. Costs of goods sold for our pharmaceutical products include materials, labor, overhead and royalties.

Our surgical product category includes three product lines: cataract, vitreoretinal and refractive. Sales of our products for cataract and vitreoretinal surgery are driven by technological innovation and aging demographic trends. The number of cataract and vitreoretinal surgical procedures is not generally affected by economic conditions; however, because cataract patients now have the ability to pay out of their own pockets for certain premium technologies, sales of advanced technology intraocular lenses could be affected by economic conditions. We believe that our innovative technology and our ability to provide customized (i.e., tailored to each surgeon's preference) surgical procedure packs with a broad range of proprietary products are important to our success in these product categories. Sales of our refractive surgical equipment and the related technology fees are driven by consumer demand for laser refractive surgery. We sell lasers and other surgical equipment used to perform laser refractive surgeries and, in the United States, charge a technology fee for each surgery performed (one eye equals one surgery). Outside the United States, we generally do not charge a technology fee. Because governments and private insurance companies generally do not cover the costs of laser refractive surgery, sales of laser refractive surgical products and related technology fees are sensitive to changes in general economic conditions and consumer confidence. There is no significant seasonality in our surgical business. Costs of goods sold for our surgical products include raw materials, labor, overhead, royalties and warranty costs. Operating income from cataract and vitreoretinal products is driven by the number of procedures in which our products are used and the types of products used. Operating income from laser refractive surgical equipment depends primarily on the number of procedures for which we are able to collect technology fees. In the weaker economy since 2008, the number of refractive procedures in the United States market declined. Our refractive sales increased as a result of sales of *WaveLight*<sup>®</sup> products and procedures following our acquisition of an initial majority interest in WaveLight in late 2007.

Sales of our consumer eye care products are influenced by ophthalmologist, optometrist and optician recommendations of lens care systems, our provision of starter kits to eye care professionals, advertising and consumer preferences for more convenient contact lens care solutions. Contact lens care products compete largely on product attributes, brand familiarity, professional recommendations and price. The use of less-advanced cleaning methods, especially outside the United States, also affects demand for our contact lens care products. There is no seasonality in sales of contact lens care products, but we have experienced some impact from general economic conditions to date, as in low-growth economic environments some consumers may switch to lower-priced brands. Costs of goods sold for contact lens care products include materials, labor, overhead and royalties. Operating income from contact lens care products is driven by market penetration and unit volumes.

During the year ended December 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a \$24 million addition to U.S. operating income for the year.

On February 11, 2009, the Company announced that it initiated programs to align its operations with the evolving economic conditions and market environment. These programs included a staffing reduction of approximately 260 employee positions that resulted in a pre-tax charge of \$19 million, primarily incurred in the first quarter of 2009. The staffing reduction is expected to deliver ongoing annualized savings of approximately \$40 million, which began in the second quarter of 2009, with the full effect realized thereafter.

Our selling, general and administrative costs include the costs of selling, promoting and distributing our products and managing the organizational infrastructure of our business. The largest portion of these costs is salaries and commissions for sales and marketing staff.

The Company was self-insured through its captive insurance subsidiary for damages incurred prior to 2006 at one of its sales and distribution facilities and was involved in legal proceedings to seek recovery of its losses and other incremental operating costs from the third parties responsible for the damages. In December 2008, the captive insurance subsidiary settled its claim against the third parties involved. Since no recovery had been recorded previously, the Company recognized a gain in the fourth quarter of 2008 related to the settlement of \$15 million (\$3 million in cost of goods sold and \$12 million in selling, general and administrative expenses).

Research and development costs include basic research, pre-clinical development of products, clinical trials, regulatory expenses and certain technology licensing costs. The largest portion of our research and development

expenses relates to the research, development and regulatory approval of pharmaceutical products. As part of the Company's commitment to develop treatments for diseases, disorders and other conditions of the eye, we normally plan to spend approximately 10% to 11% of sales for research and development. During each of the years 2010, 2009 and 2008, a greater proportion of our research and development expenses were incurred during the second half of the year than during the first half.

Our amortization costs relate to acquisitions and the licensing of intangible assets. Due to acquisitions and purchases in 2009 and early 2010, annual amortization expense on intangible assets with definite useful lives is estimated to increase to \$78 million in 2011 and decrease to \$65 million in 2015.

Our other operating expenses of \$152 million in 2010 primarily represented costs related to the change of majority ownership arising from Novartis's purchase of its majority interest in Alcon from Nestlé on August 25, 2010, as discussed in note 16 to the consolidated financial statements, and legal and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. The change of control accelerated the recognition of certain compensation expenses, including pensions (\$97 million) and share-based payments (\$8 million).

During the third quarter of 2008, the Company reached agreement with the U.S. Internal Revenue Service on all issues surrounding the acquisition and liquidation of its investment in former Summit Autonomous, Inc., the Company's subsidiary responsible for the Company's refractive research and manufacturing activities prior to November 2007. As a result of this agreement, the Company recognized tax benefits in 2008 totaling \$236 million related to losses on the value of this investment.

#### *Material Opportunities, Challenges and Risks*

The Company is focused on its ability to bring new products successfully to market in a competitive industry environment. The Company's long term profitability is dependent upon the ability of its research and development activities to provide a pipeline of new products that are successful in the marketplace. In general, we are able to generate higher margins from the sales of our products that are under patents or licenses restricting the production or sale of such products by others. Our goal is to consistently advance the state of our research and development so as to be in a position, as existing products approach the end of their patent or license protection periods, to introduce new products that provide greater efficacy, broader application or more convenience. Such products under new patents or licenses provide opportunities to maintain and grow our sales.

Part of our strategy is to devote significant resources to research and development efforts. Development of new products can be a long and expensive process. Over the past three years, we have invested approximately 10% of annual revenues into research and development. We strive to be the first to introduce new products in the marketplace or to provide greater efficacy in treatment of ophthalmic conditions. Being first to the marketplace with a product category can often result in a significant marketing advantage, particularly as larger pharmaceutical companies increase their focus on the ophthalmology field.

Our ability to maintain profit margins on our products may be affected by a number of regulatory activities throughout the world, from restrictive medical reimbursements for managed care to reduced regulation for imports of pharmaceutical products from other countries to the United States. We monitor these regulatory activities and the effects on product pricing in our major markets. Where appropriate, we share information with applicable regulatory bodies on the cost of developing new products and the importance of pricing and return of investment as an incentive to develop new and more effective therapeutic treatments. We also monitor regulatory activities to identify initiatives that could undercut consumer protections by the introduction of nonregulated products into the U.S. distribution chain.

We are aware of and are monitoring issues regarding climate change regulations but have not identified impacts on our operations of a material nature.

We also focus on cost management. In addition to a strict evaluation of general and administrative expenses, the Company seeks to reduce manufacturing costs through its continuous improvement program.

As indicated earlier, our industry is dependent on proprietary technology and we vigilantly strive to protect ours. From time to time, competitors challenge our intellectual property rights.

The Company, either alone or jointly with its commercial partners, has filed fourteen North American patent infringement actions against six different generic drug companies. With the exception of international generic challenges, all of these generic drug companies are seeking U.S. Food and Drug Administration ("FDA") approval to market generic versions of the Company's products, under what are known as Abbreviated New Drug Applications ("ANDAs").

Each infringement action was filed after the Company received notice that one or more of the generic drug companies had filed an ANDA seeking approval to sell a generic version of a Company product. As part of its ANDA, each generic drug company challenged one or more patents covering a Company product. Our products subject to generic challenges include *Vigamox*<sup>®</sup> antibiotic ophthalmic solution, *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> anti-allergy ophthalmic solutions, and *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup> ophthalmic solutions. In the United States, as a result of filing the lawsuits, the FDA must delay approval of the related ANDAs for 30 months unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. In Canada, filing of the lawsuits secured a 24-month delay in approval from the Minister of Health, which can be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should any generic drug company succeed in overcoming all applicable patents and secure FDA approval, it would be entitled to sell a generic product that would compete with the Company's product in the United States or Canada. Such competition would be expected to impact significantly the Company's sales and profits. More information on these suits can be found at Item 8.A.7, "Legal Proceedings."

On December 18, 2008, James M. Nielsen, M.D. filed a patent infringement suit against Alcon, Inc. and Alcon Laboratories, Inc. in the U.S. District Court for the Northern District of Texas in Dallas. Dr. Nielsen is asserting that his U.S. Patent No. 5,158,572 entitled "Multifocal Intraocular Lens" is being infringed by the Company's *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> intraocular lens. The patent, which expired at the end of October 2009, was previously licensed to Advanced Medical Optics, Inc. The Company filed its Answer January 12, 2009. The Answer included a counterclaim for a declaratory judgment that the patent-in-suit is invalid and not infringed. The case had been set for trial in August 2010 but has been postponed. No new trial date has been set. Summary judgment motions were filed by both parties January 7, 2011. Alcon is seeking summary judgment on noninfringement, invalidity and laches, while Dr. Nielsen is seeking partial summary judgment on invalidity and laches/estoppels. On January 10, 2011, the court ordered that both parties' motions be stricken and refiled in a "cross-motion" format, the briefing for which was extended by the court until the end of March 2011. An adverse ruling by the court, while possible, would not be expected to impact significantly the Company's sales and profits.

On January 22, 2009, Elan Pharma International Ltd. sued two of the Company's subsidiaries, Alcon Laboratories, Inc. and Alcon Research, Ltd., in the U.S. District Court for the Eastern District of Texas in Sherman, alleging infringement of two Elan patents on nanoparticle technology (U.S. Patent Nos. 5,298,262 and 5,429,842). The complaint claims that the Company's *Azopt*<sup>®</sup> product and, potentially, other products infringe the two patents. The Company answered and counterclaimed on May 12, 2009. Elan then moved to dismiss certain of the Company's affirmative defenses and counterclaims. The Company has filed an amended answer and counterclaims providing greater detail with respect to the Company's inequitable conduct counterclaims. The case has been set for trial on October 17, 2011. The Company believes that it has strong defenses and intends to defend itself vigorously. An adverse ruling by the court, however, could impact significantly the Company's sales and profits.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry

susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

The Company self-insures through captive insurance subsidiaries almost all of its property and casualty, business interruption and liability risks.

On May 6, 2010, we commenced a voluntary corrective action on our *CONSTELLATION*<sup>®</sup> vision system that the U.S. Food and Drug Administration ("FDA") classified as a Class 1 recall. We submitted a 510(k) application to the FDA requesting approval of software and hardware modifications to the system. In November 2010, we received a clearance letter from the FDA on our application. This action did not have a material impact on our financial results.

### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon Alcon's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingent assets and liabilities. We base our estimates and judgments on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments under different assumptions or conditions.

We believe that the following accounting policies involve the more significant estimates and judgments used in the preparation of our financial statements:

*Sales Recognition:* The Company recognizes sales in accordance with the United States Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104. Sales are recognized as the net amount to be received after deducting estimated amounts for product returns and rebates. Product returns are estimated based on historical trends and current market developments. The Company participates in various sales rebate and other incentive programs, the largest of which relates to Medicaid and Medicare Part D. Sales rebate and other incentive programs also include chargebacks, which are discounts given primarily to wholesalers for their sales of Alcon products at contractual prices to hospitals, federal government agencies, health maintenance organizations, pharmacy benefits managers and group purchasing organizations. Sales rebates and incentive accruals reduce revenue in the same period that the related sale is recorded and are included in "Other current liabilities" in our consolidated balance sheets. Rebates are estimated based on historical analysis of trends and estimated compliance with contractual agreements. The Company generally offers cash discounts to certain classes of customers for the early payment of receivables. Those discounts are recorded as a reduction of revenue and accounts receivable in the same period that the related sale is recorded. While we believe that our reserves for product returns and rebates and for cash discounts are adequate, if the actual results are significantly different than the estimated costs, our sales may be over- or understated.

*Inventory Reserves:* The Company provides reserves on its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated fair market value based upon assumptions about future demand and market conditions. If actual market conditions become less favorable than those projected by management, additional inventory reserves may be required.

*Allowances for Doubtful Accounts:* The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management regularly assesses the financial condition of the Company's customers and the markets in which these customers participate. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments on our receivables from them, additional allowances may be required.

*Investments:* The majority of the Company's investments are held in funds professionally managed by investment managers. The net asset values are furnished in statements received from fund custodians whose

statements reflect valuations conducted according to their respective fund pricing policies and asset types. The Company uses the net asset values from independent fund custodians as a starting point to value these funds. On an ongoing basis, management evaluates fund pricing procedures of the fund custodians, their internal controls and their financial statement reports and performs monitoring activities to obtain comfort that the net asset values appropriately represent fair value.

The Company recognizes an impairment charge when the decline in the fair value of our investments below their cost is judged to be other than temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near term prospects of the investment entity, and our intent and ability to hold the investment for a period of time to allow for any anticipated recovery in market value. Our ongoing consideration of these factors could result in impairment charges in the future, which could adversely affect our net earnings.

The Company determined that, at December 31, 2008, unrealized losses on certain available-for-sale equity securities and a senior secured bank loans fund were other-than-temporarily impaired due to deteriorating general market conditions, particularly during the fourth quarter of 2008, coupled with the unlikely near term prospects for achieving a sustainable recovery, uncertainty about future market conditions, and declines in certain quantitative or qualitative factors. The other-than-temporary impairment recognized for the senior secured bank loans fund also was deemed appropriate to bring a significant portion of the unrealized losses in line with current market conditions for credit default rates and loss recovery rates. The Company recognized losses for other-than-temporary impairment during the year ended December 31, 2008 of \$37 million. At December 31, 2010 and 2009, the Company had available-for-sale investments recorded at total fair values of \$1,281 million and \$530 million with gross unrealized losses totaling \$3 million and \$2 million, respectively, that were determined to be temporary and were included in accumulated other comprehensive income (loss) on the consolidated balance sheet.

*Impairment of Goodwill and Intangible Assets:* The Company assesses the recoverability of goodwill and intangible assets upon the occurrence of an event that might indicate conditions for an impairment could exist, or at least annually for goodwill.

Factors we consider important that could trigger an impairment review for intangible assets include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner or extent of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends; and
- significant decline in the market value of the intangible asset for a sustained period.

When we determine the carrying value of intangible assets may not be recoverable from undiscounted cash flows based upon the existence of one or more of the above factors, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Management has determined that the reporting units for its annual testing for impairment of goodwill are the operating business segments used for segment reporting. Management performs its testing using both multiples of quoted market prices to operating profits and present value techniques. In the most recent testing, the fair values of the Company's reporting units substantially exceeded their respective carrying values.

To the extent that our management determines that goodwill or intangible assets cannot be recovered, such goodwill or intangible assets are considered impaired and the impairment is treated as an expense in the period in which it occurs.

*Tax Liabilities:* We are subject to income taxes in Switzerland, as well as the United States and most other foreign jurisdictions throughout the world, and are regularly audited in many of these jurisdictions. Tax laws throughout the world are complex and the application of these rules to the Company's global business operations can be uncertain. While we believe we take reasonable positions on the tax returns filed throughout the world, some of these positions may be challenged during income tax audits in Switzerland, the United States and other jurisdictions. Consequently, significant judgment is required in evaluating our tax positions to determine the Company's ultimate tax liability. Management records current tax liabilities based on U.S. GAAP, including the more-likely-than-not recognition and measurement standard and the assumption that all material tax risks will be identified in the relevant examination. Our management believes that the estimates reflected in the consolidated financial statements accurately reflect our tax liabilities under these standards. However, our actual tax liabilities ultimately may differ from those estimates if we were to prevail in matters for which accruals have been established or if taxing authorities were to successfully challenge the tax treatment upon which our management has based its estimates. Income tax expense includes the impact of tax reserve positions and changes to tax reserves that are considered appropriate, as well as any related interest.

Our annual effective tax rate will differ from the Swiss statutory rate, primarily because of higher tax rates in the United States and most other non-Swiss jurisdictions. Our effective tax rate may be subject to fluctuations during the fiscal year as new information is obtained which may affect the assumptions we use to estimate our annual effective tax rate, including factors such as our mix of pretax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, reserves for tax audit issues and settlements, utilization of research and experimentation tax credits and changes in tax laws in jurisdictions where we conduct operations.

*Litigation Liabilities:* Alcon and its subsidiaries are parties to a variety of legal proceedings arising out of the ordinary course of business, including product liability and patent infringement litigation. By its nature, litigation is subject to many uncertainties. Management reviews litigation claims with counsel to assess the probable outcome of such claims. Management records current liabilities for litigation based on their best estimates of what the Company ultimately will incur to pursue such matters to final legal decisions or to settle them. Our management believes that the estimates reflected in the financial statements properly reflect our litigation liabilities. However, our actual litigation liabilities may ultimately differ from those estimates if we are unsuccessful in our efforts to defend or settle the claims being asserted. Legal costs for counsel are expensed during the period incurred.

*Pension and Other Employee Benefits:* We must make certain assumptions in the calculation of the actuarial valuation of the Company-sponsored defined benefit pension plans and postretirement benefits. These assumptions include the weighted average discount rates, rates of increase in compensation levels, expected long term rates of return on assets and increases or trends in healthcare costs. Furthermore, our actuarial consultants also use subjective factors such as withdrawal and mortality rates. If actual results are more or less favorable than those projected by management, future periods will reflect reduced or additional pension and postretirement medical expenses. Upon Novartis's acquisition of the majority of Alcon's common shares, change of control provisions accelerated our expense recognition under certain defined benefit pension plans. See note 15 to the accompanying consolidated financial statements for additional information regarding assumptions used by the Company.

*Fair Values of Contingent Payments:* In connection with the acquisition of businesses, we are required to record liabilities for the estimated fair values of related possible contingent payments. The possible payments are contingent upon the achievement of future research and development milestones that would be expected to create future value for Alcon.

We engaged a third-party valuation expert to assist us in determining the estimated fair values of contingent payments. Valuation was based on the Company's estimates of the probability and timing of these contingent payments. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement, as described in note 5 to the consolidated financial statements. Each milestone was assigned a probability based on its current status. The resultant probability-weighted cash flows were then discounted using discount rates between 4.5% and 6%, which the Company

believes is appropriate and representative of a market participant's assumptions. The probabilities assigned to payment streams ranged from 5% to 65%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately \$40 million.

The fair values of these contingent payments will be reviewed on a periodic basis. Any future changes in this estimated value not associated with the original purchase price valuation will be recorded in the Company's results of operations.

## Results of Operations

The following table sets forth, for the periods indicated, selected items from our consolidated financial statements.

	As a % of Total Sales					
	2010	2009	2008	2010	2009	2008
	(in millions, except percentages)					
Sales:						
United States .....	\$ 3,177	\$ 2,914	\$ 2,807	44.3%	44.8%	44.6%
International .....	4,002	3,585	3,487	55.7	55.2	55.4
Total sales.....	7,179	6,499	6,294	100.0	100.0	100.0
Costs of goods sold .....	1,675	1,614	1,472	23.3	24.8	23.4
Gross profit.....	5,504	4,885	4,822	76.7	75.2	76.6
Selling, general and administrative.....	2,070	1,935	1,961	28.8	29.8	31.1
Research and development.....	747	665	619	10.4	10.2	9.8
Amortization of intangibles .....	60	24	29	0.9	0.4	0.5
Other operating expenses.....	152	--	--	2.1	--	--
Operating income .....	2,475	2,261	2,213	34.5	34.8	35.2
Gain (loss) from foreign currency, net.....	(3)	(3)	(21)	--	--	(0.4)
Interest income .....	29	46	76	0.4	0.7	1.2
Interest expense.....	(9)	(16)	(51)	(0.1)	(0.3)	(0.8)
Other, net.....	35	25	(134)	0.4	0.4	(2.1)
Earnings before income taxes .....	2,527	2,313	2,083	35.2	35.6	33.1
Income taxes.....	317	306	36	4.4	4.7	0.6
Net earnings .....	<u>\$ 2,210</u>	<u>\$ 2,007</u>	<u>\$ 2,047</u>	<u>30.8%</u>	<u>30.9%</u>	<u>32.5%</u>

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses several factors affecting the comparability of certain items in the above table.

The following table sets forth, for the periods indicated, our sales and operating income by business segment.

	2010	2009	2008	As a % of Total Sales		
				2010	2009	2008
(in millions, except percentages)						
<b>Alcon United States:</b>						
Pharmaceutical.....	\$ 1,555	\$ 1,353	\$ 1,321	49.0 %	46.4%	47.1%
Surgical.....	1,214	1,167	1,084	38.2	40.1	38.6
Consumer eye care.....	408	394	402	12.8	13.5	14.3
Total sales.....	<u>\$ 3,177</u>	<u>\$ 2,914</u>	<u>\$ 2,807</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Segment operating income (1) .....	<u>\$ 1,896</u>	<u>\$ 1,664</u>	<u>\$ 1,554</u>	<u>59.7%</u>	<u>57.1%</u>	<u>55.4%</u>
<b>Alcon International:</b>						
Pharmaceutical.....	\$ 1,511	\$ 1,324	\$ 1,240	37.8%	36.9%	35.6%
Surgical.....	2,006	1,830	1,797	50.1	51.1	51.5
Consumer eye care.....	485	431	450	12.1	12.0	12.9
Total sales.....	<u>\$ 4,002</u>	<u>\$ 3,585</u>	<u>\$ 3,487</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Segment operating income (1) .....	<u>\$ 1,728</u>	<u>\$ 1,507</u>	<u>\$ 1,472</u>	<u>43.2%</u>	<u>42.0%</u>	<u>42.2%</u>

(1) Certain manufacturing costs and manufacturing variances are not assigned to business segments because most manufacturing operations produce products for more than one business segment. Research and development costs, excluding regulatory costs which are included in the business segments, and share-based compensation are treated as general corporate costs and are not assigned to business segments.

The following table sets forth, for the periods indicated, sales by product category for Alcon United States, Alcon International and our consolidated operations and includes the change in sales and change in sales in constant currency calculated by applying rates from the earlier period. All sales for Alcon United States are recorded in U.S. dollars and, therefore, this business segment does not experience any currency translation gains or losses.

	2010	2009	Change	Foreign Currency Change	Change in Constant Currency (a)	2009	2008	Change	Foreign Currency Change	Change in Constant Currency (a)
<b>Alcon United States:</b>										
Pharmaceutical .....	\$ 1,555	\$ 1,353	14.9%	--%	14.9%	\$ 1,353	\$ 1,321	2.4%	--%	2.4%
Surgical.....	1,214	1,167	4.0	--	4.0	1,167	1,084	7.7	--	7.7
Consumer eye care .....	408	394	3.6	--	3.6	394	402	(2.0)	--	(2.0)
Total sales.....	<u>\$ 3,177</u>	<u>\$ 2,914</u>	9.0	--	9.0	<u>\$ 2,914</u>	<u>\$ 2,807</u>	3.8	--	3.8
<b>Alcon International:</b>										
Pharmaceutical .....	\$ 1,511	\$ 1,324	14.1	1.7	12.4	\$ 1,324	\$ 1,240	6.8	(6.3)	13.1
Surgical.....	2,006	1,830	9.6	2.4	7.2	1,830	1,797	1.8	(4.9)	6.7
Consumer eye care .....	485	431	12.5	3.7	8.8	431	450	(4.2)	(6.0)	1.8
Total sales.....	<u>\$ 4,002</u>	<u>\$ 3,585</u>	11.6	2.3	9.3	<u>\$ 3,585</u>	<u>\$ 3,487</u>	2.8	(5.5)	8.3
<b>Total:</b>										
Pharmaceutical .....	\$ 3,066	\$ 2,677	14.5	0.8	13.7	\$ 2,677	\$ 2,561	4.5	(3.1)	7.6
Surgical.....	3,220	2,997	7.4	1.4	6.0	2,997	2,881	4.0	(3.1)	7.1
Consumer eye care .....	893	825	8.2	1.9	6.3	825	852	(3.2)	(3.2)	--
Total sales.....	<u>\$ 7,179</u>	<u>\$ 6,499</u>	10.5	1.3	9.2	<u>\$ 6,499</u>	<u>\$ 6,294</u>	3.3	(3.0)	6.3

(a) Change in constant currency (as referenced throughout this discussion) is determined by comparing adjusted 2010 reported amounts, calculated using 2009 monthly average exchange rates, to the actual 2009 reported amounts. The same process was used to compare 2009 to 2008. Change in constant currency in this table includes sales growth from acquisitions, as discussed later in this Item 5. Sales change in constant



currency is not a U.S. GAAP defined measure of revenue growth. Change in constant currency calculates sales growth without the impact of foreign exchange fluctuations. Management believes constant currency sales growth is an important measure of the Company's operations because it provides investors with a clearer picture of the core rate of sales growth due to changes in unit volumes and local currency prices. Sales change in constant currency, as defined and presented by the Company, may not be comparable to similar measures reported by other companies.

### **Year ended December 31, 2010 Compared to Year ended December 31, 2009**

#### *Sales*

The Company's global sales increased 10.5% to \$7,179 million for the year ended December 31, 2010 from 2009. The effect of favorable exchange rates increased global sales 1.3%. Excluding the effect of foreign exchange fluctuations, global sales would have grown 9.2%, including 0.6% combined for additional surgical sales subsequent to the January 2010 acquisition of Optonol Ltd. and pharmaceutical sales of *DUREZOL*<sup>®</sup> ophthalmic steroid subsequent to the March 2010 asset purchase. Sales reflected broad-based sales performance across all product lines and geographic areas with the United States, developed international and emerging international markets growing 9.0%, 7.0% (5.6% in constant currency) and 21.3% (17.1% in constant currency), respectively. This improvement primarily reflected volume growth and, to a lesser extent, price increases during 2010.

Alcon United States sales increased 9.0% to \$3,177 million for 2010, from \$2,914 million for 2009. The majority of the increase was due to volume growth in all major pharmaceutical product categories, in artificial tears and in intraocular lenses, especially our advanced technology intraocular lenses, *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> and *AcrySof*<sup>®</sup> *Toric* intraocular lenses. Sales of pharmaceutical products to treat infections and inflammation increased 20.7%, primarily attributable to the strong performance of *Vigamox*<sup>®</sup> ophthalmic solution and *NEVANAC*<sup>®</sup> ophthalmic suspension. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. and pharmaceutical sales of *DUREZOL*<sup>®</sup> ophthalmic steroid subsequent to the March 2010 asset purchase added 1.3% to the growth. The overall improvement occurred against the backdrop of U.S. healthcare reform legislation, which reduced U.S. pharmaceutical sales by approximately \$20 million. This reduction included the impact of healthcare reform legislation rebate increases on sales made during the fourth quarter of 2009 that were still in the wholesale and retail distribution channels at the beginning of 2010, as well as sales made during 2010.

Alcon International sales increased 11.6% to \$4,002 million in 2010, from \$3,585 million in 2009. The effect of favorable exchange rates increased Alcon International sales 2.3%. Excluding the effect of foreign exchange fluctuations, Alcon International sales would have grown 9.3%, primarily reflecting volume growth during 2010. International sales grew on a constant currency basis across all product lines and geographic areas. Solid pharmaceutical sales growth across all geographic areas, particularly from our infection/inflammation products and our glaucoma franchise, and the sales growth in emerging markets were the main contributors to this performance. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. were 0.1 percentage points of the growth.

<b>GLOBAL PRODUCT SALES</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Foreign Currency Change</b>	<b>Change in Constant Currency (a)</b>
	(in millions, except percentages)				
Infection/inflammation .....	\$ 980	\$ 829	18.2 %	0.6 %	17.6%
Glaucoma .....	1,277	1,121	13.9	0.8	13.1
Allergy .....	539	486	10.9	1.0	9.9
Otic/nasal .....	409	355	15.2	0.3	14.9
Other pharmaceuticals/rebates .....	(139)	(114)	*	*	*
<b>Total Pharmaceutical .....</b>	<b>3,066</b>	<b>2,677</b>	<b>14.5</b>	<b>0.8</b>	<b>13.7</b>
Intraocular lenses .....	1,208	1,133	6.6	1.7	4.9
Cataract/vitreoretinal/other .....	1,895	1,759	7.7	1.4	6.3
Refractive .....	117	105	11.4	--	11.4
<b>Total Surgical .....</b>	<b>3,220</b>	<b>2,997</b>	<b>7.4</b>	<b>1.4</b>	<b>6.0</b>
Contact lens disinfectants .....	471	448	5.1	1.8	3.3
Artificial tears .....	333	283	17.7	2.2	15.5
Other .....	89	94	(5.3)	2.1	(7.4)
<b>Total Consumer Eye Care .....</b>	<b>893</b>	<b>825</b>	<b>8.2</b>	<b>1.9</b>	<b>6.3</b>
<b>Total Global Sales .....</b>	<b>\$ 7,179</b>	<b>\$ 6,499</b>	<b>10.5</b>	<b>1.3</b>	<b>9.2</b>

\* Not Meaningful  
See (a) on previous table.

#### Pharmaceutical

Global sales of our pharmaceutical products grew 14.5% during 2010. The effect of favorable exchange rates increased global sales of our pharmaceutical products 0.8%. Excluding the effect of foreign exchange fluctuations, our sales of pharmaceutical products would have grown 13.7%. Sales of key products in all major therapeutic categories reflected volume gains and share growth.

Our prostaglandin family of glaucoma products includes *TRAVATAN*<sup>®</sup> ophthalmic solution, *TRAVATAN Z*<sup>®</sup> ophthalmic solution and *DuoTrav*<sup>®</sup> ophthalmic solution. Combined sales of our family of *TRAVATAN*<sup>®</sup> products grew 12.2% for the year ended December 31, 2010, reflecting volume growth and price increases. During the year ended December 31, 2010, *Azopt*<sup>®</sup> ophthalmic suspension, the Company's topical anhydrase inhibitor, and *AZARGA*<sup>®</sup> ophthalmic suspension, a combination formulation of brinzolamide and timolol, posted a 15.8% combined sales increase as a result of market share gains for *Azopt*<sup>®</sup> and increasing acceptance of *AZARGA*<sup>®</sup> by physicians.

Sales of *Vigamox*<sup>®</sup> ophthalmic solution, our leading fluoroquinolone anti-infective drug, increased 15.5% (14.6% excluding the 0.9% positive effect of foreign exchange fluctuations) compared to 2009, reflecting U.S. price increases and volume growth in the International business segment. (Moxifloxacin, the primary ingredient in *Vigamox*<sup>®</sup>, is licensed to Alcon by Bayer Schering Pharma AG.) *NEVANAC*<sup>®</sup> ophthalmic suspension is our non-steroidal anti-inflammatory drug ("NSAID") for the treatment of pain and inflammation associated with cataract surgery. Sales of *NEVANAC*<sup>®</sup> grew 41.2% in the year ended December 31, 2010 over the prior year, due to market share gains, price increases and new product registrations outside the United States. Sales of *DUREZOL*<sup>®</sup> ophthalmic steroid subsequent to the March 2010 asset acquisition provided 3.2 percentage points of the growth in sales of infection and inflammation products.

Pursuant to a prior legal settlement, a competitor to Alcon launched a generic version of Alcon's branded *TobraDex*<sup>®</sup> ophthalmic suspension in the United States on January 1, 2009. Falcon Pharmaceuticals, our generic pharmaceutical subsidiary, also launched a generic version of *TobraDex*<sup>®</sup> ophthalmic suspension on January 2, 2009. During the year ended December 31, 2010, combined sales of *TobraDex*<sup>®</sup> ophthalmic suspension and Falcon's generic version of *TobraDex*<sup>®</sup> increased 3.7% globally, including the 2010 rollout of *TobraDex*<sup>®</sup>ST ophthalmic suspension in the United States, over the same period of 2009.

Global sales of our leading allergy products, *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> ophthalmic solutions, grew 11.8% in the year ended December 31, 2010. Sales of our allergy products benefited from severe spring and fall allergy seasons in the United States during the second and fourth quarters of 2010.

Sales of otic/nasal products increased 15.2% in the year ended December 31, 2010 over 2009. Sales of *CIPRODEX*<sup>®</sup> otic suspension were positively influenced by price increases and volume growth from increased demand due to a severe ear infection season. (*CIPRODEX*<sup>®</sup> is a registered trademark of Bayer AG, licensed to Alcon by Bayer Schering Pharma AG.) *Patanase*<sup>®</sup> nasal spray continued to gain market share in 2010.

Pharmaceuticals rebates grew for the year ended December 31, 2010, compared to 2009, due to increased statutory rebate levels related to the U.S. healthcare reform legislation, increasing utilization of U.S. government programs and higher commercial rebates. As a result of healthcare reform legislation in the United States, we recognized provisions totaling approximately \$20 million for additional rebates primarily related to Medicaid.

### Surgical

Global sales of our surgical products grew 7.4% to \$3,220 million in the year ended December 31, 2010, compared to 2009. The effect of favorable exchange rates increased global sales of our surgical products 1.4%. Excluding the effect of foreign exchange fluctuations, our sales of surgical products would have increased 6.0%. Higher sales of intraocular lenses and cataract and vitreoretinal products (which include surgical equipment, devices and disposable products) accounted for most of the constant currency growth.

Sales of intraocular lenses increased 6.6% in the year ended December 31, 2010 over 2009. Excluding the 1.7% positive effect of foreign exchange fluctuations, intraocular lens sales would have increased 4.9%. Global sales of our advanced technology lenses, such as the *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> and the *AcrySof*<sup>®</sup> *Toric*, increased 21.4% in the year ended December 31, 2010 and would have grown 19.7% without the 1.7% favorable effect of foreign exchange fluctuations. Sales of our advanced technology lenses rose with increased adoption by surgeons of the *AcrySof*<sup>®</sup> *Toric* intraocular lens that corrects pre-existing astigmatism and volume gains for the *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> multifocal intraocular lens that corrects presbyopia.

Alcon received the European CE Mark of approval for the *AcrySof*<sup>®</sup> *IQ ReSTOR*<sup>®</sup> *Toric* intraocular lens during the second quarter of 2010. This lens was introduced to ophthalmologists at the European Society of Cataract and Refractive Surgeons meeting in Paris, France, and became available in the final quarter of 2010 in many major markets that recognize the CE Mark. The Company plans to file a Pre-Market Application ("PMA") for this lens with the FDA in early 2012.

Solid constant currency sales growth came from most other major product categories within the cataract and vitreoretinal segments. Sales of these surgical products grew somewhat faster on a constant currency basis in the International business segment due to growth of phaco surgery in emerging markets, increased acceptance of advanced technology products and market share growth. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. provided 0.7 percentage points of the sales growth in this category.

The increase in refractive sales for the year ended December 31, 2010 reflected global share growth.

## Consumer Eye Care

Our global consumer eye care sales, consisting of contact lens care, artificial tears and other general eye care products, rose 8.2% to \$893 million in the year ended December 31, 2010, compared to \$825 million in 2009. The effect of favorable exchange rates increased global sales of our consumer eye care products 1.9%. Excluding the effect of foreign exchange fluctuations, our sales of consumer eye care products would have grown 6.3% over the prior year.

Sales of our contact lens disinfectants climbed 5.1% in the year ended December 31, 2010 compared to 2009, mostly as a result of volume growth. The impact of foreign exchange fluctuations increased sales of contact lens disinfectants by 1.8%.

Sales of our artificial tears products grew 17.7% over 2009. Excluding the 2.2% effect of foreign exchange fluctuations, sales of our artificial tears products would have improved 15.5%, primarily from volume growth in both the United States and International business segments. Market share growth of the *Systane*<sup>®</sup> family of lubricant eye drops drove this performance.

Sales of our other consumer eye care products declined by 5.3% to \$89 million in the year ended December 31, 2010 from \$94 million in 2009. Excluding the 2.1% effect of foreign exchange fluctuations, sales of our other consumer eye care products would have decreased 7.4%. The constant currency decrease reflected growth in retailer and coupon discounts on consumer eye products.

## ***Gross Profit***

Gross profit increased 12.7% to \$5,504 million in the year ended December 31, 2010 from \$4,885 million in 2009. Gross profit increased as a percent of sales to 76.7% in the year ended December 31, 2010 from 75.2% in 2009.

During the year ended December 31, 2010, advancements in our sales reporting system permitted us to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a \$24 million addition to gross profit during the first quarter of 2010. The remaining gross profit margin reflected differences in foreign currency exchange rates, the effects of price increases in the United States, expiration of a royalty agreement lapping the \$3 million of severance charges for the first quarter of 2009 and improvements in product sales mix, which were offset somewhat by increased rebates from the enactment of U.S. healthcare reform legislation.

## ***Operating Expenses***

Selling, general and administrative expenses increased 7.0% to \$2,070 million in the year ended December 31, 2010 from \$1,935 million in 2009, primarily due to foreign exchange impacts and bad debt provisions in Europe, which were partially offset by lapping the 2009 charges for a reduction in force. In 2009, we experienced in-period costs of \$10 million for a reduction in workforce. Selling, general and administrative expenses decreased as a percentage of sales to 28.8% from 29.8% in 2009. Although these expenses rose in 2010, disciplined cost management controlled their increase to levels below sales growth.

Research and development expenses increased 12.3% to \$747 million (or 10.4% of sales) in the year ended December 31, 2010 from \$665 million (or 10.2% of sales) in 2009. The increase in research and development expenses represented a continued investment across pharmaceutical, surgical and consumer eye care product lines. The 2009 expense included \$6 million of in-period costs for reductions in workforce. The increase in research and development expenses included operations of our ESBA Tech biotech laboratories, acquired in September 2009, and our *LenSx*<sup>®</sup> laser development, acquired in August 2010.

Amortization of intangibles increased to \$60 million in the year ended December 31, 2010, from \$24 million in 2009. The increase arose from amortization of licenses and technology related to ESBA Tech, acquired in September 2009, and other acquisitions and asset purchases in 2010.

Other operating expenses of \$152 million for the year ended December 31, 2010 represented costs related to the change of majority ownership arising from Novartis's purchase of its majority interest in Alcon from Nestlé on August 25, 2010, as discussed in note 16 to the condensed consolidated financial statements, and legal and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. The change of control accelerated the recognition of certain compensation expenses, including pension (\$97 million) and share-based payments (\$8 million).

### ***Operating Income***

Operating income increased 9.5% to \$2,475 million in the year ended December 31, 2010 from \$2,261 million in 2009. The improvement in 2010 reflected the sales growth, the change in estimating royalties, lapping the 2009 charges for a reduction in force, disciplined cost management discussed above and foreign currency exchange fluctuations. These were offset somewhat by increases in amortization, effects of the U.S. healthcare reform legislation and the change of majority ownership costs mentioned above.

Alcon United States business segment operating income increased 13.9% to \$1,896 million, or 59.7% of sales, in the year ended December 31, 2010 from \$1,664 million, or 57.1% of sales, in 2009. Operating income as a percent of sales improved in 2010 as a result of sales volume growth, price increases, change in the estimating of royalties and disciplined cost management.

Alcon International business segment operating income increased 14.7% to \$1,728 million, or 43.2% of sales, in the year ended December 31, 2010 from \$1,507 million, or 42.0% of sales in 2009. In 2010, the operating income margin improved as a result of sales growth, foreign exchange fluctuations, and improved gross margin.

Operating income for the Alcon United States and Alcon International business segments does not include: (1) certain manufacturing costs (e.g., manufacturing operation period costs and manufacturing variances); (2) all research and development costs other than regulatory costs; (3) certain other general corporate expenses; and (4) share-based compensation. Other operating expenses related to the change in majority ownership and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal were included in other general corporate expenses.

### ***Interest and Other Income (Expenses)***

Interest income fell 37.0% to \$29 million in the year ended December 31, 2010 from \$46 million in 2009, primarily as a result of lower short term interest rates, partially offset by higher average balances of cash and cash equivalents in 2010. Interest expense decreased 43.8% to \$9 million in the year ended December 31, 2010 from \$16 million in 2009, resulting from decreased borrowings and slightly lower interest rates.

Other, net, included gains (losses) on investments for the year ended December 31, 2010 and 2009 as follows:

	<b>Years ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions)</b>	
Realized gains (losses) on sale of investments.....	\$ 30	\$ (49)
Unrealized gains (losses) on investments classified as trading securities.....	6	76
Other.....	(1)	(2)
Total.....	<u>\$ 35</u>	<u>\$ 25</u>

Alcon and its subsidiaries invest cash generated from operations to fund ongoing operating expenses, research and development and long term corporate liabilities. The majority of the funds needed to accommodate expenses and liabilities are invested in cash and cash equivalents, the income from which is recorded in interest income. Despite the significant weighting to cash, the Company does have material exposure to fixed income securities. Investment gains during the year ended December 31, 2010 reflected the liquidation of the Company's remaining positions in a bank loans fund, a mortgage-backed securities fund and equities.

The Company had material exposure during the first half of 2009 to the following investment markets: fixed income securities, hedge funds, senior secured bank loans funds, equities and real estate investment trusts. The Company sold its investments in real estate investment trusts, a portion of its fixed income securities and a portion of the senior secured bank loans funds portfolio in the first quarter of 2009. The realized losses on sale of investments in the year ended December 31, 2009 reflected the sale of these instruments, for which the majority of the losses were recognized as unrealized losses on trading securities during fiscal year 2008. The Company also requested redemption of its investments in hedge funds in 2009 and the balance in hedge funds has declined to \$6 million at December 31, 2010.

### ***Income Tax Expense***

Income tax expense increased to \$317 million in the year ended 2010 from \$306 million in 2009. The effective tax rate was 12.5% in the year ended December 31, 2010, compared to 13.2% in 2009.

The lower effective tax rate for the year ended December 31, 2010 reflected differences in product and geographic earnings mix and period benefits related to change of majority ownership charges, progression on prior year audits and reserve releases from the expiration of statutes of limitations. These were offset by a \$25 million tax charge from the newly enacted provisions of U.S. healthcare reform laws (discussed above).

### ***Net Earnings***

Net earnings increased 10.1% to \$2,210 million in the year ended December 31, 2010 from \$2,007 million in 2009. This increase resulted from 2010 sales growth, the change in estimating royalties, disciplined cost management, the costs recognized in 2009 for the reduction in workforce and improved financial investment returns. Together they exceeded the costs related to the U.S. healthcare reform legislation, the change of majority ownership and the Alcon board's evaluation of Novartis's merger proposal.

### **Year ended December 31, 2009 Compared to Year ended December 31, 2008**

#### ***Sales***

The Company's global sales increased 3.3% to \$6,499 million in the year ended December 31, 2009 over \$6,294 million in 2008. The effect of unfavorable exchange rates decreased global sales 3.0%. Excluding the effect of foreign exchange fluctuations, global sales would have grown 6.3%, primarily reflecting volume growth during the year ended December 31, 2009.

Alcon United States sales increased 3.8% to \$2,914 million in the year ended December 31, 2009 from \$2,807 million in 2008. Our U.S. pharmaceutical sales reflected volume gains in glaucoma products and otic products, as well as growth subsequent to the launch of *Patanase*<sup>®</sup> nasal spray during the second quarter of 2008. These sales gains were partially offset by generic competition to *TobraDex*<sup>®</sup> suspension and lower market prescription volumes for some pharmaceutical products.

Surgical sales in the United States benefited from increased sales of intraocular lenses, especially our advanced technology intraocular lenses, *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> and *AcrySof*<sup>®</sup> *Toric* intraocular lenses, and sales of other cataract and vitreoretinal products. Despite growth in sales of artificial tears in 2009, our U.S. consumer eye care sales decreased from lower sales of contact lens care and other consumer products, reflecting competition from private label products and changes in retailer purchasing patterns.

Alcon International sales increased 2.8% to \$3,585 million in the year ended December 31, 2009, from \$3,487 million in 2008. Excluding the 5.5% unfavorable effect of foreign exchange fluctuations, Alcon International sales would have grown 8.3%, reflecting volume growth during the period. Solid sales performance in Japan, Brazil, France, Spain and Australia markets led the sales growth in constant currency.

Sales in less developed international markets increased by 1.0%. Excluding the 10.2% unfavorable effect of foreign currency fluctuation, sales in less developed international markets would have grown 11.2% as a result of

volume growth. Sales in the key markets of Brazil, Russia, India and China grew a combined 6.0% and would have grown 16.7% without the 10.7% unfavorable effect of foreign exchange rates.

Pharmaceutical sales outside of the United States grew on a constant currency basis in all major therapeutic areas. Growth in Surgical sales outside the United States came primarily from advanced technology lenses, such as *AcrySof® Toric* and *AcrySof® ReSTOR®*, vitreoretinal equipment and disposable products associated with both cataract and vitreoretinal procedures. Alcon International sales of Consumer Eye Care products declined due to lower sales of contact lens care and other products, as a result of increased competition in the market. These declines were somewhat offset by increased sales of artificial tears products.

<b>GLOBAL PRODUCT SALES</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Foreign Currency Change</b>	<b>Change in Constant Currency (a)</b>
	(in millions, except percentages)				
Infection/inflammation .....	\$ 829	\$ 874	(5.1) %	(3.2) %	(1.9)%
Glaucoma .....	1,121	955	17.4	(3.3)	20.7
Allergy .....	486	463	5.0	(0.6)	5.6
Otic/nasal .....	355	316	12.3	(1.3)	13.6
Other pharmaceuticals/rebates .....	(114)	(47)	*	*	*
<b>Total Pharmaceutical .....</b>	<b>2,677</b>	<b>2,561</b>	<b>4.5</b>	<b>(3.1)</b>	<b>7.6</b>
Intraocular lenses .....	1,133	1,073	5.6	(3.3)	8.9
Cataract/vitreoretinal .....	1,759	1,692	4.0	(2.8)	6.8
Refractive .....	105	116	(9.5)	(3.5)	(6.0)
<b>Total Surgical .....</b>	<b>2,997</b>	<b>2,881</b>	<b>4.0</b>	<b>(3.1)</b>	<b>7.1</b>
Contact lens disinfectants .....	448	469	(4.5)	(1.7)	(2.8)
Artificial tears .....	283	272	4.0	(5.6)	9.6
Other .....	94	111	(15.3)	(3.6)	(11.7)
<b>Total Consumer Eye Care .....</b>	<b>825</b>	<b>852</b>	<b>(3.2)</b>	<b>(3.2)</b>	<b>--</b>
<b>Total Global Sales .....</b>	<b>\$ 6,499</b>	<b>\$ 6,294</b>	<b>3.3</b>	<b>(3.0)</b>	<b>6.3</b>

\* Not Meaningful

See (a) on previous sales table.

#### Pharmaceutical

Global sales of our pharmaceutical products grew 4.5% in the year ended December 31, 2009 from sales in 2008. The effect of unfavorable exchange rates decreased global sales of our pharmaceutical products 3.1%. Excluding the effect of foreign exchange fluctuations, our sales of pharmaceutical products would have grown 7.6%. Sales of our pharmaceutical products grew faster outside the United States because of several recent product launches in Europe and Japan, as well as faster market growth in emerging markets. Market share and volume gains for our key products in the major therapeutic categories were the driving forces behind our global sales growth.

Sales growth for our glaucoma products came both from inside and outside the United States with a larger contribution from the international markets. Even including the negative effects of foreign exchange, combined sales of our family of *TRAVATAN®* products grew 20.7% for the year ended December 31, 2009 over 2008. During the year ended December 31, 2009, *Azopt®* and *AZARGA®*, a combined formulation that was introduced in Europe subsequent to its approval in late 2008, posted a 15.6% combined sales increase.

Despite some contraction in the U.S. market, global sales of *Vigamox*<sup>®</sup> increased 8.7%, reflecting volume growth and price increases. Sales of *NEVANAC*<sup>®</sup> grew 19.6% in 2009 due to increased use of NSAIDs after cataract surgery, price increases, market share gains and launches in additional countries.

Pursuant to a prior legal settlement, a competitor to Alcon launched a generic version of Alcon's branded *TobraDex*<sup>®</sup> ophthalmic suspension in the United States on January 1, 2009. Falcon Pharmaceuticals, our generic pharmaceutical subsidiary, also launched a generic version of *TobraDex*<sup>®</sup> ophthalmic suspension on January 2, 2009. A U.S. patent related to *TobraDex*<sup>®</sup> expired in September 2009. During the year ended December 31, 2009, the combined sales of *TobraDex*<sup>®</sup> ophthalmic suspension and Falcon's generic version of *TobraDex*<sup>®</sup> decreased 35.9% globally, primarily within the United States, from 2008.

Despite contraction in the U.S. allergy market, global sales of our leading allergy products, *Patanol*<sup>®</sup> and *Pataday*<sup>™</sup> grew 5.5% for the year ended December 31, 2009 over 2008. *Pataday*<sup>™</sup> continued to achieve market share gains in the U.S. ocular allergy market in 2009. The increase in sales reflected volume growth outside the United States, driven by market share gains and a strong allergy season in Japan, and price growth in the United States. A contraction in the U.S. allergy market during 2009 was partially offset by expanded market share.

Sales of otic/nasal products increased 12.3% in the year ended December 31, 2009 over 2008, despite contraction in the market for otic products. Market share gains and price increases positively influenced sales of *CIPRODEX*<sup>®</sup>. In addition, *Patanase*<sup>®</sup> gained market share in 2009 subsequent to its 2008 U.S. launch after FDA approval in April 2008. *Patanase*<sup>®</sup> is indicated for patients 6 years of age or older for the relief of seasonal allergic rhinitis.

The change in the other pharmaceuticals/rebates line for the year ended December 31, 2009, compared to 2008, primarily reflects growth in rebates under the U.S. Medicaid program, attributable to increasing utilization rates and higher statutory discounts, and higher commercial rebates attributable to U.S. Medicare Part D sales.

### Surgical

Global sales of our surgical products grew 4.0% to \$2,997 million in the year ended December 31, 2009, compared to 2008. The effect of unfavorable exchange rates decreased global sales of our surgical products 3.1%. Excluding the negative effect of foreign exchange fluctuations, our sales of surgical products would have increased 7.1%. Higher sales of advanced technology intraocular lenses and cataract and vitreoretinal products accounted for the constant currency growth.

Sales of intraocular lenses increased 5.6% in the year ended December 31, 2009 over the prior year. Excluding the 3.3% negative effect of foreign exchange fluctuations, intraocular lens sales would have increased 8.9%. Global sales of our advanced technology lenses, the *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> and the *AcrySof*<sup>®</sup> *Toric*, increased 29.3% in the year ended December 31, 2009 and would have grown 32.4% without the 3.1% negative effect of foreign exchange fluctuations.

Sales of other surgical products were adversely impacted by exchange rates but grew faster on a constant currency basis in the International business segment due to growth of phaco surgery in emerging markets, increased acceptance of advanced technology products and market share growth. The solid constant currency sales growth came from most major product categories within the cataract and vitreoretinal product lines. Our *CONSTELLATION*<sup>®</sup> surgical system continued to gain acceptance globally among vitreoretinal surgeons.

Refractive sales declined 9.5% to \$105 million for the year ended December 31, 2009 compared to 2008. Refractive sales for the period decreased as a result of a weaker economy and a slower market.

### Consumer Eye Care

Our global consumer eye care sales, consisting of contact lens care, artificial tears and other general eye care products, declined 3.2% to \$825 million in the year ended December 31, 2009, compared to the prior year. The effect of unfavorable exchange rates caused the 3.2% decrease in global sales of our consumer eye care products. Excluding the effect of foreign exchange fluctuations, our sales of consumer eye care products would have declined minimally from the prior year.



Sales of our contact lens disinfectants declined 4.5% in the year ended December 31, 2009 compared to 2008. Excluding the 1.7% negative impact of foreign exchange fluctuations, sales of contact lens disinfectants would have decreased 2.8%, due to changes in retailer purchasing patterns for our contact lens disinfectants in the United States, declines in the market for branded multi-purpose solutions and competitive pressures.

Sales of our artificial tears products grew 4.0% over 2008. Higher sales of our *Systane*<sup>®</sup> products accounted for most of the growth. More than half of the sales growth for *Systane*<sup>®</sup> and *Systane*<sup>®</sup> *Ultra* lubricant eye drops came from the United States reflecting market share gains. In July 2008, we launched *Systane*<sup>®</sup> *Ultra* in the United States.

Sales of our other consumer eye care products decreased 15.3% to \$94 million in 2009 from 2008. Excluding the 3.6% negative effect of foreign exchange fluctuations, sales of our artificial tears products would have decreased 11.7%. The constant currency decrease reflected declines in sales of over-the-counter allergy and redness relief products.

### ***Gross Profit***

Gross profit increased 1.3% to \$4,885 million in the year ended December 31, 2009 from \$4,822 million in 2008. Gross profit decreased as a percent of sales to 75.2% in the year ended December 31, 2009 from 76.6% in 2008. Gross profit margin declined as a result of the loss of gross margin on sales of tobramycin/dexamethasone combination products from generic competition to *TobraDex*<sup>®</sup>, the effects of differences in foreign currency exchange rates and higher royalty expense, which were partially offset by manufacturing efficiencies and improvements in geographic/product sales mix.

### ***Operating Expenses***

Selling, general and administrative expenses decreased 1.3% to \$1,935 million in the year ended December 31, 2009 from \$1,961 million in 2008. Selling, general and administrative expense as a percentage of sales decreased to 29.8% in 2009 from 31.1% in 2008. In 2009, we experienced the costs of sales force additions in selected Asian and European countries, as well as lapping costs of prior year sales force additions that took place progressively after the first quarter of 2008 in the United States, Japan and emerging markets to support new product launches and/or increased direct selling share-of-voice competitiveness, and the in-period costs of \$10 million for the 2009 reduction in other workforce. These costs were more than offset by the favorable effects of foreign currency fluctuations, cost management programs and lower share-based payments expense.

Research and development expenses increased 7.4% to \$665 million (or 10.2% of sales) in the year ended December 31, 2009 from \$619 million (or 9.8% of sales) in 2008. The increase in research and development expenses represented a continued investment across pharmaceutical, surgical and consumer eye care product lines. This investment included ESBA Tech operations, after the acquisition in September 2009, and new licensing agreements.

Amortization of intangibles decreased to \$24 million in the year ended December 31, 2009, from \$29 million in 2008. Certain paid-up licenses became fully amortized in 2009 and 2008, reducing amortization expense.

### ***Operating Income***

Operating income increased 2.2% to \$2,261 million in the year ended December 31, 2009 from \$2,213 million in 2008. The operating income in 2009 reflected the increase in gross profit (from sales growth and other factors discussed above), as well as reduced selling, general and administrative expenses discussed above.

Alcon United States business segment operating income increased 7.1% to \$1,664 million, or 57.1% of sales, in the year ended December 31, 2009 from \$1,554 million, or 55.4% of sales, in 2008. Operating income as a percent of sales improved in 2009 as a result of sales growth and lower operating expenses.

Alcon International business segment operating income increased 2.4% to \$1,507 million, or 42.0% of sales, in the year ended December 31, 2009 from \$1,472 million, or 42.2% of sales in 2008. In 2009, the operating income

margin declined primarily as a result of the effect of unfavorable differences in foreign currency exchange rates, higher royalty expense and lapping costs of sales force additions.

Operating income for the Alcon United States and Alcon International business segments does not include: (1) certain manufacturing costs (e.g., manufacturing operation period costs and manufacturing variances); (2) all research and development costs other than regulatory costs; (3) certain other general corporate expenses; and (4) share-based compensation.

*Interest and Other Income (Expenses)*

Interest income decreased 39.5% to \$46 million in the year ended December 31, 2009 from \$76 million in 2008, primarily as a result of declining short term interest rate yields in 2009. Interest expense declined 68.6% to \$16 million in the year ended December 31, 2009 from \$51 million in 2008, resulting from decreased borrowings and lower interest rates.

Other, net, included gains (losses) on investments for the year ended December 31, 2009 and 2008 as follows:

	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(in millions)</b>	
Realized gains (losses) on sale of investments.....	\$ (49)	\$ (12)
Unrealized gains (losses) on investments classified as trading securities.....	76	(85)
Other-than-temporary impairment on available-for-sale investments.....	--	(37)
Other.....	(2)	--
<b>Total.....</b>	<b>\$ 25</b>	<b>\$ (134)</b>

Alcon and its subsidiaries invest cash flow generated from operations to fund ongoing operating expenses, research and development and long term corporate liabilities. The majority of the funds needed to accommodate expenses and liabilities are invested in cash and cash equivalents, the income from which is recorded in interest income. The Company's long term liabilities are evaluated with the help of outside consultants and are offset by a portfolio of investments with appropriate durations and expected returns. Despite the significant weighting to cash, the Company had material exposure to the following investment markets: fixed income securities, a senior secured bank loans fund and equities. The realized and unrealized gains and losses on investments in the year ended December 31, 2009 reflected the volatility in the public markets in line with market indices.

*Income Taxes*

In the year ended December 31, 2009, the Company recognized net income tax expense totaling \$306 million compared to income tax expense of \$36 million in 2008. During the third quarter of 2008, the Company reached agreement with the U.S. Internal Revenue Service on all issues surrounding the acquisition and liquidation of its investment in former Summit Autonomous, Inc., the Company's subsidiary responsible for the Company's refractive research and manufacturing activities prior to November 2007. As a result of this agreement, the Company recognized tax benefits in 2008 totaling \$236 million related to losses on the value of this investment.

In the year ended December 31, 2009, increased income tax expense included a net increase of \$22 million for period items related to audit settlements, advance pricing agreement negotiations, recent case law, the elimination of net operating loss carryforwards, lapses of statutes of limitation and other minor items. The Company continued to recognize Swiss tax benefits associated with the expansion of the Company's global administration operations.

The net tax expense for the year ended December 31, 2008 reflected the combined effects of (i) a net reduction of \$271 million for period items described below, (ii) product and geographic earnings mix and (iii) the Swiss tax benefits associated with the expansion of the Company's global administration operations. The reduction for period items includes (i) a reduction of \$236 million for losses associated with the Company's Pre-Filing Agreement with the U.S. Internal Revenue Service related to losses associated with the Company's investment in Summit Autonomous, Inc. described above and (ii) reductions related to the progress on audit settlements, advance pricing agreement negotiations, the lapse of statutes of limitation and other minor items.

## Net Earnings

Net earnings decreased 2.0% to \$2,007 million in the year ended December 31, 2009 from \$2,047 million in 2008. This decrease resulted from increased income taxes in 2009, compared to 2008 which included \$271 million of period reductions of income taxes. This income tax increase was partially offset by 2009 sales growth, disciplined cost management programs and improved financial investment returns.

## Sales by Quarter

The following table sets forth our sales by quarter for the last three years.

	<u>2010</u>	<u>Unaudited</u> <u>2009</u>	<u>2008</u>
		(in millions)	
First.....	\$ 1,721	\$ 1,493	\$ 1,536
Second.....	1,886	1,677	1,736
Third.....	1,760	1,614	1,524
Fourth.....	<u>1,812</u>	<u>1,715</u>	<u>1,498</u>
Total.....	<u>\$ 7,179</u>	<u>\$ 6,499</u>	<u>\$ 6,294</u>

Our quarterly sales trends reflect seasonality in several products, including ocular allergy and otic products, in the form of increased sales during the spring months, which occur during the second quarter in the northern hemisphere.

## Liquidity and Capital Resources

### Cash, Debt and Liquidity

At December 31, 2010, the Company reported cash and cash equivalents of \$2,525 million, total short term borrowings and debt of \$399 million and consolidated shareholders' equity of \$7,252 million. As part of our cash management strategy, the Company maintains large balances of cash and cash equivalents in Switzerland and Bermuda, while the Company's debt is borrowed in subsidiary operating companies located elsewhere.

The Company continued to generate significant cash flow from operations in 2010 and used \$306 million to repay short term debt. In addition, the Company used \$1,037 million to pay dividends on common shares and \$33 million to purchase treasury shares, as discussed below. Acquisitions and financing activities led to a decrease of \$482 million in cash and cash equivalents at December 31, 2010 from the prior year.

The Company maintains an irrevocable Rabbi trust to be held and invested in an unfunded arrangement for the payment of benefits to participants under certain defined benefit pension plans of the Company. The assets of the trust are restricted to the payment of pension benefits except under certain conditions, such as the Company's insolvency or termination of the trust. The Alcon Executive Retirement Plans Grantor Trust Agreement provides for the Company to fund the current actuarially determined present value of the aggregate accrued pension benefits of all participants upon the change of control (discussed in note 16 to the consolidated financial statements). Based on actuarially determined pension benefit projections and market conditions, the Company contributed \$152 million during the third quarter of 2010 to satisfy this requirement. The assets of the trust were primarily the cash surrender value (\$279 million as of December 31, 2010) of company owned life insurance policies purchased from a related captive insurance company subsidiary and cash equivalents (\$152 million as of December 31, 2010).

Withholding taxes of approximately \$107 million have not been provided on approximately \$2,133 million of unremitted earnings of certain subsidiaries since such earnings are, or will be, reinvested in operations indefinitely. Taxes of approximately \$17 million have not been provided on temporary differences of approximately \$212 million for permanent investments in certain subsidiaries that will be taxable upon liquidation. Management believes that

investing indefinitely in these operations will not adversely affect the Company's ability to meet its current and long term working capital and liquidity needs.

In order to receive an expedited return in 2009 of assets held by Lehman Brothers International (Europe) (in administration) as discussed in note 14 to the consolidated financial statements, Alcon has agreed to return any assets which the Joint Administrators determine should not have been disbursed in settlement. The amount of funds to be returned, if any, would result from the determination by the Joint Administrators that the rights of another claimant in the proceeding have precedence over the Company's claim.

### ***Cash Flows***

During the year ended December 31, 2010, the Company generated operating cash flow of \$2,375 million, compared to \$2,416 million in 2009. The decrease primarily reflected the Company's working capital requirements.

The operating cash flow was used for payment of dividends on common shares, the purchase of Alcon common shares, the repayment of short term borrowings, acquisitions and capital expenditures, including improvements and upgrades to our manufacturing plants and certain other facilities.

### ***Financing Activities***

During the year ended December 31, 2010, short term borrowings decreased by \$270 million. Our short term borrowings are discussed more fully under "Credit Facilities and Debt" below.

Since 2002, the Company's board of directors has authorized the purchase on the open market of up to 27 million Alcon common shares, to, among other things, satisfy the exercise of equity awards granted to employees that became or are scheduled to become exercisable in 2007 through 2012. To the extent such share purchases are not required for employee awards, the board may present the shares for approval of cancellation at future shareholders' meetings. Through December 31, 2010, we cumulatively have purchased approximately 25.6 million Alcon common shares (including approximately 207,000 shares in 2010) for \$2,740 million (including \$33 million in 2010).

In December 2008, as a result of the agreement between Novartis and Nestlé discussed in note 16 to the consolidated financial statements, the Company discontinued the purchase of Alcon common shares in the open market under all share repurchase programs. However, the Company continues to acquire shares withheld from employees' exercises of share-based awards to cover their taxes.

We intend to issue new common shares from conditional capital for the exercise of stock options held by employees that became exercisable in 2006 and 2005, as well as for share-based awards granted after December 31, 2007. In February 2010, approximately 1.3 million share-settled stock appreciation rights and approximately 168,000 stock options granted to employees in 2007 became exercisable. In connection with the change in control, on August 25, 2010, almost 1.0 million employee share-settled stock appreciation rights and approximately 145,000 employee stock options became exercisable. In addition, over 1,000 restricted shares and approximately 234,000 restricted share units vested at that time. During 2010, approximately 2.4 million options were exercised, providing proceeds of \$169 million to the Company, and more than 1.5 million share-settled stock appreciation rights were exercised.

In June 2010, we paid our shareholders cash dividends of \$1,037 million (CHF 3.95 per common share, or approximately \$3.44 per common share). The merger agreement with Novartis dated December 14, 2010 precludes the payment of dividends by Alcon.

### ***Investing Activities***

Net cash used in investing activities in the year ended December 31, 2010 and 2009 was \$1,705 million and \$390 million, respectively. The Company increased its investing activities in 2010 through two acquisitions, the purchase of intangible assets and adjustments to the investment portfolio. In 2010, more cash was used to acquire financial investments than in 2009, as certain adjustments were made in the investment portfolio. Capital expenditures decreased slightly in 2010, when compared to 2009, but the decrease was more than offset by purchases of intangible assets.

Our annual capital expenditures over the last three years were \$309 million in 2010, \$342 million in 2009 and \$302 million in 2008, principally to expand and upgrade our manufacturing and research and development facilities and other infrastructure. In 2010, capital expenditures were made to add manufacturing capacity and upgrades to our Fort Worth, Texas, Puurs, Belgium, Huntington, West Virginia, Cork, Ireland, Kayserberg, France, Houston, Texas, and Sinking Spring, Pennsylvania, manufacturing facilities and to continue construction of a new manufacturing plant in Singapore. In 2009, we broke ground to build the facility in Singapore that will manufacture pharmaceuticals to be distributed throughout most of Asia. We plan for the 331,000 square foot facility to be fully functional in 2012. Capital expenditures in 2010 were also made to upgrade and expand our research and development facilities and administrative facilities in Fort Worth and in Zurich, Switzerland (ESBATEch).

We had capital expenditure commitments of \$53 million at December 31, 2010. We expect to fund these capital projects through operating cash flow and, if necessary, short term borrowings.

In January 2010, we acquired Optonol, Ltd., a medical device company that develops, manufactures and markets novel miniature surgical implants used to lower intraocular pressure in patients with glaucoma. With this acquisition, Alcon acquired Optonol's *EX-PRESS*<sup>®</sup> glaucoma filtration device. This medical device will complement Alcon's pharmaceutical products that lower intraocular pressure in patients with glaucoma and ocular hypertension, and will be additive to the Company's growth opportunities.

The device is currently reimbursed in the U.S by Medicare and other payors, and it is also approved and currently marketed in Europe, Canada, Australia and several other countries. Because the product is already approved in the United States and other major markets, it began contributing commercially in the first quarter of 2010.

In the first quarter of 2010, we also purchased certain intangible assets. The intangible assets included the technology and licenses to manufacture, market and sell *DUREZOL*<sup>®</sup> ophthalmic steroid for post-surgical ocular pain and inflammation.

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complementary technology in cataract surgery. LenSx's laser enables surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and the creation of certain corneal incisions. Without this technology, these steps must be performed manually with hand-held surgical instruments.

The Company paid \$367 million in cash at closing to *LenSx*<sup>®</sup> shareholders for their shares. The acquisition also provides for maximum contingent payments of \$383 million based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones.

During 2010, although we sold portions of our investments receiving proceeds of \$2,149 million, we added to our financial portfolio, investing \$2,881 million. Total investments (short term and long term) were included in the consolidated balance sheets at a fair value of \$1,287 million as of December 31, 2010, as compared with \$552 million as of December 31, 2009. These investments were primarily denominated in U.S. dollars. The Company has invested in mostly debt investments primarily to plan for obligations under certain deferred compensation arrangements and to generate additional returns within established risk parameters. More information on our investments is provided in notes 4 and 5 to the consolidated financial statements.

### ***Contractual Obligations***

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>1 Year or Less</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>More than 5 Years</b>
			(in millions)		
Long term debt .....	\$ 62	\$ 62	\$ --	\$ --	\$ --
Operating leases .....	280	67	87	45	81
Purchase obligations.....	76	41	30	3	2
Income tax liabilities.....	77	1	76	--	--
Other long term liabilities .....	920	85	189	152	494
Total contractual obligations .....	<u>\$ 1,415</u>	<u>\$ 256</u>	<u>\$ 382</u>	<u>\$ 200</u>	<u>\$ 577</u>

During the year ended December 31, 2010, we increased net unrecognized tax benefits by \$1 million, resulting in net unrecognized tax benefits of \$77 million at December 31, 2010. Total unrecognized tax benefits for which payments were expected within one year were \$1 million. A reasonably reliable estimate of the timing of future payments relating to noncurrent unrecognized tax benefits could not be determined.

Additional information about the amounts included in the above table was provided in notes 3, 5, 8, 9, 13, 15, 17 and 18 to the consolidated financial statements.

### ***Off-Balance Sheet Arrangements***

The Company has obligations under certain guarantees, letters of credit, indemnifications and other contracts that contingently require the Company to make payments to guaranteed parties upon the occurrence of specified events. The Company believes that any payments required under these contingencies would not pose potential material risk to the Company's future liquidity, capital resources and financial condition. See the notes to the consolidated financial statements for further descriptions and discussions regarding the Company's obligations.

We acquire assets still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to such third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval of the product for marketing by the appropriate regulatory agency). If required by the arrangement, we may have to make royalty payments based upon a predetermined percentage of the sales of the pharmaceutical product in the event that regulatory approval for marketing such product is obtained. Because of the contingent nature of these payments, except for contingent payments recorded in business acquisitions, they are not included in the table of contractual obligations.

These arrangements are not individually material to the Company's future liquidity, capital resources and financial condition. However, if milestones for multiple products covered by such arrangements would happen to be reached in the same accounting period, the aggregate charge to expense could be material to the results of operations in any one period. These arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the potential product successfully achieves clinical testing objectives.

### ***Capital Resources***

We expect to meet our current working capital and liquidity needs principally through cash and cash equivalents, the liquidation of short term investments and, to the extent necessary, short term borrowings. We expect to meet future liquidity requirements through our operating cash flows, the liquidation of short term investments and, to the extent necessary, issuance of short term or long term debt. We believe this combination would be sufficient to meet our liquidity requirements, even if our sales were adversely affected as compared to expectations.

### ***Credit Facilities and Debt***

During 2010, the Company repaid and terminated its commercial paper facility. An Alcon subsidiary had an available commitment of \$12 million under an unsecured line of credit with a subsidiary of Novartis; at December 31, 2010, \$4 million was outstanding under this credit facility. Alcon's subsidiaries had third-party lines of credit, including bank overdraft facilities, totaling approximately \$845 million under which there was an aggregate outstanding balance of \$333 million at December 31, 2010. These third-party credit facilities are arranged or provided by a number of international financial institutions, the most significant of which had the following aggregate limits: Citibank (\$395 million); Mitsui-Sumitomo Bank (\$105 million); Mizuho Bank (\$99 million); and Bank of Tokyo – Mitsubishi UFJ (\$61 million). Most of the credit facilities have terms of less than one year and accrue interest at a rate consistent with local borrowing rates. In aggregate, these facilities had a weighted average interest rate of 2.5% at December 31, 2010.

As of December 31, 2010, the Company had a bank loan for Japanese yen 5.0 billion (\$62 million) maturing in January 2011 arranged by ABN AMRO for our subsidiary in Japan. The balance of the loan was repaid in January 2011.

### ***Valuation of Financial Instruments***

The Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification ("ASC") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

The Company has hired investment managers to invest funds primarily in liquid, short term high-quality fixed income investments. The investments are held at a global custodian and priced using the custodian's pricing matrix, which primarily includes broker/dealer quotes in active markets. The pricing on these securities has not been adjusted by the Company. We have reviewed our global custodian's pricing source hierarchy, which details the preferred pricing source and method for each asset class. Due to the nature of the pricing sources, the Company has classified these investments as Level 2.

As indicated in note 5 to the consolidated financial statements, financial assets presented at fair value and categorized as Level 3 were corporate investments held in funds professionally managed by investment managers. These Level 3 financial assets were marked to net asset values furnished in statements received from fund custodians, whose statements reflect valuations conducted according to their respective fund pricing policies and asset types. The Company evaluated these pricing policies utilized by the investment advisors and validated certain fair value measurements.

As discussed in note 5 to the consolidated financial statements, in connection with certain acquisitions, the Company agreed to potential contingent payments, with estimated fair values totaling \$160 million, upon the achievement of certain future research and development milestones and/or certain revenue objectives. These contingent liability payments were classified as Level 3 under the fair value hierarchy and were valued using discounted probability weighted cash flow models. The sensitivities of the estimates to the assumed probabilities are discussed in that same note.

The Company's financial assets and liabilities presented at fair value and categorized as Level 3 as of December 31, 2010 and 2009 were summarized in the table presented below:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	(in millions)	
Level 3 assets.....	\$ 6	\$ 22
Total assets .....	\$ 10,073	\$ 8,686
Total financial assets measured at fair value .....	\$ 1,287	\$ 559
Level 3 assets as a percent of total assets .....	Less than 1%	Less than 1%
Level 3 assets as a percent of total financial assets measured at fair value .....	Less than 1%	4%
Level 3 liabilities.....	\$ 160	\$ 71
Total liabilities.....	\$ 2,821	\$ 2,781
Total financial liabilities measured at fair value (including short term borrowings).....	\$ 571	\$ 736
Level 3 liabilities as a percent of total liabilities .....	6%	3%
Level 3 liabilities as a percent of total financial liabilities measured at fair value.....	28%	10%

For a further discussion regarding the measurement of financial instruments, see note 5 to the consolidated financial statements.

## **Market Risk**

### ***Interest Rate Risks***

We are exposed to interest rate risks through short term floating rate investments that exceed our short term floating rate loans. Rising interest rates will increase net interest income, while falling rates will reduce it. We evaluate the use of interest rate swaps and periodically use such agreements to manage our interest rate risk on selected debt instruments.

### ***Credit Risks***

In the normal course of our business, we incur credit risk because we extend trade credit to our customers. We believe that these credit risks are well diversified, and our internal staff actively manages these risks. Our principal concentrations of trade credit are generally with large and financially sound corporations, such as large retailers and grocery chains, drug wholesalers and governmental agencies. It is not unusual for our five largest customers in the United States to represent in the aggregate approximately 16% of the outstanding balance of our gross accounts receivable; however, no single customer accounted for more than 10% of the Company's consolidated sales in the year ended December 31, 2010.

In connection with our sales of surgical equipment, we frequently finance the purchase of our equipment and enter into leases and other financial transactions with our customers. In general, these loans and other transactions range in duration from one to five years and in principal amount range from \$15,000 to \$500,000. We conduct credit analyses of the customers to whom we extend credit and secure the loans and leases with the purchased surgical equipment. Over the last 24 years, we have offered financing programs for surgical equipment and losses have not been material to our operations. In countries that may be subject to high inflation, the credit risks to which we are exposed can be larger and less predictable.



We conduct some of our business through export operations and are exposed to country credit risk. This risk is mitigated by the use, where applicable, of letters of credit confirmed by large commercial banks in Switzerland and the United States.

In certain countries in the European Union, many of our government customers have significantly delayed payment of amounts owed to us for their purchase of our products. This has increased our exposure to credit risk in these countries. We regularly review these risks and take appropriate actions related to them.

We have significant outstanding receivable balances that are dependent upon either direct or indirect payment by various governmental entities across the world. The ultimate payment of these receivables is dependent on the ability of these governments to maintain liquidity primarily through borrowing capacity, particularly in the European Union. If certain governments are not able to maintain access to liquidity through borrowing capacity, the ultimate payment of their respective portion of these outstanding receivables could be at risk and impact profits and cash flow.

### ***Currency Risks***

We are exposed to market risk from changes in currency exchange rates that could impact our results of operations and financial position. We manage our exposure to these currency risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We use foreign currency derivative financial instruments as risk management tools.

We use foreign currency forward contracts and options to manage the volatility of non-functional currency cash flows resulting from changes in exchange rates. Foreign currency forward contracts are primarily used to hedge intercompany purchases and sales. The use of these derivative financial instruments allows us to reduce our overall exposure to exchange rate fluctuations, since the gains and losses on these derivative contracts substantially offset losses and gains on the assets and liabilities being hedged.

### **New Accounting Standards**

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements-a consensus of the FASB Emerging Issues Task Force." This update provides amendments to ASC Topic 605, "Revenue Recognition" to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect this update to have any impact on the Company's consolidated financial statements upon adoption on January 1, 2011.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements." This update provides amendments to ASC Topic 820-10, "Fair Value Measurements and Disclosures" by requiring additional disclosures regarding financial instruments. The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company implemented the applicable portions of this update in 2010 and does not expect the remaining provisions of this update to have a significant impact on the Company's consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, "Disclosures about the credit quality of Financing Receivables and the Allowance for Credit Losses." This update amends ASC Topic 825, "Accounting for Financial Instruments" by requiring additional disclosures regarding financing receivables. The update is effective for interim and annual reporting periods beginning after December 15, 2010. The Company does not expect this update to have any impact on the Company's consolidated financial statements upon adoption on January 1, 2011.

In December 2010, the FASB issued Accounting Standards Update No. 2010-27, "Fees Paid to the Federal Government by Pharmaceutical Manufacturers." This update responded to certain provisions in the "Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act". The update is

effective for calendar years beginning after December 31, 2010. There were no applicable fees incurred in 2010. In accordance with the guidance, applicable fees in 2011 will be recognized in operating expenses. See further discussion of these fees in this Item 5, under "U.S. Healthcare Reform."

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. DIRECTORS AND SENIOR MANAGEMENT**

Below is information with respect to our current directors and officers and their ages as of February 1, 2011. Unless otherwise indicated, the business address of all of our directors and officers is c/o Alcon, Inc., Bösch 69, P.O. Box 62, 6331, Hünenberg, Switzerland.

Name	Age	Title
Daniel Vasella, M.D. ....	57	Chairman and Director
Cary R. Rayment .....	63	Vice Chairman and Director
Kevin J. Buehler .....	53	President, Chief Executive Officer and Director
Urs Bärlocher, Ph.D. ....	68	Director
Paul Choffat, Ph.D. ....	61	Director
Lodewijk J.R. de Vink.....	65	Director
Joan W. Miller, M.D. ....	52	Director
Thomas G. Plaskett.....	67	Director
Jacques Seydoux, M.D. ....	59	Director
Enrico Vanni, Ph.D. ....	59	Director
Norman Walker .....	58	Director
Patrick Bachmann.....	43	Attorney-in-Fact ( <i>Prokurist</i> )
Stefan Basler.....	56	Attorney-in-Fact ( <i>Prokurist</i> )
Joanne Beck.....	53	General Manager ( <i>Direktor</i> )
Wes Brazell.....	44	Attorney-in-Fact ( <i>Prokurist</i> )
Robert Karsunky.....	48	Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer
Elaine E. Whitbeck.....	56	General Counsel and Corporate Secretary

Effective with the change of majority ownership on August 25, 2010, Werner Bauer, Paul Bulcke, Francisco Castañer, James Singh and Herman Wirz resigned from our board of directors.

Effective November 1, 2010, Robert Karsunky was appointed as Senior Vice President, Finance, Chief Financial Officer, and Corporate Strategy Officer of Alcon, Inc. Mr. Karsunky succeeded Richard J. Croarkin who served in that role since August 2007.

Alcon entered into a service agreement with Cary Rayment commencing April 1, 2009 under which he served as a director and the non-executive chairman of the board. Effective October 24, 2010, Cary Rayment ceded his chairman position and the board appointed Daniel Vasella as chairman and Mr. Rayment as vice chairman of the board.

**Directors**

**Daniel Vasella, M.D.** Dr. Vasella is the chairman of the board for Alcon, Inc. He was appointed to this position on October 24, 2010. Dr. Vasella joined the Alcon, Inc. board in July 2008. He served 14 years as Chief Executive Officer and 11 years as Chairman and Chief Executive Officer of Novartis AG. The board of directors of Novartis accepted Dr. Vasella's proposal to complete the Chief Executive Officer succession process by appointing Joe Jimenez as Novartis's Chief Executive Officer as of February 1, 2010. Dr. Vasella continues in his role as Chairman of the Board of Novartis concentrating on strategic priorities. After holding a number of medical positions in Switzerland, he joined Sandoz Pharmaceuticals Corporation in the United States in 1988. From 1993 to 1995, Dr. Vasella advanced from Head of Corporate Marketing to Senior Vice President and Head of Worldwide Development to Chief Operating Officer of Sandoz Pharma Ltd. In 1995 and 1996, Dr. Vasella was a member of the Sandoz Group Executive Committee and Chief Executive Officer of Sandoz Pharma Ltd. Dr. Vasella is a member of the board of directors of PepsiCo, Inc., United States.

**Cary R. Rayment.** Mr. Rayment has been the vice chairman of the board for Alcon, Inc. since October 24, 2010. Following his retirement as President and Chief Executive Officer on April 1, 2009, he served in the role as non-executive chairman and director of Alcon, Inc. until October 24, 2010. He also served as Chairman, President and Chief Executive Officer of Alcon Laboratories, Inc. from October 1, 2004 to March 31, 2009. Prior to these promotions, Mr. Rayment served as Senior Vice President, Alcon United States from 2001 to 2004 (adding responsibility for Alcon Japan in 2004); Vice President and General Manager, Surgical, and Area Vice President Japan in 2000; Vice President, International Marketing & Area Vice President Japan from 1997-1999; Vice President and General Manager, Managed Care in 1996; Vice President and General Manager, U.S. Surgical Products from 1991-1995; and Vice President Marketing, Surgical Products from 1989-1990. Mr. Rayment joined Alcon in 1989, following the acquisition of CooperVision, Inc. where his position had been Vice President of Marketing.

**Kevin J. Buehler.** Mr. Buehler was appointed President and Chief Executive Officer of Alcon, Inc. effective April 1, 2009 and elected as a member of the board on May 5, 2009. He served as Senior Vice President, Global Markets and Chief Marketing Officer of Alcon Laboratories, Inc. from January 1, 2007 to March 31, 2009. He served as Senior Vice President, Alcon United States and Chief Marketing Officer from February 2006 through December 2006. From 2004 to 2006, he was Senior Vice President, Alcon United States. From 2002 to 2004, Mr. Buehler was International Area Vice President with responsibility for the Company's operations in Latin America, Canada, Australia and the Far East. In 1999, he led the U.S. Consumer Products Division as Vice President and General Manager and in 1998 was promoted to a Vice President position. In 1996, after holding a series of sales management positions with increasing responsibility in the U.S. Consumer Products Division, Mr. Buehler expanded his experience into the pharmaceutical and surgical business areas, leading the Company's U.S. Managed Care and Falcon Generic Pharmaceutical groups. Mr. Buehler joined the Company in 1984.

**Urs Bärlocher, Ph.D.** Dr. Bärlocher joined the Alcon, Inc. board in August 2010. He earned his J.D. from the University of Basel and was admitted to the bar in 1970. After working as a tax lawyer, he joined Sandoz Ltd., Basel, Switzerland, in 1973. After the formation of Novartis, Basel, Switzerland, in 1996, he was appointed Head of Legal, Tax and Insurance. From 1999 until 2005, he served as General Counsel and Head of General Affairs and thereafter, until his retirement in summer 2007, he served as Head of Legal and Tax Affairs of the Novartis Group. He is currently a member of the board of directors of Habasit AG, Habasit Holding AG and Victoria-Jungfrau Collection AG, as well as vice president of the Windler Foundation.

**Paul Choffat, Ph.D.** Dr. Choffat joined the Alcon, Inc. board in August 2010. He holds a J.D. from the University of Lausanne, Switzerland, and an M.B.A. from the International Institute for Management Development (IMD) in Lausanne, Switzerland. He started his professional career with Nestlé in Zurich, Switzerland, and London, UK. From 1981 to 1985, he was project manager at McKinsey & Company in Zurich. He held a number of senior positions at Landis & Gyr in Zug, Switzerland, before he moved to Von Roll in Gerlafingen as CEO. He joined Sandoz Ltd., Basel, Switzerland, in 1995. During the merger which created Novartis, he headed the Integration Office. In 1996, he returned to line management as CEO of Fotolabo SA, Montpreveyres-sur-Lausanne, Switzerland, where he remained for three years before becoming an entrepreneur and private investor in 1999. From 2002 to April 2007, Dr. Choffat served as Head of Novartis Consumer Health. He is currently a member of the board of directors of HSBC Private Bank (Suisse) SA and de Rham SA.

**Lodewijk J.R. de Vink.** Mr. de Vink joined the Alcon, Inc. board in March 2002. Mr. de Vink has served as Founding Partner of Blackstone Health Care Partners since April 2003. Prior to that, he was Chairman, International Health Care Partners from November 2002 to 2003, and Chairman, Global Health Care Partners, Credit Suisse First Boston, from November 2000 to September 2002. Mr. de Vink was formerly Chairman, President and CEO of Warner-Lambert Company. He joined Warner-Lambert as President of International Operations in 1988, was elected President in 1991, and then Chairman and CEO in May 1999. Before Warner-Lambert, Mr. de Vink spent twenty years at Schering-Plough where he held many international assignments, leaving there as President of Schering International. Mr. de Vink is a member of the board of directors of Roche Holding AG and Flamel Technologies S.A. Mr. de Vink is also a member of the European Advisory Council, Rothschild & Cie, as well as a member of Sotheby's International Advisory Board.

**Joan W. Miller, M.D.** Dr. Miller joined the Alcon, Inc. board in May 2009. Dr. Miller is Chief and Chair of Ophthalmology and Henry Willard Williams Professor of Ophthalmology at the Massachusetts Eye and Ear Infirmary, Massachusetts General Hospital and Harvard Medical School. Dr. Miller's research interests are focused on ocular neovascularization, particularly as it relates to macular degeneration and diabetic retinopathy, including the

role of growth factors, the development of antiangiogenic therapy, and photodynamic therapy. Dr. Miller has received numerous awards, including the Rosenthal Award, Don Gass Medal and the Henkind Lecture of the Macula Society, the Retina Research Award from the Club Jules Gonin, the Founders Award of ASRS (American Society of Retina Specialists), the Alcon Research Institute Award and the Suzanne Veronneau-Troutman Award. Dr. Miller's professional affiliations include American Academy of Ophthalmology, Association for Research in Vision and Ophthalmology, Inc. (ARVO) and the New England Ophthalmological Society (NEOS).

**Thomas G. Plaskett.** Mr. Plaskett joined the Alcon, Inc. board in May 2003. In September 2003, the board affirmed Mr. Plaskett as the "audit committee financial expert." Since 1991, Mr. Plaskett has served as Chairman of Fox Run Capital Associates, a private consulting firm, focusing on financial advisory and consulting services for emerging companies. Previously, he was Chairman, President and Chief Executive Officer of Pan Am Corporation from 1988 to 1991, and President and Chief Executive Officer of Continental Airlines from 1986 to 1987. Also, during the period from 1974 to 1986, he held several senior management positions at American Airlines and AMR Corporation, including Senior Vice President of Marketing and Senior Vice President of Finance and Chief Financial Officer. He also was Vice-Chairman of Legend Airlines from 1996 to 2000. Mr. Plaskett is a director of RadioShack Corporation; director of Signet Jewelers, Ltd.; and a director of several privately held companies.

**Jacques Seydoux, M.D.** Dr. Seydoux joined the Alcon, Inc. board in August 2010. He graduated with an M.D. from the University of Berne, Switzerland, in 1979. After holding a number of medical positions, he was appointed medical director and chair of the department of Obstetrics and Gynecology of the Regional Hospital of Delémont, Switzerland, in 1998. After the merger of the regional hospitals of Delémont and Porrentruy that created the State Hospital of Jura in 2004, he was named medical director and chair of the department of Obstetrics and Gynecology Service. He is a member of numerous professional associations such as vice president of the Swiss National Obstetrics and Gynecology Society, president of the Groupement Romand de la Société Suisse Gyn/Ob, and member of the European Society for Gyn Endoscopy, the American Gynecological and Obstetrical Society, the Society of Obstetrics and Gynecology of Canada as well as of the North American Menopause Society.

**Enrico Vanni, Ph.D.** Dr. Vanni joined the Alcon, Inc. board in August 2010. He is a chemical engineer graduated from the Federal Polytechnic School of Lausanne, Switzerland and holds a Ph.D. (Doctorate in Science) from the University of Lausanne. His background also includes an MBA from INSEAD in Fontainebleau, France. He started his career in 1977 with IBM in San Jose, California, and after his MBA in 1980, joined McKinsey & Company in Zurich, Switzerland. He managed the Geneva Office from 1988 to 2004. His consulting activities mostly covered companies in the pharmaceutical, consumer and finance sectors. He was head of the European pharmaceutical practice and served as member of the Partner review committee of the firm over many years. He retired as Director of McKinsey at the end of 2007. Since 2008, he is an independent consultant and a member of several company boards of directors such as Ecllosion (private equity for biotech), Denzler & Partners (management resources) and MBCP (private banking).

**Norman Walker.** Mr. Walker joined the Alcon, Inc. board in August 2010. He earned a degree in Business Studies at the University of Brighton, UK, in 1975 and attended the Harvard International Senior Management Program in 1994. He started his professional career with Ford Motor Co in London, UK, in 1975. Over a period of 9 years he held a number of positions in human resources management before he joined GrandMet in London, UK, in 1984 where he assumed human resources responsibilities in several of its business units. Mr. Walker subsequently joined Kraft Foods in 1991 and held a number of leading human resources positions in Germany, the United States and Switzerland. From 1998 to 2003, he served as the Head of Corporate Human Resources of the Novartis Group. Mr. Walker is a senior advisor to TPG Capital LLP, Chair of Vita Cayman, advisor to CMi and a visiting professor at Bocconi.

Part C of this Item 6 includes information about the staggered terms of office for our board of directors and re-election limits for non-executive directors.

Alcon, Inc. is a holding company which operates principally through its operating subsidiaries. Our board of directors is responsible for the ultimate direction of Alcon, Inc., as a holding company, and will determine our business strategy and policies and those of our operating subsidiaries. The executive officers of Alcon, Inc. are responsible for certain administrative, regulatory and oversight matters, the exercise of shareholder rights with

respect to our subsidiaries, the funding of research and development projects, the administration and purchase of intellectual property rights and the collection of related license income.

## Senior Management

Our principal subsidiary in the United States is Alcon Laboratories, Inc. Under the supervision of our board of directors, the executive officers of Alcon, Inc. and Alcon Laboratories, Inc. provide global management services with respect to the ongoing business and operations of our operating subsidiaries, including research and development, manufacturing, sales and distribution, marketing, financing and treasury.

Below is information with respect to the current executive officers of Alcon Laboratories, Inc. and their ages as of February 1, 2011. Unless otherwise indicated, the business address of all of these officers is c/o Alcon Laboratories, Inc., 6201 South Freeway, Fort Worth, Texas 76134-2099.

Name	Age	Title
Kevin J. Buehler .....	53	Chairman, President and Chief Executive Officer
Robert Karsunky .....	48	Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer
William K. Barton .....	57	Senior Vice President, International Markets
Sabri Markabi, M.D. ....	52	Senior Vice President, Research & Development and Chief Medical Officer
Merrick McCracken.....	48	Senior Vice President, Human Resources
Ed McGough .....	50	Senior Vice President, Global Manufacturing and Technical Operations
Elaine E. Whitbeck.....	56	Senior Vice President, Chief Legal Officer/General Counsel and Corporate Secretary

Effective November 1, 2010, Robert Karsunky was appointed as Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer of Alcon Laboratories, Inc. Mr. Karsunky succeeded Richard J. Croarkin who served as Alcon's chief financial officer since August 2007.

**Kevin J. Buehler.** See "–Directors" above.

**Robert Karsunky.** Mr. Karsunky was named Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer of Alcon Laboratories, Inc. effective November 1, 2010. His global responsibilities include management of all financial functions for the Company as well as Information Technology, Investor Relations, Business Development and coordination of the development and execution of corporate strategy.

Mr. Karsunky joined Novartis in 2006 as chief financial officer in the Consumer Health Division of Novartis. In this role, he was responsible for the division's finance, information technologies, procurement and merger and acquisition activities. Prior to joining Novartis, he served for four years as the vice president of finance for the international division of Medtronic, Inc. He began his career with Eli Lilly in 1991 where he held a variety of increasingly responsible financial positions to become the executive director of finance for Intercontinental and Japan from 2000 to 2002.

**William K. Barton.** Mr. Barton was named Senior Vice President, International Markets of Alcon Laboratories, Inc., effective April 1, 2009. In this role, Mr. Barton is responsible for the management of International Markets and the Global Marketing Committee. Mr. Barton joined Alcon in 1989 (following the acquisition of CooperVision) as Group Product Director, Marketing, Surgical Products. Since that time, he has held positions of increasing responsibility in all divisions including Vice President of Marketing for Surgical from 1991 to 1995, Vice President of Marketing in Pharmaceutical from 1996 to 1998, and Vice President of Sales for Primary Care from 1999 to 2000. In 2001, he returned to the Surgical Division as Vice President and General Manager. He gained international experience from 2004 to 2007 as Vice President/Area President of Canada, Australia and Far East. Most recently he served as Vice President/Area President of U.S. and Global Marketing, a position he has held since 2007.

Mr. Barton began his career in ophthalmology in 1978 and worked for Allergan Pharmaceuticals, Syntex Ophthalmics and CooperVision, which was later acquired by Alcon.

**Sabri Markabi, M.D.** Dr. Markabi joined Alcon Laboratories, Inc. as Senior Vice President of Research and Development on March 27, 2008 and was further appointed Chief Medical Officer of Alcon Laboratories, Inc. on July 1, 2008. He served as a staff neurologist on the faculty of the University Hospital in Tours, France. In 1991, he joined CIBA-GEIGY and assumed positions of increasing responsibilities in France, Switzerland, and most recently, New Jersey. In 2004 he was appointed Vice President, Global Head of Development for the Ophthalmic Business Unit of Novartis AG, where he oversaw the Development organization including research and development strategy, experimental medicine, clinical development and regulatory affairs.

**Merrick McCracken.** Mr. McCracken joined Alcon Laboratories, Inc. as Senior Vice President, Human Resources on January 18, 2010. Mr. McCracken leads Alcon's global Human Resources organization and is responsible for the development and implementation of human resources ("HR") strategies, processes and solutions in support of the Alcon business. He plays a central role in advancing efforts and initiatives in alignment with Alcon's Global Strategic Priorities, with particular emphasis on Organizational Effectiveness and Development. Mr. McCracken joined Alcon from Wyeth where he held several senior-level HR leadership roles, most recently serving as VP HR, Global Manufacturing, overseeing HR for 18,000 employees across 30 sites in 16 countries. Other roles while with Wyeth include VP, Corporate HR, Talent Management & Leadership Development, VP HR North America, VP HR, Europe/Middle East/Africa and VP HR Intercontinental Region. Prior to Wyeth, he was with Bristol-Myers Squibb for 11 years, during which time he held various senior HR leadership roles in Research & Development and International Commercial Operations. He began his career in 1987 in the airline industry in Canada.

**Ed McGough.** Mr. McGough was appointed Senior Vice President, Global Manufacturing and Technical Operations of Alcon Laboratories, Inc. in January 2008. In this position, Mr. McGough has responsibility for global manufacturing operations, global quality assurance and compliance, various supply chain functions including U.S. Customer Service and Distribution, Corporate Engineering, Safety and Environmental Affairs and the Operational Excellence group. He joined Alcon in 1991 as Manager, Quality Assurance and Regulatory Affairs at Alcon's precision device facility in Sinking Spring, Pennsylvania. Since that time, Mr. McGough has gained leadership experience through positions of increasing responsibility across manufacturing, including senior managerial roles at our Puerto Rico, Houston and Fort Worth facilities. Additionally, Mr. McGough has had global responsibility for the Company's pharmaceutical manufacturing operations.

**Elaine E. Whitbeck.** Ms. Whitbeck has served as Corporate Secretary and General Counsel of Alcon, Inc. since February 18, 2003. Ms. Whitbeck is Senior Vice President, Chief Legal Officer/General Counsel and Corporate Secretary for Alcon Laboratories, Inc. and its affiliates. Ms. Whitbeck has been with the Company for over 24 years. Ms. Whitbeck is responsible for all legal matters of the Company. Prior to joining the Company, Ms. Whitbeck was the Director of Legal Operations and Shareholder Services for Mary Kay Cosmetics, Inc. Prior to joining Mary Kay Cosmetics, Inc., Ms. Whitbeck was a trial attorney with the Dallas law firm of Vial, Hamilton, Koch & Knox. Ms. Whitbeck was a board member of WaveLight AG, Prevent Blindness America-Texas Chapter and the Lena Pope Home (child protection and adoption) and currently serves on the board of ORBIS INTERNATIONAL (the "Flying Eye Hospital").

## **B. COMPENSATION**

We provide our board of directors with compensation and benefits that will attract and retain qualified directors. In 2010, all members of our board of directors, except for our President and Chief Executive Officer, received an annual cash retainer of \$100,000 with an additional \$15,000 for the audit committee chairperson and an additional \$10,000 each for the chairpersons of the compensation, nominating/corporate governance and independent director committees. We refer to a director who is not a full-time employee of Alcon as a non-employee director. The non-employee directors also receive a meeting fee of \$2,000 per non-regularly scheduled meeting, not to exceed \$50,000 in a board year. The additional meeting fee is in consideration of their attendance at meetings beyond the regularly scheduled board and committees meetings.

In accordance with the service contract discussed below, Mr. Rayment also received additional cash compensation for serving as non-executive chairman of our board from January 1, 2010 through October 24, 2010. At the December 2010 meeting, the board approved renewing Mr. Rayment's pay through the next annual general meeting of shareholders for his service as vice chairman of the board. The board also determined to pay Dr. Vasella

the same chairman retainer of \$290,000 per year through the next annual general meeting of shareholders. For the year ended December 31, 2010, Mr. Rayment received \$290,000 for fees as chairman and vice chairman, and Dr. Vasella received a lump sum of \$169,166 in December 2010 for chairman fees from November 2010 through the next annual general meeting of shareholders.

At the February 2011 board meeting, additional payments of \$100,000 each were awarded to Messrs. de Vink, Plaskett and Dr. Miller in recognition of their extraordinary service in their capacity as members of the Independent Director Committee to consider and evaluate the merger transaction.

In 2010, restricted share units ("RSUs") were awarded to non-employee directors in the amount of \$125,000. The number of RSUs was determined using the value of one common share on the date of grant. Each of the non-employee directors on the board after the May 2010 Annual General Meeting was awarded 850 RSUs. In August 2010, Mr. Walker and Drs. Bärlocher, Choffat, Seydoux and Vanni were elected as non-employee directors. After Board approval at the September 2010 meeting, each of the new directors were granted 775 RSUs. In the fiscal years ended December 31, 2010, 2009 and 2008, our directors did not receive any other compensation or benefits-in-kind from Alcon, Inc. except as noted above and, with respect to Mr. Rayment and Mr. Buehler, as noted below.

We had service contracts with two of our directors. Alcon entered into a service agreement with Mr. Rayment that commenced April 1, 2009, after his retirement as President and Chief Executive Officer of Alcon, Inc. effective March 31, 2009, under which he served as a director and the non-executive chairman of the board. The service agreement automatically renews on an annual basis until termination. On October 24, 2010, the board approved extending the agreement with the same remuneration on a monthly basis for his service as vice chairman of the board. Mr. Buehler was named President and Chief Executive Officer of Alcon, Inc. and Alcon Laboratories, Inc. effective April 1, 2009 and has an employment agreement with Alcon Laboratories, Inc. Additional information pertaining to these agreements has been provided under Item 10.C, "Material Contracts," of this annual report. In addition, Timothy R.G. Sear, our former Chairman and Chief Executive Officer, was provided an office by the Company through May 2010. Mr. Sear vacated the office space on April 30, 2010.

During 2010, the executive officers received RSUs from Alcon, Inc. as indicated in this Compensation section. In 2011, we expect to grant our executive officers 100% RSUs for the equity portion of their compensation.

The following compensation table sets forth information regarding compensation and benefits-in-kind paid during the fiscal years ended December 31, 2010, 2009 and 2008 to the executive officers of Alcon Laboratories, Inc.

## Summary Compensation Table

Name	Year	Annual Compensation			Long Term Compensation Awards			
		Salary (\$)	Bonus (\$ (1))	Other Compensation (\$ (2))	Restricted Share Unit Awards (\$ (3))	Securities Lying SSARs (#) (4)	Performance Share Unit Awards (#) (5)	All Other Compensation (\$ (6))
Kevin J. Buehler <sup>(7)</sup> .....	2010	1,027,500	1,455,000	32,074	5,527,314	--	--	689,914
	2009	866,250	460,000	30,500	1,269,250	131,857	14,574	328,170
	2008	570,833	390,000	31,580	446,751	22,191	3,028	(123,447)
Richard J. Croarkin <sup>(8)</sup> .....	2010	563,333	1,020,800	21,436	1,909,490	--	--	1,412,825
	2009	585,000	430,000	20,641	470,896	48,919	5,407	144,044
	2008	550,000	170,000	21,580	383,014	19,021	2,596	64,822
Robert Karsunky <sup>(9)</sup> .....	2010	95,833	--	2,500	3,468,497	--	--	70,548
William K. Barton <sup>(10)</sup> .....	2010	533,333	438,000	31,861	1,507,492	--	--	418,622
	2009	490,000	245,000	31,861	355,414	36,920	4,081	175,384
	2008	431,667	235,000	32,519	210,687	10,462	1,428	5,370
Sabri Markabi, M.D. <sup>(11)</sup> .....	2010	591,667	470,000	20,824	2,110,489	--	--	151,246
	2009	541,667	298,000	19,250	507,735	52,743	5,830	124,528
	2008	380,769	--	15,573	668,865	16,916	--	42,562
Elaine E. Whitbeck .....	2010	541,667	380,000	35,412	1,457,164	--	--	439,123
	2009	520,833	335,000	35,769	365,517	37,975	4,197	218,811
	2008	492,500	300,000	35,474	357,489	17,753	2,423	44,691
Ed McGough <sup>(12)</sup> .....	2010	412,500	305,000	30,123	1,004,995	--	--	272,591
	2009	396,667	255,000	27,822	253,867	26,371	2,915	123,145
	2008	380,000	190,000	27,732	204,195	10,145	1,384	43,481
Merrick R. McCracken <sup>(13)</sup> ..	2010	383,334	--	65,781	1,201,017	--	--	95,603

(1) Bonus paid in 2010 was for 2009 performance. Bonus paid in 2009 was for 2008 performance. Bonus paid in 2008 was for performance in 2007. Mr. Croarkin's bonus for 2010 performance was also paid in 2010 in the pay period following his separation from employment with Alcon, Inc. and is included in the 2010 bonus section of the summary compensation table.

(2) Includes payments made for car allowance, financial consulting services, executive physicals and other allowances. Also included are additional payments related to relocation for Mr. McCracken in 2010.

(3) Restricted share units were granted in 2010, 2009 and 2008. The value shown is as of the grant date. Summarized below are the total restricted share units outstanding at December 31, 2010 and the value by vesting date. The value is based on the closing price of the shares on the NYSE on December 31, 2010. Due to change of control provisions in the 2008 restricted stock unit grant agreement, the vesting of 2008 restricted stock units was accelerated and vested at the change of control rather than the scheduled vesting in 2011. The holders of restricted share units do not have voting rights but have the right to receive a dividend equivalent thereon.



The number of restricted share units and their value for Mr. Karsunky reflects two sign-on grants made to him on December 3, 2010. The grants were 100% restricted share units. The first sign-on grant had a grant date fair market value of \$2,400,000 and will vest at the same rate as his forfeited equity from Novartis (40% after one year, 40% after the second year and 20% after the third year). The second sign-on grant had a grant date fair market value of \$1,100,000 and will vest at the end of two years. This vesting aligns with the 2010 Novartis performance long term incentive grants that were forfeited when he terminated service with Novartis. Alcon has charged back 75% of this grant value to Novartis.

<u>Name</u>	<u>Total Restricted Shares at 12/31/10 (#)</u>	<u>Total Restricted Share Units at 12/31/10 (#)</u>	<u>Value Vesting in 2011 (\$)</u>	<u>Value Vesting in 2012 (\$)</u>	<u>Value Vesting in 2013 (\$)</u>
Kevin J. Buehler .....	--	49,608	--	2,381,392	5,724,556
Richard J. Croarkin.....	--	--	--	--	--
Robert Karsunky.....	--	21,363	957,459	2,054,526	478,729
William K. Barton .....	--	13,636	--	666,835	1,561,287
Sabri Markabi, M.D. ....	--	19,207	--	952,622	2,185,802
Elaine E. Whitbeck.....	--	13,433	--	685,790	1,509,162
Ed McGough .....	--	9,285	--	476,311	1,040,858
Merrick R. McCracken.....	--	7,551	--	--	1,233,833

(4) Share-settled stock appreciation rights ("SSARs") were granted in 2009 and 2008.

(5) No performance share units were granted in 2010. The 2009 performance share unit awards have three consecutive performance targets during a three-year service period from 2009 through 2011. The 2008 performance share unit awards have a cumulative three-year performance period from 2008 through 2010. The awards represent 25% of each participant's total equity award value granted in 2009 and 2008, respectively. The table below represents the potential number of performance share units to be paid in Alcon shares at minimum, target and maximum.

<u>Name</u>	<u>Grant Date</u>	<u>Estimated Future Performance Share Unit Payout</u>		
		<u>Minimum #</u>	<u>Target #</u>	<u>Maximum #</u>
Kevin J. Buehler .....	02/17/2009	--	14,574	29,148
	02/11/2008	--	3,028	6,056
Richard J. Croarkin.....	02/17/2009	--	--	--
	02/11/2008	--	--	--
William K. Barton .....	02/17/2009	--	4,081	8,162
	02/11/2008	--	1,428	2,856
Sabri Markabi, M.D.....	02/17/2009	--	5,830	11,660
	02/11/2008	--	--	--
Elaine E. Whitbeck.....	02/17/2009	--	4,197	8,394
	02/11/2008	--	2,423	4,846
Ed McGough.....	02/17/2009	--	2,915	5,830
	02/11/2008	--	1,384	2,768

The 2008 performance share units vested on December 31, 2010 and became payable at 118.4% of target based on the 2008 through 2010 cumulative performance and final approval at the board of directors meeting in February 2011. In addition, due to the pending merger of Alcon and Novartis, the 2009 performance share units were approved by the board to pay out at 178.5% in February 2012 based on two years' actual performance and one year at 100% of target performance level. Mr. Croarkin vested his 2009 and 2008 performance share units upon his separation from Alcon and received 8,003 Alcon common shares for them at 100% of target as approved by the board of directors.

(6) Provides the aggregate amount of employer contributions to the Alcon 401(k) and Retirement Plans, including Company contributions and earnings on allocations made to the Excess 401(k) Plan, additional compensation for

premiums paid for Executive Universal Life Insurance and the Umbrella Liability Insurance, hire-on bonus (Mr. McCracken) and payout of grandfathered sick leave (Messrs Buehler, Barton, McGough and Ms. Whitbeck). Mr. Karsunky's other compensation includes payment of Swiss taxes on pension benefits made by the Company on his behalf due to his relocation to the United States. Mr. Croarkin's other compensation includes severance and accrued vacation time received upon his separation from Alcon and a deposit of golden parachute (IRC §280G) excise taxes that are not taxable, if at all, until 2011.

- (7) On January 8, 2009, Mr. Buehler was named Chairman, President and Chief Executive Officer of Alcon Laboratories, Inc. effective April 1, 2009.
- (8) Mr. Croarkin's compensation reflects his compensation for the time he served as Senior Vice President, Finance and Chief Financial Officer of Alcon, Inc. during 2010. Mr. Croarkin separated from service with Alcon, Inc. on November 30, 2010.
- (9) Mr. Karsunky was named Senior Vice President, Finance and Chief Financial Officer of Alcon, Inc. on November 1, 2010.
- (10) Mr. Barton was named Senior Vice President, International Markets of Alcon Laboratories, Inc., effective April 1, 2009.
- (11) Dr. Markabi joined Alcon in March 2008 and was appointed Senior Vice President, Research and Development and Chief Medical Officer of Alcon Laboratories, Inc. in July 2008.
- (12) Mr. McGough was appointed Senior Vice President, Global Manufacturing and Technical Operations of Alcon Laboratories, Inc. effective January 1, 2008.
- (13) Mr. McCracken was named Senior Vice President, Global Human Resources of Alcon, Inc. in January 2010.

#### SSAR Grant Table

No SSARs were granted during 2010.

#### Aggregated Option/SSAR Exercises in Last Fiscal Year and Fiscal Year End Option/SSAR Value Table

Name	Shares Acquired On Exercise	Value Realized (\$)	Number of Securities Underlying		Value of Unexercised In-the- Money Options/SSARs at 12/31/10 (\$)	
			Unexercised Options/SSARs at 12/31/10 (#)		Exercisable	Unexercisable
			Exercisable	Unexercisable		
Kevin J. Buehler.....	--	--	122,801	131,857	6,902,894	10,062,008
Richard J. Croarkin.....	77,912	4,304,074	--	--	--	--
William K. Barton.....	45,432	1,852,280	--	36,920	--	2,817,365
Sabri Markabi, M.D. ....	--	--	16,916	52,743	313,453	4,024,818
Elaine E. Whitbeck.....	--	--	58,769	37,975	1,761,744	2,897,872
Ed McGough .....	16,327	1,538,399	18,883	26,371	473,165	2,012,371

#### Pension Plans

Messrs. Buehler, Barton and McGough and Ms. Whitbeck participate in the nonqualified Executive Salary Continuation Plan ("ESCP"). The ESCP is unfunded and non-contributory and provides for a retirement benefit based on the participant's years of participation service under the plan, using the average of the annual base compensation in effect in the year of separation from service and for the two years preceding such year of separation. Benefits are payable upon retirement after the accumulated participation of at least 10 years of service and upon reaching age 55 (with penalties) or at the normal retirement age of 62. Annual compensation includes the amount shown as annual base salary in the Summary Compensation Table.

The ESCP benefit formula is 3% of a participant's final three-year average annual base compensation times years of participation, up to a maximum of 20 years. A participant must attain at least 10 years of participation service in order to have a vested benefit.

In December 2003, the board of directors approved a new nonqualified Alcon Supplemental Executive Retirement Plan ("ASERP"). If certain conditions are met, the ASERP provides for a maximum benefit of up to 30% of the final three-years' average base salary and bonus at retirement, less an offset for Social Security benefits, payable for the remaining life of the participant. Effective January 1, 2004, all new participants began to participate in the ASERP instead of the ESCP. Existing ESCP participants continued to accrue benefits under the ESCP through December 31, 2008; thereafter, ESCP participants began to accrue benefits for future service under the provisions of the ASERP; however, the normal form of payment for benefits accrued under ASERP by current ESCP participants will be a single life annuity with a 50% surviving spouse's benefit. Mr. Croarkin and Dr. Markabi participate in the ASERP. At the September 2010 meeting, the board of directors approved one additional year of ASERP participation credit subject to an early retirement penalty post change of control for Mr. Croarkin as a part of his separation package. Messrs. Karsunky and McCracken will be eligible to participate in the ASERP beginning in 2011. ESCP participants with the maximum participation of 20 years service at December 31, 2008 were not eligible to participate in the ASERP. Participants are limited to 20 years participation service credit under the ESCP and the ASERP.

As previously stated, due to Alcon's change of control in 2010, the change of control provisions in the ESCP apply. All plan participants became immediately vested in their accumulated benefit (if the participant had 10 years of participation service or more) or at the minimum benefit percentage of 30% (10 years of participation service times 3%) and, in accordance with plan provisions, early retirement reductions were waived and payouts began in the second month following the month of the change of control. For those employees subject to section 409A of the IRC code, including the executive officers named above, payment is delayed for 6 months. Individuals in ASERP also became 100% vested at the change of control and early retirement reductions were waived for benefits accrued as of August 25, 2010. Future accruals will be subject to the early retirement reductions. However, ASERP benefit payments begin on the later of the first day of the month after the participant turns age 50 or the first day of the month after the termination of the participant's employment.

The Company maintains an irrevocable Rabbi trust to hold and invest amounts for the payment of benefits to participants under the ESCP and ASERP. The assets of the trust are restricted to the payment of ESCP and ASERP benefits except under certain conditions, such as the Company's insolvency. The Alcon Executive Retirement Plans Grantor Trust Agreement provided for the Company to fund the current actuarially determined present value of the aggregate accrued pension benefits of all participants in the ESCP and ASERP upon the change of control in the ownership of Alcon. Based on a range of actuarially determined pension benefit projections and current market conditions, management contributed \$152 million to the trust during the third quarter of 2010 to satisfy this requirement.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)
Kevin J. Buehler .....	ESCP/ASERP	20	10,241,047
Richard J. Croarkin.....	ASERP	8	2,055,156
Robert Karsunky.....	--	--	--
William K. Barton .....	ESCP/ASERP	19	5,197,204
Sabri Markabi, M.D. ....	ASERP	2	201,368
Elaine E. Whitbeck.....	ESCP/ASERP	20	6,040,705
Ed McGough .....	ESCP/ASERP	15	3,712,259
Merrick R. McCracken.....	--	--	--

The plans have been operated in "good faith compliance" with Section 409A of the Code and the guidance thereunder from the period January 1, 2005 to January 1, 2008. The ESCP and ASERP were amended to comply with Section 409A of the Internal Revenue Code effective January 1, 2008.

The Company provides for all U.S. employees (i) the Alcon 401(k) Plan under which Alcon will match dollar-for-dollar the first 5% of base salary (including commissions) and bonus contributed by each employee, and (ii) the

Alcon Retirement Plan, into which Alcon automatically contributes an amount equal to 7% of each employee's compensation. Contributions to both plans are subject to the applicable legal limits.

### **Amended 2002 Alcon Incentive Plan**

The Amended 2002 Alcon Incentive Plan is intended to help us retain and motivate our key employees. Through this plan, we are able to grant our employees' stock options, stock appreciation rights, restricted shares, restricted share units and other awards based on our common shares, in addition to performance-based annual and long term incentive awards. Through this share ownership, we are able to align employee and shareholder interests, by directly linking incentive awards to our profitability and increases in shareholder value.

#### ***Amendments***

Pursuant to Swiss law, shareholder approval is not required to make material amendments to employee equity incentive plans. Our board of directors has the authority to amend the Amended 2002 Alcon Incentive Plan at any time. However, shareholder approval is required to increase conditional capital if the number of shares required to satisfy the Amended 2002 Alcon Incentive Plan exceeds the existing conditional capital and the treasury shares available.

In February 2005, our board of directors amended the Amended 2002 Alcon Incentive Plan effective as of January 1, 2005 to clarify that the board's compensation committee may accelerate the vesting, exercise or payment of an award upon a participant's termination of employment without cause (as determined in accordance with this plan's provision), and to allow for the award of restricted shares and restricted share units to non-employee directors. To effect the foregoing, Sections 3.2(9), 4.2 and 4.5 of the Amended 2002 Alcon Incentive Plan were amended.

In December 2005, our board of directors amended the Amended 2002 Alcon Incentive Plan effective as of January 1, 2006 to allow the award of Stock Appreciation Rights to non-employee directors. To effect the foregoing, Section 4.2 of the Amended 2002 Alcon Incentive Plan was amended.

In December 2006, our board of directors amended the Amended 2002 Alcon Incentive Plan to provide for mandatory equitable adjustments in the event of any equity restructuring. This amendment is effective as of January 2007 and applies to all outstanding awards.

In December 2008, our board of directors amended the Amended 2002 Alcon Incentive Plan to remove the requirement for board consent for retirements under this plan. This amendment is effective as of January 1, 2009. In addition, a provision was added stating that no change to the definition of "retirement," as provided under this plan, relative to an executive officer or director of the Company shall occur without prior approval of the board. The board amended the award agreements to provide for a "double trigger" upon a change-of-control. For awards after January 1, 2009, vesting will accelerate upon the occurrence of both a change-of-control and either involuntary termination, other than "for cause," or voluntary termination for "good reason" within six months preceding or during the two years following the change-of-control.

In September 2009, our board of directors amended the Amended 2002 Alcon Incentive Plan to increase the shares available for awards from 30 million to 40 million. In addition, the plan was amended to clarify share counting rules for SSARs that upon exercise only net shares are counted. These amendments were effective January 1, 2010.

In December 2010, our board of directors amended the Amended 2002 Alcon Incentive Plan to change the definition of the "Non-Employee Director" to account for the change of majority shareholder from Nestlé to Novartis. In addition, an administrative technical change was made to the definition of "Change of Control" to reflect the change in majority ownership. Lastly, the plan was modified to allow for remuneration to be paid to Alcon board members who are also employees of Novartis.

### ***Eligibility and Award Limits***

Our employees, non-employee directors and employees of our subsidiaries and affiliates are eligible to receive awards under the Amended 2002 Alcon Incentive Plan. Employees of Novartis and its subsidiaries other than Alcon entities are not eligible to receive awards under this plan.

Under the Amended 2002 Alcon Incentive Plan, limits are placed on the maximum award amounts that may be granted to any employee in any plan year. The maximum number of shares subject to stock options/stock appreciation rights that may be issued to any participant during any calendar year shall not exceed 750,000. The maximum number of shares that may be issued to any participant as restricted shares during any calendar year shall not exceed 200,000.

### ***Administration***

The Amended 2002 Alcon Incentive Plan is administered by the compensation committee of our board of directors, which has the authority to recommend and set the terms and conditions of the grant awards. Our board of directors is responsible for approving the recommendations of the compensation committee.

For our employees who are not considered executive officers, the compensation committee may delegate its authority under the Alcon Incentive Plan to our executive officers, subject to certain guidelines.

### ***Shares Reserved for Awards***

Under the Amended 2002 Alcon Incentive Plan, a total of up to 40 million common shares may be issued for awards. Through December 31, 2010, approximately 20.4 million of these common shares had been issued under this plan.

Of the total shares available to grant, the board of directors has allocated a small portion to the President and CEO to award at his discretion. These shares are to be used for awards beyond the annual long term incentive awards and may be awarded to recognize increased responsibilities or special contributions, to attract new hires, to retain executives or to recognize certain other special circumstances. The amounts of these awards are set to provide strong additional retention incentive. Generally, these share-based awards are subject to a three-year vesting schedule. Although the awards are at the discretion of the President and CEO, he must report any awards granted to the compensation committee at its quarterly meetings. As of December 31, 2010, there are 110,909 shares available for the President and CEO's discretionary awards under the plan.

Our board of directors has the authority to make appropriate adjustments to the limits described above, as well as to the terms of outstanding awards, in the event of any transaction that affects our common shares such as share splits, share dividends or other similar events.

Awards of stock options that expire unexercised, stock appreciation rights or restricted shares that are forfeited under the terms of this plan or stock appreciation rights that are exercised for cash are not included in applying the maximum limit for our common shares available for grant under this plan.

### ***Annual and Long Term Incentive Awards***

Annual and long term incentive awards may be granted under the Amended 2002 Alcon Incentive Plan. The awards are considered earned only if corporate, business segment or performance goals over the performance period satisfy the conditions established by the compensation committee and approved by our board of directors. The performance objectives, which may vary from employee to employee, are based on one or more financial measures and additional non-financial measures.

Our board of directors determines whether awards are paid in the form of cash, common shares or any combination of these items. Under the Amended 2002 Alcon Incentive Plan, selected executive officers may be awarded performance-based incentive awards, subject to a maximum limit.

### ***Stock Options***

Under the Amended 2002 Alcon Incentive Plan, we may grant to eligible employees stock options that are either incentive stock options or nonqualified stock options. To date, the stock options granted have been nonqualified stock options, which do not and will not qualify as incentive stock options for federal income tax purposes under Section 422 of the U.S. Internal Revenue Code of 1986.

The compensation committee will recommend to our board of directors for approval the number and type of stock options to grant, as well as the exercise price, applicable vesting schedule, option term and any applicable performance criteria. Unless otherwise decided by our board of directors, stock options will vest in full on the third anniversary of the date of grant, or on an option holder's death, permanent disability or retirement (as defined in the Amended 2002 Alcon Incentive Plan and/or award agreements). Beginning with awards granted in 2006, vesting of stock option awards will not be accelerated upon the option holder's retirement, but will vest according to the regular vesting schedule. Upon the involuntary termination of an option holder's employment with us, all vested options will be exercisable for 30 days; provided, however, that where the termination of employment is due to (i) retirement or (ii) death or disability, they may be exercisable for their remaining term, or for 60 months not to exceed the remaining term, respectively. Some vesting requirements have been modified in accordance with local laws and the approval of the board. Upon voluntary termination of employment, all options (vested and unvested) forfeit on the date of termination. The grant price for any stock option will be not less than the fair market value of our common shares on the grant date. Unless our board of directors provides for a different period, stock options will have a term of ten years.

### ***Stock Appreciation Rights***

We may grant stock appreciation rights, which will entitle the holder to receive an amount equal to the difference between the fair market value and the grant price. The compensation committee will recommend to our board of directors for approval the number of stock appreciation rights to grant, as well as the exercise price, applicable vesting schedule, term and any applicable performance criteria. The amount may be settled either in stock or in cash, as designated by the award agreement.

Unless determined otherwise by our board of directors, stock appreciation rights will vest in full on the third anniversary of the date of grant or on a holder's death, permanent disability or retirement (as defined in the Amended 2002 Alcon Incentive Plan and/or award agreements). Beginning with awards granted in 2006, vesting of stock appreciation rights will not be accelerated upon the holder's retirement, but will vest according to the regular vesting schedule. Upon the involuntary termination of a holder's employment with us, all vested stock appreciation rights will be exercisable for 30 days; provided, however, that where the termination is due to (i) retirement or (ii) death or disability, they may be exercisable for the remaining term, or for 60 months not to exceed the remaining term, respectively. Some vesting requirements have been modified in accordance with local laws and the approval of the board. Upon voluntary termination of employment, all stock appreciation rights (vested and unvested) forfeit on the date of termination. Stock appreciation rights granted in tandem with stock options can be exercised only if the related stock option is exercisable at that time. Unless our board of directors provides for a different period, stock appreciation rights will have a term of ten years.

### ***Restricted Shares/Restricted Share Units***

The Company may grant restricted shares/restricted share units. Restricted shares are common shares granted to a participant subject to restrictions determined by the board of directors. Restricted share units entitle the recipient to receive a specified number of common shares or the cash equivalent equal to the fair market value of such shares on the date of vesting. A restricted share or restricted share unit will vest and become transferable upon satisfaction of the conditions set forth in the restricted share/restricted share unit award agreements. Restricted share/restricted share unit awards will be forfeited if a recipient's employment terminates prior to vesting of the award. The compensation committee will recommend to our board of directors for approval the number of restricted share/restricted share unit awards to grant, applicable vesting schedule, term and any applicable performance criteria.

Unless otherwise specified in the restricted share/restricted share unit award agreements, restricted share/restricted share unit awards will vest upon a holder's death or permanent disability or retirement at or after age 62. Restricted share awards/restricted share unit awards granted in 2009 do not vest automatically upon a holder's retirement after

age 55 with 10 years of service and prior to age 62. For each year of service, 33% of the award will become non-forfeitable and will continue to vest as if there had been no termination of service. Restricted share unit awards granted in 2010 do not vest automatically upon a holder's retirement after age 55 with 10 years of service and prior to age 62. In the first twenty-three months following the grant, the individual will forfeit 100% of the award upon termination. In the twenty-fourth month until the normal vesting date, 33% of the award will forfeit upon termination. The non-forfeited, unvested portion of the award will continue to vest as if there had been no termination of service. Upon three full years of service after the date of the award, the grant will become 100% vested. Holders of restricted shares will have voting rights and receive dividend equivalents prior to vesting. Holders of restricted share units have no voting rights and receive dividend equivalents prior to vesting.

During 2010, the Company made a special retention grant of restricted share units to 201 individuals for a total accounting value of \$30 million. This special retention grant was made at the date of the change of majority ownership to enhance the retention of employees with key talent and/or in business critical positions. The actual provisions for this award were modified from the annual award guidelines to remove retirement vesting. In order to receive the full award amount, the recipients must stay with the Company for three years. However, if the employee is terminated due to position elimination or the employee resigns for "good reason," then the award may vest on a pro-rata basis.

### ***Performance Share Units***

Performance share units vest upon a service requirement and achievement of specific Alcon business objectives as selected by the compensation committee in its discretion and approved by Alcon's board of directors.

The metrics for the 2009 grant consist of three one-year earnings per share ("EPS") growth targets during a three-year service period with a cumulative three-year relative total shareholder return ("TSR") as a modifier. At the beginning of the performance period, the compensation committee establishes a total equity award value for each participant. The performance share unit portion reflects 25% of the established total value for 2009 recipients. The actual values of the units awarded to the employee have been adjusted based on Alcon's three one-year EPS targets and cumulative TSR during the three-year service period. The adjustment was accomplished by multiplying the target award by the applicable EPS award percentage for 2009 and 2010, by 100% for the year 2011 and the maximum TSR multiplier, which was 200% based on the Company's historical performance. On that basis, in February 2011, Alcon's board of directors approved a final settlement of 178.5% of the original units that will be paid in February 2012 to participants that meet the service requirements.

The metrics for the 2008 grant consist of a cumulative three-year EPS growth target for the three-year service period with a cumulative three-year relative TSR as a modifier. At the beginning of the performance period, the compensation committee establishes a total equity award value for each participant. The performance share unit portion reflects 25% of the established total value for 2008 recipients. The actual value of the units awarded to the employee was adjusted based on Alcon's cumulative three-year EPS target and cumulative TSR during the three-year service period. The adjustment was accomplished by multiplying the target award by the applicable EPS award percentage and the TSR multiplier, which resulted in board approval of a final settlement of 118.4% of the original units.

The compensation committee will recommend to our board of directors for approval the number of performance share units to grant, applicable vesting schedule, term and any applicable performance criteria. Unless otherwise specified in the award agreement, the performance share unit awards will vest upon a holder's death or permanent disability. Vesting of performance share unit awards upon a holder's retirement after age 62 will continue as if there was no termination of employment. If the employee's termination of employment is voluntary and after age 55 with not less than 10 years of service but prior to retirement, the employee will forfeit unvested performance share units (have his/her target award reduced) by 33% for each year remaining in the vesting schedule of the award. If an employee's termination is a result of a change of control due to position elimination or for "good reason" as defined in the award agreements, the employee will vest 100% in the award and will be paid out with an EPS award percentage of 100% and a TSR multiple of 1.0. Unvested non-forfeited performance share units will continue to vest according to the award agreement as if there had been no termination of employment. Holders of performance share units have no voting rights and do not receive dividend equivalents prior to vesting.

### ***Other Share-Based Awards***

The Amended 2002 Alcon Incentive Plan also allows us to provide awards that are denominated in or valued by reference to our common shares. The grant price for the award will not be less than the fair market value of our common shares on the grant date. The compensation committee will recommend to our board of directors for approval the number and type of award to grant, applicable vesting schedule, term and any applicable performance criteria.

### ***Change-of-Control Provisions***

Upon the change-of-control (as defined under the Amended 2002 Alcon Incentive Plan) in August 2010, the following events occurred for annual share-based awards granted prior to December 31, 2008, if the agreement covering the award so provided:

- all stock options and stock appreciation rights became fully vested and exercisable;
- all restrictions on outstanding restricted shares and restricted share units lapsed;
- all outstanding cash incentive awards vested and will be paid out on a prorated basis; and
- all performance share unit awards will continue to vest under their original terms unless achievement of performance goals can no longer be measured, in which case 100% of each employee's awards vest upon completion of the individual service requirements.

For share-based awards granted on or after January 1, 2009, the board approved modifications to the change-of-control provisions. Vesting of future awards will accelerate upon the occurrence of both a change-of-control and either involuntary termination, other than "for cause," or voluntary termination for "good reason" within six months preceding or during the two years following the change-of-control. Therefore, awards made in 2010 and 2009 did not vest on the change-of-control.

Upon the completion of the merger with Novartis, management expects that Novartis common shares would be substituted for Alcon common shares under the outstanding share-based awards at the merger date. The substitution ratio would be based on the price of a Novartis share in the merger relative to \$168 for an Alcon share, but no cash would be paid.

### ***Corporate Transactions***

In the event of certain corporate transactions described in the Amended 2002 Alcon Incentive Plan, our board of directors may:

- require the exercise of all outstanding awards during a specified time period, after which the awards shall be terminated;
- cancel all outstanding awards in exchange for a cash payment equal to the value of the awards; or
- immediately vest all outstanding stock options and stock appreciation rights, remove all restrictions on restricted share awards, performance-based awards and other share-based awards, and vest and pay pro rata (based on when the corporate transaction occurs in the applicable performance cycle) all outstanding incentive awards.

### ***Transferability and Other Terms***

Options or awards granted to an employee under the Amended 2002 Alcon Incentive Plan may not be transferred except by will or the laws of descent and distribution. In addition, only the employee may exercise options or awards during his or her lifetime.



In the case of nonqualified stock options, however, the board has the authority to permit all or any part of a nonqualified stock option to be transferred to members of the employee's immediate family and certain family trusts or partnerships, subject to prior written consent of the compensation committee.

### **Alcon Executive Deferred Compensation Plan**

The Company adopted the Alcon Executive Deferred Compensation Plan (the "DCP") effective October 25, 2002. The DCP allows certain U.S. employees the opportunity to defer the receipt of salary, bonus and restricted shares. The DCP further provides that restricted shares deferred by eligible executives can only be invested in Alcon common shares and distributed as Alcon common shares at the end of the deferral period.

The DCP was amended in 2005 for compliance with IRC Section 409A, which was created as part of The American Jobs Creation Act of 2004. The DCP has been operated in "good faith compliance" with Section 409A of the Code and the guidance thereunder from the period January 1, 2005 to January 1, 2008. The DCP was further amended to comply with Section 409A of the Internal Revenue Code effective January 1, 2008.

### **Alcon Excess 401(k) Plan**

The Company adopted the Alcon Excess 401(k) Plan effective January 1, 2004. This plan provides deferral of excess employer contributions that cannot be made to the Alcon 401(k) and Alcon Retirement Plans because of limitations under the U.S. Internal Revenue Code of 1986.

The Alcon Excess 401(k) Plan has been operated in "good faith compliance" with Section 409A of the Code and the guidance thereunder from the period January 1, 2005 to January 1, 2008. The Alcon Excess 401(k) Plan was amended to comply with Section 409A of the Internal Revenue Code effective January 1, 2008.

### **Alcon Directors**

The share-based awards to non-employee directors under the Amended 2002 Alcon Incentive Plan will promote greater alignment of interests between our non-employee directors, our shareholders and Alcon. It will assist us in attracting and retaining highly qualified non-employee directors, by giving them an opportunity to share in our future success. Non-employee directors are eligible to receive awards under the Amended 2002 Alcon Incentive Plan.

### ***Shares Reserved for Awards***

Approximately 60,000 of the 40 million common shares under the Amended 2002 Alcon Incentive Plan were allocated for awards to non-employee directors.

### ***Annual Awards***

Every year, each non-employee director will receive share-based awards with a current value of \$125,000.

## **C. BOARD PRACTICES**

### **Board Composition**

Our board of directors currently consists of eleven members including three independent directors; six directors that were designated by Novartis; the vice chairman of the board of directors; and the chief executive officer of Alcon Laboratories, Inc.

On April 6, 2008, Nestlé S.A. and Novartis AG entered into a Purchase and Option Agreement and a Shareholders' Agreement. Under the terms of the Shareholders Agreement, the parties agreed to use their reasonable best efforts to cause the number of our board of directors to be ten; subject to election and the due qualification of such individuals as directors, our board of directors should be comprised of (A) one individual designated by Novartis, (B) five individuals designated by Nestlé, (C) three individuals nominated by the Nominating/Corporate Governance Committee that qualify as independent directors and who are not Novartis or Nestlé designees and (D) the Chief Executive Officer of Alcon, Inc. Upon consummation of the purchase by Novartis of the remaining

approximately 52% of Alcon, Inc. common shares, the parties agreed to use their reasonable best efforts to cause the five individuals designated by Nestlé to resign from office and to have five replacement directors nominated by Novartis elected at an extraordinary or an annual general meeting of shareholders of the Company.

At the annual general meeting held on May 5, 2009, the shareholders elected Kevin Buehler to the board of directors. With Mr. Buehler's election, our board of directors expanded from ten to eleven members.

On August 16, 2010, an extraordinary general meeting of shareholders was held to conditionally elect the Novartis designated directors to replace the five Nestlé designated directors upon the consummation of the acquisition by Novartis of all common shares of Alcon, Inc. that were beneficially owned by Nestlé as of such time, pursuant to the Purchase and Option Agreement. On August 25, 2010, Novartis and Nestlé completed the purchase and sale of approximately 156 million shares of Alcon, Inc. With the completion of this transaction, Novartis became Alcon's majority shareholder with approximately 77 percent of Alcon's outstanding shares. Effective August 25, 2010, the five Nestlé-designated members of the Alcon board of directors tendered their resignations and the August 16, 2010 election of the five Novartis-designated directors became effective.

Members of our board of directors generally are elected to serve three-year terms. Members of our board of directors whose terms of office have expired shall be eligible for re-election. Non-executive directors may only be appointed for up to four terms of office. Our board of directors is divided into three classes serving staggered terms. As a result, some of our directors will serve terms that are less than three years. As their terms of office expire, the directors of one class will stand for election each year as follows:

- Class I directors have terms of office expiring at the annual general meeting of shareholders in 2012. These directors are Kevin Buehler (director since 2009), Paul Choffat, Ph.D. (director since 2010) and Joan W. Miller, M.D. (director since 2009).
- Class II directors have terms of office expiring at the annual general meeting of shareholders in 2013. These directors are Urs Bärlocher, Ph.D. (director since 2010), Lodewijk J.R. de Vink (director since 2002), and Jacques Seydoux, M.D. (director since 2010); and
- Class III directors have terms of office expiring at the annual general meeting of shareholders in 2011. These directors are Thomas G. Plaskett (director since 2003), Cary R. Rayment (director since 2005), Enrico Vanni, Ph.D. (director since 2010), Daniel Vasella, M.D. (director since 2008) and Norman Walker (director since 2010).

Our Organizational Regulations provide that directors will retire from office no later than the annual general meeting after their 72<sup>nd</sup> birthday.

### **Service Contracts**

Cary Rayment and Kevin Buehler are the only directors on our board that have a service contract with the Company or any of its subsidiaries. The contract with Mr. Rayment does not provide for benefits upon termination. On October 24, 2010, Mr. Rayment ceded his position of chairman of the board of Alcon, Inc. and was appointed as vice chairman. At the December 2010 meeting, the board approved extending Mr. Rayment's agreement with the same remuneration on a monthly basis for his service as vice chairman of the board until the next annual general meeting of the shareholders. The board also determined to pay Dr. Vasella the same chairman retainer of \$290,000 per year through the next annual general meeting of the shareholders.

A discussion of the material terms of Mr. Buehler's employment agreements with the Company and certain benefits upon termination is set forth in Item 10.C, "Material Contracts," of this annual report.

### **Board Committees**

Our board of directors has appointed an audit committee, a nominating/corporate governance committee, a compensation committee and an independent director committee.

### *Audit Committee*

The audit committee consists of six directors of which three directors are not otherwise affiliated with Novartis or Alcon. Our board of directors has determined that all members of the audit committee are independent as defined by the rules of the SEC and the listing standards of the NYSE. The audit committee is currently comprised of Thomas G. Plaskett (Chairman), Urs Bärlocher, Ph.D., Paul Choffat, Ph.D., Lodewijk J.R. de Vink, Joan W. Miller, M.D. and Enrico Vanni, Ph.D. In September 2003, the board affirmed that Mr. Plaskett was the "audit committee financial expert" within the meaning of applicable SEC regulations. The functions of this committee include ensuring proper implementation of the financial strategy as approved by the board of directors, reviewing periodically the financial results as achieved, overseeing that the financial performance of the group is properly measured, controlled and reported, and recommending any share repurchase program for approval by our board of directors, as well as:

- review of the adequacy of our system of internal accounting procedures;
- recommendations to the board of directors as to the selection of independent auditors, subject to shareholder approval;
- discussion with our independent auditors regarding their audit procedures, including the proposed scope of the audit, the audit results and the related management letters;
- review of the audit results and related management letters;
- review of the services performed by our independent auditors in connection with determining their independence;
- review of the reports of our internal and outside auditors and the discussion of the contents of those reports with the auditors and our executive management;
- oversight of the selection and the terms of reference of our internal and outside auditors;
- review and discussion of our quarterly financial statements with our management and our outside auditors; and
- ensure our ongoing compliance with legal requirements, accounting standards and the provisions of the NYSE.

### *Nominating/Corporate Governance Committee*

The nominating/corporate governance committee shall consist of at least two directors who are not otherwise affiliated with Novartis or Alcon, at least one director designated by Novartis as long as Novartis remains as Alcon, Inc.'s majority shareholder. The nominating/corporate governance committee is currently comprised of Daniel Vasella, M.D. (Chairman), Urs Bärlocher, Ph.D., Lodewijk J. R. de Vink, Joan W. Miller, M.D., Thomas G. Plaskett, Jacques Seydoux, M.D. and Enrico Vanni, Ph.D. The functions of this committee include:

- subject to certain nomination rights of Novartis as provided in our Organizational Regulations, identifying individuals qualified to become members of our board of directors and recommending such individuals to the board for nomination for election by the shareholders;
- making recommendations to the board concerning committee appointments;
- developing, recommending and annually reviewing corporate governance guidelines for Alcon;
- reviewing proposals of the chief executive officer for appointment of members of our executive management, to the extent such members are appointed by the board, and making recommendations to the board regarding such appointments;

- overseeing corporate governance matters; and
- coordinating an annual evaluation of Alcon's board.

#### *Compensation Committee*

The compensation committee shall consist of at least two members of our board of directors who are not otherwise affiliated with Novartis or Alcon, at least one member of our board of directors nominated by Novartis as long as Novartis remains as Alcon's majority shareholder. The compensation committee is currently comprised of Lodewijk J.R. de Vink (Chairman), Thomas G. Plaskett, Daniel Vasella, M.D. and Norman Walker. The functions of this committee include:

- review of our general compensation strategy;
- recommendations for approval by our board of directors of compensation and benefits programs for our executive officers;
- review of the terms of employment between Alcon and any executive officer or key employee;
- administration of our long term incentive plan and recommendations to our board of directors for approval of individual grants under this plan; and
- decisions with respect to the compensation of members of our board of directors.

#### *Independent Director Committee*

In accordance with our Organizational Regulations, the Alcon board of directors established an Independent Director Committee of the Alcon board of directors in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé, in order to protect the interests of the minority holders of publicly held Alcon shares in certain transactions. The Independent Director Committee is currently comprised of Thomas G. Plaskett (Chairman), Lodewijk J.R. de Vink and Joan W. Miller, M.D. The Independent Director Committee shall be responsible for protecting the interests of our minority shareholders and shall make recommendations to the board of directors with respect to:

- a proposed merger, takeover, business combination or related party transaction of Alcon, Inc. with the majority shareholder or any group company of the majority shareholder;
- a proposed bid for the shares of Alcon, Inc. by any entity owning a majority of our outstanding voting rights;
- a proposed repurchase by us of all our shares not owned by an entity owning a majority of the outstanding voting rights of Alcon; or
- any change to the powers and duties of the Independent Director Committee.

The Independent Director Committee believes that our board of directors may only approve a decision with respect to any of these matters if a majority of the members of the Independent Director Committee so recommends; however, we cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

#### *Executive Sessions of Non-Management Directors*

The vice chairman presides at the regularly scheduled executive sessions of the non-management directors. Interested parties may communicate directly with the presiding director or with the non-management directors as a group by writing to the following address: Alcon, Inc., Attention: Non-Management Directors, P.O. Box 1821, Radio City Station, New York, New York 10101-1821.

## D. EMPLOYEES

As of December 31, 2010, we employed approximately 16,700 full-time employees, including approximately 1,900 research and development employees, approximately 5,400 manufacturing employees and approximately 6,500 marketing, sales and customer support employees. Currently, we believe that approximately 700 of our workers in Belgium are represented by a union. In other European countries, our workers are represented by works councils. We believe that our employee relations are good.

The following table indicates the approximate number of employees by location:

<u>December 31,</u>	<u>Total</u>	<u>United States</u>	<u>International</u>
2010 .....	16,700	7,300	9,400
2009 .....	15,700	7,100	8,600
2008 .....	15,400	7,300	8,100

## E. SHARE OWNERSHIP

As of December 31, 2010, all of the officers and directors listed below had direct or beneficial ownership of less than 1% of the outstanding shares. The following tables set forth the total number of vested and unvested shares and share options and share-settled stock appreciation rights owned by officers, directors and persons closely linked to them as of December 31, 2010.

<u>Name</u>	<u>Restricted Shares Units (1)</u>	<u>Beneficially Owned Shares</u>	<u>Total Number of Shares Owned Direct or Indirectly</u>
Daniel Vasella, M.D. ....	1,550	375	1,925
Cary R. Rayment .....	15,281	52,989	68,270
Kevin J. Buehler .....	67,210	8,753	75,963
Urs Bärlocher, Ph.D. ....	775	25	800
Paul J. Choffat, Ph.D. ....	775	10	785
Lodewijk J.R. de Vink.....	1,550	5,000	6,550
Joan W. Miller, M.D. ....	1,550	-	1,550
Thomas G. Plaskett .....	1,550	2,485	4,035
Jacques Seydoux, M.D. ....	775	10	785
Enrico Vanni, Ph.D. ....	775	1	776
Norman Walker .....	775	100	875
Patrick Bachmann .....	1,599	236	1,835
Joanne Beck .....	2,164	200	2,364
Wes Brazell .....	2,726	-	2,726
Robert Karsunky .....	21,363	-	21,363
Elaine E. Whitbeck.....	20,053	-	20,053
William K. Barton.....	19,145	-	19,145
Sabri Markabi, M.D. ....	25,037	3,375	28,412
Merrick R. McCracken.....	7,551	-	7,551
Ed McGough .....	13,584	1,978	15,562

(1) Restricted share units include restricted share units and performance share units, both settleable solely in shares.

**Options and Share-Settled Stock Appreciation Rights Held by Officers and Directors**

<u>Name</u>	<u>Year <sup>(2)</sup></u>	<u>Outstanding (#)</u>	<u>Grant Price (\$)</u>	<u>Vesting Year</u>	<u>Term (Years)</u>
Daniel Vasella, M.D. ....	2009	3,150	96.02	2012	10
	2008	1,350	167.95	2010	10
Cary R. Rayment.....	2009	3,150	96.02	2012	10
	2008	100,621	147.54	2010	10
	2007	125,211	130.56	2010	10
	2006	95,652	122.90	2009	10
	2005	152,400	79.00	2008	10
	2004	22,000	63.32	2007	10
	2004	25,000	80.20	2007	10
Kevin J. Buehler.....	2009	131,857	87.09	2012	10
	2008	22,191	147.54	2010	10
	2007	28,350	130.56	2010	10
	2006	14,783	122.90	2009	10
	2005	30,477	79.00	2008	10
	2004	12,000	63.32	2007	10
	2004	15,000	80.20	2007	10
Lodewijk J. de Vink .....	2009	3,150	96.02	2012	10
	2008	1,500	154.65	2010	10
	2007	2,000	132.91	2010	10
	2006	2,200	100.00	2009	10
	2005	3,000	97.89	2008	10
	2004	4,000	75.30	2007	10
	2003	4,500	41.71	2006	10
	2002	6,000	33.00	2005	10
Joan W. Miller, M.D. ....	2009	3,150	96.02	2012	10
Thomas G. Plaskett.....	2009	3,150	96.02	2012	10
Patrick Bachmann.....	2009	791	87.09	2012	10
	2008	533	147.54	2010	10
Stefan Basler <sup>(1)</sup> .....	2007	1,063	130.56	2010	10
	2006	704	122.90	2009	10
	2005	1,751	79.00	2008	10
	2004	2,420	63.32	2007	10
	2003	3,000	36.39	2006	10
	2002	2,550	33.00	2005	10
Joanne Beck.....	2009	4,615	87.09	2012	10
Wes Brazell .....	2009	5,158	87.09	2012	10

<u>Name</u>	<u>Year <sup>(2)</sup></u>	<u>Outstanding (#)</u>	<u>Grant Price (\$)</u>	<u>Vesting Year</u>	<u>Term (Years)</u>
Elaine E. Whitbeck .....	2009	37,975	87.09	2012	10
	2008	17,753	147.54	2010	10
	2007	23,625	130.56	2010	10
	2006	17,391	122.90	2009	10
William K. Barton. ....	2009	36,920	87.09	2012	10
Sabri Markabi, M.D. ....	2009	52,743	87.09	2012	10
	2008	5,667	144.87	2010	10
	2008	5,667	144.87	2010	10
	2008	5,582	144.87	2009	10
Ed McGough .....	2009	26,371	87.09	2012	10
	2008	10,145	147.54	2010	10
	2007	5,434	130.56	2010	10
	2006	3,304	122.90	2009	10

(1) Mr. Basler's 2002 and 2003 outstanding stock appreciation rights will be settled in cash.

(2) Outstanding stock appreciation rights for shares granted in 2008 became vested upon the change of control in August 2010.

Information on common shares, stock options and share-settled stock appreciation rights granted to officers and directors and on incentive compensation plans is included in Item 6.B "Compensation."

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. MAJOR SHAREHOLDERS**

Alcon is currently a majority owned subsidiary of Novartis AG. During July 2008, Nestlé S.A. sold approximately 74 million, or almost 25%, of the outstanding Alcon common shares to Novartis. At December 31, 2009 and 2008, Nestlé owned 156,076,263, or approximately 52%, of the outstanding common shares of Alcon. In January 2010, Novartis exercised its call option under the Purchase and Option Agreement for Nestlé's remaining Alcon common shares and proposed a merger of Alcon with and into Novartis. In August 2010, Novartis acquired Nestlé's remaining Alcon shares. As of December 31, 2010, Novartis had purchased cumulatively 231,352,279, or approximately 77%, of the outstanding shares of Alcon.

The common shares owned by Novartis carry the same voting rights as other outstanding Alcon common shares. Novartis is not subject to any contractual obligation to retain its interest in us. However, pursuant to a merger agreement dated December 14, 2010, Novartis and Alcon have agreed, subject to certain conditions, to merge Alcon with and into Novartis.

See additional discussion of Novartis's purchase of its controlling interest from Nestlé, agreements between Novartis and Nestlé and the proposed merger under "Risk Factors—Risks Related to Our Relationship with Novartis."

Other than Novartis, no shareholder reported beneficial ownership of 5% or more of Alcon's outstanding common shares at December 31, 2010.

At December 31, 2010, excluding treasury shares held by Alcon, three shareholders of record in Switzerland, including Novartis, held 231,352,419, or approximately 77%, of the outstanding common shares of Alcon.

## **B. RELATED PARTY TRANSACTIONS**

### **1. Purchase and Option Agreement between Nestlé and Novartis**

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of \$143.18 per share. This sale was consummated on July 7, 2008, and Novartis acquired an ownership stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. These option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of \$181 per share and the 4.1 million shares at the first stage price of \$143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of \$181 per share or a 20.5% premium above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of \$143.18 per share.

For further details on the Purchase and Option Agreement, please refer to the following link at the SEC's web site: [http://www.sec.gov/Archives/edgar/data/1114448/000110465908045488/a08-18409\\_1ex2d1.htm](http://www.sec.gov/Archives/edgar/data/1114448/000110465908045488/a08-18409_1ex2d1.htm).

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of \$180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon, with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards plan (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share. The proposed merger would be contingent upon, among other things, approval by the Alcon board of directors. As more fully discussed in Item 6.C, "Board Practices," the Company believes that Alcon's Organizational Regulations provide that the Alcon board of directors may only approve the proposed merger if a majority of the Independent Director Committee so recommends; however, management cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders.

### **2. Merger Agreement of December 14, 2010**

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at \$168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares (or American Depositary Shares in lieu thereof) and, if necessary, a cash contingent value amount to result in a



total value of \$168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee unanimously recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares and American Depositary Shares to be issued as merger consideration on the SIX Swiss Exchange and the New York Stock Exchange, respectively. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic products will be integrated into Alcon.

The merger agreement has been incorporated by reference as Exhibit 4.13 to this Form 20-F. Additional information concerning the proposed merger is included in the registration statement on Form F-4 filed by Novartis with the United States Securities and Exchange Commission on December 23, 2010 and subsequent amendments thereto.

### **3. Litigation Trust**

On July 8, 2010, the Independent Director Committee announced the creation and funding of the Alcon Litigation Trust, an irrevocable trust established under New York law pursuant to a resolution of the Alcon board of directors. The members of the Independent Director Committee were the trustees of the trust. The trust was created and funded on July 7, 2010 with \$50 million. The trust was created to provide the financial means to commence, defend or maintain litigation relating to any transaction between Alcon and a majority shareholder, including the transaction contemplated by the merger proposal announced by Novartis on January 4, 2010, and ensure the protection of the interests of Alcon and its minority shareholders in connection with any such transaction.

In connection with the merger agreement of December 14, 2010, the trust was terminated and the trust property was returned to Alcon in December 2010. The trust agreement has been filed as Exhibit 4.12 to this Form 20-F.

### **4. Minority Shareholder Class Action Lawsuits**

As further discussed in Item 8.A.7, "Legal Proceedings," certain Alcon minority shareholders filed several class action lawsuits related to Novartis's January 2010 merger proposal to acquire the remaining publicly held minority interest. The claims varied among the cases, but include allegations of: (i) breach of contract against Alcon; (ii) tortious interference with contract against Novartis and Nestlé; (iii) breach of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (iv) aiding and abetting breaches of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (v) breach of Section 13(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to disclose that they were acting as a "group;" and (vi) breach of Section 14(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to file with the U.S. Securities and Exchange Commission the materials required in connection with a "tender offer."

Eight cases filed in the U.S. District Courts for the Southern District of New York and the Northern District of Texas were consolidated into one class action case in the Southern District of New York. A ninth case, which did not name Alcon, Inc. and its board of directors as parties, was filed in the Eastern District of New York but was voluntarily dismissed by the plaintiffs on March 18, 2010.

On April 14, 2010, plaintiffs in the consolidated action dismissed their claims against Nestlé and the five Alcon directors designated by Nestlé. On May 24, 2010, the court granted a motion by Novartis and dismissed the action in its entirety on the ground of the Forum Non Conveniens doctrine. On July 14, 2010, the plaintiffs appealed the district court's dismissal to the U.S. Court of Appeals for the Second Circuit. Plaintiffs moved to dismiss the appeal on January 5, 2011, and the Second Circuit granted their motion the next day.

Two cases filed in District Court, Tarrant County, Texas and two cases filed in the County Court at Law, Dallas County, Texas were consolidated for pre-trial purposes by the Texas Multidistrict Litigation Panel in the Texas District Court, Dallas County. In November 2010, the court granted Novartis's motion seeking dismissal of these actions on the ground of the Forum Non Conveniens doctrine. The plaintiffs appealed the court's dismissal, and the appeal is pending.

## **5. Separation Agreement with Nestlé**

Alcon, Inc. entered into a Separation Agreement with Nestlé (the "Separation Agreement") prior to the initial public offering in March 2002. This Separation Agreement governs certain pre-offering transactions, as well as the relationship between Alcon and Nestlé following this offering. The Separation Agreement was filed as an exhibit to the initial registration statement. The Separation Agreement is governed by and will be construed in accordance with the laws of Switzerland. The Separation Agreement with Nestlé governs the business and legal relationship between Nestlé and Alcon.

In accordance with Section 6.2 of the Shareholders Agreement between Nestlé and Novartis, upon the closing of Novartis's purchase of the remaining Alcon shares held by Nestlé pursuant to the Purchase and Option Agreement ("Second Stage Closing"), the Separation Agreement was terminated on August 25, 2010. However, certain provisions of the Separation Agreement shall survive for a period of time thereafter.

For further details about the Shareholders Agreement and the Purchase and Option Agreement, please refer to the following link at the SEC's web site:

<http://www.sec.gov/Archives/edgar/data/1167379/000110465908045488/0001104659-08-045488-index.htm>.

Included in this Section 7.B.5 is a summary of certain material provisions that are included in the Shareholders Agreement and the Purchase and Option Agreement. Also included in this section are references to the Separation Agreement between Alcon and Nestlé, which was terminated as of August 25, 2010, subject to the survival of certain sections, which are not material from Alcon's perspective.

### **(a) Corporate Governance**

The Shareholders Agreement between Nestlé and Novartis provided for the expansion of the Alcon board of directors from eight to ten members, with one of the additional members designated by Nestlé and one designated by Novartis. Alcon's shareholders voted to expand the Alcon board and elected two new directors at Alcon's annual general meeting held on May 6, 2008 in Zug, Switzerland. James Singh, Nestlé's Executive Vice President and Chief Financial Officer and Nestlé's designee, and Daniel Vasella, M.D., chairman of Novartis and Novartis's designee, were elected to these two director positions and joined Alcon's board upon the closing of the 74 million share sale transaction on July 7, 2008.

On January 8, 2009, Kevin Buehler was named President and Chief Executive Officer of Alcon, Inc. effective April 1, 2009. At the annual general meeting on May 5, 2009, the shareholders elected Mr. Buehler to the board of directors. With Mr. Buehler's election, our board of directors expanded from ten to eleven members.

Pursuant to provisions of the Purchase and Option Agreement and the Shareholders Agreement, on August 16, 2010, Novartis AG conditionally designated five directors to replace directors designated by Nestlé, which designation became effective upon the Second Stage Closing. Accordingly, Enrico Vanni, Ph.D., Mr. Norman Walker, Paul Choffat, Ph.D., Urs Bäerlocher, Ph.D., and Jacques Seydoux, M.D., were designated by Novartis and subsequently elected to director positions by the shareholders. The Nestlé directors who resigned from the Board as of the Second Stage Closing include Francisco Castañer, Dr. Werner J. Bauer, Paul Bulcke, James Singh and Hermann A. Wirz.

For further details about corporate governance issues, please refer to Section 6.B of this report and to the Shareholders Agreement at:

<http://www.sec.gov/Archives/edgar/data/1167379/000110465908045488/0001104659-08-045488-index.htm>.

**(b) Dividend Policy**

Under the terms of the Separation Agreement, which terminated as of the Second Stage Closing, if our board of directors proposed to pay a dividend to shareholders, Nestlé agreed to vote all of its shares in favor of such proposal so long as Nestlé held at least a majority of our outstanding common shares. Under the merger agreement with Novartis dated December 14, 2010, Alcon has agreed not to pay dividends pending completion of the merger.

**(c) Intercompany Debt and Future Financings**

The Separation Agreement contained provisions governing the refinancing of intercompany debt prior to the initial public offering in March 2002. During 2002, Nestlé's role in our debt structure changed from being the largest direct lender to providing primarily indirect support of our third-party debts. In connection with the change of majority ownership, all direct borrowings from Nestlé were repaid in 2010.

In 2002, we entered into a \$2.0 billion U.S. commercial paper program (the "CP Program"), which had \$286 million outstanding as of December 31, 2009. Nestlé served as the guarantor of the CP Program, for which they received a fee as discussed in note 8 to the consolidated financial statements. In October 2005, the parties executed a Guarantee Fee and Commercial Paper Program Services Agreement (the "Services Agreement"), effective as of October 28, 2002. Through this Services Agreement, the parties more formally documented the pre-existing CP Program. The Services Agreement stated that Nestlé will: (i) provide a guarantee in favor of the holders of notes issued by Alcon Capital Corporation, Alcon, Inc.'s indirect wholly owned subsidiary, as part of the CP Program and (ii) manage the CP Program. Pursuant to the Shareholders Agreement, the Guarantee Fee and Commercial Paper Program Services Agreement was terminated on August 13, 2010, and all commercial paper borrowings were repaid.

The Company participated with certain Nestlé affiliates in specific cash pooling accounts under which overdraft lines of credit were available and were jointly and severally guaranteed by all participants, including the Company. At December 31, 2009, the total maximum permitted under these lines of credit was approximately \$305 million. The Company no longer participates in these accounts or lines of credit.

Under the terms of the Shareholders Agreement between Nestlé S.A. and Novartis, the parties agreed upon the Second Stage Closing to (a) terminate the Separation Agreement subject to the survival of certain provisions; (b) use reasonable best efforts to cause Alcon to terminate the Commercial Paper Program Services Agreement and ensure that no new commercial paper notes that benefit from the Commercial Paper Guarantee would be issued following the Second Stage Closing; (c) cause Alcon to repay any Indebtedness owed to Nestlé; (d) cause Alcon to use its reasonable best efforts to cause any Guarantees issued by Nestlé on behalf of Alcon to be extinguished as soon as reasonably practicable after the Second Stage Closing with no further liability to Nestlé; and (e) cause Alcon to (i) terminate the cash pooling arrangements (the "Cash Pooling Arrangements") between Alcon and Nestlé and (ii) cause any Guarantees issued by Alcon on behalf of Nestlé relating to the lines of credit associated with the Cash Pooling Arrangements to be extinguished as soon as reasonably practicable after the Second Stage Closing with no further liability to Alcon. Nestlé and Novartis also agreed that they shall, and shall use their reasonable efforts to cause Alcon to, terminate the Services Agreement (as defined in the Shareholders Agreement as the "Investment Services Agreement"), provided that certain sections shall survive such termination for a period of 18 months after the Second Stage Closing Date. Nestlé S.A. and Novartis also agreed that they shall, and shall use their reasonable efforts to cause their Affiliates (including Alcon), to terminate all other Shared Arrangements (other than the Remaining Shared Agreements), with certain provisions surviving such termination for a period of 18 months after the Second Stage Closing Date. Alcon and Nestlé have complied with the obligations referenced in this paragraph. As discussed above, the Separation Agreement terminated as of the Second Stage Closing.

For further details about these terms and the definitions of the defined terms used above, please refer to Section 6.2 of the Shareholders Agreement at:

<http://www.sec.gov/Archives/edgar/data/1167379/000110465908045488/0001104659-08-045488-index.htm>.

***(d) Cash Management, Investment and Treasury Services***

The Separation Agreement provided that Nestlé would continue to perform the cash management and treasury functions that it performed for us on the date of the Separation Agreement. Since January 1, 2004, under a Services Agreement, Nestec S.A., an affiliate of Nestlé, provided certain additional treasury and investment services for the Company for a fee that is comparable to fees that would be paid in an arm's length transaction. The Services Agreement could be terminated with 60 days' written notice. This Services Agreement replaced a prior agreement with Nestlé to provide similar treasury and investment services during 2003. Total fees paid for these services to Nestec S.A. for the years ended December 31, 2010, 2009 and 2008 were \$1 million or less annually.

During 2008, Lehman Brothers International (Europe) London filed for administration in England. At that time the Company's cash and cash equivalents included \$707 million of short term securities held in a segregated custodial account of Lehman Brothers International (Europe) London pursuant to a Custody Agreement. Nestlé invoiced the Company in December 2008, and in 2009 the Company reimbursed Nestlé, for a total of \$5 million in fees paid by Nestlé to the Joint Administrators of Lehman Brothers International (Europe) (in administration) related to the release of the short-term securities held in the custodial account. This amount of fees is subject to adjustment depending on the final costs incurred to settle the administration of Lehman Brothers International (Europe).

As discussed above, the Separation Agreement terminated as of the Second Stage Closing, subject to the survival of certain sections.

***(e) Accounting and Reporting***

Our consolidated financial statements are prepared in accordance with U.S. GAAP; Nestlé's consolidated accounts, consistent with past practice, continue to be prepared in accordance with International Financial Reporting Standards ("IFRS"). The Separation Agreement provided that we establish adequate procedures allowing for the timely conversion of our financial statements to IFRS for inclusion in Nestlé's financial statements. Alcon has complied with this obligation.

Since the Separation Agreement was terminated upon the Second Stage Closing, Alcon is no longer obligated to convert our financial statements to IFRS for inclusion in Nestlé's financial statements. However, Novartis reports its results of operations in accordance with IFRS and Alcon will continue to convert its financial statements to IFRS for Novartis.

***(f) Allocation of Liabilities***

The Separation Agreement provided for the allocation of liabilities between us and Nestlé, particularly with respect to product liability and environmental, health and safety matters. Generally, we assumed responsibility for all claims arising in connection with our business, including, without limitation, product liability claims and claims relating to environmental, health and safety matters, and we agreed to indemnify Nestlé for all costs and expenses incurred in connection with any such claims.

We also assumed liability for all employment matters of the employees engaged in our business at the time of the IPO. In this connection, we entered into special arrangements with local Nestlé companies on the allocation of pension fund obligations between Nestlé and us. In certain countries, our employees participated in Nestlé's existing pension funds and we did not establish independent pension funds for our employees. Prior to the change of control of ownership by Novartis, the Company and Nestlé entered into an agreement outlining the terms to segregate Alcon employees from Nestlé pension plans. The agreement provides that, except for certain circumstances, all current Alcon pension participants will be migrated from Nestlé pension plans to other, not yet determined Alcon pension plans by January 1, 2011.

Under the Shareholders Agreement, Alcon's obligation to indemnify Nestlé for certain liabilities will continue for 18 months following the Second Stage Closing Date of August 25, 2010.

In addition, we were part of the Nestlé Swiss Value-Added Tax Group until October 2010, when a new Swiss Alcon Value-Added Tax Group was formed. Alcon is jointly and severally liable for any Swiss value-added tax liabilities of all other Swiss Alcon Group participants effective October 2010.

**(g) Contracts**

The Separation Agreement contained provisions governing the continuation and termination of contracts between the Company and Nestlé (and its affiliates).

Depending on the nature of the contract, under the Shareholders Agreement, each contract either was or will be terminated in accordance with Legal Requirements on or following the Second Stage Closing Date, or continue through the remainder of its term and thereafter not be renewed.

**(h) Shared Sites**

Three sites relating to the administration of our business continued to be shared with Nestlé in 2010. These offices were located in Brazil, Norway and South Africa.

Pursuant to the terms of the Shareholders Agreement, these Shared Site Agreements will continue in effect for the remainder of their terms and may or may not be renewed.

**(i) Shared Services**

The Separation Agreement allowed the Company and Nestlé to share certain internal services so long as the cost of the arrangements were based on arm's length prices and on terms no less favorable than would be available from a third party. Nestlé continued to provide us with certain services during 2010, including but not limited to information technology and certain insurance arrangements. To the extent that we were covered under Nestlé's insurance arrangements prior to the initial public offering, we continued to be covered under those arrangements through the Second Stage Closing. Nestlé charged us our portion of the cost of these arrangements based on arm's length prices.

In certain markets, the Company provided an affiliate of Nestlé with certain services during 2010, including but not limited to, administrative, distribution, fleet management, warehousing and other services. These services were provided to Nestlé's affiliate on terms no less favorable than would be available to a third party. The fees received by the Company for these services were not material.

A limited number of shared services may continue during 2011.

**(j) Registration Rights**

Pursuant to the Separation Agreement, on March 20, 2002, we granted registration rights under the Securities Act to Nestlé with respect to sales of our common shares by Nestlé.

Under the terms of the Purchase and Option Agreement, Nestlé agreed to cause Alcon to enter into a registration rights agreement with Novartis with an effective date of the earlier of (i) the Second Stage Closing Date (as defined in the Purchase and Option Agreement) and (ii) the date on which the Purchase and Option Agreement is terminated, providing Novartis with registration rights with respect to the shares initially purchased by Novartis and shares subject to the Second Stage Closing that are no less favorable to Novartis than the registration rights granted to Nestlé under the Separation Agreement.

On December 10, 2009, Alcon entered into two substantially identical registration rights agreements with Novartis and Nestlé. Both of these agreements are substantially identical to the original registration rights provided to Nestlé, with minor modifications to reflect subsequent changes to applicable U.S. securities laws. Also on December 10, 2009, Novartis, Nestlé and Alcon entered into a shareholder coordination letter to avoid a duplication of Alcon's registration and related obligations and to regulate the exercise of registration rights under the two registration rights agreements, which could otherwise possibly occur simultaneously. Under the terms of the Purchase and Option Agreement, neither Novartis nor Nestlé were permitted to buy or sell any additional Alcon shares until completion of

the Second Stage Closing and the shareholder coordination letter was to become effective only if the Purchase and Option Agreement was terminated prior to the Second Stage Closing such that Nestlé would continue to hold Alcon shares. Given that the Second Stage Closing occurred and Novartis acquired the balance of Nestlé's Alcon shares, the registration rights agreements with Novartis became effective and the registration rights agreement with Nestlé ceased to have any effect.

**(k) Covenants Not to Compete and Not to Solicit**

Nestlé had undertaken, for so long as it held at least a majority of our common shares, not to compete with our business except in certain limited areas as set out in the Separation Agreement. The Separation Agreement also governed the allocation of business opportunities which could be taken by both Nestlé and us. Under the Shareholders Agreement, subject to certain exceptions, Nestlé has covenanted to Novartis that it would not compete with our business for two years following the Second Stage Closing Date or hire or solicit certain key employees for one year following Second Stage Closing Date.

**6. Services Agreement**

We entered into a services agreement with Cary R. Rayment, whereby Alcon retained Mr. Rayment as the non-executive chairman of its board of directors, as of April 1, 2009. The term of the service agreement renews automatically on an annual basis thereafter unless or until terminated by either party upon thirty days written notice. On October 24, 2010, Mr. Rayment ceded his position as chairman of the board and was appointed vice chairman. At the December 2010 meeting, the board approved extending Mr. Rayment's agreement with the same remuneration on a monthly basis for his service as vice chairman of the board until the next annual general meeting of the shareholders. Additional information pertaining to this agreement has been provided under Item 10.C, "Material Contracts," of this annual report.

**7. Co-Marketing Agreement for Japan between Novartis Pharma AG and Alcon Pharmaceuticals Ltd.**

On January 9, 2009, Alcon Pharmaceuticals Ltd. entered into an agreement with Novartis Pharma AG (an affiliate of Novartis) providing for the co-promotion under their license of the Lucentis<sup>®</sup> product in Japan. This agreement has a three-year term ending on December 31, 2011. During the years ended December 31, 2010 and 2009, the Company recognized approximately \$10 million and \$3 million, respectively, in co-promotion fees from this agreement, which were more than sufficient to recover the Company's costs under the agreement.

**8. Line of Credit**

During 2010, the Company entered into an unsecured line of credit agreement denominated in Venezuelan bolivars with a subsidiary of Novartis. These short term borrowings were \$4 million at December 31, 2010 and become due October 15, 2011. The weighted average interest rate at December 31, 2010 was 10.0%. The unused portion under the line of credit agreements was \$8 million at December 31, 2010.

**C. INTEREST OF EXPERTS AND COUNSEL**

Not Applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
See Item 18.
2. THREE YEARS COMPARATIVE FINANCIAL STATEMENTS  
See Item 18.
3. AUDIT REPORT  
See Report of Independent Auditors at page F-3.

4. LATEST AUDITED FINANCIAL STATEMENTS MAY BE NO OLDER THAN 15 MONTHS  
Alcon has complied with this requirement.
5. INTERIM FINANCIAL STATEMENTS IF DOCUMENT IS MORE THAN NINE MONTHS SINCE  
LAST AUDITED FINANCIAL YEAR  
Not Applicable.
6. EXPORT SALES IF SIGNIFICANT  
See Item 18.
7. LEGAL PROCEEDINGS

#### ***Minority Shareholder Class Action Lawsuits***

On January 4, 2010, Novartis announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders. Further information on Novartis's merger proposal can be found in Item 7.B, "Related Party Transactions."

Certain Alcon minority shareholders filed several class action lawsuits related to Novartis's merger proposal concerning the acquisition of the remaining publicly held minority interest. The claims varied among cases, but include allegations of: (i) breach of contract against Alcon; (ii) tortious interference with contract against Novartis and Nestlé; (iii) breach of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (iv) aiding and abetting breaches of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (v) breach of Section 13(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to disclose that they were acting as a "group;" and (vi) breach of Section 14(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to file with the U.S. Securities and Exchange Commission the materials required in connection with a "tender offer."

Eight cases filed in the U.S. District Courts for the Southern District of New York and the Northern District of Texas were consolidated into one class action case in the Southern District of New York. A ninth case, which did not name Alcon, Inc. and its board of directors as parties, had been filed in the Eastern District of New York but was voluntarily dismissed by the plaintiffs on March 18, 2010.

On April 14, 2010, plaintiffs in the consolidated action dismissed their claims against Nestlé and the five Alcon directors designated by Nestlé in exchange for Nestlé's and its directors' agreement that, without impairing the directors' ability to exercise their fiduciary obligations to Alcon, among other things, during the pendency of the action, they will take no action to (1) amend the Alcon Organizational Regulations, (2) remove or replace the Alcon independent directors or (3) facilitate Novartis's proposal to take Alcon private other than pursuant to a recommendation of the Independent Director Committee. On May 24, 2010, the court granted a motion by Novartis and dismissed the action in its entirety on the ground of the Forum Non Conveniens doctrine. The court denied motions filed by plaintiffs seeking reconsideration of this dismissal order and requesting leave to file an amended complaint. On July 14, 2010, the plaintiffs appealed the district court's dismissal to the U.S. Court of Appeals for the Second Circuit. Plaintiffs moved to dismiss the appeal on January 5, 2011, and the Second Circuit granted their motion the next day.

Two cases filed in District Court, Tarrant County, Texas and two cases filed in the County Court at Law, Dallas County, Texas were consolidated for pre-trial purposes by the Texas Multidistrict Litigation Panel in the Texas

District Court, Dallas County. Novartis filed a motion seeking dismissal of these actions on the ground of the Forum Non Conveniens doctrine. In November 2010, these four cases also were dismissed by the court. The plaintiffs appealed the court's dismissal, and the appeal is pending.

### ***Other Litigation***

From time to time we are involved in legal proceedings arising in the ordinary course of business. We may be subject to litigation or other proceedings, which could cause us to incur significant expenses or prevent us from selling certain products. With the exception of the following matters, we believe that there is no litigation pending that will likely have, individually or in the aggregate, a material adverse effect on our financial position, results of operations or cash flows:

The Company, either alone or jointly with its commercial partners, has filed fourteen North American patent infringement actions against six different generic drug companies. With the exception of international generic challenges, all of these generic drug companies are seeking U.S. Food and Drug Administration ("FDA") approval to market generic versions of the Company's products, under what are known as Abbreviated New Drug Applications ("ANDAs").

The first infringement action was filed after the Company received notice that Teva Pharmaceuticals USA, Inc. had filed an ANDA seeking approval to sell a generic version of the Company's *Vigamox*<sup>®</sup> antibiotic ophthalmic solution. Moxifloxacin, the primary ingredient in *Vigamox*<sup>®</sup>, is licensed to Alcon by Bayer Schering Pharma AG. As part of its ANDA, Teva challenged three patents covering the Company's innovator product *Vigamox*<sup>®</sup>. Two of the patents are owned by the Company's licensor, Bayer Schering Pharma AG, and the third, which expires in 2020 (including a six month pediatric extension), is owned by the Company. The two Bayer Schering Pharma patents were also the subject of another Teva ANDA seeking approval to sell a generic version of Bayer Schering Pharma's systemic moxifloxacin product, *Avelox*<sup>®</sup>. Suit was filed by Alcon and Bayer Schering Pharma as co-plaintiffs against Teva relative to the ANDA challenging *Vigamox*<sup>®</sup> on April 5, 2006 in the U.S. District Court in Delaware. Bayer Schering Pharma subsequently filed suit in the same court relative to the *Avelox*<sup>®</sup> ANDA, and the two suits were merged. Trial was scheduled to begin February 26, 2008, but the dispute between Bayer Schering Pharma and Teva relative to the two Bayer Schering Pharma patents was resolved by settlement on the eve of trial. Under the terms of the settlement, Teva acknowledged the validity and enforceability of both Bayer Schering Pharma patents, and further acknowledged that its proposed generic ophthalmic product would infringe both patents. Teva has therefore relinquished any claim that it is entitled to market the generic ophthalmic product prior to September 4, 2014. The Company remains the exclusive ophthalmic licensee under the Bayer Schering Pharma patents. The trial relative to the Company's patent began on February 28, 2008 and concluded on March 6, 2008. Since then, the Company has received issuance of a related patent with claims that will cover the *Vigamox*<sup>®</sup> product and Teva's proposed generic product. U.S. Patent No. 7,761,010 issued on March 2, 2010, and has been added to the FDA Orange Book relative to the Company's *Vigamox*<sup>®</sup> product. On October 19, 2009, the court ruled in the Company's favor on all counts, finding the Company's patent to be valid and infringed by the proposed generic product. Teva has appealed the trial court ruling, but the appeal was suspended because the trial court had not formally entered an amended form of judgment. It is expected that the appeal will be reinstated after the lower court amends its form of judgment. However, even if Teva were to succeed in having the district court decision reversed on appeal, it would still have to address the Company's recently issued second patent before competing with the Company's *Vigamox*<sup>®</sup> product in September 2014 when the underlying Bayer patent expires. If Teva were to win on appeal and overcome the Company's second patent, the resulting generic competition would be expected to impact significantly the Company's sales and profits. On a related note, the Company's European counterpart patent to the patent-in-suit was determined to be invalid in a European Patent Office Opposition Proceeding. That invalidity decision was upheld by an Enlarged Board of Appeal on October 22, 2009. Divisional patent applications on the Company's *Vigamox*<sup>®</sup> product remain pending in the European Patent Office. In December 2010, one of those pending applications was allowed with claims that cover the *Vigamox*<sup>®</sup> product, but the patent has not yet formally issued.

The second patent infringement action was filed after the Company received notice that Apotex, a Canadian-based generic drug company, had filed an ANDA challenging one of the patents covering the Company's *Patanol*<sup>®</sup> anti-allergy eye product. The Company's raw material supplier, Kyowa Hakko Kirin Co., Ltd., holds another U.S. patent, which, with the benefit of a six-month pediatric extension, expires on June 18, 2011. Thus, this generic challenge poses no threat to the *Patanol*<sup>®</sup> product market prior to June 2011. The patent that Apotex has challenged, which is



co-owned by the Company and Kyowa, will expire in 2015. The Company and Kyowa, as co-plaintiffs, filed suit against Apotex Inc. and Apotex Corp. on November 15, 2006 in the U.S. District Court in Indianapolis, Indiana. As a result of the lawsuit filing, the FDA was required to delay any approval of the Apotex ANDA for 30 months until April 2009, unless the litigation were earlier resolved or the court were to modify the 30-month stay on FDA approval. Because of the protection until June 2011 provided by the unchallenged Kyowa patent, the expiration of the 30-month period was inconsequential. Trial had been scheduled for July 27, 2009, but was postponed until April 26, 2010. Trial testimony was completed May 7, 2010, but closing arguments were postponed until August 3, 2010. A ruling has not been issued. Should Apotex succeed in overcoming the challenged patent and secure FDA approval, it would not be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*<sup>®</sup> product in the United States until June 18, 2011. Such competition would be expected to impact significantly the Company's sales and profits.

The third patent infringement action was filed after the Company received notice on October 1, 2007 that Barr Laboratories, Inc. had filed an ANDA challenging the patents underlying the Company's *Patanol*<sup>®</sup> product. Unlike the Apotex ANDA described above, which is challenging only the patent jointly owned by Kyowa and the Company, the Barr ANDA was also challenging Kyowa's composition patent on olopatadine, the active agent in *Patanol*<sup>®</sup>. The Company and Kyowa filed suit in the Federal District Court in Indianapolis (where the Apotex case is pending) on October 23, 2007. As a result of the lawsuit filing, the FDA was required to delay any approval of the Barr ANDA for 30 months unless the litigation were earlier resolved or the court modified the 30-month stay on FDA approval. The 30-month period after which the FDA could approve Barr's generic product would have expired at the end of March 2010, nine months before the Kyowa composition patent expires. A consolidated trial (with Apotex described above) was scheduled for late April 2010. However, in September 2009, Barr withdrew its ANDA and subsequently was dismissed from the suit.

The fourth patent infringement action was filed after the Company received notice in late November 2008 that Barr Laboratories, Inc. had filed an ANDA challenging the patents underlying Alcon's *Pataday*<sup>™</sup> once daily olopatadine product. The Barr ANDA is challenging the patent jointly owned by Kyowa and the Company (described above), as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. Of the two Company patents, the latest expiry date is November 2023 (effectively extended until May 2024 by a pediatric extension). Barr is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 2011 by a pediatric extension). The Company and Kyowa filed suit in the Federal District Court in Indianapolis on January 8, 2009. As a result of the lawsuit filing, the FDA must delay any approval of the Barr ANDA for 30 months unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. The 30-month period after which the FDA could approve Barr's generic product will expire in May 2011. This case has been consolidated with the Apotex case (*Pataday*<sup>™</sup>) described below. Trial has not yet been scheduled in this case, but it will not occur before the June 2011 expiration of the Kyowa patent. In the absence of preliminary injunctive relief from the court, Barr could launch its generic version of *Pataday*<sup>™</sup> "at risk" upon expiration of the Kyowa patent on June 18, 2011. If Barr succeeds in overcoming all of the challenged patents and secures FDA approval, it would be entitled to begin or continue selling a generic olopatadine product that would compete with the Company's *Pataday*<sup>™</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The fifth and sixth ANDA patent suits were filed February 2, 2009 in the U.S. District Court in Indianapolis against Apotex and Sandoz, respectively.

The Company received notice January 12, 2009, that Apotex has followed Barr in filing an ANDA challenging the patents underlying the Company's *Pataday*<sup>™</sup> once daily olopatadine product. Like Barr's ANDA, the Apotex ANDA is challenging the patent jointly owned by Kyowa and the Company (described above), as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. Apotex is not challenging the Kyowa patent on olopatadine that expires in December 2010 (June 2011 with the pediatric extension). Because the suit was filed within the statutory 45-day period, the FDA must delay any approval of the Apotex ANDA for 30 months (until June 2011), unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. In addition, because Apotex is the second filer, it is also subject to the first filer's 180-day exclusivity period, which could further delay its FDA approval. This case has been consolidated with the Barr case (*Pataday*<sup>™</sup>) described above. Trial has not yet been scheduled in this case. If Apotex succeeds in overcoming both of the challenged patents and secures FDA approval, then after the expiration of Barr's potential 180-day "first filer" exclusivity period,

it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Pataday*<sup>™</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The Company received notice on January 15, 2009 that Sandoz Inc. (an affiliate of Novartis) has filed an ANDA challenging one of the patents underlying the Company's *Patanol*<sup>®</sup> product. Similar to the Apotex ANDA on *Patanol*<sup>®</sup>, the Sandoz ANDA is challenging only the patent jointly owned by Kyowa and the Company, but not the Kyowa-owned patent on olopatadine, which expires December 2010 (June 2011 with the pediatric extension). Because the suit was filed within the statutory 45-day period, the FDA must delay any approval of the Sandoz ANDA for 30 months (until June 2011) unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. However, Sandoz would not be entitled to receive FDA approval until the expiration or forfeiture of a 180-day exclusivity period that would be granted to Apotex (the first ANDA filer) if it were successful in its patent challenge. Trial had been scheduled for April 26, 2010, and consolidation with the above-described Apotex suit (*Patanol*<sup>®</sup>) had been ordered by the court. Apotex, however, advised the court of public statements of intent by Novartis to acquire all outstanding shares of Alcon stock, and filed a motion to sever Sandoz from the trial. On February 22, 2010, the court granted the motion, ordering the suit against Sandoz to proceed separately and confirming the April 26, 2010 trial date with Apotex. A new trial date for the Sandoz case has not yet been set, and further proceedings in the case were stayed until November 2010. Sandoz requested a six-month extension of that stay, which was granted. Subject to the possibility of the 180-day exclusivity period that could accrue to Apotex, if Sandoz succeeds in overcoming the challenged patent and secures FDA approval, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*<sup>®</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The seventh ANDA patent suit was filed after the Company received notice by letter dated March 17, 2009, that Barr Laboratories, Inc. had filed a Paragraph IV certification with its ANDA for a generic version of the Company's *TRAVATAN*<sup>®</sup> product containing 0.004% travoprost. Barr is challenging the following patents listed in the Orange Book for *TRAVATAN*<sup>®</sup>: U.S. Patent Nos. 5,510,383; 5,631,287; 5,849,792; 5,889,052; and 6,011,062. With the exception of the '383 patent, which expires in 2013, all of the patents will expire in December 2014. The Company filed suit against Barr in the U.S. District Court in Delaware on April 30, 2009 and thereby secured the statutory 30-month stay on FDA approval of the generic product. The FDA must delay any approval of the Barr ANDA until September 2011, unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. This case has been consolidated with the Par and Apotex cases on *TRAVATAN*<sup>®</sup> described below. Trial originally had been scheduled to commence March 7, 2011. It was rescheduled to commence May 2, 2011, but recently was delayed again with no set trial date from the court. In June 2010, the Company announced plans to discontinue *TRAVATAN*<sup>®</sup> in the United States. That same month, Apotex withdrew its ANDA and, as noted below, subsequently has been dismissed from the lawsuit. In November 2010, Barr advised that it was withdrawing its ANDA on *TRAVATAN*<sup>®</sup> and is seeking dismissal from the lawsuit with respect to the *TRAVATAN*<sup>®</sup> product. The withdrawal leaves Par (described below) as the effective first filer on the *TRAVATAN*<sup>®</sup> product.

The eighth patent suit was filed after Sandoz Canada Inc. (an affiliate of Novartis) notified Alcon Canada by letter dated April 9, 2009, that Sandoz had filed an Abbreviated New Drug Submission ("ANDS") seeking approval from the Canadian Minister of Health to market a generic version of the Company's *Patanol*<sup>®</sup> product. The Sandoz ANDS is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*<sup>®</sup> product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. The Company and Kyowa filed suit on May 25, 2009 in the Federal Court in Toronto, thereby securing a 24-month delay (until May 25, 2011) in the regulatory approval from the Minister of Health, which can only be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Trial had been scheduled to commence March 7, 2011, but the court has released that date and will, if necessary, reschedule trial at a later date. Should Sandoz succeed in overcoming the challenged patent and secure Minister of Health approval, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*<sup>®</sup> product in Canada well before the patent expiration in 2016, but not before expiration of the unchallenged patent in November 2012. Such competition would be expected to impact the Company's sales and profits.

The ninth ANDA patent suit was filed after the Company received notice by letter dated June 1, 2009, that Par Pharmaceutical, Inc. had filed a Paragraph IV certification with its two ANDAs for generic versions of the Company's *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup> products. Par is challenging the following patents listed in the Orange

Book for *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup>: U.S. Patent Nos. 5,510,383; 5,631,287; 5,849,792; 5,889,052; 6,011,062; 6,503,497; and 6,849,253. All of these patents will expire by the end of 2014. On July 1, 2009, the Company filed suit in the U.S. District Court in Delaware, thereby securing a statutory stay under which the FDA must delay any approval of the Par ANDAs until December 2011, unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. All of the ANDA cases concerning *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup> (Barr, Par and Apotex) were consolidated. Trial originally had been scheduled for March 7, 2011. It was rescheduled to commence May 2, 2011, but recently was delayed again with no set trial date from the court. In June 2010, the Company announced plans to discontinue *TRAVATAN*<sup>®</sup> in the United States. That same month, Apotex withdrew its ANDA and, as noted below, subsequently has been dismissed from the lawsuit. In November 2010, Barr advised that it was withdrawing its ANDA on *TRAVATAN*<sup>®</sup> and is seeking dismissal from the lawsuit (as noted above). The withdrawal leaves Par as the effective first filer on the *TRAVATAN*<sup>®</sup> product. If Par succeeds in overcoming all of the challenged patents and secures FDA approval, it would be entitled to begin selling generic travoprost products that would compete with the Company's *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup> products in the United States in December 2011. Such competition would be expected to impact significantly the Company's sales and profits.

The tenth ANDA patent suit was filed after the Company received notice by letter dated June 24, 2009, that Barr Laboratories, Inc. had filed a Paragraph IV certification with its ANDA for a generic version of the Company's *TRAVATAN Z*<sup>®</sup> product. Barr is challenging the following patents listed in the Orange Book for *TRAVATAN Z*<sup>®</sup>: U.S. Patent Nos. 5,510,383; 5,889,052; 6,503,497; and 6,849,253. All of the patents will expire by the end of 2014. On July 13, 2009, Alcon filed suit in the U.S. District Court in Delaware, thereby securing a statutory stay under which the FDA must delay any approval of the Barr ANDA until December 2011, unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. Trial originally had been scheduled for March 7, 2011. It was rescheduled to commence May 2, 2011, but was recently delayed again with no set trial date from the court. This case was consolidated with the above-described Barr suit (*TRAVATAN*<sup>®</sup>) and Par suit (*TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup>) and consolidated further to include the Apotex suit (*TRAVATAN*<sup>®</sup>) described below (Note: in June 2010, Apotex withdrew its ANDA and subsequently has been dismissed from the suit). Subject to the possibility of the 180-day exclusivity period that could accrue to Par (as first filer) relative to the *TRAVATAN Z*<sup>®</sup> product, if Barr succeeds in overcoming all of the challenged patents and secures FDA approval, it would be entitled to begin selling a generic travoprost product that would compete with the Company's *TRAVATAN Z*<sup>®</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The eleventh ANDA patent suit was filed after the Company received notice by letter dated September 11, 2009, that Apotex Corp. and Apotex Inc. had filed an ANDA for a generic version of Alcon's *TRAVATAN*<sup>®</sup> product. Apotex was challenging all five of the Orange Book listed patents for *TRAVATAN*<sup>®</sup>: 5,510,383; 5,631,287; 5,849,792; 5,889,052; and 6,011,062. The Company filed suit in the U.S. District Court in Delaware, thereby securing a statutory stay under which the FDA would be required to delay any approval of the Barr ANDA until March 2012, unless the litigation were earlier resolved or the court modified the 30-month stay on FDA approval. This case was consolidated with the Barr and Par cases (*TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup>) described above. Trial originally was scheduled for March 7, 2011. It was rescheduled to commence May 2, 2011, but recently was delayed again with no set trial date from the court. However, in June 2010 Apotex withdrew its ANDA and subsequently has been dismissed from the suit.

The twelfth ANDA patent suit was filed after the Company received notice on December 15, 2009 that Sandoz Inc. (an affiliate of Novartis) had filed an ANDA with a Paragraph IV certification directed to the Company and Kyowa patents on *Pataday*<sup>™</sup>. The Sandoz ANDA is challenging the patent jointly owned by Kyowa and The Company (described above), as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. Of the two Company patents, the latest expiry date is November 2023 (effectively extended until May 2024 by a pediatric extension). Sandoz is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 2011 by a pediatric extension). On January 27, 2010, the Company and Kyowa filed suit in the Federal District Court in Indianapolis. Because the suit was filed within the statutory 45-day period, the FDA must delay any approval of the Sandoz ANDA for 30 months (until June 2012) unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. However, because Sandoz is the third filer (behind both Barr and Apotex) and subject to a potential 180-day exclusivity period of the first filer, the 30-month stay is of no practical consequence. At the request of Sandoz, the court has stayed proceedings until November 2010. Sandoz has requested a six-month extension of that stay. Subject to the possibility of the 180-day exclusivity period

that potentially could accrue to Barr (as first filer) relative to the *Pataday*<sup>™</sup> product, if Sandoz were to succeed in overcoming all the challenged patents and to secure FDA approval, it would be entitled to begin selling a generic product that would compete with the Company's *Pataday*<sup>™</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The thirteenth ANDA patent suit was filed after the Company received notice that Wockhardt Limited (headquartered in India) has filed an ANDA with a Paragraph IV certification for a generic version of the Company's *Patanol*<sup>®</sup> product. Wockhardt is challenging U.S. Patent No. 5,641,805, which is jointly owned by the Company and its raw material supplier, Kyowa Hakko Kirin Co., Ltd. The challenged patent will expire in 2015. Wockhardt is not challenging, however, another Kyowa-owned U.S. patent covering *Patanol*<sup>®</sup>, which expires on December 18, 2010 (effectively extended until June 2011 by a pediatric extension). The Company and Kyowa filed suit against Wockhardt in the Federal District Court in Indianapolis on February 12, 2010, to avail themselves of the statutory 30-month stay on FDA approval of the proposed generic product. That 30-month period will expire August 2, 2012, unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. However, as a third ANDA filer (behind both Apotex and Sandoz), Wockhardt would not be entitled to receive FDA approval until the expiration or forfeiture of a 180-day exclusivity period that would be granted to Apotex (the first filer) if it were successful in its patent challenge. Subject to the 30-month stay and the possibility of the 180-day exclusivity period that potentially could accrue to Apotex (as first filer) relative to the *Patanol*<sup>®</sup> product, if Wockhardt were to succeed in overcoming the challenged patent and to secure FDA approval, it would be entitled to begin selling a generic product that would compete with the Company's *Patanol*<sup>®</sup> product in the United States. Such competition would be expected to impact significantly the Company's sales and profits.

The fourteenth patent suit was initiated after receipt of a letter dated February 24, 2010, notifying Alcon Canada that Apotex, Inc. had filed an ANDS seeking approval from the Canadian Minister of Health to market a generic version of the Company's *Patanol*<sup>®</sup> product. The Apotex ANDS is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*<sup>®</sup> product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. The Company and Kyowa filed suit April 13, 2010 in the Federal Court in Toronto, Ontario, to secure a 24-month delay (until April 2012) in the regulatory approval from the Minister of Health, which can only be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should Apotex succeed in overcoming the challenged patent and secure Minister of Health approval, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*<sup>®</sup> product in Canada well before the patent expiration in 2016, but not before expiration of the unchallenged patent in November 2012. Such competition would be expected to impact the Company's sales and profits.

The Company is also enforcing patents against generic challengers in China (*Patanol*<sup>®</sup>), Chile (*Vigamox*<sup>®</sup>) and Korea (*Patanol*<sup>®</sup>).

On April 16, 2008, Synergetics USA, Inc., a microsurgical device company, filed a civil antitrust lawsuit in the U.S. District Court for the Southern District of New York against the Company and its subsidiary, Alcon Laboratories, Inc. Synergetics asserted damages that it claimed could exceed \$100 million. In 2008 and 2009, subsidiaries of the Company filed two suits against Synergetics for patent infringement in the U.S. District Court for the Northern District of Texas in Fort Worth. Synergetics answered the complaints. A series of counterclaims and motions followed. On April 23, 2010, the parties entered a Confidential Settlement and License Agreement together with a Supply Agreement. Under the agreements, Alcon paid \$32 million in exchange for worldwide rights to sell Synergetics patented vitreoretinal products. The products will be manufactured by Synergetics and supplied to Alcon. The agreements also settled all pending litigation between Alcon and Synergetics, including both the antitrust and the patent litigation, and provide a process for future dispute resolution.

On December 18, 2008, James M. Nielsen, M.D. filed a patent infringement suit against Alcon, Inc. and Alcon Laboratories, Inc. in the U.S. District Court for the Northern District of Texas in Dallas. Dr. Nielsen is asserting that his U.S. Patent No. 5,158,572 entitled "Multifocal Intraocular Lens" is being infringed by the Company's *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> intraocular lens. The patent, which expired at the end of October 2009, was previously licensed to Advanced Medical Optics, Inc. The Company filed its Answer January 12, 2009. The Answer included a counterclaim for a declaratory judgment that the patent-in-suit is invalid and not infringed. The case had been set for trial in August 2010 but has been postponed. No new trial date has been set. Summary judgment motions were filed

by both parties January 7, 2011. Alcon is seeking summary judgment on noninfringement, invalidity and laches, while Dr. Nielsen is seeking partial summary judgment on invalidity and laches/estoppels. On January 10, 2011, the court ordered that both parties' motions be stricken and refiled in a "cross-motion" format, the briefing for which was extended by the court until the end of March 2011. An adverse ruling by the court, while possible, would not be expected to impact significantly the Company's sales and profits.

On January 22, 2009, Elan Pharma International Ltd. sued two of the Company's subsidiaries, Alcon Laboratories, Inc. and Alcon Research, Ltd., in the U.S. District Court for the Eastern District of Texas in Sherman, alleging infringement of two Elan patents on nanoparticle technology (U.S. Patent Nos. 5,298,262 and 5,429,842). The complaint claims that the Company's *Azopt*<sup>®</sup> product and, potentially, other products infringe the two patents. The Company answered and counterclaimed on May 12, 2009. Elan then moved to dismiss certain of the Company's affirmative defenses and counterclaims. The Company has filed an amended answer and counterclaims providing greater detail with respect to the Company's inequitable conduct counterclaims. The case has been set for trial on October 17, 2011. The Company believes that it has strong defenses and intends to defend itself vigorously. An adverse ruling by the court, however, could impact significantly the Company's sales and profits.

Alcon and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

Alcon and its subsidiaries are obligated to comply with the laws of each of the many countries in which we operate, covering a broad range of activities. Despite our efforts, any failure to comply with law could lead to substantial liabilities that may not be covered by insurance, and could affect our business and reputation.

The Company is subject to various legal proceedings, including legal proceedings relating to Novartis's January 2010 merger proposal. The Company may also be subject to additional legal proceedings in the future. Such proceedings could relate to, among other things, product liability, commercial disputes, employment and wrongful discharge, antitrust, securities, sales and marketing practices, health and safety, environmental, tax, privacy, intellectual property matters and the proposed merger with Novartis. Such proceedings are inherently unpredictable, and large verdicts sometimes occur. As a consequence, the Company may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flows, and the price of Alcon's common shares may be affected by speculation concerning the potential outcome of legal proceedings.

The Company is subject to governmental oversight and associated civil and criminal enforcement relating to drug and medical device advertising, promotion and marketing, and such enforcement is evolving and intensifying. Other parties, including private plaintiffs, also are commonly bringing suit against pharmaceutical and medical device companies, alleging off-label marketing and other violations. Given the significant risks associated with such enforcement and suits, the Company has adopted enhanced compliance controls over our advertising, marketing and promotional activities, among other areas. However, there remains substantial risk in this area given evolving enforcement theories and increasing claims brought by governmental and private parties.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

8. DIVIDEND POLICY

Under the merger agreement with Novartis dated December 14, 2010, Alcon has agreed not to pay dividends pending completion of the merger.

**B. SIGNIFICANT CHANGES**

None.

**ITEM 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

1. EXPECTED PRICE

Not Applicable.

2. METHOD TO DETERMINE EXPECTED PRICE

Not Applicable.

3. PRE-EMPTIVE EXERCISE RIGHTS

Not Applicable.

4. STOCK PRICE HISTORY

The following table lists the high and low closing market prices for Alcon's common shares for the periods indicated as reported:

	<u>High</u>	<u>Low</u>
Year ended December 31,		
2006.....	\$ 138.12	\$ 93.24
2007.....	153.91	109.80
2008.....	175.47	67.98
2009.....	166.00	76.34
2010.....	170.18	135.00
Year ended December 31,		
2009: First quarter .....	95.14	76.34
Second quarter .....	117.74	86.28
Third quarter .....	143.53	112.50
Fourth quarter .....	166.00	136.23
2010: First quarter .....	163.27	152.51
Second quarter .....	161.38	135.00
Third quarter .....	168.21	148.54
Fourth quarter .....	170.18	157.25
Month of:		
September 2010.....	168.21	162.98
October 2010.....	170.18	166.60
November 2010.....	168.00	157.25
December 2010 .....	164.10	160.38
January 2011 .....	163.70	162.28
February 2011 .....	165.43	163.82

- 5. TYPE AND CLASS OF SECURITIES  
Not Applicable.
- 6. LIMITATIONS OF SECURITIES  
Not Applicable.
- 7. RIGHTS CONVEYED BY SECURITIES ISSUED  
Not Applicable.

**B. PLAN OF DISTRIBUTION**

Not Applicable.

**C. MARKETS FOR STOCK**

Alcon's common shares are listed for trading on the NYSE and are traded under the symbol "ACL".

**D. SELLING SHAREHOLDERS**

Not Applicable.

**E. DILUTION FROM OFFERING**

Not Applicable.

**F. EXPENSES OF OFFERING**

Not Applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not Applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**General**

Alcon, Inc. is registered in the commercial register of the Canton of Zug, Switzerland under number CH-170.3.017.372-9.

As of December 31, 2010, our issued share capital was CHF 61,008,996.60 on 305,044,983 common shares at CHF 0.20 par value per common share.

Set out below is information concerning our shares and a brief summary of some of the significant provisions of the Swiss Federal Code of Obligations (*Schweizerisches Obligationenrecht*), of our Articles of Association (*Statuten*), and of the written regulations of our board of directors, known as Organizational Regulations (*Organisationsreglement*), the Articles of Association and the Organizational Regulations having been filed previously with the SEC. This description does not purport to be complete and is qualified by reference to our Articles of Association, our Organizational Regulations and the Swiss Federal Code of Obligations.

**Common Shares**

All common shares are registered common shares which are fully paid, validly issued and non-assessable. There is no limitation under our Articles of Association on the right of non-Swiss residents or nationals to own or vote our common shares.

## ***Share Register***

Our share register is kept by BNY Mellon Shareowner Services in New York, New York, which acts as transfer agent and registrar. The share register reflects only record owners of our shares; beneficial owners of common shares holding their shares through The Depository Trust Company, which we refer to as "DTC," are not recorded in our share register. Shares held through DTC are registered in our share register in the name of DTC's nominee. We are entitled to accept only those persons as shareholders, usufructuaries or nominees who have been recorded in our share register, and to perform dividend payment and other obligations only to our shareholders of record, including DTC. A shareholder of record must notify BNY Mellon Shareowner Services of any change in address. Until notice of a change in address has been given, all of our written communication to our shareholders of record shall be deemed to have validly been made if sent to the address recorded in the share register.

## ***Share Certificates***

We issue certificates evidencing our common shares to our shareholders of record, unless shares are held in uncertificated position through the DTC's book-entry Direct Registration System.

## ***Transfers of Common Shares***

Beneficial owners of our common shares, as well as registered owners with uncertificated positions, may transfer their shares through the DTC's book-entry Direct Registration System. Common shares held of record represented by share certificates may be transferred only by delivery of the share certificates representing those common shares duly endorsed or accompanied by an executed stock power. A transferee who wishes to become a shareholder of record must deliver the duly executed certificate in a form proper for transfer to our transfer agent and registrar, BNY Mellon Shareowner Services, in order to be registered in our share register (*Aktienregister*).

## ***Voting Rights***

Each common share carries one vote at a shareholders' meeting. Voting rights may be exercised by our registered shareholders or by a duly appointed proxy of a shareholder, which proxy need not be a shareholder. This provision will allow for the exercise of voting rights by beneficial owners of our common shares. Our Articles of Association do not limit the number of shares that may be represented by a single shareholder. See "–Transfers of Common Shares" above and "Certain Provisions of Our Articles of Association, Organizational Regulations and Swiss Law–Shareholders' Meetings" below.

Treasury shares, i.e., shares held by us or our majority-owned subsidiaries, will not be entitled to vote at our shareholders' meetings.

## ***Preemptive Rights***

Shareholders have preemptive rights to subscribe for newly issued common shares and other equity instruments, stock options and convertible bonds in proportion to the nominal amount of our common shares they own. The vote of a supermajority of two-thirds of the common shares represented at a shareholders' meeting may, however, limit or suspend preemptive rights in certain limited circumstances.

## ***Informational Rights***

At a shareholders' meeting, each shareholder is entitled to request certain information from our board of directors concerning our affairs and to request information from our auditors concerning their audit and its results. Such information must be provided to the extent that it is necessary to exercise shareholder rights (for example, voting rights) and does not jeopardize business secrets or other legitimate interests of Alcon. Additionally, our books and correspondence may be inspected by our shareholders if such an inspection is expressly authorized by our shareholders or our board of directors, subject to the protection of business secrets. If information is withheld or a request to inspect refused, a court in our place of incorporation (Zug, Switzerland) may be petitioned to order access to information or to permit the inspection.



The right to inspect our share register is limited to the right to inspect that shareholder's own entry on our share register.

### **Preferred Shares**

As of December 31, 2010, no Alcon preferred shares were authorized, issued or outstanding.

### **Future Share Issuances**

Under Swiss law, all decisions with respect to capital increases, whether of common or nonvoting preferred shares and whether for cash, non-cash or no consideration, are subject to the approval or authorization by shareholders.

#### *Creation of Conditional Share Capital for the Amended 2002 Alcon Incentive Plan*

As of December 31, 2010, our share capital may be increased by a maximum aggregate amount of CHF 3,041,843.40 through the issuance of a maximum of 15,209,217 fully paid common shares, subject to adjustments to reflect share splits, upon the exercise of options to purchase common shares. New common shares will be issued upon the exercise of options which our management, employees and directors may be granted pursuant to the Amended 2002 Alcon Incentive Plan. The grant of these options and the issuance of the underlying common shares upon option exercises will not entitle our shareholders to preemptive rights. The exercise price of the stock options shall be no less than the market price of common shares upon the date of grant of the options. See "Management—Amended 2002 Alcon Incentive Plan."

At December 31, 2010, 12,625,084 common shares, including 1,028,693 common shares during 2010, had been issued cumulatively from conditional share capital pursuant to the exercise of stock options and restricted share units granted under the Amended 2002 Alcon Incentive Plan. Another 2,165,699 shares of conditional capital were issued in 2002 as contingent restricted shares; for which the last condition for vesting expired January 1, 2006.

The restricted common shares and the common shares issued pursuant to the exercise of stock options and restricted share units reduced the conditional share capital from the 30 million common shares originally authorized in 2002.

### **Certain Provisions of Our Articles of Association, Organizational Regulations and Swiss Law**

#### ***Business Purpose and Duration***

Article 2 of our Articles of Association provides that our business purpose is to purchase, administer and transfer patents, trademarks and technical and industrial know-how; to provide technical and administrative consultancy services; and to hold participations in other industrial or commercial companies. In addition, we may conduct all transactions to which our business purpose may relate.

Our Articles of Association do not limit our duration.

#### ***Notices***

Article 31 of our Articles of Association requires us to publish notices, including notice of shareholders' meetings, to our shareholders in the Swiss Official Gazette of Commerce (*Schweizerisches Handelsamtsblatt*). Our board of directors may, but is not generally required by Swiss law to, designate additional means of providing notice to shareholders. We also may communicate with our shareholders through the addresses registered in our share register.

## ***Shareholders' Meetings***

### *Annual General Meetings*

Under Swiss corporate law, we must hold an annual general meeting of shareholders within six months after the end of our financial year, which is the calendar year. Our board of directors has the authority to convene annual general meetings. Holders of common shares with a nominal value equal to at least CHF 1 million have the right to request that a specific proposal be discussed and voted upon at a shareholders' meeting. Under Swiss corporate law, notice of a shareholders' meeting must be given at least 20 days prior to the date of that meeting.

The 2011 annual general meeting of shareholders is scheduled for April 7, 2011 in Zug, Switzerland.

### *Extraordinary General Meetings*

Our board of directors is required to convene an extraordinary general meeting of shareholders, for among other reasons, if a shareholders' meeting adopts a resolution to that effect or if holders of common shares representing an aggregate of at least 10% of our nominal share capital request in writing that it do so. An extraordinary general meeting is convened by publication of a notice as set forth above under "– Notices."

### *Powers and Duties*

Pursuant to Swiss corporate law, our shareholders have the exclusive right to decide on the following matters:

- adoption and amendment of our Articles of Association;
- election of members of our board of directors, statutory auditors and the special auditors;
- approval of our annual report, our statutory financial statements and our consolidated financial statements;
- payments of dividends and any other distributions to shareholders;
- discharge of the members of our board of directors from liability for previous business conduct to the extent such conduct is known to the shareholders; and
- any other resolutions which are submitted to a shareholders' meeting pursuant to law, our Articles of Association or by voluntary submission by our board of directors.

### *Proxies*

Shareholders can choose to be represented at a shareholders' meeting by a proxy who is not required to be a shareholder. Shares held in collective custody through DTC will be able to participate in shareholders' meetings regardless of record ownership. See "– Record Date" below.

### *Quorum*

No quorum for shareholders' meetings is specified in our Articles of Association.

### *Action by Shareholders*

At a shareholders' meeting, all voting takes place by a show of hands, unless voting by ballot is resolved by a majority vote of shareholders present or ordered by the chairman of the meeting or unless voting is done by electronic form as ordered by the chairman of the meeting. Resolutions of shareholders generally require the approval of a majority of the common shares represented at a shareholders' meeting, with abstentions having the effect of votes against the resolution. Shareholders' resolutions requiring the affirmative vote of a majority of the common shares represented at a shareholders' meeting include:

- amendments to our Articles of Association, unless the amendment is subject to the requirement that it be approved by holders of two-thirds of our common shares represented at a shareholders' meeting;

- elections of directors and auditors;
- approval of our annual report, statutory financial statements and consolidated financial statements;
- payment of dividends;
- decisions to discharge the directors and management from liability for matters disclosed to the shareholders' meeting; and
- ordering of an independent investigation into specific matters proposed to the shareholders' meeting (*Sonderprüfung*).

Pursuant to Swiss corporate law, the affirmative vote of two-thirds of the common shares represented at a shareholders' meeting is required to approve:

- changes in our business purpose;
- the creation of shares having different par values, each of which is entitled to one vote (i.e., dual-class common shares);
- the creation of restrictions on the transferability of common shares;
- the creation of authorized share capital or conditional share capital;
- an increase in our share capital by way of capitalization of reserves (*Kapitalerhöhung aus Reserven*), against contribution in kind (*Sacheinlage*), for the acquisition of assets (*Sachübernahme*), as well as involving the grant of preferences;
- a restriction or elimination of preemptive rights of shareholders in connection with a share capital increase;
- a relocation of our place of incorporation;
- the dissolution of the Company; and
- a merger, a demerger or a conversion according to the Swiss Merger Act.

In addition, our Articles of Association require the approval of a supermajority of at least two-thirds of the common shares represented at a shareholders' meeting to:

- create or abolish any restrictions on the exercise of voting rights;
- abolish any applicable restrictions on the transferability of shares;
- convert registered shares into bearer shares and vice versa; and
- modify any provisions in our Articles of Association requiring actions to be approved by a supermajority of the common shares represented at a shareholders' meeting.

Under Swiss corporate law, shareholders are not permitted to act by written consent in lieu of a shareholders' meeting.

#### *Record Date*

We intend to announce the dates of forthcoming shareholders' meetings not less than 30 days prior to the date of the shareholders' meeting in question and to set a date for eligibility to vote at the shareholders' meeting, which we refer to as the date of the closing of the books, not more than 20 days prior to the date of the shareholders' meeting in question.

We intend to mail shareholders' meeting materials to record owners and to beneficial owners of shares holding their shares through DTC through customary banking and brokerage channels within eight business days after the date of the closing of the books.

Shareholders of record and beneficial owners of shares holding their shares through DTC will have the opportunity to appoint proxies, in the case of shareholders of record, or give voting instructions, in the case of beneficial owners of shares holding their shares through DTC, or to request attendance at shareholders' meetings. Any request must be made through the same banking and brokerage channels as we originally used to send the shareholders' materials.

#### *Net Profits and Dividends*

Swiss corporate law requires us to retain at least 5% of our annual net profits as general reserves for so long as these reserves amount to less than 20% of our nominal share capital. All other net profits may be paid as dividends if approved by our shareholders.

Under Swiss corporate law, we may only pay dividends if we have sufficient distributable profits from prior business years, or if the reserves on our holding company-only balance sheet prepared in accordance with Swiss statutory accounting rules are sufficient to allow the distribution of a dividend. In either event, dividends may be distributed only following approval by our shareholders based on our statutory holding company-only accounts. Our board of directors may propose that a dividend be distributed, but our shareholders retain the final authority to determine whether a dividend is paid. Our statutory auditors also must confirm that the dividend proposal of the board of directors conforms to statutory law and our Articles of Association. Subject to the foregoing, we intend to pay dividends on our common shares. See "Dividend Policy."

We are required under Swiss corporate law to declare dividends on our shares in Swiss francs. Holders of our common shares will receive payments in U.S. dollars, unless they provide notice to our transfer agent, BNY Mellon Shareowner Services, that they wish to receive dividend payments in Swiss francs. BNY Mellon Shareowner Services will be responsible for paying the U.S. dollars or Swiss francs to registered holders of common shares, less amounts subject to withholding for taxes.

Dividends usually become due and payable promptly after our shareholders approve their payment. Dividends which remain unclaimed for five years after the due date become barred by the statute of limitations under Swiss law and are allocated to our general reserves.

Dividends on our common shares are subject to Swiss withholding taxes as described under the heading "Taxation."

#### **Borrowing Powers**

Neither Swiss law nor our Articles of Association restrict in any way our power to borrow and raise funds. The decision to borrow funds is made by or under the direction of our board of directors, and no approval by our shareholders is required.

#### **Conflicts of Interest**

Swiss law does not have a general provision regarding conflicts of interest. However, the Swiss Federal Code of Obligations requires directors and officers to safeguard the interests of the company and, in this connection, imposes duties of care and loyalty. This rule is generally understood as disqualifying directors and officers from participating in decisions directly affecting them. A breach of these provisions results in the breaching director or officer incurring personal liability to us. Our Organizational Regulations and Corporate Governance Guidelines provide special provisions addressing conflicts of interest of directors and requiring that interested directors abstain from voting on matters involving such a conflict of interest. In addition, under Swiss law, payments made to a shareholder or a director or any persons associated therewith, other than on arm's length terms, must be repaid to us if the recipient of the payment was acting in bad faith.

## **Repurchases of Shares**

Swiss law limits the amount of our shares that we may hold or repurchase. We, together with our subsidiaries, may only repurchase shares if (i) we have sufficient freely distributable reserves to pay the purchase price and (ii) the aggregate par value of the repurchased shares does not exceed 10% of the nominal share capital of our Company. Furthermore, we must create a reserve on our statutory balance sheet in the amount of the purchase price of the repurchased shares. Rights to vote are suspended on shares we or our subsidiaries repurchase, but these shares are entitled to the economic benefits applicable to our shares generally.

## **Dissolution; Merger**

We may be dissolved at any time with the approval of two-thirds of the common shares represented at a shareholders' meeting. Swiss law also requires the approval of two-thirds of the common shares represented at a shareholders' meeting in case of (i) a merger, (ii) a demerger or (iii) a conversion. Furthermore, our Independent Director Committee believes our Organizational Regulations provide that our board of directors may only approve a decision with respect to a merger, takeover, other business combination or related party transaction of Alcon with its majority shareholder if a majority of the Independent Director Committee so recommends; however, we cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position. Dissolution by court order is possible if we become bankrupt, or for cause at the request of shareholders holding at least 10% of our share capital. Under Swiss law, any surplus arising out of a liquidation, after the settlement of all claims of all creditors, is distributed to shareholders in proportion to the paid-up par value of shares held, subject to a Swiss withholding tax of 35% on the amount exceeding the paid-up par value. See "Taxation—Swiss Tax Considerations—Swiss Withholding Tax on Dividends and Similar Distributions."

## **Board of Directors**

### ***Number, Removal, Vacancies and Term***

Our Articles of Association provide that we will have at least seven directors at all times. All of our directors are elected by the vote of the holders of a majority of the common shares represented at a shareholders' meeting, and directors may be removed at any time with or without cause by the holders of a majority of the common shares represented at a shareholders' meeting. All vacancies on our board of directors must be filled by a vote of our shareholders. Each member of our board of directors must have nominal ownership of at least one common share, other than members of our board of directors who are representatives of a legal entity that owns common shares.

Our Articles of Association provide that the term of office for each director is three years, with the interval between two annual general meetings being deemed a year for this purpose. The initial term of office for each director will be fixed in such a way as to assure that about one-third of all the members must be newly elected or re-elected every year. Swiss law permits staggered terms for directors. Non-executive directors currently may only be appointed for up to four terms of office. Our Organizational Regulations provide that directors will retire from office no later than the annual general meeting after their 72<sup>nd</sup> birthday.

### ***Powers and Duties***

Pursuant to Swiss statutory law, our Articles of Association and Organizational Regulations, our board of directors is the corporate body responsible for our business strategy, financial planning and control, and supervision of executive management. Our Organizational Regulations contemplate that our board of directors is responsible for our business operations. Among other things, our board of directors as a whole has ultimate responsibility for: (i) the ultimate direction of Alcon and the issuance of the necessary guidelines; (ii) the determination of our organizational structure, including the enactment and amendment of the Organizational Regulations; (iii) the determination of our accounting principles, financial controls and financial planning; (iv) the appointment and removal of the secretary of the board of directors, members of board committees and our executive management, as well as the termination of their signatory power; (v) the ultimate supervision of our executive management; (vi) the preparation of our business report and financial statements, the preparation of shareholders' meetings and the implementation of resolutions adopted by our shareholders; (vii) the examination of the professional qualifications of our auditors; (viii) the

notification of the court if our liabilities exceed our assets (art. 725 CO); (ix) the approval of certain significant transactions, details of which are set out in our Organizational Regulations; (x) the exercise of shareholder rights in our subsidiaries, as well as the ultimate control of the business activities of our subsidiaries; (xi) the establishment of our dividend policy; (xii) the review and approval of the recommendations of the board committees; and (xiii) the response to any approach regarding a takeover offer.

Our Organizational Regulations set forth that they may be amended with the approval of two-thirds of the members of our board of directors attending a meeting, except as otherwise provided in our Organizational Regulations with respect to the Independent Director Committee.

### **Certain Anti-Takeover Provisions**

#### ***Business Combinations***

Pursuant to our Organizational Regulations, certain mergers, takeovers or other business combinations involving us must be approved by a majority of the Independent Director Committee, which is charged with protecting the interests of minority shareholders, as well as by the full board of directors.

The Independent Director Committee is charged with protecting the interests of minority shareholders. It has to evaluate and decide upon (i) a proposed merger, takeover, business combination or related party transaction of Alcon with its majority shareholder or any group company of the majority shareholder, (ii) a proposed bid for the minority shareholdings of Alcon by any entity owning a majority of our outstanding voting rights or (iii) a proposed repurchase by us of all of our shares not owned by an entity owning a majority of the outstanding voting rights of Alcon. The Independent Director Committee believes our board of directors may only approve a decision with respect to any of these matters if a majority of the Independent Director Committee so recommends; however, we cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

Since our common shares are not listed on any Swiss stock exchange, the restrictions on implementing a poison pill set forth in the Swiss Act on Stock Exchanges and Securities Trading, which we refer to as the "Swiss Stock Exchange Act," are not applicable to us. Anti-takeover measures implemented by our board of directors would be restricted by the principle of equal treatment of shareholders and the general rule that new shares may only be issued based on a shareholders' resolution; this rule generally bars a board of directors from issuing shares or options to all shareholders other than a hostile bidder. Shareholders may, however, implement certain anti-takeover measures through a shareholders' resolution.

#### ***Mandatory Bid Rules***

Since our common shares are not listed on any Swiss exchange, the mandatory bid rules specified in the Swiss Stock Exchange Act will not apply to us.

### **Notification and Disclosure of Substantial Share Interests**

The disclosure obligations generally applicable to shareholders of Swiss corporations under the Swiss Stock Exchange Act do not apply to us, since our common shares are not listed on a Swiss exchange. Since our common shares are listed on the NYSE, the provisions of the United States Securities Exchange Act of 1934, as amended, requiring disclosure of certain beneficial interests will apply to our common shares.

### **Transfer and Paying Agents**

Our transfer agent and paying agent for dividends and all other similar payments on our common shares is BNY Mellon Shareowner Services.

### **Auditors and Special Auditors**

In May 2010, the shareholders re-elected KPMG AG as Auditors for a one-year term of office. KPMG AG meets the requirements of the Swiss Federal Code of Obligations for auditing Swiss public companies. To the extent necessary for a review of the U.S. GAAP financial statements of Alcon, Inc., KPMG AG will draw on the expertise

and the resources of KPMG LLP, Fort Worth, Texas (USA). KPMG LLP also was retained for the filings to be made by Alcon, Inc. with the U.S. regulatory authorities. The shareholders re-elected OBT AG, Zurich, as special auditors for a one-year term of office. OBT AG meets the requirements of the Swiss Federal Code of Obligations for auditing Swiss public companies. The auditors and the special auditors are elected for a term ending at our next annual general shareholders' meeting.

### **Shares Eligible for Future Sale**

Our common shares held by Novartis are deemed "restricted securities" as defined in Rule 144, and may not be sold other than through registration under the Securities Act or under an exemption from registration, such as the one provided by Rule 144.

### **C. MATERIAL CONTRACTS**

Except as noted below, we are not party to any material contracts other than those entered into in the ordinary course of business.

1. The Company's \$2.0 billion Commercial Paper Program (the "CP Program"), under which Nestlé guaranteed the commercial paper issued and assisted in its management, was terminated prior to the change of majority ownership. We paid Nestlé an annual fee based on the average outstanding commercial paper balances. We believe that fees paid by us to Nestlé for their guarantee of any indebtedness or for the management of the CP Program were comparable to the fees that would be paid in an arm's length transaction. Total fees paid to Nestlé for the years ended December 31, 2010, 2009 and 2008 were less than \$1 million in each year.

In October 2005, the parties executed a Guarantee Fee and Commercial Paper Program Services Agreement (the "Services Agreement"), effective as of October 28, 2002, which is incorporated by reference as an exhibit to this annual report. Through this Services Agreement, the parties more formally documented the pre-existing CP Program. The Services Agreement stated that Nestlé would: (i) provide a guarantee in favor of the holders of notes issued by Alcon Capital Corporation, Alcon, Inc.'s indirect wholly owned subsidiary, as part of the CP Program and (ii) manage the CP Program. This agreement also was terminated prior to the change of majority ownership.

2. All prior lending commitments under unsecured demand notes payable to various Nestlé affiliates were terminated prior to the change of majority ownership.
3. On January 1, 2004, the Company entered into an agreement whereby Nestec S.A., an affiliate of Nestlé, provided certain treasury and investment services for the Company for a fee that was comparable to fees that would be paid in an arm's length transaction. The agreement was terminated prior to the change of majority ownership. Total fees paid to Nestec S.A. for the years ended December 31, 2010, 2009 and 2008 were \$1 million or less annually.
4. On January 12, 2009, Alcon Laboratories, Inc. entered into an employment contract under which it is to employ Kevin J. Buehler as President and Chief Executive Officer of Alcon Laboratories, Inc. and Alcon, Inc. and, subject to shareholder approval, as a member of the Alcon, Inc. board of directors. The agreement contains terms providing that Mr. Buehler will receive an annual base salary plus a performance bonus, assuming specified performance objectives are achieved. The agreement also provides that Mr. Buehler will be entitled to a lump sum payment if Alcon elects to terminate the agreement without cause or declines to renew the agreement. In addition, under the agreement, Mr. Buehler is entitled to receive an initial long term incentive grant.
5. On January 15, 2009, Alcon, Inc. entered into a services agreement with Cary R. Rayment in which Alcon agreed to appoint Mr. Rayment as the non-executive chairman of its board of directors, commencing on April 1, 2009, following his retirement as the Company's President and Chief Executive Officer. The term of the agreement commenced on April 1, 2009 and renews automatically on an annual basis thereafter unless or until terminated by either party upon thirty days written notice. Mr. Rayment was paid the customary Alcon, Inc. director compensation plus an additional amount relating to his duties as non-executive chairman of the board.

On October 24, 2010, Mr. Rayment ceded his position as chairman of the board and was appointed vice chairman. At the December 2010 meeting, the board approved extending Mr. Rayment's agreement with the same remuneration on a monthly basis for his service as vice chairman of the board until the next annual general meeting of the shareholders.

6. On February 27, 2008, Alcon entered into a letter agreement with Sabri Markabi, M.D. for the position of Senior Vice President, Research and Development. Pursuant to the terms of the agreement, Alcon will pay Dr. Markabi a monthly base salary and he will be eligible for an annual performance bonus based upon the achievement of mutually agreed upon performance objectives. If Alcon, Inc. undergoes a change of control and Dr. Markabi's employment with Alcon or the successor entity is terminated without cause or there is a material reduction in his responsibilities or a change in geographic location for his performance six months preceding or one year following such a change of control, Alcon or the successor entity will pay Dr. Markabi a lump sum payment. The agreement provides that Dr. Markabi is eligible to participate in and receive various benefits under the programs generally available to members of Alcon's senior management.
7. On December 21, 2009, Alcon entered into a letter agreement with Merrick R. McCracken for the position of Senior Vice President, Global Human Resources. Pursuant to the terms of the agreement, Alcon will pay Mr. McCracken an annual base salary and he will be eligible for an annual performance bonus based upon the achievement of mutually agreed upon performance objectives. If Alcon, Inc. undergoes a change of control and Mr. McCracken's employment with Alcon or the successor entity is terminated without cause or there is a material reduction in his responsibilities or a change in geographic location for his performance six months preceding or one year following such a change of control, Alcon or the successor entity will pay Mr. McCracken a lump sum payment. The agreement provides that Mr. McCracken is eligible to participate in and receive various benefits under the programs generally available to members of Alcon's senior management.
8. On July 6, 2010, Alcon entered into an agreement to acquire privately held LenSx Lasers, Inc., a surgical device company located in Aliso Viejo, CA. LenSx has developed and is nearing commercialization of a femtosecond laser system for use in cataract surgery. Alcon paid LenSx stockholders \$367 million in cash at closing and agreed to contingent payments of up to \$383 million based on achievement and over-achievement of annual revenue targets over the next 5 years. Following regulatory approval, the transaction closed on August 18, 2010.
9. On July 7, 2010, Alcon, as grantor, entered into the Alcon Litigation Trust Agreement with Thomas G. Plaskett, Joan W. Miller and Lodewijk J.R. De Vink, as trustees. The irrevocable Trust was established under New York law pursuant to a resolution of the Alcon board of directors. The Trust, which was funded with \$50 million, is intended to provide the financial means to commence, defend or maintain litigation relating to any transaction between Alcon and a majority shareholder, including the transaction contemplated by the merger proposal announced by Novartis on January 4, 2010. The Trust was dissolved and its property was returned to Alcon in December 2010 in connection with entry into the merger agreement below.
10. On December 14, 2010, Novartis and Alcon entered into a merger agreement whereby the parties agree that, subject to certain conditions, Novartis and Alcon shall merge pursuant to Swiss law and in accordance with the merger agreement. Novartis shall be the acquiring company which shall continue to operate, and Alcon shall be the transferring company which shall be dissolved upon completion. By operation of law, Alcon's assets, liabilities and contracts shall be transferred to Novartis in their entirety.

#### **D. EXCHANGE CONTROLS**

Other than in connection with government sanctions that may currently be imposed on Belarus, the Democratic Republic of Congo, Guinea, the Islamic Republic of Iran, Republic of Iraq, Ivory Coast, Lebanon, Liberia, Myanmar (Burma), the Democratic People's Republic of Korea (North Korea), Sierra Leone, Sudan, Somalia, Zimbabwe, Eritrea, persons related to the assassination of Rafik Hariri, on certain persons from the former Republic of Yugoslavia, and on persons or organizations with links to Osama bin Laden, the "al-Qaeda" group or the Taliban, and any other similar sanctions that the Swiss government may impose against various countries, regimes or parties, there are currently no Swiss governmental laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, Swiss foreign exchange controls on the payment of dividends, interest or liquidation proceeds, if any, to non-resident holders of registered shares.



## E. TAXATION

The following is a summary of the material Swiss tax and U.S. Federal income tax considerations relevant to the ownership, acquisition and disposition of our common shares. By its nature, this summary includes only a general discussion of such tax consequences and as such is not intended to be relied upon as tax advice. **DUE TO THE INHERENTLY INDIVIDUAL AND FACT SPECIFIC NATURE OF TAX CONSEQUENCES, ALL HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING AND DISPOSING OF COMMON SHARES, INCLUDING THE EFFECTS OF SWISS FEDERAL, U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAXES.**

For purposes of this discussion, a "U.S. Holder" is a holder that is any one of the following:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision of the United States;
- an estate the income of which is subject to U.S. Federal income taxation regardless of its source;
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust; or
- a person otherwise subject to U.S. Federal income tax on its worldwide income.

If a partnership holds common shares, the tax treatment of a partner will generally depend upon the partner's circumstances and upon the activities of the partnership. Partners of partnerships holding these common shares should consult their tax advisors as to the tax consequences of owning or disposing of common shares.

For purposes of this discussion, a "Swiss Holder" is any one of the following:

- an individual who is a resident of Switzerland;
- corporations and other legal entities that are incorporated in Switzerland;
- corporations and other legal entities that are effectively managed and controlled in Switzerland;
- a person otherwise subject to Swiss tax on its worldwide income; or
- corporations or other legal entities that hold our common shares as part of a permanent establishment located in Switzerland.

A "Non-U.S. Holder" is a holder that is not a U.S. Holder. This discussion does not address the U.S. Federal, local, state, foreign or other tax consequences for Non-U.S. Holders (other than Swiss tax consequences for Swiss Holders) as a result of the ownership or disposal of common shares. **NON-U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, LOCAL, STATE, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM AS A RESULT OF THE OWNERSHIP OR DISPOSAL OF COMMON SHARES.**

This summary is not a complete description of all of the tax consequences of the ownership or disposition of common shares. It is based on the current tax laws of Switzerland and the United States, including the United States Internal Revenue Code of 1986, as amended, its legislative history, temporary, existing and proposed Treasury Regulations, U.S. Internal Revenue Service rulings and judicial opinions, all as in effect on the date of this report and all subject to change, possibly with retroactive effect. Your individual circumstances may affect the tax consequences arising from your ownership and disposal of common shares, and your particular facts or circumstances are not considered in the discussion below.

The summary is not intended to apply to holders of common shares in particular circumstances, such as:

- dealers in securities;
- traders in securities who elect to apply a mark-to-market method of tax accounting;
- financial institutions;
- regulated investment companies;
- tax-exempt organizations;
- insurance companies;
- persons holding common shares as part of a hedging, straddle, conversion or other integrated transaction;
- holders who hold their common shares other than as capital assets;
- persons whose functional currency is not the U.S. dollar;
- certain U.S. expatriates;
- Swiss Holders of common shares with a value of at least CHF 1 million;
- persons subject to the U.S. alternative minimum tax; and
- holders of common shares that will own directly or indirectly, or will be deemed to own, 10% or more of either the total voting power or the total value of our stock.

Furthermore, this summary does not describe all the tax considerations relevant to persons who acquired common shares pursuant to compensatory arrangements.

## **Swiss Tax Considerations**

### *Swiss Withholding Tax on Dividends and Similar Distributions*

Dividends paid and other similar cash or in-kind distributions that are not a repayment of the nominal value of the shares or of qualifying additional paid-in capital made by us to a holder of common shares (including dividends on liquidation proceeds and stock dividends) are subject to a Swiss federal withholding tax at a rate of 35%. The withholding tax will be withheld by us on the gross distributions and will be paid to the Swiss Federal Tax Administration.

### *Swiss Holders*

A Swiss Holder who is an individual resident in Switzerland for tax purposes is generally entitled to a tax credit of the withholding tax incurred if that holder is the beneficial owner of such distributions at the time the distribution is due and duly reports the receipt thereof in the relevant tax return.

Legal entities incorporated in Switzerland or legal entities holding the common shares in the Company as part of a Swiss business operation or Swiss permanent establishment are generally entitled to a total refund of the withholding tax incurred if they are the beneficial owner of such distribution at the time the distribution is due and duly report the distribution in their profit and loss statement.

### *U.S. Holders*

A U.S. Holder who is an individual or a legal entity not resident in Switzerland for tax purposes may be entitled to a partial refund of the withholding tax incurred on a taxable distribution from us if the conditions of the bilateral tax

treaty between the United States and Switzerland are satisfied. A U.S. Holder who is a resident of the United States for purposes of the bilateral tax treaty between the United States and Switzerland is eligible for a reduced rate of withholding tax on dividends equal to 15% of the dividend, provided that such holder (i) qualifies for benefits under this treaty, (ii) holds, directly or indirectly, less than 10% of our voting stock and (iii) does not conduct business through a permanent establishment or fixed base in Switzerland to which common shares are attributable. Such an eligible U.S. Holder may apply for a refund of the amount of the withholding tax in excess of the 15% treaty rate. The claim for refund must be filed on Swiss Tax Form 82 (82C for corporations; 82I for individuals; 82E for other entities), which may be obtained from any Swiss consulate general in the United States or from the Swiss Federal Tax Administration at the address below, together with an instruction form. Four copies of the form must be duly completed, signed before a notary public of the United States and sent to the Swiss Federal Tax Administration, Eigerstrasse 65, CH 3003, Berne, Switzerland. The form must be accompanied by suitable evidence of deduction of Swiss tax withheld at source, such as certificates of deduction, signed bank vouchers or credit slips. The form may be filed on or after July 1 or January 1 following the date the dividend was payable, but no later than December 31 of the third year following the calendar year in which the dividend became payable. To facilitate the refund process, we have made arrangements with Globe Tax Services, Inc. to offer all U.S. Holders the opportunity to participate in a group refund claim.

#### *Other Holders*

Any other holder who is an individual or a legal entity not resident in Switzerland for tax purposes may be entitled to a total or partial refund of the withholding tax incurred on a taxable distribution from us if the country in which such holder resides for tax purposes has entered into a bilateral treaty for the avoidance of double taxation with Switzerland and the further conditions of such treaty are met. Other holders of common shares not resident in Switzerland should be aware that the procedures for claiming treaty benefits (and the time required for obtaining a refund) may differ from country to country. Other holders of common shares not resident in Switzerland should consult their own legal, financial or tax advisors regarding the receipt, ownership, purchase, sale or other disposition of shares and the procedures for claiming a refund of the withholding tax.

As of January 1, 2011, Switzerland had entered into bilateral treaties for the avoidance of double taxation with respect to income taxes with the following countries.

Albania	France	Luxembourg	Serbia
Algeria	Germany	Macedonia	Singapore
Argentina	Ghana	Malaysia	Slovak Republic
Armenia	Greece	Mexico	Slovenia
Australia	Hungary	Moldova	South Africa
Austria	Iceland	Mongolia	South Korea
Azerbaijan	India	Montenegro	Spain
Bangladesh	Indonesia	Morocco	Sri Lanka
Belarus	Iran	Netherlands	Sweden
Belgium	Israel	New Zealand	Thailand
Bulgaria	Italy	Norway	Trinidad and Tobago
Canada	Ivory Coast	Pakistan	Tunisia
Chile	Jamaica	People's Republic of China	Ukraine
Croatia	Japan	Philippines	United Kingdom
Czech Republic	Kazakhstan	Poland	United States
Denmark	Kuwait	Portugal	Uzbekistan
Ecuador	Kyrgyzstan	Qatar	Venezuela
Egypt	Latvia	Republic of Ireland	Vietnam
Estonia	Liechtenstein	Romania	
Finland	Lithuania	Russia	

In addition, new treaties have been signed with Colombia, Georgia, Hong Kong, Malta, Tajikistan, Turkey and Uruguay. These treaties are not yet in force, however. By exchange of notes, extension of the 1954 Treaty with the United Kingdom applies to Antigua and Barbuda, Barbados, Belize, British Virgin Islands, Dominica, Gambia, Grenada, Malawi, Montserrat, St. Kitts and Nevis, Anguilla, St. Lucia, St. Vincent and the Grenadines. By exchange of notes, the 1973 Treaty with Denmark applies to the Faroe Islands.

#### *Income and Profit Tax on Dividends and Similar Distributions*

##### *Swiss Holders*

A Swiss Holder of common shares who is an individual resident in Switzerland for tax purposes or a non-Swiss resident holding common shares as part of a Swiss business operation or a Swiss permanent establishment is required to report the receipt of taxable distributions received on the common shares in his or her relevant Swiss tax returns. A Swiss Holder that is a legal entity resident for tax purposes in Switzerland or a non-Swiss resident holding common shares as part of a Swiss establishment is required to include taxable distributions received on the common shares in its income subject to Swiss corporate income taxes. A Swiss corporation or co-operative or a non-Swiss corporation or co-operative holding common shares as part of a Swiss permanent establishment may, under certain circumstances, benefit from a tax relief with respect to dividends (*Beteiligungsabzug*).

##### *U.S. Holders and Other Holders*

U.S. and other holders of common shares that are not resident in Switzerland for tax purposes and do not hold common shares as part of a Swiss business operation or a Swiss permanent establishment are not subject to Swiss income taxes in respect of dividends and similar distributions received from us.

#### *Capital Gains Realized on Common Shares*

##### *Swiss Holders*

A Swiss Holder who is an individual resident in Switzerland for tax purposes holding common shares as part of his or her private property generally is exempt from Swiss federal, cantonal and communal taxes with respect to capital gains realized upon the sale or other disposal of the shares, unless such individual is qualified as a security trading professional for income tax purposes. Gains realized upon a repurchase of the common shares by us for the purpose of a capital reduction are characterized as taxable distributions. The same is true for gains realized upon a repurchase of the common shares if we were not to dispose of the repurchased shares within six years after the repurchase or such shares were repurchased in view of a capital reduction. Taxable income would be the difference between the repurchase price and the nominal value of the common shares and qualifying additional paid-in capital.

A Swiss Holder that holds the shares as business assets or a non-Swiss resident holding shares as part of a Swiss business operation or Swiss permanent establishment is required to include capital gains realized upon the disposal of common shares in its income subject to Swiss income tax. A Swiss Holder that is a legal entity resident in Switzerland for tax purposes or a non-Swiss resident legal entity holding common shares as part of a Swiss permanent establishment is required to include capital gains realized upon the disposal of common shares in its income subject to Swiss corporate income tax.

In both cases, capital gains would be the surplus (if any) of sales proceeds over tax book value.

##### *U.S. Holders and Other Holders*

U.S. and other holders of common shares that are not resident in Switzerland for tax purposes and do not hold common shares as part of a Swiss business operation or a Swiss permanent establishment are not subject to Swiss income taxes on gains realized upon the disposal of common shares.

## *Net Worth and Capital Taxes*

### *Swiss Holders*

A Swiss Holder of common shares who is an individual resident in Switzerland for tax purposes or is a non-Swiss resident holding common shares as part of a Swiss business operation or Swiss permanent establishment is required to include his or her shares in his or her wealth that is subject to cantonal and communal net worth tax. A Swiss Holder that is a legal entity resident in Switzerland for tax purposes or a non-Swiss resident legal entity holding common shares as part of a Swiss permanent establishment is required to include its common shares in its assets. The legal entity equity is then subject to cantonal and communal capital tax.

### *U.S. Holders and Other Holders*

U.S. and other holders of common shares that are not resident in Switzerland for tax purposes and do not hold common shares as part of a Swiss business operation or a Swiss permanent establishment are not subject to Swiss cantonal and communal net worth and capital taxes.

### *Stamp Taxes upon Transfer of Securities*

The transfer of common shares by any holder may be subject to a Swiss securities transfer tax of up to 0.15% calculated on the transaction value if it occurs through or with a Swiss bank or other securities dealer as defined in the Swiss Federal Stamp Tax Act. The stamp duty is paid by the securities dealer and may be charged to the parties in a taxable transaction who are not securities dealers or exempt entities. Transactions in common shares effected by or through non-Swiss financial institutions are generally not subject to Swiss securities transfer tax, but may be subject to other local stamp taxes, stock exchange levies or other duties.

## **U.S. Federal Income Tax Considerations for U.S. Holders**

### *Taxation of Dividends*

The gross amount of a distribution made by us, including any amounts of Swiss tax withheld, will be taxable to a U.S. Holder as dividend income to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. Federal income tax purposes. The Company is a "qualified foreign corporation," and thus dividend income received by an individual taxpayer (assuming certain holding period requirements are met) generally is taxable to such U.S. Holder at the rate imposed on net capital gains, which currently cannot exceed 15%. Dividends received on common shares will not be eligible for the dividends received deduction generally allowed to corporations.

Distributions in excess of our current and accumulated earnings and profits will constitute a nontaxable return of capital to a U.S. Holder to the extent of the U.S. Holder's tax basis in its common shares. To the extent that such distributions are in excess of the U.S. Holder's basis in its common shares, the distribution will constitute gain from the deemed sale or exchange of the U.S. Holder's shares. See "Tax on Sale or Exchange of Common Shares" below.

The amount of a distribution will be the U.S. dollar value of the Swiss franc payment, determined at the spot Swiss franc/U.S. dollar rate on the date the dividend is includible in a U.S. Holder's income, regardless of whether the payment in fact is converted into U.S. dollars.

A U.S. Holder will generally be entitled to claim a foreign tax credit with respect to distributions received from us only for foreign taxes (such as Swiss withholding taxes) imposed on dividends paid to such U.S. Holder and not for taxes imposed on us or on any entity in which we have made an investment. Distributions with respect to the common shares that are taxable as dividends generally will be treated as foreign source passive income (or, for certain U.S. Holders of "financial services income," as defined in the Code, general category income) for U.S. foreign tax credit purposes. For the purpose of determining the foreign tax credit limitation, the amount of such dividend distributions is reduced under a special rule that generally ensures that the amount of the foreign taxes imposed on the dividend that can be currently credited against the U.S. Holder's U.S. Federal income tax liability will not exceed the U.S. Federal income tax on the distribution. Alternatively, a U.S. Holder may generally deduct foreign taxes (such as Swiss withholding taxes) imposed on dividends paid to such U.S. Holder. The decision to claim a credit or take a

deduction for foreign taxes imposed on a U.S. Holder applies to all such taxes incurred by the U.S. Holder during the taxable year.

#### *Tax on Sale or Exchange of Common Shares*

For U.S. Federal income tax purposes, a U.S. Holder generally will recognize gain or loss on a sale, exchange or other disposition of common shares, unless a specific nonrecognition provision applies. That gain or loss will be measured by the difference between the U.S. dollar value of the amount of cash, and the fair market value of any other property, received and the U.S. Holder's tax basis in the common shares. A U.S. Holder's tax basis in the common shares will generally equal the amount paid by the U.S. Holder for the common shares. Gain or loss arising from a sale or exchange of common shares will be capital gain or loss and will be long term if the holding period of the U.S. Holder for the shares exceeds one year. In general, gain from a sale or exchange of shares by a U.S. Holder will be treated as United States source income for U.S. foreign tax credit limitation purposes.

#### *Controlled Foreign Corporation*

We do not expect to be deemed a "controlled foreign corporation" because we expect more than 50% of the voting power and value of our shares to be held by non-U.S. persons. If more than 50% of the voting power or value of our shares were owned (directly or indirectly or by attribution) by U.S. Holders who hold 10% or more of the voting power of our outstanding shares, then we would become a controlled foreign corporation and the U.S. Holders who hold 10% or more of our voting power would be required to include in their taxable income as a constructive dividend an amount equal to their share of certain of our undistributed income.

#### *Passive Foreign Investment Company*

We do not expect to be a passive foreign investment company because less than 75% of our gross income will consist of certain "passive" income and less than 50% of the average value of our assets will consist of assets that produce, or are held for the production of, such passive income. For this purpose, "passive" income generally includes dividends from unrelated companies, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets that produce passive income. If we were to become a passive foreign investment company, which determination will be made on an annual basis, the passive foreign investment company rules could produce significant adverse consequences for a U.S. Holder (regardless of the ownership percentage of our shares held by such holder), including the loss of the preferential tax rate on dividends.

#### *Backup Withholding and Information Reporting*

Under certain circumstances, a U.S. Holder who is an individual may be subject to information reporting requirements and backup withholding, currently at a 28% rate, on dividends received on common shares. This withholding generally applies only if that individual holder:

- fails to furnish his or her taxpayer identification number to the U.S. financial institution that is in charge of the administration of that holder's common shares or any other person responsible for the payment of dividends on the common shares;
- furnishes an incorrect taxpayer identification number;
- is notified by the U.S. Internal Revenue Service that he or she has failed to properly report payments of interest or dividends and the U.S. Internal Revenue Service has notified us that the individual holder is subject to backup withholding; or
- fails, under specified circumstances, to comply with applicable certification requirements.

Any amount withheld from a payment to a U.S. Holder under the backup withholding rules will be allowable as a credit against such U.S. Holder's U.S. Federal income tax liability, provided that the required information is furnished to the U.S. Internal Revenue Service.

U.S. Holders should consult their own tax advisor as to the application of the U.S. Federal information reporting and backup withholding requirements to them and their qualification, if any, for an exemption under these rules.

This discussion, which does not address any aspects of U.S. taxation other than Federal income taxation relevant to U.S. Holders of common shares, is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor and no representation with respect to the tax consequences to any particular investor is made. **DUE TO THE INDIVIDUAL NATURE OF TAX CONSEQUENCES, U.S. HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING AND DISPOSING OF COMMON SHARES, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES.**

**F. DIVIDENDS AND PAYING AGENTS**

Not Applicable.

**G. STATEMENT OF EXPERTS**

Not Applicable.

**H. DOCUMENTS ON DISPLAY**

The descriptions of each contract, agreement or other document filed as an exhibit to this report on Form 20-F are summaries only and do not purport to be complete. Each such description is qualified in its entirety by reference to such exhibit for a more complete description of the matter involved.

We are subject to the informational requirements of the Exchange Act and in accordance therewith will file reports and other information with the SEC. Such reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at its principal offices at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such information may be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. The Commission also maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

As a foreign private issuer, we are not subject to the proxy rules under Section 14 of the Exchange Act and our officers, directors and principal shareholders are not subject to the insider short-swing profit disclosure and recovery provisions under Section 16 of the Exchange Act.

As a foreign private issuer, we are not required to publish financial statements as frequently or as promptly as U.S. companies; however, we intend to publish and, upon request, to furnish holders of our common shares with reports annually containing consolidated financial statements audited by independent accountants. We also intend to file quarterly unaudited financial statements under cover of Form 6-K.

**I. SUBSIDIARY INFORMATION**

Not Applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Interest Rate Risks***

Because we have previously, and expect to continue, to finance our operations, in part, through loans, we are exposed to interest rate risks that could impact our results of operations and financial position. At December 31, 2010, the majority of our loans were short term, floating rate loans that will become more expensive when interest rates rise and less expensive when they fall. We have partly mitigated this risk by investing our cash, cash

equivalents and short term investments in floating rate investments. We evaluate the use of interest rate swaps and periodically use such agreements to manage interest rate risk on selected debt instruments.

In January 2001, we entered into a 10-year interest rate swap with a notional amount of 5 billion Japanese yen, effectively converting our 5 billion Japanese yen fixed interest rate (1.6%) obligation to a floating rate LIBOR (0.2% at December 31, 2010) instrument. At December 31, 2010, the fair value of the interest rate swap was less than \$1 million, based on market data, including the relevant interest rate. The equivalent notional principal amount at December 31, 2010 was \$61 million.

At December 31, 2010, our interest rate sensitivity was largely dependent on the following balance sheet components:

#### Interest Rate Sensitivity

	<u>Fair Value/ Notional Amount Segment</u>		<u>Annual Pretax Earnings Effect 100 Basis Points Decrease in Rates (in millions)</u>		<u>100 Basis Points Increase in Rates</u>
<b><u>Variable Rate Instruments</u></b>					
Assets:					
Cash and Cash Equivalents - Variable Rate .....	\$ 2,525		\$ (25)		\$ 25
Liabilities:					
Short Term Debt - Variable Rate .....	337		3		(3)
Interest Rate Swaps – Variable Rate .....	61		1		(1)
Net .....			<u>\$ (21)</u>		<u>\$ 21</u>

Additionally, the Company holds fixed income portfolios with various strategies, all of which are actively managed within specific risk parameters. The market value of the Company's fixed income portfolios classified as available-for-sale investments was approximately \$1,281 million at December 31, 2010, of which \$560 million were U.S. government and agency securities, \$9 million were mortgage-backed securities, \$690 million were corporate debt securities, and \$22 million were certain other investments.

#### ***Credit Risks***

In the normal course of our business, we incur credit risk because we extend trade credit to our customers. We believe that these credit risks are well diversified, and our internal staff actively manages these risks. Our principal concentrations of trade credit are generally with large and financially sound corporations, such as large retailers and grocery chains, drug wholesalers and governmental agencies. It is not unusual for our five largest customers in the United States to represent in the aggregate approximately 16% of the outstanding balance of gross accounts receivable; however, no single customer accounted for more than 10% of the Company's consolidated sales in the year ended December 31, 2010.

In connection with our sales of surgical equipment, we frequently finance the purchase of our equipment and enter into leases and other financial transactions with our customers. In general, these loans and other transactions range in duration from one to five years and in principal amount range from \$15,000 to \$500,000. We conduct credit analyses of the customers to whom we extend credit and secure the loans and leases with the purchased surgical equipment. Over the last 24 years, we have offered financing programs for surgical equipment and losses have not been material to our operations. In countries that may be subject to high inflation, the credit risks to which we are exposed can be larger and less predictable.

We conduct some of our business through export operations and are exposed to country credit risk. This risk is mitigated by the use, where applicable, of letters of credit confirmed by large commercial banks in Switzerland and the United States.



In certain countries in the European Union, many of our government customers have significantly delayed payment of amounts owed to us for their purchase of our products. This has increased our exposure to credit risk in these countries. We regularly review these risks and take appropriate actions related to them.

### ***Currency Risk***

Because a significant portion of our revenues and earnings are denominated in foreign currencies, we are exposed to market risk from changes in currency exchange rates that could impact our results of operations and financial position. We manage our exposure to these currency risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments.

We use foreign currency forward contracts and options to manage the volatility of non-functional currency monetary assets and liabilities resulting from changes in exchange rates. Foreign currency forward contracts are used primarily to hedge intercompany receivables and payables. The use of these derivative financial instruments allows us to reduce our overall exposure to exchange rate fluctuations, since the gains and losses on the derivative contracts substantially offset losses and gains on the underlying assets and liabilities being hedged.

The fair value of foreign currency forward contracts is subject to changes in currency exchange rates. Because we target hedging less than 100% of currency risk, we believe that any gains or losses to foreign currency forward contracts resulting from exchange rate fluctuations primarily would offset gains or losses on the underlying foreign currency assets or liabilities. Regarding foreign currency forward contracts, an instantaneous 10% appreciation in the value of foreign currencies against the U.S. dollar at December 31, 2010 would have decreased our earnings before income taxes by approximately \$68 million. We believe that such losses would be offset primarily by gains on the underlying foreign currency assets or liabilities.

At December 31, 2010, our financial instruments included \$680 million equivalent notional amount of foreign currency forward contracts intended to offset potential earnings effects from intercompany receivables and loans (denominated in various currencies) held by a Swiss subsidiary.

### ***Other Market Risk***

Management reevaluated the Company's overall investment portfolio strategy and mix of investments in light of market conditions late in 2008. In December 2008, the board of directors authorized the Company to liquidate holdings in hedge funds and real estate investment trusts in an effort to reduce investment portfolio volatility. In January 2009, the Company sold its investment in real estate investment trusts. The Company filed redemption requests with the managers of the hedge funds and received the majority of the proceeds of these redemptions during 2009. Proceeds from these liquidations in 2009 were reinvested primarily in cash, cash equivalents and investment-grade fixed income investments. The Company expects to receive additional proceeds from the remaining hedge funds redemptions during 2011.

The Company's hedge fund investments are professionally managed by firms with long term performance records. Asset allocation and manager performance are monitored regularly. At December 31, 2010, the fair value of the Company's hedge funds was \$6 million. The hedge funds were classified as trading securities.

The values of these investments are subject to market price volatility. The potential impact to the fair value of this portion of the investment portfolio assuming a hypothetical change in value of each security of a decline and an increase of 10% would be a reduction of \$1 million or an increase of \$1 million, respectively. While actual market prices for individual securities of this type can be volatile, this sensitivity assumes that all securities in the portfolio exhibit the same volatility concurrently. Security market prices change in a more complex fashion than presented.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

### ITEM 15. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. As of the end of the period covered by this annual report (the "Evaluation Date"), the Company conducted an evaluation (under the supervision and with the participation of the Company's management, including its chief executive officer and its chief financial officer) pursuant to Rule 13a-15 of the Exchange Act of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)).

Based on this evaluation, the Company's chief executive officer and its chief financial officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on this evaluation, the Company's chief executive officer and its chief financial officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures also were effective to provide reasonable assurance that material information required to be disclosed by the Company in reports it files or submits under the Exchange Act were accumulated and communicated to the Company's chief executive officer and its chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

- (b) Management's Report on Internal Control over Financial Reporting. Management's Report on Internal Control over Financial Reporting is included under Item 18 on page F-2.
- (c) Attestation Report of the Registered Public Accounting Firm. The report of KPMG LLP, an independent registered public accounting firm, is included under Item 18 on page F-4.
- (d) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation performed above that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### ITEM 16. [RESERVED]

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Alcon's board of directors has determined that Thomas G. Plaskett is an "audit committee financial expert" as defined in the instructions for Item 16A of Form 20-F. Mr. Plaskett is "independent," as determined in accordance with the rules of the NYSE.

### ITEM 16B. CODE OF ETHICS

Alcon has adopted a Code of Business Conduct and Ethics that applies to all employees, including its Chief Executive Officer, Chief Financial Officer and its principal accounting officer. The Company has posted this Code of Ethics to its website, [www.alcon.com](http://www.alcon.com), where it is publicly available. In addition, Alcon will provide a printed copy of its Code of Business Conduct and Ethics to its shareholders without charge upon request. All such requests should

be sent in writing to Global Compliance, Alcon Laboratories, Inc., 6201 South Freeway, TA2-2, Fort Worth, Texas 76134.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The aggregate worldwide fees billed by KPMG LLP and its affiliates for professional services to the Company were \$7.8 million in 2010 and \$6.1 million in 2009, as noted below.

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Audit fees (1).....	\$ 7,306	\$ 5,790
Audit-related fees (2).....	57	57
Tax fees (3).....	353	240
All other fees (4).....	78	47
Total fees.....	<u>\$ 7,794</u>	<u>\$ 6,134</u>

- (1) Audit fees represent fees for professional services provided for the integrated audit of the Company's annual financial statements, review of the Company's quarterly financial statements, and statutory audits for the Company's worldwide subsidiaries/affiliates. In 2010, audit fees include additional fees related to the change of majority ownership and reporting to Novartis, for which the Company expects reimbursement from Novartis.
- (2) Audit-related fees consisted principally of fees for international audit coordination and audits of financial statements of certain employee benefit plans.
- (3) Tax fees represent fees for professional services related to tax compliance and tax planning/advisory consultation.
- (4) All other fees represent professional services provided for services not directly supporting financial statement audits.

The above professional services are covered within the scope of audit and permitted non-audit services as defined by SEC regulations. All fees disclosed for the fiscal years ended December 31, 2010 and 2009 have been approved by the Audit Committee, subject to the policy and procedures described below.

**Audit Committee Pre-Approval Policy and Procedures**

***Policy***

The Audit Committee will pre-approve the following professional services provided to Alcon, Inc. and its subsidiaries as rendered by the primary Alcon Group external auditors and additional external auditors specific to the Company subsidiary ("external auditors"):

- (1) All auditing services (which may entail providing comfort letters in connection with securities underwritings or statutory audits); and
- (2) All non-audit services, including tax services.

***Procedures***

- 1. On an annual basis, the Audit Committee will review and approve the specific financial/statutory audits for the fiscal year ending to be rendered by the external auditors prior to the engagement of the service.
- 2. Specifically related to permitted tax services, the Audit Committee annually pre-approves such particular services for all Company subsidiaries rendered by the external auditors. All other tax services to be performed

by the external auditors as needed or incremental to the annual pre-approved services list will be approved by the Audit Committee prior to engagement of the service.

3. Any other non-audit service by the external auditors not prohibited by Company policy or SEC regulation will be pre-approved on a case-by-case basis by the Audit Committee.
4. The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals required by this policy/procedure. The decisions of any Audit Committee member to whom authority is delegated to pre-approve a service shall be presented to the full Audit Committee at its next scheduled meeting.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table provides information with respect to purchases made during the year ended December 31, 2010 by or on behalf of Alcon or any "affiliated purchaser," of its common shares that are registered pursuant to Section 12 of the Exchange Act.

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased (a)(b)(c)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)(b)(c)</b>	<b>Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (d)(e)</b>
January 1 to 31, 2010	4,369	155.67	4,369	1,759,660
February 1 to 28, 2010	41,175	157.58	41,175	1,718,485
March 1 to 31, 2010	10,204	162.33	10,204	1,708,281
April 1 to 30, 2010	19,028	152.88	19,028	1,689,253
May 1 to 31, 2010	1,174	151.76	1,174	1,688,079
June 1 to 30, 2010	820	148.21	820	1,687,259
July 1 to 31, 2010	1,560	152.89	1,560	1,685,699
August 1 to 31, 2010	74,600	160.28	74,600	1,611,099
September 1 to 30, 2010	28,456	165.21	28,456	1,582,643
October 1 to 31, 2010	9,679	167.21	9,679	1,572,964
November 1 to 30, 2010	6,531	167.12	6,531	1,566,433
December 1 to 31, 2010	9,493	161.28	9,493	1,556,940
<b>Total</b>	<b>207,089</b>	<b>160.18</b>	<b>207,089</b>	<b>N/A</b>

(a) Based on settlements occurring within the month.

(b) Shares purchased include shares withheld to cover employee taxes under provisions of employee share-based compensation plans.

(c) In addition to the purchases disclosed in this table, during 2010 the Company also acquired 239 treasury shares from forfeitures of restricted shares by employees who terminated employment with the Company before vesting in such shares.

(d) On September 7, 2007, Alcon's board of directors authorized the purchase in the market of up to 2,000,000 Alcon common shares. The Company plans to use the acquired shares to cover the expected future exercises of employee share-based awards. From time to time, the Company may purchase shares in the open market.

- (e) In 2008, as a result of the agreement between Nestlé and Novartis discussed in note 16 to the consolidated financial statements, the Company halted the purchase of Alcon common shares in the open market under all share repurchase programs. However, the Company has continued to acquire shares withheld from employees' exercises of share-based awards to cover their taxes.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

**Compliance with NYSE Listing Standards on Corporate Governance**

On November 4, 2003, the SEC approved rules proposed by the NYSE intended to strengthen corporate governance standards for listed companies. These corporate governance listing standards supplement the corporate governance reforms already adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002.

Alcon has adopted Corporate Governance Guidelines, which are publicly available on its website, [www.alcon.com](http://www.alcon.com). Alcon will provide a printed copy of its Corporate Governance Guidelines to its shareholders upon request.

These rules did not change the NYSE's traditional approach of permitting listed companies that are foreign private issuers, such as Alcon, to follow their home jurisdiction governance practices where such practices differ from the NYSE requirements. However, listed companies that are foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. These are identified in the first table below.

In addition, certain of the NYSE's corporate governance standards allow for an exemption for "controlled companies," as defined under the NYSE listing standards. The NYSE listing standards require a controlled company that chooses to take advantage of any or all of these exemptions must disclose that choice, that it is a controlled company and the basis for the determination. Alcon has determined that it is a controlled company for purposes of the NYSE listing standards, as approximately 77% of the outstanding common shares of Alcon are owned by Novartis AG, and Novartis has the right to appoint six of the eleven members of our board of directors. The second table below identifies the NYSE listing standards from which Alcon has elected to use the controlled company exemption.

<b>NYSE rules applicable to U.S. listed companies</b>	<b>Alcon's practice</b>
A U.S. listed company's compensation committee must have a written charter providing the committee with responsibility for approving corporate goals and objectives relevant to Chief Executive Officer ("CEO") compensation.	Alcon's compensation committee charter gives it the responsibility for reviewing and assessing the corporate goals and objectives relevant to CEO compensation, but in accordance with Swiss law the board of directors is responsible for actually approving those goals and objectives.
A U.S. listed company must assign the responsibility to determine and approve the CEO's compensation level to the compensation committee.	Pursuant to Swiss law, the determination of CEO compensation is the responsibility of the board of directors. Alcon's compensation committee evaluates CEO compensation and makes a recommendation to the board of directors.
All listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	Rule 10A-3 of the Exchange Act requires the audit committee of a U.S. company to be directly responsible for the appointment of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit review or attest services. There is an exception for foreign private issuers that are required under home country law to have statutory auditors selected pursuant to home country requirements.  Swiss law requires that Alcon's statutory auditors be appointed by the shareholders at the annual general meeting of the shareholders and that the board of directors recommends to the shareholders whether to approve the statutory auditors. Alcon's audit committee is responsible for evaluating the statutory auditors and advising the board of directors of its recommendation regarding their appointment.
A U.S. listed company must obtain shareholder approval of amendments to employee plans involving the stock of the company that are deemed material pursuant to NYSE Listed Company Manual Section 303A.08.	The Amended 2002 Alcon Incentive Plan was amended by action of the board of directors without necessity of obtaining shareholder approval. Pursuant to Swiss law, shareholder approval is not required to make material amendments to employee equity incentive plans. Rather, the authority to do so lies with the board of directors. However, shareholder approval is required to increase conditional capital if the number of shares required to satisfy the Amended 2002 Alcon Incentive Plan exceeds the existing conditional capital and the treasury shares available.
<b>NYSE rules under which Alcon claims exemption as a controlled company</b>	<b>Alcon's practice</b>
A majority of the directors of a U.S. listed company's board must be independent.	Alcon's board consists of (i) three independent directors, (ii) six directors that were designated by Novartis, (iii) the vice chairman and (iv) the CEO of Alcon Laboratories, Inc.
A U.S. listed company's nominating/corporate governance committee must be composed entirely of independent directors.	Alcon's nominating/corporate governance committee is composed of at least two independent directors and at least one director designated by Novartis as long as Novartis remains as Alcon, Inc.'s majority shareholder.
A U.S. listed company's compensation committee must be composed entirely of independent directors.	Alcon's compensation committee is composed of at least two independent directors and at least one director designated by Novartis as long as Novartis remains as Alcon, Inc.'s majority shareholder.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not Applicable.

**ITEM 18. FINANCIAL STATEMENTS**

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ITEM 19. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description
1.1	Registrant's Articles of Association, as of January 20, 2011 (Incorporated by reference to Exhibit 99.1 of Registrant's Report on Form 6-K filed on February 10, 2011)
1.2	Registrant's Organizational Regulations, as of February 2, 2011
2.1	The Registrant agrees to furnish copies of any instruments defining the rights of holders of long term debt of the Registrant and its consolidated subsidiaries to the Commission upon request.
4.1	Amended 2002 Alcon Incentive Plan effective January 1, 2010 (Incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on October 29, 2009, File No. 333-162738)
4.2	Alcon Executive Deferred Compensation Plan (Incorporated by reference to Exhibit 99.1 of Registrant's Report on Form 6-K filed on March 5, 2009)
4.3	Alcon 401(k) Retirement Plan and Trust (Incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on October 29, 2009, File No. 333-162736)
4.4	Alcon Excess 401(k) Plan (Incorporated by reference to Exhibit 99.5 of Registrant's Report on Form 6-K filed on March 5, 2009)
4.5	Alcon Supplemental Executive Retirement Plan for Alcon Holdings, Inc. and Affiliated Entities (Incorporated by reference to Exhibit 99.2 of Registrant's Report on Form 6-K filed on March 5, 2009)
4.6	Alcon Supplemental Executive Retirement Plan for Alcon, Inc. as Successor to Alcon Holdings, Inc. and Affiliated Entities (Incorporated by reference to Exhibit 99.3 of Registrant's Report on Form 6-K filed on March 5, 2009)
4.7	Alcon Supplemental Executive Retirement Plan II for Alcon, Inc. as Successor to Alcon Holdings, Inc. and Affiliated Entities (Incorporated by reference to Exhibit 99.4 of Registrant's Report on Form 6-K filed on March 5, 2009)
4.8	Amended and Restated Registration Rights Agreement dated as of December 10, 2009 between Alcon, Inc. and Nestlé S.A. (Incorporated by reference to Exhibit 99.2 of Registrant's Report on Form 6-K filed on March 11, 2010)
4.9	Registration Rights Agreement dated as of December 10, 2009 between Alcon, Inc. and Novartis AG (Incorporated by reference to Exhibit 99.3 of Registrant's Report on Form 6-K filed on March 11, 2010)
4.10	Shareholder Coordination Letter Agreement dated December 10, 2009 between Alcon, Inc., Nestlé S.A. and Novartis AG (Incorporated by reference to Exhibit 99.1 of Registrant's Report on Form 6-K filed on March 11, 2010)
4.11	Stock Purchase Agreement between Alcon Holdings Inc. and LenSx Lasers Inc. and the Shareholders Listed Herein and William Link and James Garvey as the Sellers' Representatives dated July 6, 2010 (Incorporated by reference to Exhibit 99.1 to the Registrant's Report on Form 6-K filed on July 9, 2010)
4.12	Alcon Litigation Trust Agreement dated July 7, 2010, between Alcon, as grantor, and Thomas G. Plaskett, Joan W. Miller and Lodewijk J.R. de Vink, as trustees.



**EXHIBIT INDEX (continued)**

<b>Exhibit No.</b>	<b>Description</b>
4.13	Merger Agreement dated December 14, 2010 between Novartis AG and Alcon, Inc. (Incorporated by reference to Exhibit 99.1 to the Registrant's Report on Form 6-K filed on December 16, 2010)
8.1	Significant Subsidiaries of the Registrant (Incorporated by reference to Exhibit 8.1 to the Registrant's Annual Report on Form 20-F filed on March 17, 2009)
12.1	Certification of Chief Executive Officer Required by Rule 13a-14(a) (17 CFR240.13a-14(a)) or Rule 15d-14(a) (17 CFR240.15d-14(a))
12.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) (17 CFR240.13a-14(a)) or Rule 15d-14(a) (17 CFR240.15d-14(a))
13.1	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

## SIGNATURES

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**Alcon, Inc.**  
(Registrant)

/s/ Robert Karsunky

Robert Karsunky, Senior Vice President, Finance,  
Chief Financial Officer and Corporate Strategy Officer

Date:  
March 18, 2011

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Alcon, Inc.'s management is responsible for establishing and maintaining adequate internal control over financial reporting. Alcon, Inc.'s internal control system was designed to provide reasonable assurance to the Company's management regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Alcon, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of December 31, 2010, Alcon, Inc.'s internal control over financial reporting is effective based on those criteria.

/s/ Kevin J. Buehler

Kevin J. Buehler  
President and  
Chief Executive Officer

/s/ Robert Karsunky

Robert Karsunky  
Senior Vice President, Finance,  
Chief Financial Officer and  
Corporate Strategy Officer

February 1, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Alcon, Inc.:

We have audited the accompanying consolidated balance sheets of Alcon, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alcon, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alcon, Inc.'s internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 1, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
KPMG LLP

Fort Worth, Texas  
February 1, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Alcon, Inc.:

We have audited Alcon, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alcon, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alcon, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control--Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alcon, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 1, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
KPMG LLP

Fort Worth, Texas  
February 1, 2011

**ALCON, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions, except share data)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ 2,525	\$ 3,007
Short term investments.....	889	479
Trade receivables, net .....	1,483	1,346
Inventories.....	693	626
Deferred income tax assets.....	172	162
Other current assets.....	307	213
Total current assets .....	6,069	5,833
Long term investments .....	398	73
Property, plant and equipment, net .....	1,388	1,304
Intangible assets, net.....	953	255
Goodwill.....	833	688
Long term deferred income tax assets .....	261	391
Other assets.....	171	142
Total assets.....	\$ 10,073	\$ 8,686
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable .....	\$ 370	\$ 321
Short term borrowings .....	337	607
Current maturities of long term debt.....	62	--
Other current liabilities .....	1,022	1,047
Total current liabilities .....	1,791	1,975
Long term debt, net of current maturities .....	--	56
Long term deferred income tax liabilities.....	65	59
Other long term liabilities .....	965	691
Contingencies (note 17)		
Shareholders' equity:		
Common shares, par value CHF 0.20 per share, 320,254,200 shares authorized; 305,044,983 shares issued and 302,390,266 shares outstanding at December 31, 2010; 304,016,290 shares issued and 299,550,733 shares outstanding at December 31, 2009 .....	42	42
Additional paid-in capital.....	1,669	1,535
Accumulated other comprehensive income .....	98	203
Retained earnings.....	5,706	4,533
Treasury shares, at cost; 2,654,717 shares at December 31, 2010; and 4,465,557 shares at December 31, 2009 .....	(263)	(408)
Total shareholders' equity .....	7,252	5,905
Total liabilities and shareholders' equity.....	\$ 10,073	\$ 8,686

See accompanying notes to consolidated financial statements.

**ALCON, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS**

	Years ended December 31,		
	2010	2009	2008
	(in millions, except share data)		
Sales.....	\$ 7,179	\$ 6,499	\$ 6,294
Cost of goods sold .....	1,675	1,614	1,472
Gross profit .....	5,504	4,885	4,822
Selling, general and administrative.....	2,070	1,935	1,961
Research and development .....	747	665	619
Amortization of intangibles .....	60	24	29
Other operating expenses.....	152	--	--
Operating income.....	2,475	2,261	2,213
Other income (expense):			
Gain (loss) from foreign currency, net .....	(3)	(3)	(21)
Interest income .....	29	46	76
Interest expense .....	(9)	(16)	(51)
Other, net.....	35	25	(134)
Earnings before income taxes .....	2,527	2,313	2,083
Income taxes .....	317	306	36
Net earnings .....	\$ 2,210	\$ 2,007	\$ 2,047
Basic earnings per common share .....	\$ 7.34	\$ 6.72	\$ 6.86
Diluted earnings per common share .....	\$ 7.27	\$ 6.66	\$ 6.79
Basic weighted average common shares .....	300,932,749	298,847,072	298,504,732
Diluted weighted average common shares .....	304,104,272	301,348,181	301,582,676

See accompanying notes to consolidated financial statements.



**ALCON, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**Years Ended December 31, 2010, 2009 and 2008**

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares	Total
	Number of Shares Outstanding	Amount					
	(in millions, except share data)						
Balance, December 31, 2007.....	297,662,706	\$ 43	\$ 1,300	\$ 203	\$ 3,392	\$ (1,563)	\$ 3,375
Comprehensive income:							
Net earnings.....	--	--	--	--	2,047	--	2,047
Change in net unrealized gains (losses) on investments .....	--	--	--	(7)	--	--	(7)
Foreign currency translation adjustments .	--	--	--	(89)	--	--	(89)
Unrecognized postretirement benefits losses and prior service costs, net of taxes .....	--	--	--	(27)	--	--	(27)
Total comprehensive income .....							<u>1,924</u>
Adjustment for new pension plan measurement date, net of taxes .....	--	--	--	--	(1)	--	(1)
Share-based payments .....	--	--	83	--	--	--	83
Share award transactions .....	2,031,562	--	25	--	(8)	108	125
Tax benefits on share award transactions....	--	--	61	--	--	--	61
Treasury shares acquired .....	(1,045,915)	--	--	--	--	(127)	(127)
Share cancellation .....	--	(1)	(21)	--	(981)	1,003	--
Dividends on common shares.....	--	--	1	--	(750)	--	(749)
Balance, December 31, 2008.....	<u>298,648,353</u>	<u>42</u>	<u>1,449</u>	<u>80</u>	<u>3,699</u>	<u>(579)</u>	<u>4,691</u>
Comprehensive income:							
Net earnings.....	--	--	--	--	2,007	--	2,007
Change in net unrealized gains (losses) on investments .....	--	--	--	40	--	--	40
Foreign currency translation adjustments .	--	--	--	71	--	--	71
Unrecognized postretirement benefits losses and prior service costs, net of taxes .....	--	--	--	12	--	--	12
Total comprehensive income .....							<u>2,130</u>
Adjustment for acquisition of noncontrolling interest .....	--	--	(12)	--	--	--	(12)
Share-based payments .....	--	--	74	--	--	--	74
Share award transactions .....	977,202	--	5	--	(2)	52	55
Tax benefits on share award transactions....	--	--	22	--	--	--	22
Treasury shares acquired .....	(74,822)	--	--	--	--	(7)	(7)
Share cancellation .....	--	--	(3)	--	(123)	126	--
Dividends on common shares.....	--	--	--	--	(1,048)	--	(1,048)
Balance, December 31, 2009.....	<u>299,550,733</u>	<u>42</u>	<u>1,535</u>	<u>203</u>	<u>4,533</u>	<u>(408)</u>	<u>5,905</u>
Comprehensive income:							
Net earnings.....	--	--	--	--	2,210	--	2,210
Change in net unrealized gains (losses) on investments .....	--	--	--	(30)	--	--	(30)
Foreign currency translation adjustments .	--	--	--	(43)	--	--	(43)
Unrecognized postretirement benefits losses and prior service costs, net of taxes .....	--	--	--	(32)	--	--	(32)
Total comprehensive income .....							<u>2,105</u>
Share-based payments .....	--	--	78	--	--	--	78
Share award transactions .....	3,046,622	--	(9)	--	--	178	169
Tax benefits on share award transactions....	--	--	65	--	--	--	65
Treasury shares acquired .....	(207,089)	--	--	--	--	(33)	(33)
Dividends on common shares.....	--	--	--	--	(1,037)	--	(1,037)
Balance, December 31, 2010.....	<u>302,390,266</u>	<u>\$ 42</u>	<u>\$ 1,669</u>	<u>\$ 98</u>	<u>\$ 5,706</u>	<u>\$ (263)</u>	<u>\$ 7,252</u>

See accompanying notes to consolidated financial statements.

**ALCON, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended December 31,		
	2010	2009 (in millions)	2008
Cash provided by (used in) operating activities:			
Net earnings.....	\$ 2,210	\$ 2,007	\$ 2,047
Adjustments to reconcile net earnings to cash provided from operating activities:			
Depreciation.....	212	194	167
Amortization of intangibles .....	60	24	29
Share-based payments.....	78	74	83
Tax benefits from share-based compensation .....	8	5	8
Deferred income taxes .....	4	51	(146)
Loss (gain) on sale of assets.....	(29)	49	12
Loss on impairment of available-for-sale securities ....	--	--	37
Unrealized depreciation (appreciation) on trading securities.....	(6)	(76)	85
Other, net .....	4	1	7
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Trade receivables.....	(129)	(144)	(121)
Inventories.....	(54)	(6)	(79)
Other assets .....	(116)	(13)	25
Accounts payable .....	49	118	(8)
Other current liabilities .....	(27)	100	62
Other long term liabilities .....	111	32	(176)
Net cash from operating activities .....	<u>2,375</u>	<u>2,416</u>	<u>2,032</u>
Cash provided by (used in) investing activities:			
Purchases of property, plant and equipment .....	(309)	(342)	(302)
Acquisitions of businesses, net of cash acquired.....	(529)	(149)	(23)
Purchases of intangible assets.....	(137)	(8)	(26)
Purchases of investments.....	(2,881)	(1,261)	(1,099)
Proceeds from sales and maturities of investments .....	2,149	1,362	1,081
Other, net.....	2	8	4
Net cash from investing activities .....	<u>(1,705)</u>	<u>(390)</u>	<u>(365)</u>
Cash provided by (used in) financing activities:			
Net proceeds from (repayment of) short term debt .....	(306)	(492)	(633)
Repayment of long term debt .....	--	(6)	(2)
Dividends on common shares.....	(1,037)	(1,048)	(749)
Acquisition of treasury shares .....	(33)	(7)	(127)
Proceeds from exercise of stock options .....	169	55	125
Tax benefits from share-based payment arrangements .....	57	17	53
Net cash from financing activities .....	<u>(1,150)</u>	<u>(1,481)</u>	<u>(1,333)</u>
Effect of exchange rates on cash and cash equivalents .....	(2)	13	(19)
Net increase (decrease) in cash and cash equivalents .....	(482)	558	315
Cash and cash equivalents, beginning of year.....	<u>3,007</u>	<u>2,449</u>	<u>2,134</u>
Cash and cash equivalents, end of year.....	<u>\$ 2,525</u>	<u>\$ 3,007</u>	<u>\$ 2,449</u>

See accompanying notes to consolidated financial statements.

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**(1) Summary of Significant Accounting Policies and Practices**

*(a) Description of Business*

Alcon, Inc. ("Alcon"), a Swiss corporation, is a majority owned subsidiary of Novartis AG. During July 2008, Nestlé S.A. sold approximately 74 million of its Alcon common shares to Novartis. At December 31, 2009, Nestlé owned 156,076,263 common shares of Alcon. In January 2010, Novartis exercised its call option for Nestlé's remaining Alcon common shares and proposed a merger of Alcon with and into Novartis, as discussed in note 16. In August 2010, Novartis acquired Nestlé's remaining Alcon shares. As of December 31, 2010, Novartis had purchased 231,352,279 Alcon common shares.

The principal business of Alcon and all of its subsidiaries (collectively, the "Company") is the development, manufacture and marketing of pharmaceuticals, surgical equipment and devices, contact lens care and other vision care products that treat eye diseases and disorders and promote the general health and function of the human eye. Due to the nature of the Company's worldwide operations, it is not subject to significant concentration risks.

*(b) Principles of Consolidation*

The consolidated financial statements include the accounts of the Company. All significant balances and transactions among the consolidated entities have been eliminated in consolidation. All consolidated entities are included on the basis of a calendar year.

*(c) Management Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Actual results could differ from those estimates.

*(d) Foreign Currency*

The reporting currency of the Company is the United States dollar. The financial position and results of operations of the Company's foreign subsidiaries are generally determined using the local currency as the functional currency. Assets and liabilities of these subsidiaries have been translated at the rate of exchange at the end of each period. Revenues and expenses have been translated at the weighted average rate of exchange in effect during the period. Gains and losses resulting from translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity. The impact of subsidiaries located in countries whose economies are considered highly inflationary is insignificant. Gains and losses resulting from foreign currency transactions are included in nonoperating earnings. Under Swiss corporate law, Alcon is required to declare any dividends on its common shares in Swiss francs.

*(e) Cash and Cash Equivalents*

Cash equivalents include demand deposits and all highly liquid investments with original maturities of three months or less.

*(f) Inventories*

Inventories are stated at the lower of cost or market. Cost is determined primarily using the first-in, first-out method.

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*(g) Investments*

The Company holds investments of various types, maturities and classifications.

*Trading Securities.* Trading securities are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Gains or losses from changes in fair value of these securities are included in the consolidated statements of earnings in other, net.

*Available-for-Sale Investments.* Investments designated as available-for-sale include marketable debt and equity securities. Investments designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in shareholders' equity. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of these securities are recorded in the consolidated statements of earnings in other, net. Should the decline in value of any investment be deemed to be other-than-temporary, the investment basis is written down to fair value and the write-down is recorded to earnings as a loss in other, net.

*Held-to-Maturity Investments.* The Company holds no investments classified as held-to-maturity.

*Short Term/Long Term Classification.* The Company considers all liquid interest-earning investments with original maturities of three months or less to be cash equivalents. Debt securities with maturities greater than three months and less than one year are classified as short term investments. Generally, debt securities with remaining maturities greater than one year are classified as long term investments. However, investments with maturities greater than one year may be classified as short term based on their highly liquid nature and because they represent the investment of cash that is available for current operations.

*(h) Financial Instruments*

The Company uses various derivative financial instruments on a limited basis as part of a strategy to manage the Company's exposure to certain market risks associated with interest rate and foreign currency exchange rate fluctuations expected to occur within the next twelve months. The Company evaluates the use of interest rate swaps and periodically uses such arrangements to manage its interest risk on selected debt instruments.

The Company regularly uses foreign currency forward exchange contracts to reduce the effect of exchange rate changes on certain foreign currency denominated intercompany and third-party transactions. The forward exchange contracts establish the exchange rates at which the Company purchases or sells the contracted amount of foreign currencies for specified local currencies at a future date. The Company uses forward contracts, which are short term in nature, and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date.

All of the Company's derivative financial instruments are recorded at fair value. For derivative instruments designated and qualifying as fair value hedges, the gain or loss on these hedges is recorded immediately in earnings to offset the changes in the fair value of the assets or liabilities being hedged. For derivative instruments designated and qualifying as cash flow hedges, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income (loss) in shareholders' equity, and is reclassified into earnings when the hedged transaction affects earnings.

*(i) Property, Plant and Equipment*

Property, plant and equipment are stated at historical cost. Additions, major renewals and improvements are capitalized while repairs and maintenance costs are expensed. Upon disposition, the book value of assets and related accumulated depreciation is relieved and the resulting gains or losses are reflected in earnings.

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Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets, which are as follows:

Land improvements.....	25 years
Buildings and improvements.....	5-50 years
Machinery, other equipment and software.....	3-12 years

*(j) Goodwill and Intangible Assets, Net*

Goodwill is not amortized, but instead is tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their residual values and reviewed for recoverability upon the occurrence of an event that might indicate conditions for impairment could exist.

Intangible assets, net, include acquired customer base, trademarks, patents and licensed technology. The cost of these intangible assets is amortized on a straight-line basis over the estimated useful lives of the respective assets, which are 3 to 20 years.

Intangible assets, net, also include the costs of purchased in process research and development projects. The costs of these projects are not amortized but are tested for impairment at least annually and the projects are monitored to determine if commercialization has been achieved. If these projects reach commercialization, the related costs will be amortized over the useful lives of the respective assets.

*(k) Impairment*

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

*(l) Pension and Other Postretirement Plans*

The Company sponsors several defined contribution plans, defined benefit retirement plans and a postretirement healthcare plan.

The Company provides for the benefits payable to employees on retirement by charging current service costs to income systematically over the expected service lives of employees who participate in defined benefit plans. An actuarially computed amount is determined at the beginning of each year by using valuation methods that attribute the cost of the retirement benefits to periods of employee service. Such valuation methods incorporate assumptions concerning employees' projected compensation and healthcare cost trends. Prior service costs for plan amendments are generally charged to income systematically over the remaining expected service lives of participating employees.

The overfunded or underfunded status of defined benefit postretirement plans (other than multiemployer plans) is shown as an asset or liability in the balance sheet and changes in the funded status are recognized in the year in which the changes occur through other comprehensive income. Effective January 1, 2008, the Company adopted a provision to measure the funded status of a plan as of the date of its year-end balance sheet. The Company utilized the alternate transition method to transition the measurement date for its defined pension benefit plan in Japan from September 30 to December 31. Under this transition method, the Company charged 3/15ths of the estimated pension cost from October 1, 2007 to December 31, 2008 (or \$1, net of taxes) to retained earnings as of January 1, 2008. Retrospective application was not permitted.

The cost recognized for defined contribution plans is based upon the contribution required for the period.

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*(m) Revenue Recognition*

The Company recognizes revenue in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 104.

The Company recognizes revenue on product sales when the customer takes title and assumes risk of loss except for surgical equipment sales. If the customer takes title and assumes risk of loss upon shipment, revenue is recognized on the shipment date. If the customer takes title and assumes risk of loss upon delivery, revenue is recognized on the delivery date. Revenue is recognized as the net amount to be received after deducting estimated amounts for rebates and product returns.

The Company recognizes revenue on surgical equipment sales when the customer takes title and assumes risk of loss and when installation and any required training have been completed. Per procedure technology fees associated with treatment cards related to refractive products manufactured by WaveLight AG are recognized when the treatment cards are delivered and title and risks of ownership are transferred.

When the Company recognizes revenue from the sale of products, certain items, such as cash discounts, allowances and rebates, which are known and estimable at the time of sale, are recorded as a reduction of sales. To the extent the customer will, or is expected to, reduce its payment on the related invoice amounts, these items are reflected as a reduction of accounts receivable and sales.

In accordance with certain government rebate requirements (such as those under U.S. Medicaid and Medicare) and with certain contractual agreements, the Company is required to pay rebates to customers, their customers or government agencies under provisions that limit the amounts that may be paid for pharmaceuticals and surgical devices. The amount of accrued product rebates is included in other current liabilities.

The Company records a reduction of sales for estimated discounts, allowances and rebates in the period in which the related sales occur, based upon historical experience of amounts paid and amounts as a percentage of sales. The Company also considers the effects of changes in product pricing, in sales trends, in contract terms and in laws and regulations.

Value added taxes and other sales taxes are excluded from sales.

*(n) Research and Development*

Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed as the contracted work is performed or as milestone results have been achieved.

*(o) Selling, General and Administrative*

Advertising costs are expensed as incurred. Advertising costs amounted to \$128, \$129 and \$144 in 2010, 2009 and 2008, respectively.

Shipping and handling costs amounted to \$76, \$70 and \$76 in 2010, 2009 and 2008, respectively.

Legal costs are expensed during the period incurred.

*(p) Income Taxes*

The Company recognizes deferred income tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets, liabilities and expected benefits of utilizing net operating loss and credit carryforwards. The impact on deferred income taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. Withholding taxes have been provided on unremitted earnings of subsidiaries which are not reinvested indefinitely in such operations. Taxes have not been provided on permanent

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investments in certain subsidiaries that would be taxable in the event of liquidation. Dividends paid by subsidiaries to Alcon, Inc. do not result in Swiss income taxes.

*(q) Basic and Diluted Earnings Per Common Share*

Basic earnings per common share were computed by dividing net earnings by the weighted average number of common shares outstanding for the relevant period. The unvested portion of restricted common shares was excluded in the calculation of basic weighted average common shares outstanding. Diluted weighted average common shares reflect the potential dilution, using the treasury stock method, that could occur if employee stock options for the purchase of common shares and share-settled stock appreciation rights were exercised and if share-settled restricted share units and performance share units and contingent restricted common shares granted to employees were vested.

The following table reconciles the weighted average shares of the basic and diluted share computations:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Basic weighted average common shares outstanding ....	300,932,749	298,847,072	298,504,732
Effect of dilutive securities:			
Employee stock options.....	1,736,233	1,807,211	2,585,873
Share-settled stock appreciation rights .....	1,050,684	414,799	300,834
Share-settled restricted share units and performance share units .....	374,191	187,543	49,786
Contingent restricted common shares.....	<u>10,415</u>	<u>91,556</u>	<u>141,451</u>
Diluted weighted average common shares outstanding .	<u>304,104,272</u>	<u>301,348,181</u>	<u>301,582,676</u>

Certain executives of the Company had deferred the receipt of 70,675 and 118,180 Alcon common shares at December 31, 2010 and 2009, respectively, into the Alcon Executive Deferred Compensation Plan discussed in note 13. Alcon common shares held in the plan were reflected as outstanding in the consolidated balance sheets and were included in the applicable basic and diluted earnings per share calculations.

The computations of diluted weighted average common shares outstanding for the years ended December 31, 2010, 2009 and 2008 did not include the following instruments, as their exercise prices and unrecognized costs were greater than the average market price of the common shares:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Stock options .....	--	125	497,805
Share-settled stock appreciation rights .....	1,350	5,850	3,628,998

The effect of their inclusion would have been anti-dilutive.

*(r) Comprehensive Income*

Comprehensive income consists of net earnings, foreign currency translation adjustments, unrealized gains (losses) on investments and the changes in the funded status of defined benefit postretirement plans and is presented in the consolidated statements of shareholders' equity and comprehensive income.

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(s) *Share-Based Compensation*

U.S. GAAP requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, based on estimated "fair values."

The Company estimates the "fair value" of share-based payment awards as of the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period. Share-based compensation expenses recognized in net earnings were based on awards ultimately expected to vest, and therefore the amounts were reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ materially from those estimates. Excess tax benefits related to share-based compensation are reflected as financing cash flows rather than operating cash flows.

The Company records deferred tax assets for share-based awards that result in deductions on the Company's income tax returns, based on the amount of compensation cost recognized and the Company's statutory tax rate in the jurisdiction in which it expects to receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in the consolidated statement of earnings (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

(t) *Treasury Shares*

Treasury shares are accounted for by the cost method. The board of directors has approved the purchase of Alcon common shares for various purposes as described in notes 12 and 6.

(u) *Warranty Reserves*

The Company generally warrants its surgical equipment against defects for a period of one year from the installation date. Warranty costs are estimated and expensed at the date of sale and the resulting accrued liability is amortized over the warranty period. Such costs are estimated based on actual cost experience.

**(2) Cash Flows—Supplemental Disclosures**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for the following:			
Interest expense, net of amount capitalized.....	\$ 9	\$ 14	\$ 53
Income taxes.....	\$ 284	\$ 262	\$ 232

Supplemental Disclosure of Noncash Financing Activities:

During the years ended December 31, 2010, 2009 and 2008, certain individuals terminated employment prior to the vesting of their restricted Alcon common shares and forfeited 239 shares, 5,420 shares and 17,622 shares, respectively. (See note 12 for discussion of restricted common shares.) The forfeited shares were recorded as treasury shares during the respective periods.



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**(3) Supplemental Balance Sheet Information**

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Cash and Cash Equivalents</b>		
Cash .....	\$ 479	\$ 195
Cash equivalents on deposit with Nestlé .....	--	10
Cash equivalents -- other .....	<u>2,046</u>	<u>2,802</u>
 Total .....	 <u>\$ 2,525</u>	 <u>\$ 3,007</u>

Cash equivalents consisted of interest-bearing deposits and repurchase agreements with an initial term of less than three months.

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Trade Receivables, Net</b>		
Trade receivables .....	\$ 1,540	\$ 1,389
Allowance for doubtful accounts .....	<u>(57)</u>	<u>(43)</u>
 Net .....	 <u>\$ 1,483</u>	 <u>\$ 1,346</u>

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Allowance for Doubtful Accounts</b>			
Balance at beginning of year .....	\$ 43	\$ 45	\$ 34
Bad debt expense .....	19	6	13
Charge-offs, net of recoveries .....	<u>(5)</u>	<u>(8)</u>	<u>(2)</u>
 Balance at end of year .....	 <u>\$ 57</u>	 <u>\$ 43</u>	 <u>\$ 45</u>

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Inventories</b>		
Finished products .....	\$ 434	\$ 375
Work in process .....	48	50
Raw materials .....	<u>211</u>	<u>201</u>
 Total .....	 <u>\$ 693</u>	 <u>\$ 626</u>

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Other Current Assets</b>		
Prepaid expenses .....	\$ 74	\$ 57
Prepaid income taxes .....	139	58
Receivables from affiliates .....	3	--
Other .....	<u>91</u>	<u>98</u>
 Total .....	 <u>\$ 307</u>	 <u>\$ 213</u>

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	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Property, Plant and Equipment, Net</b>		
Land and improvements .....	\$ 28	\$ 29
Buildings and improvements .....	879	828
Machinery, other equipment and software.....	1,685	1,566
Construction in progress.....	<u>278</u>	<u>227</u>
 Total .....	 2,870	 2,650
Accumulated depreciation .....	<u>(1,482)</u>	<u>(1,346)</u>
 Net .....	 <u>\$ 1,388</u>	 <u>\$ 1,304</u>

Construction in progress at December 31, 2010 consisted primarily of initial construction of a new manufacturing facility in Singapore and various plant expansion and upgrade projects. Commitments related to these projects at December 31, 2010 totaled \$53.

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Other Current Liabilities</b>		
Deferred income tax liabilities.....	\$ 9	\$ 9
Payables to affiliates.....	--	2
Accrued warranties.....	12	9
Accrued compensation .....	339	333
Accrued taxes .....	217	201
Accrued product rebates .....	236	221
Other .....	<u>209</u>	<u>272</u>
 Total .....	 <u>\$ 1,022</u>	 <u>\$ 1,047</u>

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Warranty Reserve</b>			
Balance at beginning of year .....	\$ 9	\$ 7	\$ 7
Warranty expense .....	16	12	12
Warranty payments, net.....	<u>(13)</u>	<u>(10)</u>	<u>(12)</u>
 Balance at end of year .....	 <u>\$ 12</u>	 <u>\$ 9</u>	 <u>\$ 7</u>

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Other Long Term Liabilities</b>		
Pension plans .....	\$ 543	\$ 423
Postretirement healthcare plan.....	123	99
Deferred compensation.....	29	29
Long term income tax liabilities (note 9).....	76	57
Liability for acquisition-related contingent payments .....	160	71
Other .....	<u>34</u>	<u>12</u>
 Total .....	 <u>\$ 965</u>	 <u>\$ 691</u>

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	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Foreign currency translation adjustment.....	\$ 222	\$ 265
Unrealized gains (losses) on investments, net of income taxes .....	--	30
Unrecognized postretirement benefits losses and prior service costs, net of tax benefits.....	(124)	(92)
Total .....	\$ 98	\$ 203

At December 31, 2010, the portion of retained earnings that was available under Swiss law for the payment of dividends was \$3,496.

For the years ended December 31, 2010, 2009 and 2008, the Company declared and paid dividends on common shares in Swiss francs ("CHF") as follows:

	<b>2010</b>		<b>2009</b>		<b>2008</b>	
Dividends per common share in Swiss francs.....	CHF	3.95	CHF	3.95	CHF	2.63
Dividends per common share measured in U.S. dollars.....	\$	3.44	\$	3.50	\$	2.50
Total dividends on common shares measured in U.S. dollars.....	\$	1,037	\$	1,048	\$	750

**(4) Investments**

At December 31, 2010 and 2009, investments were as follows:

	<b>2010</b>		<b>2009</b>	
Short term investments:				
Trading securities .....	\$	6	\$	22
Available-for-sale investments .....		883		457
Total short term investments.....	\$	889	\$	479
Long term investments—available-for-sale investments.....	\$	398	\$	73

At December 31, 2010 and 2009, trading securities were as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Net Unrealized Gains (Losses)</b>	<b>Estimated Fair Value</b>	<b>Net Unrealized Gains (Losses)</b>	<b>Estimated Fair Value</b>
Total trading securities .....	\$ (3)	\$ 6	\$ (9)	\$ 22

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At December 31, 2010, available-for-sale investments were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Short term investments:				
U.S. government and agency securities.....	\$ 279	\$ 1	\$ --	\$ 280
Mortgage-backed securities.....	5	--	--	5
Corporate debt securities .....	579	1	(2)	578
Foreign government bonds .....	17	--	--	17
Other investments.....	<u>3</u>	<u>--</u>	<u>--</u>	<u>3</u>
Total short term investments.....	<u>883</u>	<u>2</u>	<u>(2)</u>	<u>883</u>
Long term investments:				
U.S. government and agency securities.....	280	1	(1)	280
Mortgage-backed securities.....	4	--	--	4
Corporate debt securities .....	112	--	--	112
Other investments.....	<u>2</u>	<u>--</u>	<u>--</u>	<u>2</u>
Total long term investments.....	<u>398</u>	<u>1</u>	<u>(1)</u>	<u>398</u>
Total available-for-sale investments .....	<u>\$ 1,281</u>	<u>\$ 3</u>	<u>\$ (3)</u>	<u>\$ 1,281</u>

At December 31, 2009, available-for-sale investments were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Short term investments:				
U.S. government and agency securities.....	\$ 129	\$ --	\$ (1)	\$ 128
Mortgage-backed securities fund.....	75	7	--	82
Mortgage-backed securities.....	6	--	--	6
Senior secured bank loans fund.....	131	23	--	154
Corporate debt securities .....	43	--	--	43
Equity securities .....	29	--	--	29
Other investments.....	<u>15</u>	<u>--</u>	<u>--</u>	<u>15</u>
Total short term investments .....	<u>428</u>	<u>30</u>	<u>(1)</u>	<u>457</u>
Long term investments:				
U.S. government and agency securities.....	52	--	(1)	51
Mortgage-backed securities.....	10	--	--	10
Equity securities .....	2	--	--	2
Other investments.....	<u>8</u>	<u>2</u>	<u>--</u>	<u>10</u>
Total long term investments .....	<u>72</u>	<u>2</u>	<u>(1)</u>	<u>73</u>
Total available-for-sale investments.....	<u>\$ 500</u>	<u>\$ 32</u>	<u>\$ (2)</u>	<u>\$ 530</u>

The senior secured bank loans fund is a professionally managed fund investing in loans made by banks to large corporate borrowers whose assets are pledged as collateral.

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The contractual maturities of available-for-sale investments at December 31, 2010 were as follows:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Securities not due at a single maturity date* .....	\$ 1	\$ 1
Other debt securities, maturing:		
Within one year .....	563	563
After 1 year through 10 years .....	710	710
After 10 years through 15 years .....	--	--
Beyond 15 years .....	<u>7</u>	<u>7</u>
Total debt securities recorded at market .....	1,281	1,281
Equity and other investments.....	<u>--</u>	<u>--</u>
Total available-for-sale investments .....	<u>\$ 1,281</u>	<u>\$ 1,281</u>

\*Mortgage-backed securities and certain other investments.

Activities related to available-for-sale investments were as shown below. The cost of securities was based on the specific identification method.

	<u>Years ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Proceeds from sales and principal repayments.....	\$ 2,132	\$ 1,068	\$ 10
Gross realized gains on sales.....	39	22	1
Gross realized losses on sales .....	(4)	(4)	(2)

The net unrealized holding gains (losses) for available-for-sale investments included in accumulated other comprehensive income (loss) in shareholders' equity at December 31, 2010, 2009 and 2008 were less than \$1, \$30 and \$(10), respectively. Net unrealized holding gains (losses) on trading securities included in earnings for the years ended December 31, 2010, 2009 and 2008 were \$6, \$76 and \$(85), respectively.

The changes in net unrealized gains (losses) on investments, net of taxes, included in accumulated other comprehensive income (loss) were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Changes in unrealized holding gains (losses) arising during the period.....	\$ 5	\$ 58	\$ (45)
Reclassification adjustment for losses (gains) included in net income.....	<u>(35)</u>	<u>(18)</u>	<u>38</u>
Changes in net unrealized gains (losses) on investments, net of taxes.....	<u>\$ (30)</u>	<u>\$ 40</u>	<u>\$ (7)</u>

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As of December 31, 2010 and 2009, there were no gross unrealized losses on individual available-for-sale investments greater than \$1.

The Company recognized \$37 in losses for other-than-temporary impairment in the year ended December 31, 2008, as discussed in note 5.

*Investment Income*

Other, net, included gains (losses) on investments as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Realized gains (losses) on sale of investments .....	\$ 30	\$ (49)	\$ (12)
Unrealized gains (losses) on investments classified as trading securities .....	6	76	(85)
Other-than-temporary impairment .....	<u>--</u>	<u>--</u>	<u>(37)</u>
Total gains (losses) on investments .....	<u>\$ 36</u>	<u>\$ 27</u>	<u>\$ (134)</u>

**(5) Financial Instruments**

Foreign Currency Risk Management

A significant portion of the Company's cash flows is denominated in foreign currencies. Alcon relies on ongoing cash flows generated from foreign sources to support its long term commitments to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of weakening local currencies relative to the dollar, the Company's ability to fund research and other dollar-based strategic initiatives at a consistent level may be impaired. The Company has established a foreign currency risk management program to protect against volatility of non-functional currency monetary assets and liabilities and changes in fair value caused by fluctuations in foreign exchange rates.

The Company primarily utilizes forward exchange contracts in countries where they are available and economically beneficial to offset the impact of fluctuations in foreign exchange rates on monetary assets and their related cash flows. All outstanding foreign exchange forward contracts are entered into to protect the value of assets or liabilities denominated in currencies other than the entity's functional currency. To the extent hedged, the changes in fair value of the forward contracts offset the changes in the value of the assets or liabilities. The changes in value of the foreign exchange forward contracts and the assets/liabilities that are being protected are recorded in foreign exchange gains and losses within other income (expense).

The fair values of forward exchange and option contracts are reported in other current assets and other current liabilities. At December 31, 2010, the fair value hedge derivative instruments have settlement dates in the first half of 2011 and cover a gross notional amount of \$680.

The Company believes that, at the balance sheet date, counterparty credit risk was not significant due to the credit quality of the counterparties to the derivatives, which were all large financial institutions in Europe, and the short-term maturities of most derivatives. The credit exposure related to these financial instruments was represented by the fair value of contracts with a positive fair value at the reporting date.

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For the years ended December 31, 2010 and 2009, the effects of foreign exchange derivative instruments were:

<u>Derivatives in Fair Value Hedging Relationships</u>	<u>Location of Gain (Loss) Recognized in Earnings on Derivatives</u>	<u>2010</u>		<u>2009</u>	
		<u>Amount of Gain (Loss) Recognized in Earnings on Derivatives</u>	<u>Amount of Gain (Loss) on the Hedged Items</u>	<u>Amount of Gain (Loss) Recognized in Earnings on Derivatives</u>	<u>Amount of Gain (Loss) on the Hedged Items</u>
Foreign exchange forward contracts	Gain (loss) from foreign currency, net	\$ (28)	\$ 16	\$ 3	\$ (8)

Interest Rate Risk Management

The Company may use interest rate swaps on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and does not leverage any of its investment activities that would put capital at risk.

At December 31, 2010 and 2009, in connection with a long term bank loan, the Company had an interest rate swap fair value hedge outstanding in the notional principal amount of \$61 and \$54 at the respective year-end exchange rates. The fair values of interest rate swap agreements are reported in other current assets and other current liabilities. This interest rate swap did not have a significant effect on results of operations in 2010 and 2009.

Fair Value of Financial Instruments

At December 31, 2010 and 2009, the Company's financial instruments included cash and cash equivalents, investments, trade receivables, accounts payable, short term borrowings, long term debt and the estimated fair value of certain contingent payments. The estimated fair values of all of these financial instruments were as noted below. Due to the short term maturities of cash and cash equivalents, trade receivables, accounts payable and short term borrowings, the carrying amounts approximate fair values at the respective balance sheet dates.

At December 31, 2010 and 2009, the Company's cash equivalents included \$218 and \$30, respectively, of instruments that were tri-party fully collateralized reverse repurchase agreements. They were transacted on December 31, 2010 and 2009 and matured "overnight" on the first business day in January 2011 and 2010. The Company utilized this type of transaction to enhance yields on available cash balances, while maintaining liquidity. These securities were recorded at cost, which approximated fair value.

The Company received debt and equity securities as collateral for its advances under the reverse repurchase agreements. A financial institution other than the seller held the collateral for the Company's benefit. The value and the liquidity of the underlying collateral were required to be between 102% and 110%, depending upon the credit of collateral, of the advanced amount and were evaluated by an independent third-party custodian. The Company recorded only its advances under the agreements as cash equivalents at the time of entering the transactions and recognized the interest income upon settlement. The collateral value or changes in collateral value were not recorded or recognized.

The fair values of long term debt were based on interest rates then currently available to the Company for issuance of debt with similar terms and remaining maturities. The fair values of investments and acquisition-related contingent payments were determined as discussed below.

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	December 31,			
	2010		2009	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
<b>Assets:</b>				
Short term trading and available-for-sale investments ..	\$ 889	\$ 889	\$ 479	\$ 479
Long term available-for-sale investments.....	398	398	73	73
Forward exchange contracts .....	--	--	6	6
Interest rate swaps .....	--	--	1	1
<b>Liabilities:</b>				
Long term debt .....	62	62	56	56
Liability for acquisition-related contingent payments ...	160	160	71	71
Forward exchange and option contracts .....	12	12	2	2

Financial instruments, such as equity or fixed income securities, other investments, financial liabilities and derivatives, are presented at fair value. Fair value is defined as the price at which an asset could be exchanged or a liability could be transferred in an orderly transaction between knowledgeable and willing market participants within the principal or most advantageous market at the measurement date. Where available, fair value is based on or derived from observable market prices or parameters. Where observable prices or inputs are not available, pricing for similar financial assets or liabilities, dealer quotes or valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Financial assets and liabilities recorded at fair value in the consolidated balance sheets were categorized based upon the level of judgment associated with the inputs used to measure their fair value. These categories, from lowest to highest based on the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of Company assets carried at Level 1 fair value are equities listed in active markets.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the assets or liabilities through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

The Company's assets generally included in this fair value category are various government agency securities, certain investment funds, mortgage backed securities, collateralized mortgage obligations, foreign exchange derivatives and certain interest rate derivatives. Foreign exchange derivatives and interest rate derivatives are valued using corroborated, observable market data. The Company's liabilities generally included in this fair value category consist of certain foreign exchange derivatives.

Level 3 – Inputs are unobservable inputs for the asset or liability. These inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Generally, the Company's assets carried at fair value included in this category are various investment funds.

The Company's liabilities carried at fair value in this category are acquisition-related contingent payments.



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The Company's Level 3 financial investments are held in funds professionally managed by investment managers. The net asset values are furnished in statements received from fund custodians whose statements reflect valuations conducted according to their respective fund pricing policies and asset types. The complete details of the fund holdings of several of the Company's professionally managed funds may be unavailable at times, limiting the Company's ability to look through to the underlying assets at the date the financial statements are prepared. Because of these constraints, the Company classifies these fund investments as Level 3.

As of December 31, 2010, the Company estimated \$160 as the fair value of its obligations to make contingent payments related to acquisitions. The fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement.

In connection with an acquisition in 2009, the Company is obligated to make acquisition-related contingent payments of up to \$439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. At December 31, 2010, the fair value of these payments was estimated to be \$71. Each milestone was assigned a probability based on its current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 5.3%, which the Company believed was appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 5% to 39%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately \$30.

In connection with acquisitions in 2010, the Company is obligated to make acquisition-related contingent payments of up to \$528 upon achieving certain sales objectives through 2015. The fair values of these payments at December 31, 2010 were estimated to total \$89. The fair values were based on the Company's estimates of the probability and timing of related sales projection streams. Each revenue projection assumption was assigned a probability and the resultant probability-weighted cash flows were then discounted using discount rates between 4.5% and 6%, which the Company believed was appropriate and representative of market participant assumptions. Achieving the Company's most optimistic sales assumptions would not increase the estimated total fair value more than \$10.

The fair values of these contingent payments are reviewed each reporting period. Any changes in the estimated value not associated with the original purchase price valuation are recorded in the Company's results of operations. No such changes were recognized in the current period.

*Fair Value by Category*

Financial assets and financial liabilities measured at fair value on a recurring basis were categorized in the tables below based upon the lowest hierarchical level of input that is significant to the fair value measurement.

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	<b>Fair Value as of December 31, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Trading securities - Hedge funds.....	\$ --	\$ --	\$ 6	\$ 6
Available-for-sale securities:				
U.S. government and agency securities.....	--	560	--	560
Mortgage-backed securities.....	--	9	--	9
Corporate debt securities.....	--	690	--	690
Foreign government bonds.....	--	17	--	17
Other investments.....	--	5	--	5
<b>Total.....</b>	<b>\$ --</b>	<b>\$ 1,281</b>	<b>\$ 6</b>	<b>\$ 1,287</b>
<b>Financial Liabilities</b>				
Liability for acquisition-related contingent payments.....	\$ --	\$ --	\$ 160	\$ 160
Foreign exchange and option contracts....	--	12	--	12
<b>Total.....</b>	<b>\$ --</b>	<b>\$ 12</b>	<b>\$ 160</b>	<b>\$ 172</b>

	<b>Fair Value as of December 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Trading securities - Hedge funds.....	\$ --	\$ --	\$ 22	\$ 22
Available-for-sale securities:				
U.S. government and agency securities.....	--	179	--	179
Mortgage-backed securities fund.....	--	82	--	82
Mortgage-backed securities.....	--	16	--	16
Senior secured bank loans fund.....	--	154	--	154
Corporate debt securities.....	--	43	--	43
Equity securities.....	31	--	--	31
Other investments.....	--	25	--	25
Forward exchange contracts.....	--	6	--	6
Interest rate swaps.....	--	1	--	1
<b>Total.....</b>	<b>\$ 31</b>	<b>\$ 506</b>	<b>\$ 22</b>	<b>\$ 559</b>
<b>Financial Liabilities</b>				
Liability for acquisition-related contingent payments.....	\$ --	\$ --	\$ 71	\$ 71
Foreign exchange and option contracts....	--	2	--	2
<b>Total.....</b>	<b>\$ --</b>	<b>\$ 2</b>	<b>\$ 71</b>	<b>\$ 73</b>

*Level 3 Gains and Losses*

At December 31, 2010, trading securities were the only type of financial assets included in Level 3. The trading securities were professionally managed investment funds, which included hedge funds of \$6. The fair value of the investment funds classified as Level 3 could not be determined by independent market observation or through the use of other observable valuation techniques. The valuation was based on net asset values as furnished by the funds'

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custodian. If more than an insignificant proportion of a particular fund's assets were Level 3, the entire fund was classified as Level 3, although many of the fund's individual holdings may meet the definition of Level 1 or Level 2. The only liabilities included in Level 3 were the acquisition-related contingency payments, as discussed earlier in this note.

Total gains or losses (realized and unrealized) for financial assets and liabilities classified as Level 3 that were included in earnings before income taxes were a component of other, net, in the consolidated statements of earnings. For the year ended December 31, 2010, there were net gains (realized and unrealized) of \$1 from trading securities, and the Company received proceeds from sales of Level 3 trading securities of \$17. Realized and unrealized net gains during the period were approximately 5% of the beginning balance for Level 3 trading securities and did not negatively affect or materially impact operations, liquidity or capital resources.

The table presented below summarizes the change in carrying values associated with Level 3 financial instruments during the year ended December 31, 2010.

	<b>Assets</b>	<b>Liabilities</b>
	<b>Trading Securities</b>	<b>Acquisition-Related Contingent Payments</b>
Beginning balance.....	\$ 22	\$ 71
Total net gains or losses (realized/unrealized)--		
Included in earnings before income taxes.....	1	--
Purchases of investments.....	--	--
Acquisition-related activities.....	--	89
Proceeds on sales and maturities.....	(17)	--
Transfers in and/or out of Level 3.....	--	--
Ending balance.....	\$ 6	\$ 160

Gains and losses (realized and unrealized) on Level 3 financial instruments included in earnings were reported in other, net, as follows:

	<b>2010</b>
Net gains (losses) included in earnings for the period .....	\$ 1
Change in unrealized net gains (losses) related to assets still held at reporting date .....	\$ 1

At December 31, 2009, trading securities were the only type of financial assets included in Level 3. The trading securities were professionally managed investment funds, which included fixed income funds of \$22. The fair value of the investment funds classified as Level 3 could not be determined by independent market observation or through the use of other observable valuation techniques. The valuation was based on net asset values as furnished by the funds' custodian. If more than an insignificant proportion of a particular fund's assets were Level 3, the entire fund was classified as Level 3, although many of the fund's individual holdings may meet the definition of Level 1 or Level 2. The only liabilities included in Level 3 were the acquisition-related contingency payments, as discussed earlier in this note.

Total gains and losses (realized and unrealized) included in earnings before income taxes for financial assets and liabilities classified as Level 3 were a component of other, net, in the consolidated statements of earnings. For the

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year ended December 31, 2009, there were net gains (realized and unrealized) of \$7 from trading securities, and the Company received proceeds from sales of Level 3 trading securities of \$246. Realized and unrealized net gains during the period were approximately 3% of the beginning balance for Level 3 trading securities and did not negatively affect or materially impact operations, liquidity or capital resources.

The table presented below summarizes the change in carrying values associated with Level 3 financial instruments during the year ended December 31, 2009.

	<u>Assets</u>	<u>Liabilities</u>
	<u>Trading Securities</u>	<u>Acquisition-Related Contingent Payments</u>
Beginning balance.....	\$ 261	\$ --
Total net gains or losses (realized/unrealized) --		
Included in earnings before income taxes.....	7	--
Acquisition-related activities.....	--	71
Proceeds on sales and maturities.....	(246)	--
Transfers in and/or out of Level 3.....	--	--
Ending balance.....	<u>\$ 22</u>	<u>\$ 71</u>

Gains and losses (realized and unrealized) on Level 3 financial instruments included in earnings were reported in other, net, as follows:

	<u>2009</u>
Net gains (losses) included in earnings for the period.....	<u>\$ 7</u>
Change in unrealized net gains (losses) related to assets still held at reporting date .....	<u>\$ 2</u>

*Valuation Techniques*

Valuation techniques used for financial assets and liabilities accounted for at fair value are generally categorized into three types: market approach, income approach and cost approach. The Company valued its Level 3 financial assets and liabilities at December 31, 2010 and 2009 primarily using the market approach and, to a lesser extent, the income approach.

*Market Approach.* The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables. A majority of the Company's balances measured at fair value on a recurring basis were valued using the market approach. Most measurements were market quotes or obtained from other reliable market sources. The Company did not use market indices for valuing material balances measured at fair value.

*Income Approach.* Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present or discounted amount. The measurement is based on the value indicated by current market expectations about those future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and option-pricing models. The Company valued certain derivatives, in part or whole, and acquisition-related contingent payments using the income approach.

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*Cost Approach.* The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. The Company did not employ the cost approach for determining fair value of financial assets and liabilities.

The valuation approaches are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation techniques may be used. Professionally managed investment funds may use a combination of market, income and cost approaches. The process of selecting which valuation method(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

*Other-Than-Temporary Impairment of Available-for-Sale Investments*

The Company reviews quarterly its available-for-sale investments to identify impaired equity and debt securities. An individual security is impaired if the fair value of the investment is less than its amortized cost basis. Impairment may be either temporary or other-than-temporary.

The Company normally reviews securities held in its portfolio that have been in a continuous loss position for twelve months or longer and securities whose fair value is significantly lower than its amortized cost basis. Impairment is evaluated using a combination of quantitative and qualitative factors such as considering the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer, as well as the Company's ability and intent to hold the investments for an adequate period of time until an anticipated market price recovery or maturity. In its impairment analysis of debt securities, management assesses whether it does not have the intent to sell the security before maturity and it is more likely than not that it will not have to sell the security before recovery of its cost basis. If an impairment is determined to be other-than-temporary, the investment is written down to fair value, and a loss is recognized immediately through earnings.

In addition, the Company assesses whether there are probable credit losses associated with impaired available-for-sale debt securities. The portion of an other-than-temporary impairment of an available-for-sale debt security that is related to credit loss is recognized in earnings and the remainder of the difference between the cost basis of the debt security and its fair value is recorded in other comprehensive income.

The Company determined that, at December 31, 2010 and 2009, there were no unrealized losses on available-for-sale investments that were other-than-temporarily impaired and there were no credit losses on any investments.

The Company determined that, at December 31, 2008, unrealized losses on certain available-for-sale equity securities and a senior secured bank loans fund were other-than-temporarily impaired due to deteriorating general market conditions, particularly during the fourth quarter of 2008, coupled with the unlikely near term prospects for achieving a sustainable recovery, uncertainty about future market conditions, and declines in certain quantitative or qualitative factors. The other-than-temporary impairment recognized for the senior secured bank loans fund also was deemed appropriate to bring a significant portion of the unrealized losses in line with current market conditions for credit default rates and loss recovery rates. The Company recognized losses for other-than-temporary impairment during the year ended December 31, 2008 of \$37.

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Concentrations of Credit Risk

As part of its ongoing control procedures, the Company monitors concentrations of credit risk associated with corporate issuers of securities and financial institutions with which it conducts business. Credit risk is minimal as credit exposure limits are established to avoid a concentration with any single issuer or institution. The Company also monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Concentrations of credit risk associated with these trade receivables are considered minimal due to the Company's diverse customer base. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

**(6) Intangible Assets and Goodwill**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
<b>Intangible Assets</b>				
Subject to amortization:				
Licensed technology.....	\$ 467	\$ (315)	\$ 332	\$ (296)
Patents.....	290	(40)	111	(24)
Other.....	<u>562</u>	<u>(115)</u>	<u>121</u>	<u>(93)</u>
Total subject to amortization.....	1,319	(470)	564	(413)
Not subject to amortization:				
Purchased in process research and development assets.....	<u>104</u>	<u>--</u>	<u>104</u>	<u>--</u>
Total intangible assets.....	<u>\$ 1,423</u>	<u>\$ (470)</u>	<u>\$ 668</u>	<u>\$ (413)</u>

During the years ended December 31, 2010 and 2009, the Company added licensed technology, patents and other intangible assets through business acquisitions and asset purchases. Note 18 provides additional information on changes to intangible assets from significant business acquisitions in 2010 and 2009.

	<u>Years ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Aggregate amortization expense related to intangible assets.....	<u>\$ 60</u>	<u>\$ 24</u>	<u>\$ 29</u>

Estimated Amortization Expense:

For year ended December 31, 2011.....	\$ 78
For year ended December 31, 2012.....	\$ 73
For year ended December 31, 2013.....	\$ 67
For year ended December 31, 2014.....	\$ 67
For year ended December 31, 2015.....	\$ 65

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The changes in the carrying amounts of goodwill for the years ended December 31, 2010 and 2009 were as follows:

	<u>United States Segment</u>	<u>International Segment</u>	<u>Total</u>
<b>Goodwill</b>			
Balance, December 31, 2008 .....	\$ 403	\$ 242	\$ 645
Acquisition of business.....	18	22	40
Impact of changes in foreign exchange rates.....	<u>2</u>	<u>1</u>	<u>3</u>
Balance, December 31, 2009 .....	423	265	688
Acquisitions of businesses.....	90	64	154
Impact of changes in foreign exchange rates.....	<u>(5)</u>	<u>(4)</u>	<u>(9)</u>
Balance, December 31, 2010 .....	<u>\$ 508</u>	<u>\$ 325</u>	<u>\$ 833</u>

**(7) Short Term Borrowings**

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Lines of credit.....	\$ 307	\$ 273
Commercial paper.....	--	286
From affiliates .....	4	7
Bank overdrafts .....	<u>26</u>	<u>41</u>
Total short term borrowings.....	<u>\$ 337</u>	<u>\$ 607</u>

At December 31, 2010, the Company had several unsecured line of credit agreements with third parties totaling \$597 that were denominated in various currencies. The commitment fees related to unused borrowings under these facilities were less than \$1 during 2010, 2009 and 2008. The weighted average interest rates at December 31, 2010 and 2009 were 2.2% and 2.2%, respectively. The amounts outstanding under these agreements at December 31, 2010 were due at various dates during 2011.

During the first half of 2010 and all of 2009, the Company had a \$2,000 commercial paper facility. Nestlé guaranteed the commercial paper facility and assisted in its management, for which the Company paid Nestlé an annual fee based on the average outstanding commercial paper balances. The Company's management believes that any fees paid by the Company to Nestlé for their guarantee of any indebtedness or for the management of the commercial paper program were comparable to the fees that would be paid in an arm's length transaction. Total fees paid to Nestlé in connection with this facility for the years ended December 31, 2010, 2009 and 2008 were less than \$1 per year.

During 2010, the Company entered into an unsecured line of credit agreement denominated in Venezuelan bolivars with a subsidiary of Novartis. These short term borrowings at December 31, 2010 were due October 15, 2011. The weighted average interest rate at December 31, 2010 was 10.0%. The unused portion under the line of credit agreements was \$8 at December 31, 2010.

The Company had several unsecured bank overdraft lines of credit denominated in various currencies totaling \$248 at December 31, 2010. The weighted average interest rates on bank overdrafts at December 31, 2010 and 2009 were 4.5% and 4.5%, respectively.

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**(8) Long Term Debt**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Bank loan.....	\$ 62	\$ 56
Less current maturities of long term debt .....	<u>62</u>	<u>--</u>
Long term debt, net of current maturities .....	<u>\$ --</u>	<u>\$ 56</u>

The Company's Japanese subsidiary has an outstanding bank loan with a fixed interest rate of 1.6%, due in January 2011. This fixed rate of 1.6% was swapped for floating rate yen LIBOR, which was 0.2% at December 31, 2010. The bank loan was guaranteed by Nestlé for a fee of less than \$1 annually in 2010, 2009 and 2008. The bank loan contains provisions that may accelerate the obligation in the event that Nestlé's ownership of Alcon falls below 51%. Although Nestlé's ownership fell below this threshold, the lenders have opted not to call the loan before its maturity date. The balance of the loan was paid in January 2011.

Interest costs of \$1, \$1 and \$2 in 2010, 2009 and 2008, respectively, were capitalized as part of property, plant and equipment.

**(9) Income Taxes**

The components of earnings before income taxes were:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Switzerland.....	\$ 1,822	\$ 1,339	\$ 1,446
Outside Switzerland.....	<u>705</u>	<u>974</u>	<u>637</u>
Earnings before income taxes.....	<u>\$ 2,527</u>	<u>\$ 2,313</u>	<u>\$ 2,083</u>

Income tax expense (benefit) consisted of the following:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Current:</b>			
Switzerland.....	\$ 5	\$ 29	\$ 6
Outside Switzerland.....	<u>308</u>	<u>226</u>	<u>176</u>
Total current.....	<u>313</u>	<u>255</u>	<u>182</u>
<b>Deferred:</b>			
Switzerland.....	--	(1)	(6)
Outside Switzerland.....	<u>4</u>	<u>52</u>	<u>(140)</u>
Total deferred.....	<u>4</u>	<u>51</u>	<u>(146)</u>
Total.....	<u>\$ 317</u>	<u>\$ 306</u>	<u>\$ 36</u>

During the year ended December 31, 2010, the Company recognized a \$25 tax charge for the write-off of deferred tax assets as a result of provisions of U.S. healthcare reform laws enacted during the period.

Income tax expense for the year ended December 31, 2008 reflected a net reduction of \$271 for period items, including a reduction of \$236 related to losses associated with the Company's investment in and advances to its



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former subsidiary, Summit Autonomous, Inc., as well as reductions related to progress in audit settlements, advance pricing agreement negotiations, the lapse of statutes of limitation and other minor items.

Current tax expense does not reflect benefits of \$65, \$22 and \$61 for the years ended December 31, 2010, 2009 and 2008, respectively, related to restricted shares and the exercise of employee stock options, recorded directly to additional paid-in capital.

In 2010, 2009 and 2008, the Company realized certain Swiss tax benefits totaling approximately \$194, \$145 and \$130, respectively, for its commitment to relocate and significantly expand its global administration operations in Switzerland. The initial term of these benefits is expected to continue from 2008 for a period of five years. These benefits would be extended for an additional five years if the Company fulfills certain employment commitments and maintains these commitments through 2022.

A reconciliation of income tax expense at the statutory tax rate of 7.8% in Switzerland to the consolidated effective tax rate follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutory income tax rate.....	7.8%	7.8%	7.8%
Effect of different tax rates in various jurisdictions.....	4.8	4.8	8.2
Current year research and experimentation credits.....	(0.6)	(0.9)	(1.1)
Other current year taxes.....	0.3	0.4	0.2
Current year nondeductible and excludable items.....	(0.4)	0.1	(0.4)
Effect of losses on investment in Summit Autonomous, Inc.....	--	--	(11.3)
Effect of provisions of U.S. healthcare reform legislation.....	1.0	--	--
Effect of change of majority ownership.....	(0.3)	--	--
Tax impact of prior year audit settlements, amended returns and adjustments to estimates.....	--	1.1	(1.7)
Other.....	<u>(0.1)</u>	<u>(0.1)</u>	<u>--</u>
Effective tax rate.....	<u>12.5%</u>	<u>13.2%</u>	<u>1.7%</u>

At December 31, 2010, Alcon's subsidiaries had loss carryforwards that expire as follows:

2011.....	\$	--
2012.....		--
2013.....		--
2014.....		2
2015.....		--
2016-2030.....		91
Indefinite.....		<u>--</u>
Total loss carryforwards.....	<u>\$</u>	<u>93</u>

Deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities.

Temporary differences and carryforwards at December 31, 2010 and 2009 were as follows:

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	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Deferred income tax assets:		
Trade receivables.....	\$ 53	\$ 41
Inventories.....	9	12
Intangible assets.....	50	25
Accounts payable and other current liabilities.....	113	113
Other liabilities.....	232	237
Share-based payments.....	60	81
Loss carryforwards.....	31	3
Gross deferred income tax assets.....	548	512
Unused tax credits.....	18	19
Valuation allowance.....	(5)	(6)
Total deferred income tax assets.....	561	525
Deferred income tax liabilities:		
Property, plant and equipment.....	35	34
Intangible assets.....	157	--
Other.....	10	6
Total deferred income tax liabilities.....	202	40
Net deferred income tax assets.....	\$ 359	\$ 485

The valuation allowances for deferred tax assets as of January 1, 2010 and 2009 were \$(6) and \$(5), respectively. The net changes in the total valuation allowance for each of the years ended December 31, 2010 and 2009 were a decrease of \$1 and an increase of \$1, respectively. The valuation allowances at December 31, 2010 and 2009 were primarily related to costs for which deductions did not appear to be more likely than not to be realized. Based on the Company's historical pretax earnings, management believes it is more likely than not that the Company will realize the benefit of the existing net deferred income tax assets at December 31, 2010. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable earnings; however, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Certain tax planning or other strategies could be implemented, if necessary, to supplement earnings from operations to fully realize tax benefits.

Withholding taxes of approximately \$107 have not been provided on approximately \$2,133 of unremitted earnings of certain subsidiaries since such earnings are, or will be, reinvested in operations indefinitely. Taxes of approximately \$17 have not been provided on temporary differences of approximately \$212 for permanent investments in certain subsidiaries that will be taxable upon liquidation.

The Company or one of its subsidiaries files income tax returns in Switzerland, the U.S. federal jurisdiction, and various state and other foreign jurisdictions. With few exceptions, the Company is no longer subject to Swiss, U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

In June 2009, the Internal Revenue Service ("IRS") commenced an examination of the Company's U.S. income tax returns for 2006 and 2007 that was completed substantially in January 2011. In May 2009, the IRS and the Company entered the Compliance Assurance Process ("CAP") program for 2009. In January 2010, the IRS and the Company extended the CAP program to 2010. The Company also currently is subject to income tax examinations by various state, local and foreign tax authorities. In addition, in June 2009, the Company and the IRS signed an

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advance pricing agreement ("APA") contract memorializing the mutual agreement letter between Switzerland and the United States for years through 2014 that covers all material intercompany transactions involving the Company and its subsidiaries in these two jurisdictions. Finally, during the fourth quarter of 2007, the Company submitted a similar request for a bilateral APA between Japanese and Swiss tax authorities that would cover the tax years 2008 through 2012. The Company received the duly signed Japanese-Swiss APA in the third quarter of 2010.

The Company believes that it takes reasonable positions on its tax returns filed throughout the world; however, tax laws are complex and susceptible to differing interpretations. Tax authorities throughout the world, from time to time, routinely challenge positions taken by the Company, particularly in the case of transfer pricing issues. The Company has identified its uncertain tax positions and prepared its reserve for contingent tax liabilities to reflect the associated unrecognized tax benefits (the "Tax Reserves") in accordance with Financial Accounting Standards Board ("FASB") guidance which, among other things, requires that the Company assume that it will be subject to examination in every jurisdiction in which it is subject to tax. Management believes that the Tax Reserves are fairly stated but believes it is reasonably possible that the total amount of unrecognized tax benefits related to transfer pricing, currency translations and other tax positions reflected in the Tax Reserves will significantly increase or decrease within 12 months of the reporting of this financial statement as the result of, among other things, (i) developments with respect to currently active audits and/or (ii) the further development of tax laws through judicial or administrative actions and/or the actual payment of Tax Reserves. Although tax laws are complex and significant uncertainty exists with respect to the actual date that any of the currently active audits could reach final resolution or a new audit could commence, management believes it is reasonably possible that unrecognized tax benefits could increase in the next 12 months by at least 10% or decrease by up to 70%.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, exclusive of interest and penalties, related to uncertain tax positions is as follows:

	<u>2010</u>	<u>2009</u>
Balance at January 1 .....	\$ 74	\$ 130
Additions for tax positions related to prior years.....	19	40
Reductions for tax positions related to prior years .....	(13)	(16)
Additions for tax positions related to the current year.....	4	10
Settlements .....	(12)	(90)
Lapse of statutes of limitation.....	<u>(1)</u>	<u>--</u>
Balance at December 31 .....	<u>\$ 71</u>	<u>\$ 74</u>

During the years ended December 31, 2010 and 2009, the total amount of unrecognized tax benefits excluding interest and penalties, included in the Tax Reserves decreased by \$3 to \$71 and decreased by \$56 to \$74, respectively. The net decrease in unrecognized tax benefits in 2010 reflected progress on audit settlements, APA negotiations, the lapse of statutes of limitation and other minor items. The net decrease in unrecognized tax benefits in 2009 reflected the resolution of various audits, progress on ongoing audits, APA negotiations, the development of case law, the lapse of statutes of limitations and other minor items. The amounts of unrecognized tax benefits that would impact the effective tax rate if recognized at December 31, 2010 and 2009 were \$64 and \$69, respectively.

The Company's policy is to classify interest and penalties in income tax expense. The gross amount of interest and penalties accrued as part of the Tax Reserves at December 31, 2010 and 2009 were \$14 and \$9, respectively. At December 31, 2010, the consolidated balance sheet included \$1 in other current liabilities and \$76 in other long term liabilities for the Tax Reserves, net of deposits with statutory authorities. At December 31, 2009, the consolidated balance sheet included \$19 in other current liabilities and \$57 in other long term liabilities for the Tax Reserves, net of deposits with statutory authorities. The gross amounts of interest and penalties included in the consolidated statements of earnings for 2010 and 2009 were not significant.

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**(10) Business Segments**

The Company conducts its global business through two business segments: Alcon United States and Alcon International. Alcon United States includes sales to unaffiliated customers located in the United States of America, excluding Puerto Rico. Alcon United States operating income is derived from operating profits within the United States. Alcon International includes sales to all other unaffiliated customers.

Each business segment markets and sells products principally in three product categories of the ophthalmic market: (1) pharmaceutical (prescription drugs), (2) surgical equipment and devices (cataract, vitreoretinal and refractive), and (3) consumer eye care (contact lens disinfectants and cleaning solutions, artificial tears and ocular vitamins). Business segment operations generally do not include research and development, certain manufacturing and other corporate functions.

Segment performance is measured based on sales and operating income reported in accordance with U.S. GAAP.

Certain manufacturing costs and manufacturing variances are not assigned to business segments because most manufacturing operations produce products for more than one business segment. Research and development costs, excluding regulatory costs which are included in the business segments, are treated as general corporate costs and are not assigned to business segments.

Identifiable assets are not assigned by business segment and are not considered in evaluating the performance of the business segments.

	Sales			Operating Income			Depreciation and Amortization		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
United States .....	\$ 3,177	\$ 2,914	\$ 2,807	\$ 1,896	\$ 1,664	\$ 1,554	\$ 64	\$ 47	\$ 46
International .....	4,002	3,585	3,487	1,728	1,507	1,472	107	90	78
Segments total .....	7,179	6,499	6,294	3,624	3,171	3,026	171	137	124
Manufacturing operations ...	--	--	--	(64)	(64)	(61)	58	51	46
Research and development..	--	--	--	(687)	(579)	(527)	24	18	16
General corporate .....	--	--	--	(332)	(190)	(144)	19	12	10
Share-based compensation..	--	--	--	(66)	(77)	(81)	--	--	--
Total .....	\$ 7,179	\$ 6,499	\$ 6,294	\$ 2,475	\$ 2,261	\$ 2,213	\$ 272	\$ 218	\$ 196

During the year ended December 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a \$24 addition to U.S. operating income during the period.

In the year ended December 31, 2010, the Company incurred pretax expenses totaling \$152 for costs (including \$12 in share-based compensation costs) related to the change of majority ownership discussed in note 16 and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. In the tables above, these expenses were included with general corporate expenses.

On February 11, 2009, the Company announced that it initiated programs to align its operations with the evolving economic conditions and market environment. These programs included a staffing reduction of approximately 260 employee positions that resulted in a pre-tax charge of \$19 for the year ended December 31, 2009, which was included in general corporate expenses.

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**(11) Geographic, Customer and Product Information**

Sales for the Company's country of domicile and all individual countries accounting for more than 10% of total sales are presented below along with long lived assets in those countries. Sales by ophthalmic market segment are also included. Sales below are based on the location of the customer. Sales to one customer of the United States business segment represented \$661 of the Company's consolidated sales in 2008. No single customer accounted for more than 10% of total sales in 2010 and 2009.

	Sales			Property, Plant and Equipment	
	For the Years ended December 31,			At December 31,	
	2010	2009	2008	2010	2009
United States.....	\$ 3,177	\$ 2,914	\$ 2,807	\$ 739	\$ 720
Switzerland.....	50	46	44	20	19
Rest of world .....	3,952	3,539	3,443	629	565
<b>Total .....</b>	<b>\$ 7,179</b>	<b>\$ 6,499</b>	<b>\$ 6,294</b>	<b>\$ 1,388</b>	<b>\$ 1,304</b>
Pharmaceutical .....	\$ 3,066	\$ 2,677	\$ 2,561		
Surgical.....	3,220	2,997	2,881		
Consumer eye care .....	893	825	852		
<b>Total .....</b>	<b>\$ 7,179</b>	<b>\$ 6,499</b>	<b>\$ 6,294</b>		

**(12) Share-Based Compensation Plans**

Under the Amended 2002 Alcon Incentive Plan, the Company's board of directors may award to officers, directors and key employees share-based compensation, including stock options, share-settled stock appreciation rights ("SSARs"), restricted shares, share-settled restricted share units ("RSUs"), performance share units and certain cash-settled liability awards. The total number of shares from conditional capital and treasury shares that may be issued under the plan with respect to such awards cumulatively shall not exceed 40 million Alcon common shares. The number of shares that may be delivered pursuant to an exercise or after a lapse of a restriction period may not exceed 10% of the total number of shares issued and outstanding at that time. The grant prices for stock options or stock appreciation rights shall not be lower than the prevailing stock exchange price upon the grant of the award, unless specifically approved by the board.

Individual grants become exercisable generally on or after the third anniversary of the grant and lapse on the tenth anniversary of the grant. Grants prior to February 2006 also become exercisable upon early retirement at or after age 55. If there is a change in control (as defined by the plan), the exercise or vesting of the awards accelerates.

Beginning in February 2006, consistent with earlier grants, participants may vest in the stock option and SSAR grants upon early retirement at or after age 55; however, under grants subsequent to January 2006, participants may exercise these instruments only on or after the third anniversary of the grant. Restricted share and restricted share unit awards are subject to a three-year cliff vesting; furthermore, participants retiring before reaching age 60 for awards granted subsequent to January 2006 through December 2008, or age 62 for awards granted subsequent to January 2009, will forfeit some or all of such awards if the three-year service period has not expired.

The Company intends to satisfy all equity awards granted prior to December 31, 2003 and after December 31, 2007 with the issuance of new shares from conditional capital authorized for the Amended 2002 Alcon Incentive Plan. At December 31, 2010, the Company had reserved approximately 19.6 million Alcon common shares for issuance pursuant to the Amended 2002 Alcon Incentive Plan.

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The Company's board of directors has authorized the acquisition on the open market of Alcon common shares to, among other things, satisfy the share-based awards requirements granted under the Amended 2002 Alcon Incentive Plan. At December 31, 2010, outstanding authorizations by the Company's board of directors would have permitted the purchase of approximately 1.6 million Alcon common shares. The Company has purchased treasury shares on the open market to satisfy the majority of the outstanding equity awards granted subsequent to December 31, 2003 and prior to January 1, 2008. Additional treasury shares were purchased during 2008 in anticipation of presenting the shares to the shareholders for approval of cancellation (note 16).

**Change of Control Provisions**

Upon the change of control in the ownership of Alcon to Novartis from Nestlé discussed in note 16, the Company's share-based compensation awards granted to employees prior to January 1, 2009 vested immediately. However, the vesting of similar awards granted after January 1, 2009 will accelerate only if the respective participant's employment with the Company or its successor is terminated without cause, or by the participant under certain circumstances, within six months preceding or during the two years following a change of control. The acceleration of vesting increased the cost of share-based payments \$8, which was included in other operating expenses in 2010. If the change of control had not occurred, \$6 of that cost would have been recognized in normal attribution during the remainder of 2010.

Upon the completion of the merger discussed in note 16, management expects that Novartis common shares would be substituted for Alcon common shares under the outstanding share-based awards at the merger date. The substitution ratio would be based on the price of a Novartis share in the merger relative to \$168 for an Alcon share, but no cash would be paid.

**Equity Awards**

Net earnings for the years ended December 31, 2010, 2009 and 2008 reflected the impact of compensation cost for all share-based payments based on the estimated grant-date "fair value."

The effects of share-based equity awards on operating income and net earnings for the years ended December 31, 2010, 2009 and 2008 were as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total share-based equity award costs applicable for period .....	\$ 78	\$ 74	\$ 83
Costs relieved from (capitalized in) inventory .....	--	--	--
Costs recognized in operating income .....	78	74	83
Tax benefit recognized in net earnings .....	23	23	27
Reduction to net earnings .....	<u>\$ 55</u>	<u>\$ 51</u>	<u>\$ 56</u>

Compensation expense for equity awards was calculated on a straight-line basis over the three-year vesting period of the applicable share-based awards, with acceleration of the expense for individuals meeting the requirements for retirement and under the change of control provisions, as described above.

As of December 31, 2010, total unrecognized compensation cost related to nonvested share-based equity compensation arrangements (including share options, SSARs and nonvested share and share unit awards) granted under the plan was \$112. That cost is expected to be recognized over a weighted average period of 1.6 years.

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*Options and SSARs*

No options or SSARs were granted in 2010. The "fair values" of each stock option and SSAR granted in 2009 and 2008 were estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2009</u>	<u>2008</u>
Expected volatility .....	31.5%	29.5%
Risk-free interest rate.....	1.66%	2.67%
Expected dividend yield .....	3.0%	1.5%
Expected term.....	5 years	5 years

The Company based its estimates of expected volatility on daily historical trading data of its common shares from March 2002 through the grant dates and, due to its short history as a public company when compared to length of the term of the instruments, other factors, such as the volatility of the common share prices of other pharmaceutical and surgical companies.

The risk-free interest rate assumptions were based on implied yields, at the grant dates, of U.S. Treasury zero-coupon bonds having a remaining term equal to the expected term of the employee share awards.

The expected dividend yield was estimated generally based upon the Company's historic dividend yield since 2003, projected dividend increases and other relevant information.

The Company estimated the expected term consistent with historical exercise and cancellation activity of its previous share-based grants with a ten-year contractual term, as well as that of other pharmaceutical and surgical companies.

Forfeitures of stock options and SSARs were estimated to be 4.0% in 2010 (6.3% in 2009 and 7.3% in 2008) of the number granted, based on historical experience.

If factors change and the Company employs different assumptions to account for share-based payments in future periods, the compensation expense that the Company records may differ significantly from what the Company has recorded in the current period.

The status of the stock options and SSARs as of December 31, 2010 and the changes during the year then ended are presented below:

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	Stock Options				SSARs			
	Number	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at								
beginning of period .	5,633,142	\$ 68			5,345,020	\$ 117		
Granted .....	--	--			--	--		
Forfeited.....	(26,936)	97			(42,442)	104		
Exercised.....	(2,448,823)	69			(1,501,331)	130		
Expired.....	(617)	133			(1,863)	129		
Outstanding at end								
of period .....	<u>3,156,766</u>	68	3.6	\$ 302	<u>3,799,384</u>	112	7.1	\$ 197
Exercisable at end								
of period .....	<u>2,965,322</u>	66	3.3	\$ 288	<u>1,991,643</u>	134	6.1	\$ 59

The weighted average grant-date "fair values" of stock options granted during the years ended December 31, 2009 and 2008 were \$19 and \$39 per option, respectively. The total intrinsic values of the stock options exercised during the years ended December 31, 2010, 2009 and 2008 were \$227, \$69, and \$191, respectively.

The weighted average grant-date "fair values" of SSARs granted during the years ended December 31, 2009 and 2008 were \$19 and \$38 per SSAR. The total intrinsic value of SSARs exercised during the years ended December 31, 2010 and 2009 were \$244 and \$4. No SSARs were exercised during the year ended December 31, 2008.

The following tables summarize information about stock options and SSARs as of December 31, 2010:

Range of Exercise Prices	Number Outstanding	Options Outstanding			Options Exercisable		
		Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price per Share	Scheduled Exercisable Date	Number Exercisable	Weighted Average Exercise Price per Share	
\$ 33	204,431	1.2	\$ 33	March 21, 2005	204,431	\$ 33	
36	597,888	2.1	36	February 18, 2006	597,888	36	
42-50	12,100	2.5	47	Various dates in 2006	12,100	47	
63	916,083	3.1	63	February 11, 2007	916,083	63	
67-80	58,000	3.7	77	Various dates in 2007	58,000	77	
80	5,500	4.0	80	January 18, 2008	5,500	80	
79	939,838	4.1	79	February 9, 2008	939,838	79	
98-105	11,000	4.4	101	Various dates in 2008	11,000	101	
123	61,106	5.1	123	February 8, 2009	61,106	123	
131	85,510	6.1	131	February 12, 2010	85,510	131	
148	72,409	7.1	148	February 11, 2011	72,409	148	
145	125	7.3	145	April 3, 2011	125	145	
87	192,070	8.1	87	February 17, 2012	1,332	87	
90	706	8.3	90	April 3, 2012	--		
Total	<u>3,156,766</u>				<u>2,965,322</u>		



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Range of Exercise Prices	Number Outstanding	SSARs Outstanding			SSARs Exercisable		
		Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price per Share	Scheduled Exercisable Date	Number Exercisable	Weighted Average Exercise Price per Share	
\$ 123	599,512	5.1	\$ 123	February 8, 2009	599,512	\$ 123	
100	6,600	5.3	100	May 2, 2009	6,600	100	
131	724,509	6.1	131	February 12, 2010	724,509	131	
133	6,000	6.4	133	May 14, 2010	6,000	133	
148	627,864	7.1	148	February 11, 2011	627,864	148	
145-168	21,266	7.3	148	Various dates in 2011	21,266	148	
87	1,781,786	8.1	87	February 17, 2012	5,892	87	
90-116	31,847	8.3	97	Various dates in 2012	--		
Total	<u>3,799,384</u>				<u>1,991,643</u>		

*Restricted Shares and RSUs*

Restricted shares and RSUs are recognized over the required service period at the closing market price for Alcon common shares on the date of grant. Forfeitures of restricted shares and RSUs in 2010, 2009 and 2008 were estimated to be 6.0%, 8.3% and 9.8%, respectively, of the number granted, based on historical experience. The status of the nonvested restricted shares and RSUs as of December 31, 2010 and the changes during the year then ended are presented below:

	Restricted Shares				RSUs			
	Number	Weighted Average Grant-Date Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Market Value	Number	Weighted Average Grant-Date Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Market Value
Nonvested at beginning of period.....	125,058	\$ 131			693,782	\$ 110		
Granted .....	--	--			790,636	159		
Vested .....	(124,819)	131			(288,922)	144		
Forfeited .....	<u>(239)</u>	131			<u>(38,353)</u>	127		
Nonvested at end of period.....	<u>--</u>	--	--	\$ --	<u>1,157,143</u>	134	1.53	\$ <u>189</u>

No restricted shares were granted during 2010, 2009 and 2008. The total market values of restricted shares that vested during the years ended December 31, 2010, 2009 and 2008 were \$20, \$14 and \$4, respectively.

The weighted average grant-date market values of RSUs granted during the years ended December 31, 2010, 2009 and 2008 were \$159, \$89, and \$147 per share, respectively. The total market values of RSUs that vested during the years ended December 31, 2010, 2009 and 2008 were \$50, \$6 and less than \$1, respectively.

*Performance Share Units*

In February 2009 and 2008, pursuant to the Amended 2002 Alcon Incentive Plan, the Company's board of directors approved the grants of approximately 47,000 and 37,000 performance share units, respectively, to the senior executive officers and other selected executives. The performance share units are designed to award

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additional compensation in the form of Alcon shares if certain earnings per share targets are met. The final awards may be adjusted by a total shareholder return multiplier. If minimum earnings per share targets are not met, no Alcon shares are delivered under the awards. These awards do not pay dividend equivalents during the performance period. The 2009 and 2008 performance share units vest at the end of a three-year service period, with forfeitures if the recipient is not fully vested before age 62 or 60, respectively.

The "fair value" of each performance share unit was estimated at the grant date assuming that the target performance goal will be achieved and using a Monte Carlo simulation approach to model adjustments for total shareholder return modifier provisions. The following weighted average assumptions were incorporated into the valuation model:

	<u>2009</u>	<u>2008</u>
Expected volatility.....	31.5%	29.5%
Risk-free interest rate .....	1.22%	2.10%
Expected dividend yield .....	3.0%	1.5%
Expected term.....	3 years	3 years

In the event that the minimum performance goals are not met, previously recognized compensation cost will be reversed. The Company recognizes the "fair values" of performance share units over the required service period.

Forfeitures of performance share units were estimated to be 0.8% in 2010 (1.5% in 2009 and 2.3% in 2008) of the number granted, based on historical experience of other types of awards and the limited number of executives receiving them. The status of the performance share unit awards as of December 31, 2010 and the changes during the year then ended are presented below:

	<u>Performance Share Units</u>			<u>Aggregate Market Value</u>
	<u>Number</u>	<u>Weighted Average Grant-Date "Fair Value" per Unit</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	
Nonvested at beginning of period.....	81,155	\$ 114		
Granted .....	--	--		
Vested.....	(8,003)	107		
Forfeited .....	<u>(683)</u>	86		
Nonvested at end of period.....	<u>72,469</u>	114	0.7	<u>\$ 12</u>

The weighted average grant-date "fair values" of performance share units granted during the years ended December 31, 2009 and 2008 were \$86 and \$152 per instrument, respectively. The total market value of performance share units that vested during the year ended December 31, 2010 was \$1. No performance share units vested during the years ended December 31, 2009 and 2008. No such instruments were granted in 2010 and prior to 2008.

**Liability Awards**

The Amended 2002 Alcon Incentive Plan also provides that the board may grant cash-settled stock appreciation rights ("CSARs") whereby the grantee may receive the appreciation in share value over the grant price. Individual grants become exercisable generally on or after the third anniversary of the grant and lapse on the tenth anniversary of the grant. In addition to scheduled vesting, shares are fully vested upon meeting the requirements for retirement.

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The Company accounts for CSARs as share-based liability awards that are remeasured each reporting period through the awards' settlement dates using the Black-Scholes option-pricing model and similar assumptions to those used for measuring equity grants. No CSARs were granted in 2010, 2009 and 2008. At December 31, 2010 and 2009, all CSARs were fully vested and were measured at their intrinsic value. The market price for Alcon common shares was \$163 per share at December 31, 2010. At December 31, 2010 and 2009, the Company's liability for CSARs totaled \$2 and \$3, respectively. The related activity in 2010, 2009 and 2008 was not significant.

The Company expects to use liability awards minimally in the future. As of December 31, 2010, there was no unrecognized compensation cost related to CSARs granted under the plan.

**(13) Deferred Compensation**

The Alcon Executive Deferred Compensation Plan permits certain executives of the Company to defer receipt of compensation and certain stock gains otherwise payable currently and to accumulate earnings thereon on a tax-deferred basis. The plan is designed to permit executives' deferral elections to be held and owned by the Company in a Rabbi trust. During the years ended December 31, 2010, 2009 and 2008, certain executives elected to defer compensation totaling \$2, \$1, and \$1 respectively. At December 31, 2010 and 2009, other long term liabilities in the accompanying consolidated balance sheets included liabilities under the plan of \$12 and \$13, respectively.

In 2004, the Company established the Alcon Excess 401(k) Plan, allowing deferral of excess employer contributions that cannot be made to the Alcon 401(k) Retirement Plan because of limitations under the U.S. Internal Revenue Code of 1986. During the years ended December 31, 2010, 2009 and 2008, deferrals under the plan were \$5, \$3 and \$3 respectively. At December 31, 2010 and 2009, liabilities under the plan, included in other long term liabilities in the accompanying consolidated balance sheets, were \$17 and \$13, respectively.

**(14) Related Party Transactions**

As of December 31, 2010, Novartis had purchased 231,352,279 common shares of Alcon, and Nestlé no longer owned any common shares of Alcon.

On January 9, 2009, the Company entered into an agreement with Novartis Pharma AG (an affiliate of Novartis) providing for the co-promotion under their license of the Lucentis<sup>®</sup> product in Japan. This agreement has a three-year term ending on December 31, 2011. During the years ended December 31, 2010 and 2009, the Company recognized approximately \$10 and \$3 in co-promotion fees from this agreement, which fees were more than sufficient to recover the Company's costs under the agreement.

During the year ended December 31, 2010, the Company reimbursed Novartis for certain operating expenses totaling \$2 incurred on the Company's behalf.

The Company's other material transactions with related parties during 2010, 2009 and 2008 were with Nestlé and its subsidiaries. All material related party transactions that are not disclosed elsewhere in these notes are included below.

During 2010, 2009 and 2008, the Company had investments and borrowings with Nestlé and its subsidiaries which resulted in the following impact to earnings before income taxes:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest expense .....	\$ 1	\$ 3	\$ 5
Interest income .....	\$ --	Less than \$1	Less than \$1

The Company continues to lease certain facilities from Nestlé subsidiaries which resulted in rent expense of \$3, \$3, and \$2 in 2010, 2009 and 2008, respectively. Nestlé provided the Company with certain services, including a portion of the Company's information technology licenses, corporate legal services, certain treasury and cash

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management activities and certain internal audit activities. Nestlé charged the Company for its portion of the costs of these services based on arm's length prices. Such charges were less than \$3 in each of the three years ended December 31, 2010, 2009 and 2008.

During 2008, Lehman Brothers International (Europe) London filed for administration in England. At that time the Company's cash and cash equivalents included \$707 of short term securities held in a segregated custodial account of Lehman Brothers International (Europe) London pursuant to a Custody Agreement. Nestlé invoiced the Company in December 2008, and in 2009 the Company reimbursed Nestlé, for a total of \$5 in fees paid by Nestlé to the Joint Administrators of Lehman Brothers International (Europe) (in administration) related to the release of the short-term securities held in the custodial account. This amount of fees is subject to adjustment depending on the final costs incurred to settle the administration of Lehman Brothers International (Europe).

The Company executed certain foreign exchange contracts through Nestlé Finance SA, Cham to benefit from Nestlé's foreign exchange transaction volumes and expertise. At December 31, 2010 and 2009, the Company had no notional amounts outstanding with Nestlé.

The Company participated with certain Nestlé affiliates in specific cash pooling accounts under which overdraft lines of credit were available and were jointly and severally guaranteed by all participants, including the Company. At December 31, 2010, these lines of credit were longer available.

The Company was part of the Nestlé Swiss Value-Added Tax Group until October 2010, when a new Swiss Alcon Value-Added Tax Group was formed. Alcon is jointly and severally liable for any value-added tax liabilities of all other Swiss Alcon Group participants effective October 2010.

**(15) Pension and Postretirement Benefits**

The Company's pension and postretirement benefit plans, which in aggregate cover substantially all employees in the United States and employees in certain other countries, consist of defined benefit pension plans, defined contribution plans and a postretirement healthcare plan. The Company's cost of defined contribution plans was \$94, \$86 and \$78 in 2010, 2009 and 2008, respectively.

The information provided below pertains to the Company's defined benefit pension plans and postretirement healthcare plan. The measurement date used to determine pension and postretirement benefit measurements for all of the benefit plans in 2010, 2009 and 2008 was December 31 of the respective year.

The changes in benefit obligations, fair values of plan assets and funded status for the years ended December 31, 2010 and 2009 were:

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	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year .....	\$ 557	\$ 458	\$ 276	\$ 269
Service cost.....	28	23	14	13
Interest cost.....	30	29	16	16
Benefits paid by trust.....	(5)	(7)	(11)	(10)
Benefits paid by Company .....	(21)	(19)	--	--
Employee contributions.....	1	1	--	--
Foreign currency translation.....	7	3	--	--
Medicare subsidy.....	--	--	1	1
Conversion of multi-employer plan/acquisition .....	--	35	--	--
Special termination benefits .....	101	--	--	--
Curtailment.....	(44)	--	--	--
Actuarial (gain)/loss .....	58	34	45	(13)
	<u>712</u>	<u>557</u>	<u>341</u>	<u>276</u>
<b>Benefit obligation at end of year .....</b>				
	<u>712</u>	<u>557</u>	<u>341</u>	<u>276</u>
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year.....	119	68	177	123
Actual return on plan assets.....	7	10	18	32
Employer contribution.....	12	17	34	32
Employee contributions.....	1	1	--	--
Conversion of multi-employer plan/acquisition .....	--	29	--	--
Foreign currency translation.....	4	1	--	--
Benefits paid.....	(5)	(7)	(11)	(10)
	<u>138</u>	<u>119</u>	<u>218</u>	<u>177</u>
Fair value of plan assets at end of year.....	<u>138</u>	<u>119</u>	<u>218</u>	<u>177</u>
<b>Funded Status at End of Year .....</b>	<u>\$ (574)</u>	<u>\$ (438)</u>	<u>\$ (123)</u>	<u>\$ (99)</u>
<b>Amounts Recognized in the Consolidated Balance Sheets</b>				
Accrued benefit costs in other current liabilities .....	\$ (31)	\$ (15)	\$ --	\$ --
Pension and postretirement obligation in other long term liabilities .....	(543)	(423)	(123)	(99)
	<u>(574)</u>	<u>(438)</u>	<u>(123)</u>	<u>(99)</u>
Net amount recognized in the consolidated balance sheet.....	<u>\$ (574)</u>	<u>\$ (438)</u>	<u>\$ (123)</u>	<u>\$ (99)</u>

Amounts recognized in accumulated other comprehensive income, net of taxes, at December 31, 2010 consisted of:

	Pension Benefits	Postretirement Benefits
Prior service cost.....	\$ --	\$ --
Net losses (gains).....	82	42
	<u>82</u>	<u>42</u>
Total.....	<u>\$ 82</u>	<u>\$ 42</u>

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in the year ended December 31, 2011 were estimated to be:

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	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
Prior service cost.....	\$ --	\$ --
Net losses (gains).....	4	4
Total.....	<u>\$ 4</u>	<u>\$ 4</u>

The accumulated benefit obligation for all defined benefit pension plans was \$605 and \$439 at December 31, 2010 and 2009, respectively.

The following table provides information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2010 and 2009:

	<u>Pension Benefits</u>	
	<u>2010</u>	<u>2009</u>
Projected benefit obligation.....	\$ 571	\$ 438
Accumulated benefit obligation.....	511	359
Fair value of plan assets.....	13	10

<b>Weighted Average Assumptions to Calculate Benefit Obligations as of December 31</b>	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	Discount rate .....	4.8%	5.4%	5.5%
Expected return on plan assets .....	4.0	4.2	6.6	7.5
Rate of compensation increase .....	4.9	4.9	N/A	N/A

<b>Weighted Average Assumptions to Calculate Net Benefit Costs for</b>	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	Discount rate .....	5.4%	5.7%	6.0%
Expected return on plan assets .....	4.2	3.3	7.5	7.5
Rate of compensation increase .....	4.9	5.1	N/A	N/A

The discount rates for the defined benefit pension plans were determined by matching, as of the respective measurement dates, the expected future cash flows with high-quality fixed-income securities of the same duration. This resulted in weighted average discount rates for appropriate equivalent annualized rates.

The discount rates for the postretirement benefit plan were determined by matching the expected future cash flows with high quality fixed-income securities of the same duration as of the respective measurement dates.

The expected long term rates of return on plan assets were based on historical market index returns for the applicable asset classes weighted in proportion to the target allocation of the plan. The return assumption for the

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postretirement benefits plan also took into account the estimated cost of life insurance coverage and insurer profit due to the use of the trust-owned life insurance investment vehicle.

At December 31, 2009, the Company adopted the provisions of the Compensation-Defined Benefits-Disclosure Topic of the ASC, as adopted by the FASB, which enhances disclosure requirements for fair value measurements. The required hierarchical levels were discussed in note 5.

**Pension Plan Assets**

The Company's overall investment strategy is to achieve a mix of investments for long-term growth and investments for near-term benefit payments, with a wide diversification of asset types, fund strategies, and fund managers. The strategies use a variety of asset classes to provide return opportunities that are consistent with the Company's acceptable risk tolerance. The majority of the Company's plans are unfunded, with the major funded plans designated for employees in Japan, Belgium and Spain.

The target allocations for plan assets at December 31, 2010 (on a weighted-average basis) were 12% equity securities, 14% debt securities, 41% guaranteed investment contracts and 33% other investments. Equity securities primarily included investment in large capitalization companies and index funds located in the United States and Japan. Debt securities were primarily government bonds in Japan. The guaranteed investment contract was with an insurance company located in Japan used to fund benefits for employees in Japan. Other investments consisted of investment funds mainly invested in a mix of debt and equity securities for employees in Belgium, the Netherlands and Norway. Assets previously invested with a Nestlé plan for employees in Spain had been liquidated and the proceeds were in cash and cash equivalents at December 31, 2010.

Expected long-term rates-of-return on assets were based primarily on historical returns and asset-liability modeling studies and considered expected real returns, inflation fluctuations and volatility of each asset category.

At December 31, 2010 and 2009, the Company's asset allocations by asset category were as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents.....	\$ 31	\$ 8
Equity securities.....	5	12
Debt securities.....	7	20
Guaranteed investment contracts.....	51	40
Other investments:		
Investment funds.....	39	35
Other.....	5	4
	<u>          </u>	<u>          </u>
Total.....	<u>\$ 138</u>	<u>\$ 119</u>

At December 31, 2010, financial assets for pension benefits measured at fair value on a recurring basis were categorized in the table below based upon the lowest level of input that is significant to the fair value measurement as follows:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents.....	\$ 31	\$ --	\$ --	\$ 31
Equity securities (a).....	--	5	--	5
Debt securities (b).....	--	7	--	7
Guaranteed investment contracts (c).....	--	51	--	51
Other investments (d):				
Investment funds.....	--	39	--	39
Other.....	--	5	--	5
Total.....	<u>\$ 31</u>	<u>\$ 107</u>	<u>\$ --</u>	<u>\$ 138</u>

- (a) This category consists mainly of large capitalization companies and index funds in the United States and Japan.
- (b) This category consists mainly of government debt securities primarily in Japan.
- (c) This category is primarily guaranteed investment contracts in Japan administered through insurance companies with guaranteed returns of 0.75%. The life insurance companies pool pension plan assets together from all the participating companies and generally invest in a relatively conservative asset mix of corporate and government bonds, mostly Japanese, with a minor portion in both domestic and foreign equity, loans and other investments.
- (d) This category includes assets held in a variety of funds primarily managed by Nestlé Capital Management (a Nestlé affiliate) and State Street Global Advisors for the benefit of employees in Belgium and the Netherlands. Equity funds consist of Robusta European, Common Contractual and Emerging Market funds (operated by Nestlé's investment management company) and State Street Global Advisors Asia Pacific and World Index funds. Fixed income funds consist of Euro government bonds, Robusta Inflation Linked and Global Credit Bonds (operated by Nestlé's investment management company). A minor portion of the funds are invested in real estate, commodities and absolute return hedge funds.

The Company maintains an irrevocable Rabbi trust to be held and invested in an unfunded arrangement for the payment of benefits to participants under certain defined benefit pension plans of the Company. The assets of the trust are restricted to the payment of pension benefits except under certain conditions, such as the Company's insolvency or termination of the trust. The Alcon Executive Retirement Plans Grantor Trust Agreement provides for the Company to fund the current actuarially determined present value of the aggregate accrued pension benefits of all participants upon the change of control (discussed in note 16). Based on actuarially determined pension benefit projections and market conditions, the Company contributed \$152 during 2010 to satisfy this requirement. The assets of the trust were primarily the cash surrender value (\$279 as of December 31, 2010) of company owned life insurance policies purchased from a related captive insurance company subsidiary and cash equivalents (\$152 as of December 31, 2010).

The Company does not anticipate that any assets from defined benefit plans would be returned to the Company during the year ending December 31, 2011.

At December 31, 2009, financial assets for pension benefits measured at fair value on a recurring basis were categorized in the table below based upon the lowest level of input that is significant to the fair value measurement as follows:



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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents.....	\$ 8	\$ --	\$ --	\$ 8
Equity securities (a).....	--	12	--	12
Debt securities (b).....	--	20	--	20
Guaranteed investment contracts (c).....	--	40	--	40
Other investments (d):				
Investment funds.....	--	35	--	35
Other.....	--	4	--	4
<b>Total</b>	<b>\$ 8</b>	<b>\$ 111</b>	<b>\$ --</b>	<b>\$ 119</b>

- (a) This category consists mainly of large capitalization companies and index funds in the United States and Europe.
- (b) This category consists mainly of government debt securities in Europe, the United States and Japan.
- (c) This category is primarily guaranteed investment contracts in Japan administered through insurance companies with guaranteed returns of 0.75%. The life insurance companies pool pension plan assets together from all the participating companies and generally invest in a relatively conservative asset mix of corporate and government bonds, mostly Japanese, with a minor portion in both domestic and foreign equity, loans and other investments.
- (d) This category includes assets held in a variety of funds primarily managed by Nestlé Capital Management (a Nestlé affiliate) and State Street Global Advisors for the benefit of employees in Belgium and the Netherlands. Equity funds consist of Robusta European, Common Contractual and Emerging Market funds (operated by Nestlé's investment management company) and State Street Global Advisors Asia Pacific and World Index funds. Fixed income funds consist of Euro government bonds, Robusta Inflation Linked and Global Credit Bonds (operated by Nestlé's investment management company). A minor portion of the funds are invested in real estate, commodities and absolute return hedge funds.

**Postretirement Benefits Assets**

The Company's overall investment strategy for these fund assets is to invest in long-term growth assets (excluding necessary cash for near-term benefit payments) with a wide diversification of asset types, fund strategies, and fund managers. The strategies use a variety of asset classes to provide return opportunities that are consistent with the Company's acceptable risk tolerances. The post retirement plan is a U.S. plan having assets funded to a Voluntary Employee Benefit Association ("VEBA") trust and to a 401(h) account under the Alcon Retirement Plan. The blended target allocations for plan assets at December 31, 2010 were 6% cash and cash equivalents, 63% global equity securities, 27% corporate bonds, and 4% other investments. Equity securities primarily included investment in large cap companies located around the world. Corporate bonds were primarily investment-grade bonds of companies in diversified industries primarily located in the United States. Other investments consisted primarily of convertible bonds and real assets, including real estate investments and commodities. Expected long-term rates-of-return on assets were primarily based on historical returns.

At December 31, 2010 and 2009, the Company's asset allocations by asset category were as follows:

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	<u>2010</u>	<u>2009</u>
Cash and cash equivalents.....	\$ 37	\$ 27
Equity securities (funds and direct holdings):		
Equity securities - U.S. large cap.....	32	28
Equity securities - large cap located outside United States (a).....	28	26
Debt securities:		
Debt securities – U.S. Treasuries, Agencies & investment grade corporate (b)...	31	29
Other investments:		
Alcon Active Balanced Fund (c).....	<u>90</u>	<u>67</u>
 Total.....	 <u>\$ 218</u>	 <u>\$ 177</u>

- (a) International holdings were largely located in developed countries within Europe, the Far East and Australia.  
(b) Debt securities were largely located in the United States, benchmarked to the Barclay's Aggregate Index.  
(c) The 401(h) account is invested in a balanced fund offered within the Master Trust for the Defined Contribution Plans for Alcon Laboratories, Inc. and Alcon (Puerto Rico), Inc.

At December 31, 2010, financial assets measured at fair value on a recurring basis were categorized in the table below for postretirement benefits based upon the lowest level of input that is significant to the fair value measurement as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents.....	\$ 37	\$ --	\$ --	\$ 37
Equity securities:				
Equity securities – U.S. large cap (a).....	--	32	--	32
Equity securities – large cap located outside United States (b)	--	28	--	28
Debt securities:				
Debt securities – U.S. Treasuries, Agencies & investment grade corporate (c) .....	--	31	--	31
Other investments:				
Alcon Active Balanced Fund (d).....	<u>--</u>	<u>90</u>	<u>--</u>	<u>90</u>
 Total.....	 <u>\$ 37</u>	 <u>\$ 181</u>	 <u>\$ --</u>	 <u>\$ 218</u>

- (a) This category consists of assets in a U.S. equity index fund through trust-owned life insurance.  
(b) This category consists of assets in an international equity index fund through trust-owned life insurance.  
(c) This category consists of assets in a U.S. Aggregate Board bond market index fund through trust-owned life insurance.  
(d) This category consists of one investment in the Alcon Active Balanced fund. This fund has a globally balanced mandate to include global equities (primarily developed countries), investment grade U.S. corporate and agency debt, real assets and convertibles. The fund is highly liquid with the vast majority of assets classified as either Level 1 or Level 2 within the FASB fair value hierarchy.

The Company does not anticipate that any assets from the postretirement benefits plan would be returned to the Company during the year ending December 31, 2011.

At December 31, 2009, financial assets measured at fair value on a recurring basis were categorized in the table below for postretirement benefits based upon the lowest level of input that is significant to the fair value measurement as follows:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents.....	\$ 27	\$ --	\$ --	\$ 27
Equity securities:				
Equity securities – U.S. large cap (a).....	--	28	--	28
Equity securities – large cap located outside United States (b)	--	26	--	26
Debt securities:				
Debt securities – U.S. Treasuries, Agencies & investment grade corporate (c).....	--	29	--	29
Other investments:				
Alcon Active Balanced Fund (d).....	--	67	--	67
<b>Total.....</b>	<b><u>\$ 27</u></b>	<b><u>\$ 150</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 177</u></b>

- (a) This category consists of assets in a U.S. equity index fund through trust-owned life insurance.
- (b) This category consists of assets in an international equity index fund through trust-owned life insurance.
- (c) This category consists of assets in a U.S. Aggregate Board bond market index fund through trust-owned life insurance.
- (d) This category consists of one investment in the Alcon Active Balanced fund. This fund has a globally balanced mandate to include global equities (primarily developed countries), investment grade U.S. corporate and agency debt, real assets, convertibles and absolute return funds. The fund is highly liquid with the vast majority of assets classified as either Level 1 or Level 2 within the FASB fair value hierarchy.

**Contributions**

The Company expects to contribute in 2011 approximately \$41 to its pension plans and approximately \$27 to its postretirement benefit plan.

**Estimated Future Benefit Payments**

The following table provides the benefit payments expected to be paid and the anticipated subsidy receipts:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
			<u>Gross Payments</u>	<u>Subsidy Receipts</u>
2011 .....	\$ 32	\$ 12	\$ (1)	
2012 .....	32	13	(1)	
2013 .....	32	15	(1)	
2014 .....	33	16	(2)	
2015 .....	36	18	(2)	
2016 - 2020.....	204	123	(14)	

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	<u>Pension Benefits</u>			<u>Postretirement Benefits</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Components of Net Periodic Benefit Cost</b>						
Service cost.....	\$ 28	\$ 23	\$ 24	\$ 14	\$ 13	\$ 13
Interest cost.....	30	29	24	16	16	15
Expected return on assets .....	(5)	(4)	(2)	(14)	(10)	(11)
Prior service cost .....	(5)	(1)	(1)	--	1	1
Special termination benefits .....	101	--	--	--	--	--
Net losses.....	<u>6</u>	<u>7</u>	<u>7</u>	<u>2</u>	<u>4</u>	<u>1</u>
Net periodic benefit cost .....	<u>155</u>	<u>54</u>	<u>52</u>	<u>18</u>	<u>24</u>	<u>19</u>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>						
Current year net loss (gain) .....	56	33	16	40	(35)	47
Amortization of net (gain) .....	(6)	(7)	(6)	(2)	(4)	(1)
Amortization of prior service cost.....	5	1	1	--	(1)	(1)
Curtailment.....	(44)	--	--	--	--	--
Foreign currency translation.....	<u>2</u>	<u>2</u>	<u>(2)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net charge to other comprehensive income.....	<u>13</u>	<u>29</u>	<u>9</u>	<u>38</u>	<u>(40)</u>	<u>45</u>
Total recognized in net periodic pension cost and other comprehensive income	<u>\$ 168</u>	<u>\$ 83</u>	<u>\$ 61</u>	<u>\$ 56</u>	<u>\$ (16)</u>	<u>\$ 64</u>

Effective January 1, 2008, the Company adopted a provision to measure the funded status of a plan as of the date of its year-end balance sheet. The Company utilized the alternate transition method to transition the measurement date for its defined pension benefit plan in Japan from September 30 to December 31. Under this transition method, the Company charged 3/15ths of the estimated pension cost from October 1, 2007 to December 31, 2008 (or \$1, net of taxes) to retained earnings as of January 1, 2008.

Certain U.S. defined benefit plans contain change of control provisions that, among other items, provide for accelerated vesting of benefits. The Company recognized charges of \$97 in special termination benefits and amortization of prior service cost upon the change of control in the ownership of Alcon by Novartis's purchase of Nestlé's common shares of Alcon (discussed note 16). A curtailment gain of \$44 was offset against prior unrecognized losses and no gain was recognized in earnings. Except for certain key employees, payments of these accelerated benefits began during the fourth quarter of 2010 as provided by the plans.

The healthcare cost trend rate used to measure the expected cost of benefits covered by the postretirement plan is 7.6% at December 31, 2010, declining to 5% in 2017 and after. The effect of a one percentage point change in assumed medical cost trend rates is as follows:

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	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components.....	\$ 6	\$ (5)
Effect on the postretirement benefit obligation .....	60	(47)

In certain countries, the Company's employees participate in defined benefit plans of Nestlé. No separate valuation for the Company's employees has historically been prepared for the plans, as they are not individually material to the Company or to Nestlé. Accordingly, these plans are treated as multi-employer plans. Annual contributions to these plans are determined by Nestlé and charged to the Company. Company contributions to these plans during 2010, 2009 and 2008 were \$10, \$9, and \$10, respectively. Future contributions may not reflect past trends. During 2009, the Company obtained a separate valuation for its Belgium and Netherlands subsidiaries' defined benefit pension plans and converted from multi-employer plans to single-employer plans. Prior to the change of ownership by Novartis, the Company and Nestlé entered into an agreement outlining the terms to segregate Alcon employees from Nestlé pension plans. The agreement provides that, except for certain circumstances, all current Alcon pension participants will be migrated from Nestlé pension plans to other, not yet determined Alcon pension plans by January 1, 2011.

**(16) Shareholders' Equity**

***Share Cancellation***

On May 5, 2009, Alcon's shareholders approved the cancellation of 1,043,400 Alcon common shares, which the Company purchased during 2008. After the fulfillment of certain formal Swiss law requirements, the cancellation became effective in August 2009.

On May 6, 2008, the Company's shareholders approved the cancellation of 7,657,400 Alcon common shares, which the Company purchased during 2007. After the fulfillment of certain formal Swiss law requirements, the cancellation became effective in August 2008.

***Change of Control and Proposed Merger***

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of \$143.18 per share. That sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. The option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of \$181 per share and the 4.1 million shares at the first stage price of \$143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of \$181 per share or a premium of approximately 20.5% above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of \$143.18 per share.

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of \$180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

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The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards plan (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share. The proposed merger would be contingent upon, among other things, approval by the Alcon board of directors. The Company believes that Alcon's Organizational Regulations provide that the Alcon board of directors may only approve the proposed merger if a majority of the Independent Director Committee so recommends; however, management cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders.

***Merger Agreement of December 14, 2010***

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at \$168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares and, if necessary, a cash contingent value amount to result in a total value of \$168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares on the SIX Swiss Exchange and American Depositary Shares on the New York Stock Exchange to be issued as merger consideration. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic medicines will be integrated into Alcon.

***Independent Director Committee Trust***

On July 8, 2010, the Independent Director Committee announced the creation and funding of the Alcon Litigation Trust, an irrevocable trust established under New York law pursuant to a resolution of the Alcon board of directors. The members of the Independent Director Committee were the trustees of the trust. The trust was created and funded on July 7, 2010 with \$50. The trust was created to provide the financial means to commence, defend or maintain litigation relating to any transaction between Alcon and a majority shareholder, including the transaction contemplated by the merger proposal announced by Novartis on January 4, 2010, and ensure the protection of the interests of Alcon and its minority shareholders in connection with any such transaction.

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In connection with the merger agreement of December 14, 2010, the trust was terminated and the trust property was returned to Alcon in December 2010.

***Share Repurchase Agreement Terminated***

In March 2008, as a result of the then-pending agreement between Nestlé and Novartis discussed above, the Company halted the purchase of Alcon common shares in the open market under all share repurchase programs, and terminated the pro rata share repurchase agreement with Nestlé that it had entered into following the December 2007 authorization by the board of directors of the share repurchase program that provided for the purchase of up to \$1,100 of Alcon common shares. Prior to its termination, the Company had purchased a total of 150,000 shares under the agreement, comprised of 112,500 shares from the Company's majority shareholder, Nestlé, and 37,500 shares from the market, for a total of \$20. The price for the shares purchased from Nestlé under the agreement was equal to the volume-weighted average price for such shares determined in accordance with Rule 10b-18 of the U.S. Securities Exchange Act of 1934.

The program authorized in December 2007 was in addition to the Company's pre-existing share repurchase program, under which, as of December 31, 2008, the Company had remaining authorization to purchase up to 1.8 million shares. In September 2008, the Company resumed purchasing from the public under the pre-existing program up to 1 million Alcon common shares to be presented to the shareholders for retirement. Neither Nestlé nor Novartis participated in this program and their ownership interests did not change materially as a result of these share repurchases.

**(17) Commitments and Contingencies**

***Minority Shareholder Class Action Lawsuits***

On January 4, 2010, Novartis announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law (note 16).

Certain Alcon minority shareholders filed several class action lawsuits related to Novartis's January 2010 merger proposal concerning the acquisition of the remaining publicly held minority interest. The claims varied among the cases, but include allegations of: (i) breach of contract against Alcon; (ii) tortious interference with contract against Novartis and Nestlé; (iii) breach of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (iv) aiding and abetting breaches of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (v) breach of Section 13(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to disclose that they were acting as a "group;" and (vi) breach of Section 14(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to file with the U.S. Securities and Exchange Commission the materials required in connection with a "tender offer."

Eight cases filed in the U.S. District Courts for the Southern District of New York and the Northern District of Texas were consolidated into one class action case in the Southern District of New York. A ninth case, which did not name Alcon, Inc. and its board of directors as parties, was filed in the Eastern District of New York but was voluntarily dismissed by the plaintiffs on March 18, 2010.

On April 14, 2010, plaintiffs in the consolidated action dismissed their claims against Nestlé and the five Alcon directors designated by Nestlé. On May 24, 2010, the court granted a motion by Novartis and dismissed the action in its entirety on the ground that Switzerland was a more convenient forum for the dispute. On July 14, 2010, the plaintiffs appealed the district court's dismissal to the U.S. Court of Appeals for the Second Circuit. Plaintiffs moved to dismiss the appeal on January 5, 2011, and the Second Circuit granted their motion the next day.

Two cases filed in District Court, Tarrant County, Texas and two cases filed in the County Court at Law, Dallas County, Texas were consolidated for pre-trial purposes by the Texas Multidistrict Litigation Panel in the Texas District Court, Dallas County. In November 2010, the court granted Novartis's motion seeking dismissal of these

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actions on the ground that Switzerland is a more convenient forum. The plaintiffs appealed the court's dismissal, and the appeal is pending.

***Other Contingencies***

The Company, either alone or jointly with its commercial partners, has filed fourteen North American patent infringement actions against six different generic drug companies. With the exception of international generic challenges, all of these generic drug companies are seeking U.S. Food and Drug Administration ("FDA") approval to market generic versions of the Company's products, under what are known as Abbreviated New Drug Applications ("ANDAs").

Each infringement action was filed after the Company received notice that one or more of the generic drug companies had filed an ANDA seeking approval to sell a generic version of the Company's product. As part of its ANDA, each generic drug company challenged one or more patents covering the Company's product. In the United States, as a result of filing the lawsuits, the FDA must delay approval of the related ANDAs for 30 months unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. In Canada, filing of the lawsuit secured a 24-month delay in approval from the Minister of Health, which can be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should any generic drug company succeed in overcoming the Company's patents and secure regulatory approval, it would be entitled to sell a generic product that would compete with the Company's product in the United States or Canada. Such competition would be expected to impact significantly the Company's sales and profits.

The following table provides a summary of these lawsuits:



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Parties seeking approval	Alcon product(s)	No. of patents challenged	Longest patent expiration date	Patents owned by	Jurisdiction/Regulatory Body	Date first suit filed	Status	If generic challenger is successful, earliest date that a generic may begin selling
Teva Pharmaceuticals USA, Inc.	<i>Vigamox</i> <sup>®</sup> antibiotic ophthalmic solution (Moxifloxacin, the primary ingredient in <i>Vigamox</i> <sup>®</sup> , is licensed to Alcon by Bayer Schering Pharma AG).	3 <sup>(1)</sup>	2020	Bayer Schering Pharma AG/the Company	FDA, U.S. District Court of Delaware	April 5, 2006	Trial relative to the Company's patent concluded on March 6, 2008. On October 19, 2009, the court ruled in the Company's favor. Teva has appealed.	September 4, 2014
Apotex Inc., Apotex Corp., Barr Laboratories, Inc., Wockhardt Limited, Sandoz Inc. and Sandoz Canada Inc. (the last two parties are affiliates of Novartis)	<i>Patanol</i> <sup>®</sup> and <i>Pataaday</i> <sup>™</sup> anti-allergy ophthalmic solutions	Up to 5 <sup>(2), (3), (4), (5), (6), (7)</sup>	2015 ( <i>Patanol</i> <sup>®</sup> ) and 2023 ( <i>Pataaday</i> <sup>™</sup> )	Kyowa Hakko Kirin Co., Ltd./the Company	FDA, U.S. District Court in Indianapolis and Canadian Minister of Health, Federal Court in Toronto	November 15, 2006	One non-jury trial concluded on May 7, 2010. Closing arguments, however, were held August 3, 2010. A ruling has not yet been issued.	June 18, 2011 <sup>(2), (3), (4), (5), (8), (9)</sup>
Barr Laboratories, Inc., Par Pharmaceutical, Inc., Apotex Corp. and Apotex Inc.	<i>TRAVATAN</i> <sup>®</sup> and <i>TRAVATAN Z</i> <sup>®</sup> ophthalmic solutions	Up to 7	2014 <sup>(8)</sup>	The Company	FDA, U.S. District Court of Delaware	April 30, 2009	Trial postponed until May 2, 2011. The parties have requested a further postponement.	December 2011 <sup>(8)</sup>

(1) Two of the patents are owned by the Company's licensor, Bayer Schering Pharma AG, and the third, which expires in 2020 (including a six-month pediatric extension), is owned by the Company. The two Bayer Schering Pharma AG patents were also the subject of another Teva ANDA seeking approval to sell a generic version of Bayer Schering Pharma AG's systemic moxifloxacin product, Avelox<sup>®</sup>. Suit was filed by the Company and Bayer Schering Pharma AG as co-plaintiffs against Teva relative to the *Vigamox*<sup>®</sup> ANDA on April 5, 2006 in the U.S. District Court in Delaware. Bayer Schering Pharma AG subsequently filed suit in the same court relative to the Avelox<sup>®</sup> ANDA, and the two suits were merged. Trial was scheduled to begin February 26, 2008, but the dispute between Bayer Schering Pharma AG and Teva relative to the two Bayer Schering Pharma AG patents was resolved by settlement on the eve of trial. Under the terms of the settlement, Teva acknowledged the validity and enforceability of both Bayer Schering Pharma AG patents, and further acknowledged that its proposed generic ophthalmic product would infringe both patents. Teva has therefore relinquished any claim that it is entitled to market the generic ophthalmic product prior to September 4, 2014. The Company remains the exclusive ophthalmic licensee under the Bayer Schering Pharma AG patents.

The trial relative to the Company's patent concluded on March 6, 2008. On October 19, 2009, the court ruled in the Company's favor on all counts, finding the Company's patent to be valid and infringed by the proposed generic product. Since then, the Company received issuance of a related patent with claims that cover the *Vigamox*<sup>®</sup> product and Teva's proposed generic product. U.S. Patent No. 7,761,010 was issued on March 2, 2010 and has been added to the FDA Orange Book relative to the Company's *Vigamox*<sup>®</sup> product. Teva has appealed the trial court ruling.

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However, even if Teva were to succeed in having the district court decision reversed on appeal, it would still have to address the Company's recently issued second patent before competing with the Company's *Vigamox*<sup>®</sup> product in September 2014 when the underlying Bayer patent expires. If Teva were to win on appeal and overcome the Company's second patent, the resulting generic competition would be expected to impact significantly the Company's sales and profits. On a related note, the Company's European counterpart patent to the patent-in-suit was determined to be invalid in a European Patent Office Opposition Proceeding. That invalidity decision was upheld by an Enlarged Board of Appeal on October 22, 2009. Divisional patent applications on the Company's *Vigamox*<sup>®</sup> product remain pending in the European Patent Office.

(2) The Company's raw material supplier, Kyowa Hakko Kirin Co., Ltd., holds another U.S. patent that has not been challenged in the Apotex ANDA on *Patanol*<sup>®</sup> and expires on December 18, 2010. In addition, the Company has secured a six-month pediatric extension to the patent coverage, which means this generic challenge poses no threat to the *Patanol*<sup>®</sup> product market prior to June 18, 2011.

(3) Unlike the Apotex ANDA on *Patanol*<sup>®</sup>, which is challenging only the patent jointly owned by Kyowa and the Company, the Barr ANDA on *Patanol*<sup>®</sup> also challenged Kyowa's composition patent on olopatadine, the active agent in *Patanol*<sup>®</sup>. The 30-month period after which the FDA could have approved Barr's generic product would have expired at the end of March 2010. Trial was scheduled for late April 2010. However, in September 2009, Barr withdrew its ANDA and subsequently was dismissed from the suit.

(4) The Barr ANDA on *Pataday*<sup>™</sup> is challenging the patent jointly owned by Kyowa and the Company, as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. In this ANDA, Barr is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 18, 2011 by a pediatric extension). Of the two patents owned solely by the Company, the latest expiry date is November 2023. The 30-month period after which the FDA could approve Barr's generic product should expire in May 2011 but is of no practical effect in view of the unchallenged Kyowa patent, the term of which extends until June 2011.

(5) Like Barr's ANDA on *Pataday*<sup>™</sup>, the Apotex ANDA on *Pataday*<sup>™</sup> is challenging the patent jointly owned by Kyowa and the Company, as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. Apotex is not challenging the Kyowa patent on olopatadine that expires in December 2010 (June 2011 with the pediatric extension). If Apotex succeeds in overcoming both of the challenged patents and secures FDA approval, then after the expiration of Barr's potential 180-day "first filer" exclusivity period, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Pataday*<sup>™</sup> product in the United States.

(6) Similar to the Apotex ANDA on *Patanol*<sup>®</sup>, the Sandoz Inc. (an affiliate of Novartis) ANDA on *Patanol*<sup>®</sup> is challenging only the patent jointly owned by Kyowa and the Company, but not the Kyowa-owned patent on olopatadine, which expires December 2010 (June 2011 with pediatric extension). Trial was scheduled for April 26, 2010, and consolidation with the above-described Apotex suit (*Patanol*<sup>®</sup>) was ordered by the court. Apotex advised the court of public statements of intent by Novartis to acquire all outstanding shares of Alcon stock, and filed a motion to sever Sandoz from the trial. On February 22, 2010, the court granted the motion, ordering the suit against Sandoz to proceed separately and confirming the April 26, 2010 trial date with Apotex. A new trial date for the Sandoz case has not yet been set. At the request of Sandoz, the court has stayed the litigation against Sandoz until November 2010, and Sandoz has requested a six-month extension of that stay.

The Sandoz Inc. ANDA on *Pataday*<sup>™</sup> is challenging the patent jointly owned by Kyowa and the Company (described above), as well as two later issued patents owned by the Company that cover the *Pataday*<sup>™</sup> formulation. Of the Company's two patents, the latest expiry date is November 2023. Sandoz is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 2011 by a pediatric extension). On January 27, 2010, Alcon and Kyowa filed suit in the Federal District Court in Indianapolis. This case was consolidated with the other *Pataday*<sup>™</sup> suits (Barr and Apotex, described above), but at the request of Sandoz, the court has stayed the litigation against Sandoz until November 2010. Sandoz has requested a six-month extension of that stay.

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(7) The Sandoz Canada Inc. Abbreviated New Drug Submission (ANDS) is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*<sup>®</sup> product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. Trial had been scheduled for March 7, 2011, but was postponed by the court with no new trial having been set.

(8) In June 2010, Alcon announced its plans to discontinue *TRAVATAN*<sup>®</sup> in the United States. Therefore, competition from generic versions of *TRAVATAN*<sup>®</sup> would not be expected to impact significantly the Company's sales and profits. Apotex then withdrew its ANDA on *TRAVATAN*<sup>®</sup> and was dismissed from the suit in July 2010. In November 2010, Barr advised that it too was withdrawing its ANDA on *TRAVATAN*<sup>®</sup>. That leaves Par as the effective first filer for both *TRAVATAN*<sup>®</sup> and *TRAVATAN Z*<sup>®</sup>. If Par succeeds in overcoming all of the challenged patents and/or secures FDA approval, it would be entitled to begin selling a generic travoprost product that would compete with the Company's *TRAVATAN Z*<sup>®</sup> product in the United States in December 2011. Such competition would be expected to impact significantly the Company's sales and profits. Another Alcon patent application is pending that, if granted, would have an expiration date in 2027.

(9) Apotex, Inc. notified Alcon Canada that Apotex had filed an ANDS seeking approval from the Canadian Minister of Health to market a generic version of the Company's *Patanol*<sup>®</sup> product. The Apotex ANDS is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*<sup>®</sup> product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. The Company and Kyowa, by timely initiating this action, are entitled to a 24-month delay (until April 2012) in the regulatory approval from the Minister of Health, which can only be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should Apotex succeed in overcoming the challenged patent and secure Minister of Health approval, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*<sup>®</sup> product in Canada well before the patent expiration in 2016, but not before expiration of the unchallenged patent in November 2012.

The Company is also enforcing patents against generic challengers in China (*Patanol*<sup>®</sup>) and Chile (*Vigamox*<sup>®</sup>).

On April 16, 2008, Synergetics USA, Inc., a microsurgical device company, filed a civil antitrust lawsuit in the U.S. District Court for the Southern District of New York against the Company and its subsidiary, Alcon Laboratories, Inc. Synergetics asserted damages that it claimed could exceed \$100. In 2008 and 2009, subsidiaries of the Company filed two suits against Synergetics for patent infringement in the U.S. District Court for the Northern District of Texas in Fort Worth. Synergetics answered the complaints. A series of counterclaims and motions followed. On April 23, 2010, the parties entered a Confidential Settlement and License Agreement together with a Supply Agreement. Under the agreements, Alcon paid \$32 in exchange for worldwide rights to sell Synergetics patented vitreoretinal products. The products will be manufactured by Synergetics and supplied to Alcon. The agreements also settled all pending litigation between Alcon and Synergetics, including both the antitrust and the patent litigation, and provide a process for future dispute resolution.

On December 18, 2008, James M. Nielsen, M.D. filed a patent infringement suit against Alcon, Inc. and Alcon Laboratories, Inc. in the U.S. District Court for the Northern District of Texas in Dallas. Dr. Nielsen is asserting that his U.S. Patent No. 5,158,572 entitled "Multifocal Intraocular Lens" is being infringed by the Company's *AcrySof*<sup>®</sup> *ReSTOR*<sup>®</sup> intraocular lens. The patent, which expired at the end of October 2009, was previously licensed to Advanced Medical Optics, Inc. The Company filed its Answer January 12, 2009. The Answer included a counterclaim for a declaratory judgment that the patent-in-suit is invalid and not infringed. The case had been set for trial in August 2010 but has been postponed. No new trial date has been set. Summary judgment motions were filed by both parties January 7, 2011. Alcon is seeking summary judgment of noninfringement, invalidity and laches, while Dr. Nielsen is seeking partial summary judgment on invalidity and laches/estoppels. On January 10, 2011, the court ordered that both parties' motions be stricken and refiled in a "cross-motion" format, the briefing for which was extended by the court until the end of March 2011. An adverse ruling by the court, while possible, would not be expected to impact significantly the Company's sales and profits.

On January 22, 2009, Elan Pharma International Ltd. sued two of the Company's subsidiaries, Alcon Laboratories, Inc. and Alcon Research, Ltd., in the U.S. District Court for the Eastern District of Texas in Sherman, alleging infringement of two Elan patents on nanoparticle technology (U.S. Patent Nos. 5,298,262 and 5,429,842).

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The complaint claims that the Company's *Azopt*<sup>®</sup> product and, potentially, other products infringe the two patents. The Company answered and counterclaimed on May 12, 2009. Elan then moved to dismiss certain of the Company's affirmative defenses and counterclaims. The Company has filed an amended answer and counterclaims providing greater detail with respect to the Company's inequitable conduct counterclaims. The case has been set for trial on October 17, 2011. The Company believes that it has strong defenses and intends to defend itself vigorously. An adverse ruling by the court, however, could impact significantly the Company's sales and profits.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

The Company self-insures through captive insurance subsidiaries almost all of its property, business interruption and liability risks.

The Company was self-insured through its captive insurance subsidiary for damages incurred prior to 2006 at one of its sales and distribution facilities and was involved in legal proceedings to seek recovery of its losses and other incremental operating costs from the third parties responsible for the damages. In December 2008, the captive insurance subsidiary settled its claim against the third parties involved. Since no recovery had been recorded previously, the Company recognized a gain in the fourth quarter of 2008 related to the settlement of \$15 (\$3 in cost of goods sold and \$12 in selling, general and administration expenses).

In the normal course of business, the Company has entered into research and development arrangements with third parties that require milestone and royalty payments to the third parties contingent upon certain future events linked to the success of the research and development efforts.

During 2008, Lehman Brothers International (Europe) London filed for administration in England. At that time, the Company's cash and cash equivalents included \$707 of short term securities held in a segregated custodial account of Lehman Brothers International (Europe) London pursuant to a Custody Agreement. Nestlé invoiced the Company in December 2008 and, in 2009, the Company reimbursed Nestlé, for a total of \$5 in fees paid by Nestlé to the Joint Administrators of Lehman Brothers International (Europe) London (in administration) related to the release of the short-term securities held in the custodial account. This amount of fees is subject to adjustment depending on the final costs incurred to settle the administration of Lehman Brothers International (Europe) London. In order to receive an expedited return of assets held by Lehman Brothers International (Europe) (in administration), Alcon has agreed to return any assets which the Joint Administrators determine should not have been disbursed in settlement. The amount of any funds to be returned, if any, would result from the determination by the Joint Administrators that the rights of another claimant in the proceeding have precedence over the Company's claim.

### ***Commitments***

The Company leases certain facilities and equipment under operating leases. The total costs of operating leases (inclusive of any adjustments associated with escalating rent, rent holidays, contingent rent or rent concessions) are expensed ratably over the life of the operating lease. Leasehold incentives are capitalized and amortized over the shorter of the life of the lease or the associated asset. Lease expense incurred was \$73, \$66 and \$77 during 2010, 2009 and 2008, respectively. Future minimum aggregate lease payments under noncancelable operating leases with a term of more than one year were as follows:

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<u>Year</u>	<u>Amount</u>
2011 .....	\$ 67
2012 .....	50
2013 .....	37
2014 .....	24
2015 .....	21
Thereafter.....	<u>81</u>
 Total minimum lease payments .....	 <u>\$ 280</u>

The Company has entered into various fixed and variable purchase commitments and license agreements, requiring future minimum royalties, through 2021. All commitments are expected to be fulfilled with no adverse consequences to the Company's operations or financial condition. The total unconditional fixed purchase obligations and future minimum royalties at December 31, 2010 were as follows:

<u>Year</u>	<u>Amount</u>
2011 .....	\$ 41
2012 .....	21
2013 .....	9
2014 .....	2
2015 .....	1
Thereafter.....	<u>2</u>
 Total.....	 <u>\$ 76</u>

Total payments related to the above unconditional purchase commitments and license agreements for the years ended December 31, 2010, 2009 and 2008 were \$93, \$63 and \$97 respectively. In addition, at December 31, 2010, the Company had entered into various contracts with suppliers to purchase raw materials contingent upon forecasted purchases and other manufacturing requirements.

At December 31, 2010, the Company had guaranteed \$7 of debt for certain customers. At December 31, 2010, the Company had outstanding letters of credit of \$27. The letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. Additionally, the Company guaranteed \$33 to a third party reinsurer for the Company's captive insurance subsidiaries.

**(18) Acquisitions**

***LenSx Lasers, Inc.***

*Acquisition in 2010*

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complimentary technology in cataract surgery. The *LenSx*<sup>®</sup> laser will enable surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and the creation of certain corneal incisions. Previously these steps were done manually with surgical instruments.

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The Company paid approximately \$367 in cash at closing to LenSx shareholders for their shares and agreed to maximum contingent payments of approximately \$383 based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones.

Between the acquisition date and December 31, 2010, LenSx had no revenues and its expenses were not significant.

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

Cash paid for LenSx share.....	\$	367
Cash paid to a LenSx shareholder for intangible asset integral to the purchase .....		12
Estimated fair values of future contingent payments.....		72
Total purchase price .....	\$	<u>451</u>

The Company engaged a third-party valuation firm to assist it in determining the estimated fair values of identifiable intangible assets and future contingent payments. Such a valuation requires significant estimates and assumptions including but not limited to estimating future cash flows and developing appropriate discount rates. The Company is continuing to obtain information and evaluate these fair value estimates. The Company's fair value estimates for these components of the transaction may change during the allowable allocation period, which is typically up to one year from the acquisition date.

*Fair Values of Future Contingent Payments*

In addition to the cash paid to the shareholders of LenSx at the time of the acquisition, the Company is obligated to make contingent payments of up to \$383 based upon the achievement of certain sales objectives through 2015. The fair values of these payments were estimated to be \$72 and were included as a cost of the acquisition.

There are a number of milestones that could potentially lead to such payments to the former shareholders of LenSx. This valuation was based on the Company's estimates of the probability and timing of these contingent payments. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement, as described in note 5. Objectives and milestones were assigned individual probabilities based on the respective current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 4.5%, which the Company believes is appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 10% to 65%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately \$6.

The fair values of these contingent payments will be reviewed on a periodic basis. Any future changes in this estimated value not associated with the original purchase price valuation will be recorded in the Company's results of operations.

*Purchase Price Allocation*

The allocation of purchase price for acquisitions requires use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in process research and development, and liabilities assumed based on their respective fair values. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in connection with the acquisition of a business. The Company believes that LenSx's use of inputs and processes qualify it as the acquisition of a business.

The LenSx purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

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The valuation of these assets requires significant estimates and assumptions including but not limited to estimating future cash flows and developing appropriate discount rates.

The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

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

Current assets .....	\$ 10
Property, plant and equipment .....	2
Identifiable intangible assets .....	433
Goodwill .....	133
Long term deferred income tax assets .....	32
Accounts payable and accrued liabilities .....	(2)
Long term deferred income tax liabilities .....	(157)
Net assets acquired .....	<u>\$ 451</u>

The Company's fair value estimates for the purchase price allocation may change during the allowable allocation period, which is typically up to one year from the acquisition date.

*Identifiable Intangible Assets*

Acquired identifiable intangible assets include rights for the use of proprietary technologies for the development of products. The estimated amortization period is 15 years based on the projected useful life of the products developed by the use of the technology.

The estimated fair value of the acquired intangible assets was determined based on the use of a discounted cash flow model using an income approach for products developed from the acquired technology. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

*Goodwill*

Goodwill represents the excess of the LenSx purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of LenSx provides the Company access to improved technology and a highly trained LenSx work force as of the acquisition date.

The Company believes that these factors support the \$133 of goodwill recognized as a result of the purchase price paid for LenSx. The goodwill was allocated between the two business segments based on the acquisition models' projected revenues. The goodwill acquired in the LenSx acquisition is not expected to be deductible for tax purposes.

***ESBATEch AG***

*Acquisition in 2009*

On September 15, 2009, the Company completed the acquisition of ESBATEch AG, a Swiss biotechnology company. Alcon paid ESBATEch shareholders \$150 in cash at closing. In addition, the Company recorded the estimated fair value of possible contingent payments of up to \$439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. ESBATEch is a clinical-stage biotechnology company that has been developing a pipeline of proprietary single-chain antibody fragment

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therapeutics for topical and local delivery for safe and convenient therapy. This acquisition provides the Company with additional research and development capabilities.

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

Cash paid for ESBATech shares.....	\$	150
Estimated fair values of future contingent payments.....		<u>71</u>
Total purchase price.....	\$	<u>221</u>

The Company engaged a third-party valuation firm to assist it in determining the estimated fair values of in process research and development, identifiable intangible assets and certain tangible assets as well as the future contingent payments. Such a valuation requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in process projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates.

*Fair Values of Future Contingent Payments*

In addition to the cash paid to the shareholders of ESBATech at the time of the acquisition, the Company is obligated to make contingent payments of up to \$439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. The fair values of these payments were estimated to be \$71 and were included as a cost of the acquisition.

There are a number of milestones that could potentially lead to such payments to the former shareholders of ESBATech. This valuation was based on the Company's estimates of the probability and timing of these contingent payments. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement, as described in note 5. Each milestone was assigned a probability based on its current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 6%, which the Company believes is appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 5% to 39%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately \$30.

The fair values of these contingent payments will be reviewed on a periodic basis. Any future changes in this estimated value not associated with the original purchase price valuation will be recorded in the Company's results of operations.

*Purchase Price Allocation*

The allocation of purchase price for acquisitions requires use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in process research and development, and liabilities assumed based on their respective fair values. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in connection with the acquisition of a business. The Company believes that ESBATech's use of inputs and processes qualify it as the acquisition of a business.

The ESBATech purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The valuation of these assets requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in process projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates.

The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

The Company believes the estimated fair values assigned to the assets acquired and liabilities assumed were



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based on reasonable assumptions. The following table summarizes the estimated fair values of net assets acquired:

Current assets.....	\$ 1
Property, plant and equipment.....	2
Identifiable intangible assets.....	77
In process research and development.....	104
Goodwill.....	40
Long term deferred income tax assets.....	40
Accounts payable and accrued liabilities.....	(2)
Long term deferred income tax liabilities.....	(40)
Other long term liabilities.....	<u>(1)</u>
Net assets acquired.....	<u>\$ 221</u>

*Identifiable Intangible Assets*

Acquired identifiable intangible assets include rights for the use of proprietary technologies for the development of ophthalmic pharmaceuticals. The estimated amortization period is 20 years based on the projected useful life of the products developed by the use of the technology.

The estimated fair value of the acquired intangible assets was determined based on the use of a discounted cash flow model using an income approach for products developed from the acquired technology. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

*In Process Research and Development*

In conjunction with the ESBATech acquisition, the Company allocated \$104 of the acquisition price to acquire in process research and development assets.

These in process research and development assets are comprised of projects to develop technologies in the field of ophthalmic pharmaceuticals. These assets were in an early stage of development as of the ESBATech acquisition date of September 15, 2009.

The estimated fair value of the in process research and development assets was determined based on the use of a discounted cash flow model using an income approach for the acquired technologies. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

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

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*Goodwill*

Goodwill represents the excess of the ESBATech purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of ESBATech provides the Company access to improved technology and a highly trained ESBATech work force as of the acquisition date.

The Company believes that these factors support the \$40 of goodwill recognized as a result of the purchase price paid for ESBATech. The goodwill was allocated between the two business segments based on the acquisition models' projected revenues, as shown in note 6, "Intangible Assets and Goodwill." The goodwill acquired in the ESBATech acquisition is expected to be deductible for tax purposes.

**(19) Unaudited Quarterly Information**

	<b>Three Months Ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
<b><u>2010</u></b>				
Sales .....	\$ 1,721	\$ 1,886	\$ 1,760	\$ 1,812
Operating income .....	653	751	495	576
Net earnings.....	<u>573</u>	<u>670</u>	<u>446</u>	<u>521</u>
Basic earnings per common share .....	<u>\$ 1.91</u>	<u>\$ 2.23</u>	<u>\$ 1.48</u>	<u>\$ 1.72</u>
Diluted earnings per common share .....	<u>\$ 1.89</u>	<u>\$ 2.21</u>	<u>\$ 1.47</u>	<u>\$ 1.71</u>
<b><u>2009</u></b>				
Sales .....	\$ 1,493	\$ 1,677	\$ 1,614	\$ 1,715
Operating income .....	514	632	578	537
Net earnings.....	<u>452</u>	<u>582</u>	<u>515</u>	<u>458</u>
Basic earnings per common share .....	<u>\$ 1.51</u>	<u>\$ 1.95</u>	<u>\$ 1.72</u>	<u>\$ 1.53</u>
Diluted earnings per common share .....	<u>\$ 1.51</u>	<u>\$ 1.94</u>	<u>\$ 1.71</u>	<u>\$ 1.51</u>

Quarterly sales trends reflect seasonality in several products, including ocular allergy and otic products, in the form of increased sales during the spring months, which occur during the second quarter in the northern hemisphere.

During the three months ended March 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a \$24 addition to operating income during the period. However, the U.S. enactment of the Health Care and Education Reconciliation Act of 2010 caused a \$25 write-off of deferred tax assets, reducing net earnings in the three months ended March 31, 2010.

In the three months ended March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010, the Company incurred pretax expenses totaling \$4, \$4, \$133 and \$11, respectively, for costs related to the change of majority ownership discussed in note 16, other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal, and certain costs related to integration as a subsidiary of Novartis.

Operating income and net earnings in 2009 included costs related to a staffing reduction of approximately 260 employee positions of \$18 in the three months ended March 31, 2009 and of \$1 in the three months ended September 30, 2009.

Net earnings in the three months ended December 31, 2009 included \$30 in additional tax reserves from new information related to prior years' provisions.

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Operating income and net earnings after September 15, 2009 reflect the operations of ESBATech subsequent to its acquisition effective September 15, 2009, as discussed in note 18.