ALPHARMA INC
Form 10-Q
October 31, 2006

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

FORM 10-Q

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

For quarter ended September 30, 2006	Commission file number 1-8593

Alpharma Inc.

(Exact name of registrant as specified in its charter)

Delaware	22-2095212
(State of Incorporation)	(I.R.S. Employer Identification No.)

One Executive Drive, Fort Lee, New Jersey 07024

(Address of principal executive offices) Zip Code

(201) 947-7774

(Registrant's Telephone Number Including Area Code)

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

YES _X_ NO ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES _X_ NO ____

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of October 23, 2006:

Class A Common Stock, $.20 par value - 42,993,922 shares
Class B Common Stock, $.20 par value - 11,872,897 shares

ALPHARMA INC.

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ALPHARMA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	(Unaudited) September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$390,176	$800,010
Accounts receivable, net	117,495	90,898
Inventories	104,183	92,741
Prepaid expenses and other current assets	36,563	41,575
Assets of discontinued operations	--	11,823
Total current assets	648,417	1,037,047
Property, plant and equipment, net	223,955	215,174
Goodwill	117,562	116,747
Intangible assets, net	165,389	176,083
Other assets and deferred charges	64,288	72,609
Assets of discontinued operations	--	5,723
Total assets	$1,219,611	$1,623,383

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	$--	$380,956
Short-term debt	--	35,713
Accounts payable	30,742	35,360
Accrued expenses	111,734	140,381
Accrued and deferred income taxes	43,552	61,251
Liabilities of discontinued operations	--	11,596
Total current liabilities	186,028	665,257
Deferred income taxes	16,934	18,468
Other non-current liabilities	14,950	21,123
Liabilities of discontinued operations	--	457
Total non-current liabilities	31,884	40,048
Commitments and contingencies (see Note 17)		
Stockholders' equity:		
Class A Common Stock	8,659	8,507
Class B Common Stock	2,375	2,375
Additional paid-in capital	1,110,511	1,095,520
Unearned compensation	--	(5,395)
Accumulated deficit	(163,759)	(223,137)
Accumulated other comprehensive income	51,557	47,852
Treasury stock, at cost	(7,644)	(7,644
		)
Total stockholders' equity	1,001,699	918,078
Total liabilities and stockholders' equity	$1,219,611	$1,623,383

See notes to the consolidated financial statements.

ALPHARMA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of dollars, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total revenue	$165,345	$135,525	$483,521	$397,257
Cost of sales	70,839	52,240	196,830	156,368
Gross profit	94,506	83,285	286,691	240,889
Selling, general and administrative expenses	61,183	55,399	186,789	158,454
Research and development	11,097	5,586	27,394	19,547
Operating income	22,226	22,300	72,508	62,888
Interest income (expense), net	4,397	(10,572)	11,226	(34,935)
(Loss) on extinguishment of debt	--	(489)	(19,415)	(2,373)
Other income (expense), net	(303)	(1,367)	88	(1,179)
Income from continuing operations, before income taxes	26,320	9,872	64,407	24,401
Provision for income taxes	9,212	4,560	22,542	24,372
Income from continuing operations	17,108	5,312	41,865	29
Discontinued operations, net of taxes				
Income from discontinued operations	--	12,537	1,531	46,660
Gain (loss) from disposals	(96)	--	23,344	--
Income (loss) from discontinued operations	(96)	12,537	24,875	46,660
Net income	$17,012	$17,849	$66,740	$46,689
Earnings (loss) per common share:				
Basic				
Income (loss) from continuing operations	$0.32	$0.10	$0.78	$0.00
Income (loss) from discontinued operations	$0.00	$0.24	$0.46	$0.89
Net income	$0.32	$0.34	$1.24	$0.89
Diluted				
Income (loss) from continuing operations	$0.31	$0.10	$0.77	$0.00

Income (loss) from discontinued operations	$0.00	$0.24	$0.46	$0.88
Net income	$0.31	$0.34	$1.23	$0.88
Dividends per common share	$0.045	$0.045	$0.135	$0.135

See notes to the consolidated financial statements.

ALPHARMA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Operating Activities:		
Net income	$66,740	$46,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,734	70,211
Amortization of loan costs	195	1,889
Interest accretion on convertible debt	754	5,233
Loss on extinguishment of debt	19,415	2,373
Gain on disposal of discontinued operations	(23,344)	--
Other non-cash items	4,146	9,082
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(23,754)	2,651
(Increase) decrease in inventories	(9,174)	57,301
(Decrease) increase in accounts payable and accrued expenses	(39,023)	(13,380)
(Decrease) increase in taxes payable	(23,308)	16,664

Decrease (Increase) in prepaid expenses	5,030	13,038
Other, net	(6,305)	(7,033)
Net cash provided by operating activities	5,106	204,718
Investing Activities:		
Capital expenditures	(24,525)	(27,506)
Purchase of intangible assets	(2,880)	(3,807)
Purchase of businesses	(1,089)	--
Proceeds from sale of business	40,100	--
Net cash provided by (used) in investing activities	11,606	(31,313)
Financing Activities:		
Dividends paid	(7,361)	(7,075)
Reduction of senior long-term debt	(381,702)	(192,714)
Net repayments under lines of credit	(35,715)	(16,082)
Payment of call premium	(18,894)	--
Proceeds from issuance of common stock	16,348	5,807
Increase (decrease) in book overdraft	(2,049)	(2,972)
Net cash (used) in financing activities	(429,373)	(213,036)
Net cash flows from exchange rate changes	2,639	(6,553)

Decrease in cash	(410,022)	(46,184)
Cash and cash equivalents at beginning of year	800,198*	105,212
Cash and cash equivalents at end of period	$390,176	$ 59,028

* Includes cash of $188 included within Assets of Discontinued Operations at December 31, 2005.

See notes to the consolidated financial statements.

ALPHARMA INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share data)
(Unaudited)

1. General

The accompanying consolidated financial statements include all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, considered necessary for a fair presentation of the results for the periods presented. These financial statements should be read in conjunction with the consolidated financial statements of Alpharma Inc. and Subsidiaries included in the Company's 2005 Annual Report on Form 10-K. The reported results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year. Certain amounts have been reclassified to conform with current presentations.

Basis of Presentation:

The Consolidated Balance Sheets and Consolidated Statements of Operations have been presented for all periods to classify as Discontinued Operations, the Company's world-wide human generic pharmaceutical business (the "Generics Business", which was sold on December 19, 2005) and ParMed Pharmaceuticals, Inc. ("ParMed", which the Company sold on March 31, 2006). See Note 2. Consistent with Statement of Financial Accounting Standards ("SFAS") No. 95, "Statement of Cash Flows", the Consolidated Statements of Cash Flows have not been reclassified for activities of the discontinued operations.

2. Discontinued Operations

Sale of the Generics Business

- On December 19, 2005, the Company sold its world-wide human generic pharmaceutical business to Actavis Group hf ("Actavis") on a debt-free and cash-free basis, for $810,000.

Sale of the ParMed Business -

On March 31, 2006, the Company completed the sale of its generic pharmaceutical telemarketing distribution business, ParMed Pharmaceuticals Inc., for $40,100 in cash. The net after-tax gain on the sale, $25,814, is reported in results from discontinued operations in the Consolidated Statement of Operations, along with adjustments related to the disposal of the Generics Business.

The following table details selected financial information for the Generics Business and ParMed, which have been classified as "Discontinued Operations":

Statements of Operations	Three Months Ended September 30,	Nine Months Ended September 30,	
	2005	2006	2005
Total revenues	$213,598	$17,142	$697,898
Cost of sales	132,573	12,030	457,884
Gross profit	81,025	5,112	240,014
Operating expenses	66,689	2,756	185,257
Operating income	14,336	2,356	54,757
Interest income, (expense), net	(67)	--	(328)
Other income (expense), net	1,254	--	1,686
Income from discontinued operations, before income taxes	15,523	2,356	56,115
Provision for income taxes	2,986	825	9,455
Net income from discontinued operations	$12,537	$1,531	$46,660

The assets and liabilities of discontinued operations consisted of ParMed assets and liabilities held for sale at December 31, 2005.

3. Liquidity and Capital Resources

On December 23, 2005, the Company gave notice to the Trustees under both its 8.625% Senior Notes due 2011 ("Senior Notes") and 3% (6.875% yield) Convertible Senior Subordinated Notes due 2006 ("Convertible Notes") that it was irrevocably electing to redeem all such notes in accordance with the terms of the respective note indentures. On January 23, 2006, the Company paid off the balance due on both the Senior Notes and Convertible Notes, including principal and accrued interest of $386,251 and call premium in the amount of $18,894. The call premium is included in "Loss on extinguishment of debt" within the Consolidated Statement of Operations. In January 2006, the Company repaid all short-term debt outstanding at December 31, 2005 in the amount of $35,713.

At September 30, 2006, the Company had $390,176 in cash and cash equivalents and no debt outstanding. Interest income earned on cash investments during the three and nine months ended September 30, 2006, was $4,397 and $11,226, respectively and is classified as a component of Interest income (expense), net in the Consolidated Statements of Operations.

4. Stock-based Compensation

The Company adopted Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payments," effective January 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation in net earnings. Stock-based compensation consists primarily of incentive stock options and restricted stock.

Stock options are granted to employees at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Generally, stock options granted to employees fully vest four years from the grant date and have a term of 10 years. The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period.

Prior to January 1, 2006, the Company accounted for incentive stock options under the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The Company, applying the intrinsic value method, did not record stock-based compensation cost in net income because the exercise price of its stock options equaled the market price of the underlying stock on the date of grant. The Company has elected to utilize the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, will be recognized in net earnings in the periods after the date of adoption. The Company recognized stock-based compensation expense for incentive stock options for the three and nine months ended September 30, 2006 in the amounts of $78 and $1,979, respectively. The Company also recorded tax related benefits for the three and nine months ended September 30, 2006 in the amounts of $27 and $693, respectively.

SFAS 123R requires the Company to present pro forma information for periods prior to adoption, as if it had accounted for all stock-based compensation under the fair value method of that Statement. For purposes of pro forma disclosure, the estimated fair value of stock options at the date of grant is amortized to expense over the requisite service period, which generally equals the vesting period. The following table illustrates the effect on net earnings and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123R to its stock-based compensation for the periods indicated:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income as reported	$17,849	$46,689
Add: Stock-based compensation expense included in reported net income	1,182	3,140
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	1,935	5,709

Pro forma net income	$17,096	$44,120
Earnings per share:		
Basic-as reported	$0.34	$0.89
Basic-pro forma	$0.33	$0.84
Diluted-as reported	$0.34	$0.88
Diluted-pro forma	$0.32	$0.84

The Company estimated the fair value, as of the date of grant, of stock options outstanding in the plan using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Expected life (years)	3.2	3.6
Expected future dividend yield (average)	0.65%	1.42%
Expected volatility	0.60	0.57

The risk-free interest rates for 2006 and 2005 were based upon U.S. Treasury instrument rates with maturity approximating the expected term. The weighted average interest rate in 2006 amounted to 4.7%. The weighted average fair value of options granted during the three and nine months ended September 30, 2006 with exercise prices equal to fair market value on the date of grant was $10.89 and $13.87, respectively.

	Options Outstanding
Balance at December 31, 2005	2,426,993
Granted in Q1 2006	209,660
Forfeited in Q1 2006	(252,745)
Exercised in Q1 2006	(478,434)
Balance at March 31, 2006	1,905,474
Granted in Q2 2006	8,080
Forfeited in Q2 2006	(50,410)

Exercised in Q2 2006	(127,480)
Balance at June 30, 2006	1,735,664
Granted in Q3 2006	105,670
Forfeited in Q3 2006	(355,900)
Exercised in Q3 2006	(3,125)
Balance at September 30, 2006	1,482,309

Stock options outstanding at September 30, 2006 had an aggregate intrinsic value of $5,430, a weighted average exercise price of $24.01 and a weighted average remaining contractual term of 5.95 years. The number of stock options exercisable at September 30, 2006 was 923,477 shares with an aggregate intrinsic value of $3,080, a weighted average exercise price of $25.25 and a weighted average remaining contractual term of 4.41 years. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2006 was $28 and $7,540, respectively. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2005 was $1,135 and $1,244, respectively.

As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, amounted to $4,934. The weighted average remaining requisite service period of the non-vested stock options was approximately 23 months.

Compensation for restricted stock is recorded based on the market value of the stock on the grant date. Prior to January 1, 2006, the Company capitalized the full amount of the restricted stock as unearned compensation, with an offset to additional paid-in capital. Effective January 1, 2006, in accordance with SFAS 123R, the Company reversed the unamortized balance of $5,395 against additional paid-in capital. The fair value of restricted stock is amortized to expense over the requisite service period. Amortization expense related to restricted stock amounted to $270 and $1,182 for the three month periods ended September 30, 2006 and 2005, respectively. Amortization expense related to restricted stock amounted to $1,609 and $3,140 for the nine month periods ended September 30, 2006 and 2005, respectively.

The Company's 2003 Omnibus Incentive Compensation Plan provided for the issuance of performance units that were valued based on the Company's Total Shareholder Return as compared to a market index of peer companies and the satisfaction of a free cash flow threshold. Each performance unit had a potential value between zero and $200. In conjunction with the sale of the Generics Business, which made the peer group comparison no longer relevant, the Company terminated the performance unit plan effective December 18, 2005. The Company fixed the final payout for each outstanding performance unit at $100 per unit. At September 30, 2006, the total value of performance units outstanding was $6,008. This amount, net of forfeitures, will be paid out at the end of the plan's original three year vesting periods: December 31, 2006 and 2007. This cost is being amortized to expense over the remaining service period. The Company recognized expense related to performance units for its continuing operations for the three and nine months ended September 30, 2006 in the amount of $841 and $3,626, respectively.

5. Inventories

Inventories consist of the following:

	September 30, 2006	December 31, 2005

Finished products	$55,866	$49,857
Work-in-process	32,334	28,061
Raw materials	15,983	14,823
	$104,183	$92,741

6. Long-Term Debt

There was no Long-term debt outstanding at September 30, 2006. At December 31, 2005, the following debt was outstanding:

	December 31, 2005
Senior debt:	
8.625% Senior Notes due 2011	$220,000
Other, foreign	25
Total senior long-term debt	220,025
Subordinated debt:	
3% Convertible Senior Subordinated Notes due 2006 (6.875% yield), including interest accretion	160,948
Total subordinated debt	160,948
Total long-term debt	380,973
Less, current maturities	380,956
	$ 17

On December 23, 2005, the Company gave notice to the Trustees under both the Senior Notes and the Convertible Notes that it was irrevocably electing to redeem all such notes in accordance with the terms of the respective note indentures. On January 23, 2006, the Company paid off the balance due on both the 8.625% Senior Notes and Convertible Notes, including principal and accrued interest of $386,251 and call premium in the amount of $18,894. The call premium is included in the "Loss on extinguishment of debt" within the Consolidated Statement of Operations.

On October 26, 2005, the Company entered into a five-year, Senior Secured Credit Facility with Bank of America N.A. consisting of a $175,000 asset-based, revolving loan facility and a $35,000 term loan. The Company used $119,122 of this facility to repay and retire the 2001 U.S. Bank Credit Facility in October 2005. The Senior Secured Credit Facility was subsequently paid down in full in December 2005 with the proceeds from the sale of the Generics business. The asset-based, revolving loan availability was reduced to $75,000 and the term loan was cancelled.

The Senior Secured Credit Facility, which was amended and restated on March 10, 2006 to reflect the sale of the Generics Business, is secured by the accounts receivable, inventory and certain fixed assets of the U.S. subsidiaries of the Company. The amount that is available to the Company to be borrowed is determined monthly based upon the calculation of a Borrowing Base. As of September 30, 2006, there were no amounts outstanding under this Facility. The interest rate that the Company would pay on outstanding amounts is based upon a spread over LIBOR or Base Rate. The spread ranges between 1.25% to 2.00% over LIBOR and 0% to 0.50% over the Base Rate. The determination of the spread is based upon the amount of availability under the facility with a lower spread payable based upon greater availability. As long as the Company does not have average availability less than $15,000 over a consecutive 10 day period, there are no financial covenants. In the event that the Company were to breach the availability threshold, the Company would be subject to a minimum Fixed Charge Coverage Ratio of 1:1.

7. Earnings Per Share

Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share reflect the dilutive effect of stock options and convertible debt, when appropriate.

A reconciliation of weighted average shares outstanding from basic to diluted is as follows:

(Shares in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Average shares outstanding basic	53,973	52,529	53,814	52,421
Stock options	478	726	513	379
Average shares outstanding diluted	54,451	53,255	54,327	52,800

The amount of dilution attributable to stock options, determined by the treasury stock method, depends on the average market price of the Company's common stock for each period. For the three months ended September 30, 2006 and 2005, stock options to purchase 927,000 and 1,166,000 shares, respectively, were not included in the diluted EPS calculation because the option price was greater than the average market price of the Class A common shares. For the nine months ended September 30, 2006 and 2005, stock options to purchase 753,000 and 1,909,000 shares, respectively, were not included in the diluted EPS calculation because the option price was greater than the average market price of the Class A common shares.

The numerator for the calculation of basic EPS is net income (loss) for all periods. The numerator for the calculation of diluted EPS is net income plus an add back for interest expense and debt cost amortization, net of income tax effects, related to the convertible notes, when applicable. During the first three quarters of 2005, the effects of both the 2005 and 2006 convertible notes were not included in the calculation of diluted EPS because the result was anti-dilutive.

8. Intangible Assets and Goodwill

Intangible assets consist principally of product rights, including regulatory and/or marketing approvals by relevant government authorities. All intangible assets are subject to amortization. Annual amortization expense based on current intangibles for the years 2006 through 2010 is currently estimated to be approximately $18,900, $18,900, $18,500, $18,500 and $18,500, respectively.

Intangible assets and accumulated amortization are summarized as follows:

Net balance, December 31, 2005	$176,083
Additions	2,880
Amortization	(14,196)
Translation adjustment	839
Impairments	(217)
Net balance, September 30, 2006	$165,389
Accumulated amortization, September 30, 2006	$147,819

The changes in the carrying amount of goodwill attributable to the Company's reportable segments for the nine months ended September 30, 2006 are, as follows:

	BP	API	Total
Balance December 31, 2005	$113,973	$2,774	$116,747
Additions	--	537	537
Translation adjustment	--	278	278
Balance September 30, 2006	$113,973	$3,589	$117,562

9. Reorganization, Refocus and other Actions

In connection with the reorganization and refocus of the Company to improve future operations, severance charges associated with workforce reductions and other facility closure and exit costs have been recorded. Severance charges not related to specific programs are not segregated from normal operations. The following table presents activity in the severance and closure and exit costs related accruals:

	Severance	Other Closure and Exit Costs
Balance, December 31, 2005	$1,277	$5,410
Charges	58	--

Adjustments	--	(245)
Payments	(652)	(917)
Translation adjustments	30	17
Balance, September 30, 2006	$713	$4,265

The liabilities for accrued severance as of September 30, 2006 are reflected in accrued expenses. The Company expects to settle the majority of these liabilities over the next three months, in cash.

The liabilities for other closure and exit costs as of September 30, 2006 primarily relate to demolition costs, payments related to a discontinued product, lease obligations and other contractually committed costs associated with facility closures announced in 2002. The Company expects to settle these liabilities over the next twelve months.

10. Pension Plans and Postretirement Benefits

The net periodic benefit costs for the Company's U.S. pension plans and other postretirement plans are as follows:

U.S.

	Pension Benefits For the Three Months Ended September 30,		Postretirement Benefits For the Three Months Ended September 30,	
	2006	2005(a)	2006	2005(a)
Service cost	$496	$1,042	$62	$21
Interest cost	766	779	231	44
Expected return on plan assets	(776)	(763)	--	--
Net amortization of transition obligations	--	--	2	--
Amortization of prior service cost	(8)	(17)	(39)	(31)
Recognized net actuarial (gain) loss	95	98	283	12
Net periodic benefit cost	$573	$1,139	$539	$46

	Pension Benefits	Postretirement Benefits

	For the Nine Months Ended September 30,		For the Nine Months Ended September,30	
	2006	2005(a)	2006	2005(a)
Service cost	$1,488	$3,126	$110	$63
Interest cost	2,298	2,337	351	132
Expected return on plan assets	(2,328)	(2,289)	--	--
Net amortization of transition obligations	--	--	2	--
Amortization of prior service cost	(24)	(51)	(109)	(93)
Recognized net actuarial (gain) loss	285	294	359	36
Net periodic benefit cost	$1,719	$3,417	$713	$138

Through the third quarter of 2006, contributions of $2,230 have been made to the U.S. pension plans representing total contributions and fulfilling the 2006 requirement.

Effective December 31, 2006, participation in and benefit accruals will be frozen under the Company's U.S. pension plans.

Europe:

The net periodic benefit costs for the Company's Norwegian pension plan is, as follows:

	For the Three Months Ended Sept. 30,		For the Nine Months Ended Sept. 30,	
	2006	2005(a)	2006	2005(a)
Service cost	$435	$681	$1,399	$2,071
Interest cost	430	475	1,383	1,446
Expected return on plan assets	(345)	(395)	(1,109)	(1,202)
Amortization of transition obligation	9	21	29	65
Amortization of prior service cost	26	21	84	64
Recognized net actuarial loss	--	17	--	52
Net periodic benefit cost	$555	$820	$1,786	$2,496

The Company expects to contribute approximately $2,600 to the Norwegian pension plan in 2006. Through the third quarter, contributions of $2,422 have been made.

(a) 2005 includes costs related to discontinued operations.

11. Supplemental Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest income (expense), net:				
Interest income	$4,669	$596	$14,273	$2,204
Interest expense	(234)	(10,561)	(2,852)	(35,250)
Amortization of debt issuance costs	(38)	(607)	(195)	(1,889)
	$4,397	$(10,572)	$11,226	$(34,935)
Loss on early extinguishment of debt:				
Call premium	$--	$--	$(18,894)	$--
Write off deferred loan costs	--	(489)	(521)	(2,373)
	$--	$(489)	$(19,415)	$(2,373)
Other income (expense), net				
Foreign exchange gains (losses), net	$(226)	$(402)	$537	$(1,135)
Other, net	(77)	(965)	(449)	(44)
	$(303)	$(1,367)	$88	$(1,179)

Supplemental cash flow information:

Other non-cash operating activities:

Non-cash asset write-downs	$288	$5,127
Goodwill impairment - adjustment of estimate	--	815
Amortization of stock options	2,249	--
Amortization of restricted shares	1,609	3,140
	$4,146	$9,082
Cash paid for interest	$6,032	$28,433
Cash paid for income taxes, net	$45,598	$16,071

12. Reporting Comprehensive Income

SFAS 130, "Reporting Comprehensive Income" requires foreign currency translation adjustments and certain other items to be included in other comprehensive income (loss). Included within Accumulated other comprehensive income (loss) as of September 30, 2006 are foreign currency translation adjustments and minimum pension liability.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Other Comprehensive Income (Loss):	2006	2005	2006	2005
Net Income	$17,012	$17,849	$66,740	$46,689
Change in Foreign Currency Translation	731	(8,009)	3,705	(84,006)
	$17,743	$9,840	$70,445	$(37,317)

	September 30, 2006	December 31, 2005
Accumulated Other Comprehensive Income:		
Cumulative translation adjustment	$55,796	$52,091
Minimum pension liability, net	(4,239)	(4,239)

	$51,557	$47,852

13. Transactions with A.L. Industrier ASA

A.L. Industrier ASA ("ALI") is the beneficial owner of 100% of the outstanding shares of the Company's Class B Stock. The Class B Stock represents 21.7% of the total outstanding common stock as of September 30, 2006. ALI, a Norwegian company, is able to control the Company through its ability to elect more than a majority of the Board of Directors and to cast a majority of the votes in any non-class vote of the Company's stockholders.

Effective January 1, 2005, the Company and ALI entered into an administrative services agreement whereby the Company provides limited administrative services to ALI. The agreement replaced and reduced amounts due under a previous agreement. The 2005 agreement provides for payment of a fixed yearly fee of approximately $60. In April 2006, the Company entered into an amendment to the administrative services agreement pursuant to which the agreement was extended through June 30, 2006, with a six-month fee of approximately $30. In July 2006, the Company entered into another amendment which extended the administrative service agreement through December 31, 2006 with a fee of approximately $32.

14. Business Segment Information

The Company's businesses are organized in three reportable segments as follows: Branded Pharmaceuticals ("BP"), Active Pharmaceutical Ingredients ("API"), and Animal Health ("AH"). Each business has a segment president who reports to the CEO.

The operations of each segment are evaluated based on earnings before interest and taxes (operating income). Unallocated costs include corporate expenses for administration, finance, legal and certain unallocated expenses primarily related to stock-based compensation and other long-term incentive compensation, as well as certain costs related to the implementation of a company-wide enterprise resource planning system. Segment data includes immaterial inter-segment revenues which are eliminated in the consolidated accounts.

	Three Months Ended September 30,			
	2006	2005	2006	2005
	Revenues		Operating Income	
BP	$34,749	$26,920	$8,088	$8,341
API	42,655	32,341	10,272	11,552
AH	87,926	79,615	17,894	15,979
	15	(3,351)	(14,028)	(13,572)

Unallocated and eliminations				
	$165,345	$135,525	$22,226	$22,300

	Nine Months Ended September 30,			
	2006	2005	2006	2005
	Revenues		Operating Income	
BP	$103,644	$68,798	$27,339	$11,377
API	127,660	103,716	37,991	41,446
AH	252,201	233,893	51,268	45,158
Unallocated and eliminations	16	(9,150)	(44,090)	(35,093)
	$483,521	$397,257	$72,508	$62,888

15. Income Taxes

The Company's effective tax rate ("ETR") is dependent on many factors including: a.) the impact of enacted tax laws in jurisdictions in which the Company operates; b.) the amount of earnings by jurisdiction, due to varying tax rates in each country; c.) the Company's ability to utilize various tax credits; and d.) the estimates of valuation allowances necessary to value deferred tax assets.

Based on the Company's assessment of the above factors, the tax rate for the full year is expected to approximate 35%. The ETR for continuing operations for the nine months ended September 30, 2006 was 35%.

The tax provision for the first nine months of 2005 included $9.4 million related to the repatriation of earnings under the American Jobs Creation Act. It also included a 30% effective tax rate for international operations, but no tax benefit for domestic losses because a full valuation allowance was maintained at that time against domestic deferred tax assets.

16. Recent Accounting Pronouncement

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48") regarding

"Accounting for Uncertainties in Income Taxes," which defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authorities. FIN 48 also requires explicit disclosure requirements about a Company's uncertainties related to their income tax position, including a detailed roll-forward of tax benefits taken that do not qualify for financial statement recognition. This Interpretation is effective for fiscal years beginning after December 31, 2006. The Company is assessing the impact of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" which requires employers to recognize on their balance sheet, as of December 31, 2006, the funded status of the pension and postretirement benefit plans. The Company is assessing the impact of this Statement.

17. Contingent Liabilities and Litigation

The Company is involved in various legal proceedings, of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable.

In the opinion of the Company, although the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability of the Company in connection with the following legal proceedings will not have a material adverse effect on the Company's financial position but could be material to the results of operations or cash flows in any one accounting period.

SEC Investigation

In June 2002, the SEC notified the Company that it had commenced a formal investigation of the circumstances surrounding the 2000 and 2001 restatements of its financial statements. The SEC has engaged in deposition and document discovery.

Chicken Litter Litigation

The Company is one of multiple defendants that have been named in several lawsuits which allege that one of its AH products causes chickens to produce manure that contains an arsenical compound which, when used as agricultural fertilizer by chicken farmers, degrades into inorganic arsenic and causes a variety of diseases in the plaintiffs (who allegedly live in close proximity to such farm fields). The Company has provided notice to its insurance carriers and its primary insurance carriers have responded by accepting their obligations to defend or pay the Company's defense costs, subject to reservation of rights to later reject coverage for these lawsuits. In addition, one of the Company's carriers has filed a Declaratory Judgment action in state court in which it has sought a ruling concerning the allocation of its coverage obligations to the Company among the Company's several insurance carriers and, to the extent the Company does not have full insurance coverage, to the Company. In addition, this Declaratory Judgment action requests that the Court rule that certain of the carrier's policies provide no coverage because certain policy exclusions allegedly operate to limit its coverage obligations under said policies.

In addition to the potential for personal injury damages to the approximately 175 plaintiffs, the plaintiffs are asking for punitive damages and requesting that the Company be enjoined from the future sale of the product at issue. In September 2006, in the first trial which consisted of two plaintiffs, the Circuit Court of Washington County, Arkansas, Second Division,

entered a jury verdict in favor of the Company. The plaintiffs are appealing the verdict. The Company expects the second trial, consisting of one plaintiff, to commence in April 2007. While the Company can give no assurance of the outcome of these matters, it believes that it will be able to continue to present credible scientific evidence that its product is not the cause of any injuries the plaintiffs may have suffered. There is also the possibility of an adverse customer reaction to the allegations in these lawsuits as well as additional lawsuits in other jurisdictions where the product has been sold. Worldwide sales of this product were approximately $23,300 in 2004, $23,100 in 2005, and $16,500 in the first three quarters of 2006.

Brazilian Tax Claims

The Company is the subject of tax claims which aggregate approximately $10,000 by the Brazilian authorities relating to the operations of the Company's Animal Health business in Brazil since 1999. The Company believes it has meritorious defenses and intends to vigorously defend its position against these claims.

European Environmental Regulations

The environmental authorities having jurisdiction over the Copenhagen and Oslo plants of the Company have given the Company notices of revised waste discharge requirements. The Company believes it has taken the necessary actions to comply with the requirements, including certain plant alterations and modifications at a cost not material to the Company. However, until the Company has operated the facilities for a period of time in accordance with the revised discharge requirements, it will not know if its alterations have fully addressed the concerns of the authorities. The failure or inability to comply with applicable regulations and discharge requirements could result in administrative actions affecting production at these facilities which could be materially adverse to the Company.

Other Commercial Disputes

The Company is engaged in disputes with several suppliers, customers and distributors regarding certain obligations with respect to contracts under which the Company obtains raw materials and under which the Company supplies finished products. Given the fact that these disputes will most probably be resolved over more than one year, management does not believe that the disputes in the aggregate will be material to the Company's financial position. However, they could be material to the Company's results of operations or cash flows in the period in which resolution occurs.

Any further responsibility for substantially all of the material contingent liabilities related to the Generics Business have has been transferred to Actavis or entities owned by Actavis, subject to certain representations or warranties made by the Company to Actavis as a part of the transaction to the extent such representations and warranties were incorrect. The Company has retained certain specified liabilities which it believes are not material to the Company and, it is possible that the Company may be held responsible for certain liabilities of the Generic Business transferred to Actavis in the event Actavis fails to or is unable to satisfy such liabilities.

Other Litigation

The Company and its subsidiaries are, from time to time, involved in other litigation arising out of the ordinary course of business. It is the view of management, after consultation with counsel, that the ultimate resolution of all other pending suits on an individual basis should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(In millions, except per share data)

Overview

The Company is a global specialty pharmaceutical company that develops, manufactures and markets pharmaceutical products for humans and animals. Alpharma's businesses are organized in three business segments. The Company markets one branded pharmaceutical prescription product that is contract manufactured by a third party, a pain medication sold under the trademark KADIAN®, in the U.S. The Company manufactures and markets a line of fermentation-based active pharmaceutical ingredients ("APIs") that are used by third parties in the manufacturing of generic and branded pharmaceutical products. It also manufactures and markets animal health products in various formulations and dosage forms.

On December 19, 2005, the Company sold its world-wide human generic pharmaceutical business (the "Generics Business") to Actavis Group hf ("Actavis") for $810 million in cash. On March 31, 2006, the Company completed the sale of its generic telemarketing distribution business, ParMed Pharmaceuticals, Inc. ("ParMed") for $40.1 million in cash. Both the Generics Business and ParMed are classified as discontinued operations in the Consolidated Financial Statements (see note 2 to the Consolidated Financial Statements).

Results of Continuing Operations - Three Months Ended September 30, 2006

Alpharma's business segments are defined, as follows:

BP	Branded Pharmaceuticals
API	Active Pharmaceutical Ingredients
AH	Animal Health

Total revenues increased 22% for the quarter ended September 30, 2006 compared to the same quarter of 2005 while operating income, at $22.2 million, was 0.3% lower than the same period last year. Interest income (expense) was $4.4 million of income in 2006 compared to ($10.6) million of expense last year. Diluted earnings per share for continuing operations was $0.31 in 2006 compared to $0.10 in 2005.

The following summarizes revenues and operating income by segment:

Three Months Ended Sept. 30,	Revenues			Operating Income		
	2006	2005	%	2006	2005	%
BP	$34.7	$26.9	29.0%	$8.1	$8.3	(2.4%)
API	42.7	32.3	32.2%	10.3	11.6	(11.2%)
AH	87.9	79.6	10.4%	17.9	16.0	11.9%
Unallocated and Eliminations	--	(3.3)		(14.1)	(13.6)	

Total	$165.3	$135.5	22.0%	$22.2	$22.3	(0.4%)

Revenues:

BP revenues increased 29% or $7.8 million to $34.7 million in 2006, compared to $26.9 million in 2005. The revenue growth was primarily a result of higher price realization which contributed $4.7 million of the revenue increase, a rebate reserve adjustment of $2.0 million resulting from the favorable outcome of a legal claim, and increased prescriptions year-over-year which contributed to volume gains of $1.1 million. Included in the net volume gain is the impact of a reduction in wholesaler inventory levels in 2006 from approximately two and a half months at the end of the second quarter of 2006 to approximately two months at the end of the third quarter of 2006.

Revenues in API increased 32.2% to $42.7 million compared to $32.3 million in the third quarter of 2005. Revenues increased as a result of higher volumes of $5.6 million, principally related to sales of vancomycin. Also contributing to the overall increase were $5.0 million of low margin sales of products that, in 2005, were reported as sales of the Company's divested Generics Business.

AH revenues increased 10.4% to $87.9 million compared with the same period last year, principally as a result of higher volumes in U.S. livestock and European markets.

Gross Profit:

The Company's gross profit increased $11.2 million, or 13.4% in the third quarter of 2006 compared to the same period a year ago. As a percentage of sales, gross profit was 57.2% in 2006 versus 61.5% in 2005.

The increase in gross profit dollars is the result of increased volumes in all three business segments and favorable price realization in BP, offset partially by unfavorable manufacturing variances and lower year-over-year pricing in API. These two factors in the API business contributed to a decline in gross profit percentage in the third quarter of 2006 versus 2005, in addition to the impact of $5.0 million of API low margin sales of products that, in 2005, were reported as sales of the Company's divested Generics Business.

Operating Expenses:

Selling, general and administrative ("SG&A") expenses increased $5.8 million in the third quarter of 2006 compared to 2005. The increase principally related to additional operational infrastructure to support growth initiatives in the BP and AH businesses. Third quarter 2006 results also include $2.3 million of costs related to senior management retention and transition and the discontinuance of the Company's performance unit plan. As a percentage of revenues, SG&A expense decreased to 37.0% in the third quarter 2006 compared to 40.9% in 2005.

Research and development expenses almost doubled in the third quarter of 2006 versus 2005, increasing from $5.6 million in 2005 to $11.1 million in 2006. The increase was predominantly related to BP new product development spending.

Operating Income:

Operating income decreased by $0.1 million in the third quarter of 2006 in comparison to 2005. The change in operating income is summarized as follows:

	BP	API	AH	Corporate/ Unallocated	Total
2005 as reported	$8.3	$11.6	$16.0	$(13.6)	$22.3
Research and development	(4.5)	(0.3)	(0.4)	(0.3)	(5.5)
Senior management retention and transition, and performance unit expense	--	--	--	(2.3)	(2.3)
Net margin increase (decrease) due to volume, price, new products, foreign exchange and expenses	4.3	(1.0)	2.3	2.1	7.7
2006 as reported	$8.1	$10.3	$17.9	$(14.1)	$22.2

Interest Income(Expense), net:

The Company reported net interest income of $4.4 million in the third quarter of 2006 compared to net interest expense of $10.6 million last year. The change reflects the repayment of all outstanding debt in the first quarter of 2006 using proceeds from the sale of the Generics Business as well as the cash flow generated by the Company. An analysis of the components of interest income (expense), net is as follows:

	Three Months Ended September 30,	
	2006	2005
Interest income	$4.7	$0.6
Interest expense	(0.3)	(10.6)
Amortization of debt issuance costs	--	(0.6)
	$4.4	$(10.6)

Other Income (Expense), net:

A detail of Other income (expense), net follows:

	Three Months Ended September 30,	
	2006	2005
Foreign exchange losses, net	$(0.2)	$(0.4)
Other, net	(0.1)	(1.0)
	$(0.3)	$(1.4)

Tax Provision

The Company's effective tax rate ("ETR") is dependent on many factors including: a.) the impact of enacted tax laws in jurisdictions in which the Company operates; b.) the amount of earnings by jurisdiction, due to varying tax rates in each country; c.) the Company's ability to utilize various tax credits; and d.) the estimates of valuation allowances necessary to value deferred tax assets.

Based on the Company's assessment of the above factors, the tax rate for the full year is expected to approximate 35%. The ETR for continuing operations for the three months ended September 30, 2006 was 35%.

The tax provision for the third quarter of 2005 was 46% as a result of domestic losses which received no tax benefits because full valuation allowances were maintained against U.S. deferred tax assets at that time.

Results of Continuing Operations - Nine Months Ended September 30, 2006

The following summarizes revenues and operating income by segment:

Nine Months Ended Sept. 30,	Revenues			Operating Income		
	2006	2005	%	2006	2005	%
BP	$103.6	$68.8	50.6%	$27.3	$11.4	139.5%
API	127.7	103.7	23.1%	38.0	41.4	(8.2)%
AH	252.2	233.9	7.8%	51.3	45.2	13.5%
Unallocated and Eliminations	--	(9.1)		(44.1)	(35.1)	
Total	$483.5	$397.3	21.7%	$72.5	$62.9	15.3%

Revenues:

BP revenues increased $34.8 million to $103.6 million in 2006 compared to $68.8 million in 2005. The revenue growth was primarily a result of increased year-over-year prescriptions which contributed to volume increases of $21.3 million, higher price realization which contributed $11.5 million, and a rebate reserve adjustment of $2.0 million resulting from the favorable outcome of a legal claim. Included in the net volume gain is the impact of a reduction in wholesaler inventory levels in 2006 from approximately three months at the end of the fourth quarter of 2005 to approximately two months at the end of the third quarter of 2006.

Revenues in API increased $24.0 million to $127.7 million compared to $103.7 million in the first nine months of 2005. Revenues increased mainly as a result of approximately $12.8 million of low margin sales of products that, in 2005, were reported as sales of the Company's divested Generics Business. Net volume gains contributed an additional $14.6 million of the revenue increase. These increases were partially offset by lower year-over-year prices. In addition, translation of revenues into the U.S. dollar decreased API revenues by $0.8 million in comparison to the first nine months of 2005.

AH revenues increased $18.3 million or 7.8% versus the first nine months of 2005, due primarily to higher volumes in U.S. livestock markets of $11.4 million and increased sales into international markets of $6.2 million.

Gross Profit:

On a Company-wide basis, gross profit increased $45.8 million in 2006 compared to the same period of 2005. As a percentage of sales, overall gross profit was 59.3% in 2006 versus 60.6% in 2005.

The increase in gross profit dollars is the result of increased volumes in all three business segments and favorable price realization in BP. The lower gross profit percentage is mostly a result of low margin sales of API products that, in 2005, were reported as sales of the Company's divested Generics Business.

Operating Expenses:

On a consolidated basis, SG&A expenses increased $28.3 million in 2006 as compared to 2005. As a percentage of revenues, SG&A expense was 38.6% and 39.9% in the first nine months of 2006 and 2005, respectively.

The majority, or $18.7, million of the year-over-year increase, was across all three businesses for additional operational infrastructure to support the Company's growth initiatives and also reflects higher distribution costs in 2006. The remainder of the increase relates primarily to costs related to senior management retention and transition, and the discontinuance of the Company's performance unit plan, offset partially by a favorable insurance recovery. In addition, ongoing stock option expense contributed $1.4 million of the year-over-year increase in SG&A.

Research and development expenses increased $7.8 million in the first nine months of 2006 compared to 2005, due almost exclusively to BP new product development spending.

Operating Income:

Operating income increased by $9.6 million for the nine months ended September 30, 2006, in comparison to the comparable period of 2005. The change in operating income is summarized as follows:

	BP	API	AH	Corporate/ Unallocated	Total
2005 as reported	$11.4	$41.4	$45.2	$(35.1)	$62.9
Research and development	(8.7)	(0.1)	0.1	0.9	(7.8)
Senior management retention and transition, and performance unit expense, net of insurance recovery	--	--	--	(11.1)	(11.1)
Stock option expense, ongoing	--	--	--	(1.4)	(1.4)
Net margin increase (decrease) due to volume, price, new products, foreign exchange and expenses	24.6	(3.3)	6.0	2.6	29.9
2006 as reported	$27.3	$38.0	$51.3	$(44.1)	$72.5

Interest Income/(Expense), net:

The Company reported net interest income of $11.2 million the first nine months of 2006 compared to net interest expense of $34.9 million in the comparable period last year. The change reflects the repayment of all outstanding debt in the first quarter of 2006 using proceeds from the sale of the Generics Business as well as the cash flow generated by the Company. An analysis of the components of interest income (expense), net is, as follows:

	Nine Months Ended September 30,	
	2006	2005
Interest income	$14.3	$2.2
Interest expense	(2.9)	(35.2)
Amortization of debt issuance costs	(0.2)	(1.9)
	$11.2	$(34.9)

Loss on Extinguishment of Debt:

Results for the nine months ended September 30, 2006 include the payment of a call premium of $18.9 million and write-offs of deferred loan costs of $0.5 million associated with the repayment of the Company's remaining outstanding long-term debt in January 2006. In the first nine months of 2005, the Company prepaid $148 million of bank term debt which resulted in the write-off of deferred loan costs of $2.4 million

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Other Income (Expense), net:

A detail of Other income (expense), net follows:

	Nine Months Ended September 30,	
	2006	2005
Foreign exchange gains (losses), net	$0.5	$(1.1)
Other, net	(0.4)	(0.1)
	$0.1	$(1.2)

Tax Provision

The Company's effective tax rate ("ETR") is dependent on many factors including: a.) the impact of enacted tax laws in jurisdictions in which the Company operates; b.) the amount of earnings by jurisdiction, due to varying tax rates in each country; c.) the Company's ability to utilize various tax credits; and d.) the estimates of valuation allowances necessary to value deferred tax assets.

Based on the Company's assessment of the above factors, the tax rate for the full year is expected to approximate 35%. The ETR for continuing operations for the nine months ended September 30, 2006 was 35%.

The tax provision for the first nine months of 2005 included $9.4 million related to the repatriation of earnings under the American Jobs Creation Act. It also included a 30% effective tax rate for international operations, but no tax benefit for domestic losses because a full valuation allowance was maintained at that time against domestic deferred tax assets.

Liquidity and Capital Resources

At September 30, 2006, the Company had $390.2 million in cash and cash equivalents and no debt outstanding. Interest income earned on investments was $14.3 million for the first nine months of 2006 and is classified as a component of Interest income (expense), net in the Consolidated Statements of Operations.

Cash flow from operations for the nine months ended September 30, 2006 was $5.1 million compared to $204.7 million provided from operations in the first nine months of 2005. During the first nine months of 2006, the Company paid cash taxes of $45.6 million, including $21.0 million related to the sale of the Company's Generics business, and additional cash payments of approximately $23.0 million related to the settlement of accrued expenses associated with the Generics Business disposition. The Company also had higher levels of accounts receivable, primarily in API. Cash flow from operations in 2005 includes cash flows of discontinued operations.

Cash flow provided by investing activities for the first nine months of 2006 included the proceeds from the sale of ParMed of $40.1 million.

The cash flow used in financing activities in the first nine months of 2006 was $429.3 million compared with $213.0 million last year. The use of funds in 2006 included $436.3 million related to the repayment of debt, including a call premium of $18.9 million. Financing activities in the first nine months of 2005 included $208.6 million of debt repayments.

Working capital, including cash and cash equivalents, at September 30, 2006, was $462.4 million compared to working capital of $371.8 million at December 31, 2005. Working capital is defined as current assets less current liabilities. Higher earnings and the proceeds from the sale of ParMed served to increase working capital.

Stockholders' equity at September 30, 2006 was $1,001.7 million compared to $918.1 million at December 31, 2005. The increase in Stockholders' Equity in 2006 resulted primarily from the first nine months net earnings, including the gain on the sale of ParMed. At September 30, 2006, due primarily to the cumulative strengthening of the U.S. dollar against many other currencies, the Company reported Accumulated Other Comprehensive Income of $51.6 million compared to $47.9 million at December 31, 2005.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and Qualitative Disclosure - This information is included in Item 7a of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company has implemented and maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's President and Chief Executive Officer ("CEO") and Vice President Finance and Interim Chief Financial Officer ("CFO") as appropriate to allow timely decisions regarding disclosure. The disclosure controls and procedures involve participation by various individuals in the Company having access to material information relating to the operations of the Company. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

The Company's CEO and CFO completed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Rule 13a-15 as of September 30, 2006. Based on this evaluation, they concluded that the Company's disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2006 because of the material weakness described below.

(b) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process that is 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, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,

- 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 are being made only in accordance with authorizations of management and the board of directors of the Company, and

- 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 and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, utilizing the criteria described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2005.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, the Company determined that there were deficiencies in its internal controls over the accounting for income taxes and that these deficiencies constituted a material weakness, as described below.

The sale of the Company's Generics Business in the fourth quarter of 2005 required the Company to effect numerous transactions related to the disposition and to recast its financial statements to separately present results from continuing and discontinued operations. This included disaggregating income tax accounts between continuing and discontinued operations, accounting for taxes associated with the sale transaction and the repatriation of earnings, and evaluating and adjusting valuation allowances that had been provided in prior years for certain US deferred tax assets. The fourth quarter accounting for income taxes required significant reliance upon external tax professionals and senior financial internal review and oversight, due to the complexities of the issues involved. The integration and oversight of the work of these service providers reduced the timeliness and accuracy of recording the final tax provisions and related entries in the year-end closing process and the preparation of tax footnote disclosures. The Company concluded that this reliance principally on outside providers and internal detective controls reduced the effectiveness of the internal controls over tax accounting processes. Accordingly, the Company concluded that a material weakness existed at December 31, 2005 in that it did not maintain effective internal control over financial reporting for income taxes, based on the criteria in "Internal Control - Integrated Framework" issued by the COSO.

(c) Changes in Internal Control over Financial Reporting

During 2005, management implemented enhanced control procedures related to the accounting for income taxes, including the following: (i) the development and communication of enhanced policies and procedures for the accounting for income taxes, including expanded documentation requirements to support financial statement assertions, (ii) retaining a public accounting firm and other external tax professional services to assist the Company in its quarterly review, analysis and documentation of both its US and international income tax accounts, and (iii) expanding internal financial management review and oversight of income tax accounts and the work of outside tax service providers.

While management believes the enhanced control procedures implemented in 2005 served to strengthen its internal controls over income tax accounting, these enhanced procedures did not contemplate a transaction of the magnitude and complexity of the December 19, 2005 sale of the Generics Business.

Because the December 19, 2005 sale of the Generics Business has simplified the Company, the tax accounting complexities and workload created by the fourth quarter 2005 transactions described above have been reduced. The Company believes that the combination of the completion of the sale of the Generics Business and expanded internal resources and oversight of the work of external tax service providers will serve to remediate the material weakness related to the accounting and financial reporting of income taxes during 2006. During the third quarter of 2006, the Company strengthened its internal tax resources by successfully recruiting and appointing two individuals to senior tax positions.

Other than as described above, there have not been any other changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Statements made in this Form 10-Q, are forward-looking statements made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Such statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. Information on other significant potential risks and uncertainties not discussed herein may be found in the Company's filings with the Securities and Exchange Commission including its Form 10-K for the year ended December 31, 2005.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 17 to the Company's Consolidated Financial Statement included in Part 1 of this Report for a discussion of material developments in the Company's legal proceedings.

Item 6. Exhibits

(a) Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed as an Exhibit to this Report.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed as an Exhibit to this Report.

32.0 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are filed as an Exhibit to this Report.

SIGNATURES

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

Alpharma Inc.

(Registrant)

Date: October 31, 2006

/s/ Jeffrey S. Campbell

Jeffrey S. Campbell
Vice President, Finance and Interim Chief Financial Officer

Date: October 31, 2006

/s/ John F. Konzelmann

John F. Konzelmann

Vice President, Controller and Principal
Accounting Officer