

[Table of Contents](#)

BAUSCH + LOMB
NOTES TO COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Bausch + Lomb (a business of Bausch Health Companies Inc.) (“Bausch + Lomb” or the “Business”), is a leading global eye health company dedicated to protecting and enhancing the gift of sight for millions of people around the world—from the moment of birth through every phase of life. The Business operates in three reportable segments: (i) Vision Care/Consumer Health Care segment which includes both a contact lens business and a consumer eye care business that consists of contact lens care products, over-the-counter (“OTC”) eye drops and eye vitamins, (ii) Ophthalmic Pharmaceuticals segment which consists of a broad line of proprietary pharmaceutical products for post-operative treatments and treatments for a number of eye conditions, such as glaucoma, eye-inflammation, ocular hypertension, dry eyes and retinal diseases and (iii) Surgical segment which consists of medical device equipment, consumables and instrumental tools and technologies for the treatment of corneal, cataracts, and vitreous and retinal eye conditions, and includes intraocular lenses and delivery systems, phacoemulsification equipment and other surgical instruments and devices necessary for cataract surgery. See Note 20, “SEGMENT INFORMATION” for additional information regarding these reportable segments.

The Business was acquired in 2013 and remains wholly owned by Bausch Health Companies Inc. (“BHC” or “Parent”). On August 6, 2020, BHC announced its plan to separate Bausch + Lomb into an independent publicly traded company (the “Separation”).

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The Business has historically operated as part of BHC; therefore, standalone financial statements have not historically been prepared. The accompanying Combined Financial Statements have been prepared from BHC’s historical accounting records and policies and are presented on a standalone basis as if the Business’ operations had been conducted independently from BHC. These Combined Financial Statements have been prepared by the Business in United States (“U.S.”) dollars and in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), applied on a consistent basis. The Combined Financial Statements of the Business include assets and liabilities that have been determined to be specifically identifiable or otherwise attributable to the Business.

As the Business has historically operated as part of BHC, the Business relied on BHC’s corporate and other support functions. Therefore, certain corporate and shared costs have been allocated to the Business, including expenses related to BHC support functions that are provided on a centralized basis, including expenses for executive oversight, treasury, accounting, legal, human resources, shared services, compliance, procurement, information technology and other corporate functions. The expenses associated with these services generally include all payroll and benefit costs, certain share-based compensation expenses related to BHC’s long-term incentive program for BHC employees who are providing corporate services to the Business, certain expenses associated with corporate insurance coverage and medical, pension, postretirement and other health plan costs for employees participating in BHC sponsored plans, as well as overhead costs related to the support functions. These expenses have been allocated to the Business based on a specific identification basis or, when specific identification is not practicable, a proportional cost allocation method. Allocations are based on direct usage where identifiable as well as a number of other utilization measures including headcount and relative revenues.

Management believes these cost allocations are a reasonable reflection of the utilization of services provided to, or the benefit derived by, the Business during the periods presented, though the allocations may not be indicative of the actual costs that would have been incurred had the Business operated as a standalone public company. Actual costs that may have been incurred if the Business had been a standalone company would

F-34

Table of Contents

depend on a number of factors, including the chosen organizational structure, whether functions were outsourced or performed by the Business' employees, and strategic decisions made in areas such as research and development, information technology and infrastructure.

Following the Separation, certain functions that BHC provided to the Business prior to the Separation will either continue to be provided to the Business by BHC under a transition services agreement or will be performed using the Business' own resources or third-party service providers.

The Business' Combined Balance Sheets include all assets and liabilities directly attributable to Bausch + Lomb. To the extent that assets such as facilities are shared between Bausch + Lomb and other BHC owned businesses, the assets and any related lease liabilities are not included in the Business' Combined Balance Sheets, however a charge has been allocated in the Business' Combined Statements of Operations for Bausch + Lomb's utilization of these assets.

The Business' Combined Statements of Operations include all revenues and expenses directly attributable to Bausch + Lomb, including charges and allocations for facilities, functions and services used by Bausch + Lomb. All charges and allocations for facilities, functions and services performed by BHC have been recorded through BHC Investment by Bausch + Lomb to BHC in the period in which the cost was recorded in the Combined Statements of Operations. Current and deferred income taxes in the combined financial statements have been calculated on a separate return basis. However, because the Business filed as part of BHC's tax group in certain jurisdictions, the Business' actual tax balances may differ from those reported. The Business' portion of its domestic and certain income taxes for jurisdictions outside the U.S. are deemed to have been settled in the period the related tax expense was recorded.

BHC utilizes a centralized approach to cash management and the financing of its operations. Cash generated by the Business is routinely transferred into accounts managed by BHC's centralized treasury function and cash disbursements for the Business' operations are funded as needed by BHC. Cash and cash equivalents legally owned by the Business are reflected in the Business' Combined Balance Sheets. All other cash, cash equivalents and short-term investments are generally held centrally through accounts controlled and maintained by BHC and are not specifically identifiable to the Business. Transactions between BHC and Bausch + Lomb are deemed to have been settled immediately through BHC's net investment, other than those transactions which have historically been cash-settled and which are reflected in the Combined Balance Sheets within Trade receivables, net and Accounts payable. The net effect of the deemed settled transactions is reflected in the Combined Statements of Cash Flows as Net transfers to BHC within financing activities and in the Combined Balance Sheets within BHC investment. See "BHC investment" discussed in this Note 2 and Note 3, "RELATED PARTIES" for additional details.

BHC's third-party debt and related interest expense have not been attributed to the Business because the borrowings are not specifically identifiable to the Business. However, in connection with the Separation, the Business expects to incur indebtedness directly attributable to the Business and such indebtedness would cause the Business to record additional interest expense in future periods.

BHC enters into cross currency swaps and foreign currency exchange contracts to hedge certain foreign exchange exposures across BHC's business. These instruments have been attributed to the Business based on a specific identification basis or, when specific identification is not practicable, the related income or expense for these instruments has been allocated based on relative net assets and revenues.

All intercompany accounts and transactions within the Business have been eliminated in the preparation of the Combined Financial Statements. The noncontrolling interest represents the noncontrolling investors' interests in the results of subsidiaries that the Business controls and combines.

Impacts of COVID-19 Pandemic

The unprecedented nature of the COVID-19 pandemic has adversely impacted the global economy. The COVID-19 pandemic and the rapidly evolving reactions of governments, private sector participants and the

Table of Contents

public in an effort to contain the spread of the COVID-19 virus and/or address its impacts have intensified and have had significant direct and indirect effects on businesses and commerce. This includes, but is not limited to, disruption to supply chains, employee base and transactional activity, facilities closures and production suspensions. The COVID-19 pandemic has also significantly increased demand for certain goods and services, such as pandemic related medical services and supplies, alongside decreased demand for others, such as retail, hospitality, elective medical procedures and travel.

The extent to which these events may continue to impact the Business' operations, financial condition, cash flows and results of operations, in particular, will depend on future developments which are highly uncertain and many of which are outside the Business' control. Such developments include the availability and effectiveness of vaccines for the COVID-19 virus, the ultimate geographic spread and duration of the pandemic, the extent and duration of a resurgence of the COVID-19 virus and variant strains thereof, such as the Delta variant, new information concerning the severity of the COVID-19 virus, the effectiveness and intensity of measures to contain the COVID-19 virus and the economic impact of the pandemic and the reactions to it. Such developments, among others, depending on their nature, duration and intensity, could have a significant adverse effect on Bausch + Lomb's business, financial condition, cash flows and results of operations.

In response to the COVID-19 pandemic, the Business has taken actions to protect its employees, customers and other stakeholders and mitigate the negative impact of the COVID-19 pandemic on its operations and operating results. These and additional actions can increase the costs of doing business during the pandemic and in the periods that follow, may include the costs of idling and reopening certain facilities in affected areas. Further, social restrictions and other precautionary measures taken by customers, health care patients and consumers in response to the pandemic are expected to impact the timing and amount of revenues during the COVID-19 pandemic.

To date, the Business has been able to continue its operations with limited disruptions in supply and manufacturing. Although, it is difficult to predict the broad macroeconomic effects that the COVID-19 pandemic will have on industries or individual companies, the Business has assessed the possible effects and outcomes of the pandemic on, among other things, its supply chain, customers and distributors, discounts and rebates, employee base, product sustainability, research and development efforts, product pipeline and consumer demand.

Beginning in March 2020 and throughout most of the second quarter the Business' revenues were negatively impacted by the social restrictions and other precautionary measures taken in response to the COVID-19 pandemic. However, as governments began lifting social restrictions, allowing offices of certain health care providers to reopen and certain surgeries and elective medical procedures to proceed, the negative trend in the revenues of certain businesses began to level off and stabilize prior to its third quarter of 2020. Presuming there continues to be increased availability of effective vaccines and any further resurgence of the COVID-19 virus and variant strains thereof, such as the Delta variant, do not have a material adverse impact on efforts to contain the COVID-19 virus, the Business anticipates an ongoing, gradual global recovery from the macroeconomic and health care impacts of the pandemic that occurred during the first-half of 2020 and anticipates that its affected businesses will likely return to pre-pandemic levels during 2021. However, the rates of recovery for each business will vary by geography and will be dependent upon, among other things, the availability and effectiveness of vaccines for the COVID-19 virus, government responses, rates of economic recovery, precautionary measures taken by patients and customers, the rate at which remaining social restrictions are lifted and once lifted, the presumption that social restrictions will not be materially reenacted in the event of a resurgence and other actions taken in response to the COVID-19 pandemic.

Use of Estimates

In preparing the Business' Combined Financial Statements, management is required to make estimates and assumptions. This includes estimates and assumptions regarding the nature, timing and extent of the impacts

F-36

Table of Contents

that the COVID 19 pandemic will have on its operations and cash flows. The estimates and assumptions used by the Business affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include: provisions for product returns, rebates, chargebacks, discounts and allowances and distribution fees paid to certain wholesalers; useful lives of finite-lived intangible assets and property, plant and equipment; expected future cash flows used in evaluating intangible assets for impairment, reporting unit fair values for testing goodwill for impairment; acquisition-related contingent consideration liabilities; provisions for loss contingencies; provisions for income taxes, uncertain tax positions and realizability of deferred tax assets; the fair value of foreign currency exchange contracts; and the related allocations described in the Business' basis of presentation.

All allocations and estimates in these Combined Financial Statements are based on assumptions that management believes are reasonable. On an ongoing basis, management reviews its allocations and estimates to ensure that these allocations and estimates appropriately reflect changes in the Business and new information as it becomes available. However, the Combined Financial Statements included herein may not be indicative of the financial position, results of operations and cash flows of the Business in the future, or if the Business had been a separate, standalone entity during the years presented. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Business' Combined Financial Statements could be materially impacted.

Changes in Reportable Segments

Commencing in the second quarter of 2021, the Business began operating in the following reportable segments: (i) Vision Care/Consumer Health Care, (ii) Ophthalmic Pharmaceuticals and (iii) Surgical. Prior to the second quarter of 2021, the Business operated in one reportable segment. Prior period presentations have been recast to conform to the current segment reporting structure. See Note 20, "SEGMENT INFORMATION" for additional information.

Fair Value of Financial Instruments

The estimated fair values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities approximate their carrying values due to their short maturity periods. The fair value of acquisition-related contingent consideration is based on estimated discounted future cash flows analyses and assessment of the probability of occurrence of potential future events.

Fair Value of Derivative Instruments

The Business uses foreign currency exchange contracts to economically hedge the foreign exchange exposure on certain of the Business intercompany balances. The Business' foreign currency exchange contracts are remeasured at each reporting date to reflect changes in their fair values determined using forward rates, which are observable market inputs, multiplied by the notional amount. These contracts have not been designated as an accounting hedge, and therefore the net change in their fair value is reported as a gain or loss in the Combined Statements of Operations as part of Foreign exchange and other. The Business does not have any derivative instruments that are designated and qualified as hedging instruments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank accounts and highly liquid investments with maturities of three months or less when purchased, and that is legally owned by the Business.

Concentrations of Credit Risk

Financial instruments that potentially subject the Business to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and trade receivables.

Table of Contents

Cash deposited at banks may exceed the amount of insurance provided on such deposits. Generally, these cash deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Business seeks to mitigate such risks by spreading its risk across multiple counterparties and monitoring the risk profiles of these counterparties.

Outside of the U.S., concentrations of credit risk with respect to trade receivables, which are typically unsecured, are limited due to the number of customers using the Business' products, as well as their dispersion across many different geographic regions. The Business performs periodic credit evaluations of customers and does not require collateral. The Business monitors economic conditions, including volatility associated with international economies, and related impacts on the relevant financial markets and its business, especially in light of sovereign credit issues. The credit and economic conditions within Argentina, Brazil, Egypt, Greece, among other members of the European Union, Serbia, Turkey, Ukraine, Venezuela and Vietnam have been weak in recent years. These conditions have increased, and may continue to increase, the average length of time that it takes to collect on the Business' trade receivables outstanding in these countries.

As of December 31, 2020, the Business' three largest U.S. wholesaler customers accounted for approximately 13% of net trade receivables. In addition, as of December 31, 2020 and 2019, the Business' net trade receivable balance from Argentina, Brazil, Egypt, Greece, Serbia, Turkey, Ukraine, Venezuela and Vietnam amounted to \$34 million and \$39 million, respectively, the majority of which is current or less than 90 days past due. The portion of the net trade receivable from these countries that is past due more than 90 days amounted to \$1 million, as of December 31, 2020.

Allowance for Credit Losses

An allowance is maintained for potential credit losses. The Business estimates the current expected credit loss on its receivables based on various factors, including historical credit loss experience, customer credit worthiness, value of collaterals (if any), and any relevant current and reasonably supportable future economic factors. Additionally, the Business generally estimates the expected credit loss on a pool basis when customers are deemed to have similar risk characteristics. Trade receivable balances are written off against the allowance when it is deemed probable that the trade receivable will not be collected. Trade receivables, net are stated net of certain sales provisions and the allowance for credit losses.

The activity in the allowance for credit losses for trade receivables for the years 2020, 2019 and 2018 is as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance, beginning of period	\$ 20	\$ 19	\$ 20
Provision	—	8	3
Write-offs	(2)	(6)	(3)
Foreign exchange and other	(1)	(1)	(1)
Balance, end of period	<u>\$ 17</u>	<u>\$ 20</u>	<u>\$ 19</u>

Inventories

Inventories comprise raw materials, work in process and finished goods, which are valued at the lower of cost or net realizable value, on a first-in, first-out basis. The cost value for work in process and finished goods inventories includes materials, direct labor and an allocation of overheads.

The Business evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Business expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

Table of Contents

Property, Plant and Equipment

Property, plant and equipment are reported at cost, less accumulated depreciation. Costs incurred on assets under construction are capitalized as construction in progress. Depreciation is calculated using the straight-line method, commencing when the assets become available for productive use, based on the following estimated useful lives:

Land improvements	15 - 30 years
Buildings and improvements	Up to 40 years
Machinery and equipment	Up to 20 years
Other equipment	3 - 10 years
Leasehold improvements	Lesser of term of lease or 10 years

Intangible Assets

A substantial portion of the Intangible assets related to the Business are specific to the 2013 acquisition of the Business by BHC and have been included based on BHC's historical cost. Intangible assets are reported at cost, less accumulated amortization and impairments. Intangible assets with finite lives are amortized over their estimated useful lives. Amortization is calculated primarily using the straight-line method based on the following estimated useful lives:

Product brands	1 - 15 years
Corporate brands	10 - 17 years
Product rights	8 - 15 years
Partner relationships	9 years
Out-licensed technology and other	9 years

Acquired In-Process Research and Development

The fair value of in-process research and development ("IPR&D") acquired through a business combination is capitalized as an indefinite-lived intangible asset until the completion or abandonment of the related research and development activities. When the related research and development is completed, the asset will be assigned a useful life and amortized.

The fair value of an acquired IPR&D intangible asset is typically determined using an income approach. This approach starts with a forecast of the net cash flows expected to be generated by the asset over its estimated useful life. The net cash flows reflect the asset's stage of completion, the probability of technical success, the projected costs to complete, expected market competition and an assessment of the asset's life-cycle. The net cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the expected cash flow streams.

Impairment of Long-Lived Assets

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the asset group is tested for recoverability by comparing the carrying value of the asset group to the related estimated undiscounted future cash flows expected to be derived from the asset group. If the expected undiscounted cash flows are less than the carrying value of the asset, then the asset is considered to be impaired and its carrying value is written down to fair value, based on the related estimated discounted future cash flows.

Indefinite-lived intangible assets, which includes acquired IPR&D and the corporate trademark acquired in 2013 as part of the acquisition of the Business (the "B&L Trademark"), are tested for impairment annually.

[Table of Contents](#)

or more frequently if events or changes in circumstances between annual tests indicate that the asset may be impaired. Impairment losses on indefinite-lived intangible assets are recognized based on a comparison of the fair value of the asset to its carrying value.

Goodwill

Goodwill is recorded with the acquisition of a business and is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. A substantial portion of goodwill allocated to the Business is specific to the 2013 acquisition of the Business by BHC and has been allocated based on BHC's historical cost. Other goodwill amounts relate to other acquisitions by the Business. If a historical BHC acquisition contributed to both the Business and other BHC businesses, goodwill from the acquisition, based on BHC's historical cost, was allocated to the Business based on a relative fair value basis. Goodwill is not amortized but is tested for impairment at least annually as of October 1st at the reporting unit level. Goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value. A reporting unit is the same as, or one level below, an operating segment. An entity is permitted to first assess qualitatively whether it is necessary to perform a quantitative impairment test for any of its reporting units. The quantitative impairment test is required only when the Business concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Business considers the totality of all relevant events or circumstances that affect the fair value or carrying amount of a reporting unit.

An interim goodwill impairment test in advance of the annual impairment assessment may be required if events occur that indicate an impairment might be present. For example, changes in reportable segments, unexpected adverse business conditions, economic factors and unanticipated competitive activities may signal that an interim impairment test is needed.

As discussed under the caption "Adoption of New Accounting Standards" to this Note 2, effective January 1, 2018, the Business elected to early adopt guidance issued by the Financial Accounting Standards Board ("FASB") which simplified the subsequent measurement of goodwill by eliminating "Step 2" from the goodwill impairment test. Instead, as of January 1, 2018 and for all subsequent periods, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value.

Foreign Currency Translation

The assets and liabilities of the Business' foreign operations having a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, and at the average exchange rate for the reporting period for revenue and expense accounts. The cumulative foreign currency translation adjustment is recorded as a component of accumulated other comprehensive loss in shareholders' equity.

Foreign currency exchange gains and losses on transactions occurring in a currency other than an operation's functional currency are recognized as a component of Foreign exchange and other in the Combined Statements of Operations. Foreign currency translation recorded in these combined financial statements, is based on currency movements specific to the Business' combined financial statements during the periods presented.

Revenue Recognition

The Business' revenues are primarily generated from product sales in the therapeutic areas of eye health that consist of: (i) branded prescription eye-medications and pharmaceuticals, (ii) generic and branded generic prescription eye medications and pharmaceuticals, (iii) OTC vitamin and supplement products and (iv) medical devices (contact lenses, intraocular lenses and ophthalmic surgical equipment). Other revenues

Table of Contents

include alliance and service revenue from the licensing and co promotion of products and contract service revenue. Contract service revenue is derived primarily from contract manufacturing for third parties and is not material. See Note 20, "SEGMENT INFORMATION" for the disaggregation of revenues which depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by the economic factors of each category of customer contracts.

The Business recognizes revenue when the customer obtains control of promised goods or services and in an amount that reflects the consideration to which the Business expects to be entitled to receive in exchange for those goods or services. To achieve this core principle, the Business applies the five-step revenue model to contracts within its scope: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Product Sales

A contract with the Business' customers exists for each product sale. Where a contract with a customer contains more than one performance obligation, the Business allocates the transaction price to each distinct performance obligation based on its relative standalone selling price. The transaction price is adjusted for variable consideration which is discussed further below. The Business recognizes revenue for product sales at a point in time, when the customer obtains control of the products in accordance with contracted delivery terms, which is generally upon shipment or customer receipt. Contracted delivery terms will vary by customer and geography. In the United States control is generally transferred to the customer upon receipt.

Revenue from sales of surgical equipment and related software is generally recognized upon delivery and installation of the equipment. Intraocular lenses and delivery systems, disposable surgical packs and other surgical instruments are distinct from the surgical equipment and may be sold together with the surgical equipment in a single contract or on a standalone basis. Revenue from the sale of delivery systems, disposable surgical packs and other surgical instruments is recognized in accordance with the contracted delivery terms, generally upon shipment or customer receipt. Intraocular lenses are sold primarily on a consignment basis and revenue is recognized upon notification of use, which typically occurs when a replacement order is placed.

When a sale transaction in the Surgical segment contains multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative standalone sales price and revenue is recognized upon satisfaction of each performance obligation.

Product Sales Provisions

As is customary in the eye health industry, gross product sales of certain product categories are subject to a variety of deductions in arriving at reported net product sales. The transaction price for such product categories is typically adjusted for variable consideration, which may be in the form of cash discounts, allowances, returns, rebates, chargebacks and distribution fees paid to customers. Provisions for variable consideration are established to reflect the Business' best estimates of the amount of consideration to which it is entitled based on the terms of the contract. The amount of variable consideration included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in the future period.

Provisions for these deductions are recorded concurrently with the recognition of gross product sales revenue and include cash discounts and allowances, chargebacks, and distribution fees, which are paid to direct customers, as well as rebates and returns, which can be paid to direct and indirect customers. Returns provision balances and volume discounts to direct customers are included in Accrued and other current liabilities. All other provisions related to direct customers are included in Trade receivables, net, while provision balances related to indirect customers are included in Accrued and other current liabilities.

[Table of Contents](#)

The following table presents the activity and ending balances of the Business' variable consideration provisions for years 2020 and 2019

<i>(in millions)</i>	Discounts and Allowances	Returns	Rebates	Chargebacks	Distribution Fees	Total
Reserve balance, January 1, 2019	\$ 126	\$ 66	\$ 157	\$ 30	\$ 26	\$ 405
Current period provision	363	79	474	318	20	1,254
Payments and credits	(353)	(72)	(469)	(322)	(24)	(1,240)
Reserve balance, December 31, 2019	136	73	162	26	22	419
Current period provision	323	77	445	301	15	1,161
Payments and credits	(312)	(73)	(458)	(297)	(13)	(1,153)
Reserve balance, December 31, 2020	<u>\$ 147</u>	<u>\$ 77</u>	<u>\$ 149</u>	<u>\$ 30</u>	<u>\$ 24</u>	<u>\$ 427</u>

Included in Rebates in the table above are cooperative advertising credits due to customers of approximately \$27 million and \$24 million as of December 31, 2020 and 2019, respectively, which are reflected as a reduction of Trade accounts receivable, net in the Combined Balance Sheets.

The Business continually monitors its variable consideration provisions and evaluates the estimates used as additional information becomes available. Adjustments will be made to these provisions periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current and/or future results. The Business is required to make subjective judgments based primarily on its evaluation of current market conditions and trade inventory levels related to the Business products. These judgments include the potential impact of the COVID-19 pandemic on, among other things, unemployment and related changes in customer health insurance levels, customer behaviors during the COVID-19 pandemic and government stimulus bills that focus on ensuring availability and access to lifesaving drugs during a public health crisis. This evaluation may result in an increase or decrease in the experience rate that is applied to current and future sales, or require an adjustment related to past sales, or both. If the trend in actual amounts of variable consideration varies from the Business' prior estimates, the Business adjusts these estimates, when such trend is believed to be sustainable. At that time, the Business would record the necessary adjustments which would affect net product revenue and earnings reported in the current period. The Business applies this method consistently for contracts with similar characteristics. The following describes the major sources of variable consideration in the Business' customer arrangements and the methodology, estimates and judgments applied to estimate each type of variable consideration.

Cash Discounts and Allowances

Cash discounts are offered for prompt payment and allowances for volume purchases. Provisions for cash discounts and allowances are estimated at the time of sale and recorded as direct reductions to trade receivables and revenue. Management estimates the provisions for cash discounts and allowances based on contractual sales terms with customers, an analysis of unpaid invoices and historical payment experience. Estimated cash discounts and allowances have historically been predictable and less subjective, due to the limited number of assumptions involved, the consistency of historical experience and the fact that these amounts are generally settled within one month of incurring the liability.

Returns

Consistent with industry practice, customers are generally allowed to return certain products, primarily of our consumer and ophthalmic businesses, within a specified period of time before and after the product's expiration date. The returns provision is estimated utilizing historical sales and return rates over the period.

Table of Contents

during which customers have a right of return, taking into account available information on competitive products and contract changes. The information utilized to estimate the returns provision includes: (i) historical return and exchange levels, (ii) external data with respect to inventory levels in the wholesale distribution channel, (iii) external data with respect to prescription demand for products, (iv) remaining shelf lives of products at the date of sale and (v) estimated returns liability to be processed by year of sale based on an analysis of lot information related to actual historical returns.

In determining the estimate for returns, management is required to make certain assumptions regarding the timing of the introduction of new products and the potential of these products to capture market share. In addition, certain assumptions with respect to the extent and pattern of decline associated with generic competition are necessary. These assumptions are formulated using market data for similar products, past experience and other available information. These assumptions are continually reassessed, and changes to the estimates and assumptions are made as new information becomes available.

Rebates and Chargebacks

Certain product sales, primarily proprietary and generic pharmaceutical products within the Ophthalmic Pharmaceuticals segment, made under governmental and managed-care pricing programs in the U.S. are subject to rebates. The Business participates in state government-managed Medicaid programs, as well as certain other qualifying federal and state government programs whereby rebates are provided to participating government entities. Medicaid rebates are generally billed 45 days to 270 days after the quarter in which the product is dispensed to the Medicaid participant. As a result, the Medicaid rebate reserve includes an estimate of outstanding claims for end-customer sales that occurred, but for which the related claim has not been billed and/or paid, and an estimate for future claims that will be made when inventory in the distribution channel is sold through to plan participants. The calculation of the Medicaid rebate reserve also requires other estimates, such as estimates of sales mix, to determine which sales are subject to rebates and the amount of such rebates. Quarterly, the Medicaid rebate reserve is adjusted based on actual claims paid. Due to the delay in billing, adjustments to actual claims paid may incorporate revisions of that reserve for several periods.

Managed Care rebates relate to contractual agreements to sell products to managed care organizations and pharmacy benefit managers at contractual rebate percentages in exchange for volume and/or market share.

Chargebacks relate to contractual agreements to sell certain products, primarily proprietary and generic pharmaceutical products within the Ophthalmic Pharmaceuticals segment to government agencies, group purchasing organizations and other indirect customers at contractual prices that are lower than the list prices the Business charges wholesalers. When these group purchasing organizations or other indirect customers purchase products through wholesalers at these reduced prices, the wholesaler charges the Business for the difference between the prices they paid the Business and the prices at which they sold the products to the indirect customers.

In estimating provisions for rebates and chargebacks, management considers relevant statutes with respect to governmental pricing programs and contractual sales terms with managed-care providers and group purchasing organizations. Management estimates the amount of product sales subject to these programs based on historical utilization levels. Changes in the level of utilization of products through private or public benefit plans and group purchasing organizations will affect the amount of rebates and chargebacks that the Business is obligated to pay. Management continually updates these factors based on new contractual or statutory requirements, and any significant changes in sales trends that may impact the percentage of products subject to rebates or chargebacks.

The amount of Managed Care, Medicaid and other rebates and chargebacks as it relates to proprietary and generic pharmaceutical products within the Ophthalmic Pharmaceuticals segment, has become more significant as a result of a combination of deeper discounts implemented in each of the last three years and increased Medicaid utilization due to expansion of government funding for these programs. Management's

Table of Contents

estimate for rebates and chargebacks may be impacted by a number of factors, but the principal factor relates to the level of inventory in the distribution channel.

Rebate provisions are based on factors such as timing and terms of plans under contract, time to process rebates, product pricing, sales volumes, amount of inventory in the distribution channel and prescription trends. Adjustments to actual for the years 2020 and 2019 were not material to the Business' revenues or earnings.

Patient Co-Pay Assistance programs, Consumer Rebates and Loyalty Programs are rebates offered on a limited number of the Business' products. Patient Co-Pay Assistance Programs are patient discount programs offered in the form of coupon cards or point of sale discounts, with which patients receive certain discounts off their prescription at participating pharmacies, as defined by the specific product program. An accrual for these programs is established, equal to management's estimate of the discount, rebate and loyalty incentives attributable to a sale. That estimate is based on historical experience and other relevant factors. The accrual is adjusted throughout each quarter based on actual experience and changes in other factors, if any.

Distribution Fees

The Business sells products to certain wholesalers, and large pharmacy chains such as CVS and Walmart, usually under Distribution Services Agreements ("DSAs"). Under the DSAs, the wholesalers agree to provide services, and the Business pays the contracted DSA distribution service fees for these services based on product volumes. Additionally, price appreciation credits are generated when the Business increases a product's wholesaler acquisition cost ("WAC") under contracts with certain wholesalers. Under such contracts, the Business is entitled to credits from such wholesalers for the impact of that WAC increase on inventory currently on hand at the wholesalers. Such credits are offset against the total distribution service fees paid to each such wholesaler. The variable consideration associated with price appreciation credits is reflected in the transaction price of products sold when it is determined to be probable that a significant reversal will not occur. Included as a reduction of current period provisions for Distribution Fees in the table above are price appreciation credits of \$1 million and \$1 million for the years 2020 and 2019, respectively.

Contract Assets and Contract Liabilities

There are no contract assets for any period presented. Contract liabilities consist of deferred revenue, the balance of which is not material to any period presented.

Sales Commissions

Sales commissions are generally attributed to periods shorter than one year and therefore are expensed when incurred. Sales commissions are included in selling, general and administrative expenses.

Financing Component

The Business has elected not to adjust consideration for the effects of a significant financing component when the period between the transfer of a promised good or service to the customer and when the customer pays for that good or service will be one year or less. The Business' global payment terms are generally between thirty to ninety days.

Leases

The Business leases certain facilities, vehicles and equipment principally under multi-year agreements generally having a lease term of one to twenty years, some of which include termination options and options to extend the lease term from one to five years or on a month-to-month basis. The Business includes options

[Table of Contents](#)

that are reasonably certain to be exercised as part of the lease term. The Business may negotiate termination clauses in anticipation of changes in market conditions but generally, these termination options are not exercised. Certain lease agreements also include variable payments that are dependent on usage or may vary month-to-month such as insurance, taxes and maintenance costs. None of the Business' lease agreements contain material residual value guarantees or material restrictive covenants.

As discussed under the caption "Adoption of New Accounting Standards" to this Note 2, effective January 1, 2019, the Business adopted guidance issued by the FASB regarding accounting for leases. The Business is required to record a right-of-use asset and corresponding lease liability, equal to the present value of the lease payments at the commencement date of each lease. For all asset classes, in determining future lease payments, the Business has elected to aggregate lease components, such as payments for rent, taxes and insurance costs with non-lease components such as maintenance costs, and account for these payments as a single lease component. In limited circumstances, when the information necessary to determine the rate implicit in a lease is available, the present value of the lease payments is determined using the rate implicit in that lease. If the information necessary to determine the rate implicit in a lease is not available, the Business uses its incremental borrowing rate at the commencement of the lease, which represents the rate of interest that the Business would incur to borrow on a collateralized basis over a similar term.

All leases must be classified as either an operating lease or finance lease. The classification is determined based on whether substantive control has been transferred to the lessee. The classification governs the pattern of lease expense recognition. For leases classified as operating leases, total lease expense over the term of the lease is equal to the undiscounted payments due in accordance with the lease arrangement. Fixed lease expense is recognized periodically on a straight-line basis over the term of each lease and includes: (i) imputed interest during the period on the lease liability determined using the effective interest rate method plus (ii) amortization of the right-of-use asset for that period. Amortization of the right-of-use asset during the period is calculated as the difference between the straight-line expense and the imputed interest on the lease liability for that period. Variable lease expense is recognized when the achievement of the specific target is considered probable.

Research and Development Expenses

Costs related to internal research and development programs, including costs associated with the development of acquired IPR&D, are expensed as goods are delivered or services are performed. Under certain research and development arrangements with third parties, the Business may be required to make payments that are contingent on the achievement of specific developmental, regulatory and/or commercial milestones. Milestone payments made to third parties before a product receives regulatory approval, but after the milestone is determined to be probable, are expensed and included in Research and development expenses. Milestone payments made to third parties after regulatory approval is received are capitalized and amortized over the estimated useful life of the approved product.

Amounts due from third parties as reimbursement of development activities conducted under certain research and development arrangements are recognized as a reduction of Research and development expenses.

Legal Costs

Legal fees and other costs related to litigation and other legal proceedings or services are expensed as incurred and are included in Selling, general and administrative expenses. Certain legal costs associated with acquisitions are included in Acquisition-related costs and certain legal costs associated with divestitures, legal settlements and other business development activities are included in Litigation and other matters or Gain on investments, net within Other expense (income), net, as appropriate. Legal costs expensed are reported net of expected insurance recoveries. A claim for insurance recovery is recognized when realization becomes probable.

Table of Contents**Advertising Costs**

Advertising costs comprise product samples, print media, promotional materials and television advertising and are expensed on the first use of the advertisement. Included in Selling, general and administrative expenses are advertising costs of \$285 million, \$346 million and \$309 million, for 2020, 2019 and 2018, respectively.

Share-Based Compensation

The Business participates in BHC's long-term incentive program. The share-based awards granted under this long-term incentive program consist of time-based stock options, time-based restricted share units ("RSUs") and performance-based RSUs. BHC's performance-based RSUs are comprised of: (i) awards that vest upon achievement of certain share price appreciation conditions that are based on BHC total shareholder return ("TSR") and (ii) awards that vest upon attainment of certain performance targets that are based on BHC's return on tangible capital ("ROTC"). Stock-based compensation expense reflected in the accompanying Combined Financial Statements relates to stock plan awards of BHC awarded to Bausch + Lomb employees and not stock awards of Bausch + Lomb as Bausch + Lomb did not grant stock awards for any period presented. In addition to share-based compensation expense attributable to employees that are specific to the Bausch + Lomb business, share-based compensation expense also includes allocated charges from BHC, related to BHC employees providing corporate services to Bausch + Lomb. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that Bausch + Lomb would have experienced as an independent company for the periods presented.

The Business recognizes all share based payments to employees of the Business, including grants of employee stock options and RSUs, at estimated fair value. The Business amortizes the fair value of stock option or RSU grants on a straight-line basis over the requisite service period of the individual stock option or RSU grant, which generally equals the vesting period. Stock option and RSU forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation is recorded in Research and development expenses and Selling, general and administrative expenses, as appropriate.

Acquisition-Related Contingent Consideration

Acquisition-related contingent consideration, which primarily consists of potential milestone payments and royalty obligations, is recorded in the Combined Balance Sheets at its acquisition date estimated fair value, in accordance with the acquisition method of accounting. The fair value of the acquisition-related contingent consideration is remeasured each reporting period, with changes in fair value recorded in the Combined Statements of Operations. The fair value measurement of contingent consideration obligations arising from business combinations is determined via a probability-weighted discounted cash flow analysis, using unobservable (Level 3) inputs. These inputs may include: (i) the estimated amount and timing of projected cash flows, (ii) the probability of the achievement of the factor(s) on which the contingency is based and (iii) the risk-adjusted discount rate used to present value the probability-weighted cash flows. Significant increases or decreases in any of those inputs in isolation could result in a significantly higher or lower fair value measurement.

Income Taxes

Income tax expense and deferred tax balances in the Combined Financial Statements have been calculated on a separate tax return basis. The Business' operations are included in the tax returns of certain respective BHC entities of which the Business is a part. In the future, as a standalone entity, the Business will file tax returns on its own behalf, and its deferred taxes and effective income tax rate may differ from those in the historical periods.

Table of Contents

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the temporary differences between the financial statement and income tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to remain unrealized. Deferred tax assets and liabilities are measured using enacted tax rates and laws. Deferred tax assets for outside basis differences in investments in subsidiaries are only recognized if the difference will be realized in the foreseeable future.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The tax benefits recognized from such position are measured based on the amount for which there is a greater than 50% likelihood of being realized upon settlement. Liabilities associated with uncertain tax positions are classified as long-term unless expected to be paid within one year. Interest and penalties related to uncertain tax positions, if any, are recorded in the provision for income taxes and classified with the related liability on the Combined balance sheets. Income taxes payable are accounted for within BHC investment on the Combined Balance Sheets.

Comprehensive Income

Comprehensive income comprises Net (loss) income and Other comprehensive income (loss). Other comprehensive income (loss) includes items such as foreign currency translation adjustments and certain pension and other postretirement benefit plan adjustments. Accumulated other comprehensive loss is recorded as a component of equity.

Contingencies

In the normal course of business, the Business is subject to loss contingencies, such as claims and assessments arising from litigation and other legal proceedings, contractual indemnities, product and environmental liabilities, and tax matters. The Combined Financial Statements include litigation and other legal proceeding contingencies to the extent the matter is directly attributable to the Business. Accruals for loss contingencies are recorded when the Business determines that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the estimate of the amount of the loss is a range and some amount within the range appears to be a better estimate than any other amount within the range, that amount is accrued as a liability. If no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued as a liability. These accruals are adjusted periodically as assessments change or additional information becomes available.

If no accrual is made for a loss contingency because the amount of loss cannot be reasonably estimated, the Business will disclose contingent liabilities when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

Employee Benefit Plans

The Business sponsors various retirement and pension plans, including defined benefit pension plans, defined contribution plans and a participatory defined benefit postretirement plan. The determination of defined benefit pension and postretirement plan obligations and their associated expenses requires the use of actuarial valuations to estimate the benefits employees earn while working, as well as the present value of those benefits. Net actuarial gains and losses that exceed 10% of the greater of the plan's projected benefit obligations or the market-related value of assets are amortized to earnings over the shorter of the estimated average future service period of the plan participants (or the estimated average future lifetime of the plan participants if the majority of plan participants are inactive) or the period until any anticipated final plan settlements.

In addition, BHC offers certain of its defined benefit plans, a participatory defined benefit postretirement medical and life insurance plans and defined contribution plan to be shared amongst its businesses,

F-47

[Table of Contents](#)

including the Business, and the participation of its employees and retirees in these plans is reflected as though the Business participated in a multiemployer plan with BHC. A proportionate share of the cost associated with the multiemployer plan is reflected in the Combined Financial Statements, while any assets and liabilities associated with the multiemployer plan are retained by BHC and recorded on BHC's balance sheet.

BHC Investment

BHC's cumulative interest in the assets and liabilities of the Business, inclusive of operating results, is presented as BHC investment on the Combined Balance Sheets. The Combined Statements of Equity include net cash transfers and other transfers between BHC and the Business as well as related party receivables and payables between the Business and other BHC affiliates that were settled on a current basis. BHC performs cash management and other treasury related functions on a centralized basis for certain of its legal entities and, therefore, substantially all of the net cash generated by the Business is transferred to BHC through the intercompany accounts. Receivables due from, and payables due to BHC and its affiliates were not material for all periods presented.

Adoption of New Accounting Standards

In May 2014, the FASB issued guidance on recognizing revenue from contracts with customers. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity will: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In addition to these provisions, the new standard provides implementation guidance on several other topics, including the accounting for certain revenue-related costs, as well as enhanced disclosure requirements. The new guidance requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued an amendment to clarify the implementation guidance around considerations whether an entity is a principal or an agent, impacting whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued an amendment to clarify guidance on identifying performance obligations and the implementation guidance on licensing.

The Business adopted this guidance effective January 1, 2018 using the modified retrospective approach. Based upon review of customer contracts, the Business concluded the implementation of the new guidance did not have a material quantitative impact on its Combined Financial Statements as the timing of revenue recognition for product sales did not significantly change. The new guidance did however result in additional disclosures as to the nature, amounts, and concentrations of revenue. See "Revenue Recognition" discussed in this Note 2 and Note 20, "SEGMENT INFORMATION" for additional details and the application of this guidance.

In October 2016, the FASB issued guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. This guidance was effective for the Business January 1, 2018 and was applied using a modified retrospective approach through a cumulative-effect adjustment to BHC investment and deferred income taxes as of the effective date. The Business recorded a net cumulative-effect adjustment of \$462 million to increase deferred income tax assets and decrease the opening balance of BHC investment for the income tax consequences deferred from past intra-entity transfers involving assets other than inventory.

Table of Contents

In January 2017, the FASB issued guidance which simplifies the subsequent measurement of goodwill by eliminating “Step 2” from the goodwill impairment test. Instead, goodwill impairment is measured as the amount by which a reporting unit’s carrying value exceeds its fair value. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The Business elected to early adopt this guidance effective January 1, 2018. The Business tested goodwill for impairment upon adopting this guidance and no impairment charges were recognized. See Note 8, “INTANGIBLE ASSETS AND GOODWILL” for the application of this guidance.

In February 2016, the FASB issued a new standard revising the accounting for leases to increase transparency and comparability among organizations that lease buildings, equipment and other assets by requiring the recognition of lease assets and lease liabilities on the balance sheet. Under the new standard, all leases are classified as either a finance lease or an operating lease. The classification is determined based on whether substantive control has been transferred to the lessee and its determination will govern the pattern of lease cost recognition. Finance leases are accounted for in substantially the same manner as capital leases under the former U.S. GAAP standard. Operating leases are accounted for in the statements of operations and statements of cash flows in a manner substantially consistent with operating leases under the former U.S. GAAP standard. However, as it relates to the balance sheet, operating lessees are, with limited exception, required to record a right-of-use asset and a corresponding lease liability, equal to the present value of the lease payments for each operating lease. Lessees are not required to recognize a right-of-use asset or lease liability for short-term leases, but instead recognizes lease payments as an expense on a straight-line basis over the lease term. The standard also requires lessees and lessors to provide additional qualitative and quantitative disclosures to help financial statement users assess the amounts, timing and uncertainty of cash flows arising from leases.

The Business adopted the new standard effective January 1, 2019, using the modified retrospective approach. Upon adoption, the Business elected the available practical expedients, including: (i) the package of practical expedients as defined in the accounting guidance, which among other things, allowed the carry forward of historical lease classifications, (ii) the election to use hindsight in determining the lease terms for all leases, (iii) the transition method, which does not require the restatement of prior periods, (iv) the election to aggregate lease components with non-lease components and account for these payments as a single lease component and (v) the short-term lease exemption, which does not require recognition on the balance sheet for leases with an initial term of 12 months or less. The Business has updated its systems, processes and controls to track, record and account for its lease portfolio, including implementation of a third-party software tool to assist in complying with the new standard. Upon adoption of the new standard, the Business recognized a right-of-use asset and a corresponding lease liability of \$96 million. The adoption of the standard did not have a material impact on the Combined Statements of Operations, Comprehensive Loss, Equity and Cash Flows for any of the periods presented. See Note 11, “LEASES” for additional details and application of this standard.

In August 2018, the FASB issued guidance aligning the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years with early adoption permitted. The Business has early-adopted this guidance prospectively for all implementation costs incurred after January 1, 2019. Implementation costs incurred in the Business’ hosting arrangements which were capitalized were not material.

In June 2016, the FASB issued guidance on the impairment of financial instruments requiring an impairment model based on expected losses rather than incurred losses. Under this guidance, an entity recognizes as an allowance its estimate of expected credit losses. The guidance was effective for the Business beginning January 1, 2020 and did not have a material effect on the Business’ Combined Financial Statements.

Table of Contents

In August 2018, the FASB issued guidance modifying the disclosure requirements for fair value measurement. The guidance was effective for the Business beginning January 1, 2020. The application of this guidance did not have a material effect on the Business' disclosures.

In March 2020, the FASB issued guidance providing optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or a reference rate that is expected to be discontinued as a result of reference rate reform. Optional expedients are provided for contract modification accounting within the areas of receivables, debt, leases, derivatives and hedging. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022. During 2020, the Business has not entered into any contract modifications in which the optional expedients were applied. However, if prior to December 31, 2022 the Business enters into a contract modification in which the optional expedients are applied, the Business will evaluate the impact of adoption of this guidance on its financial position, results of operations and cash flows.

In August 2018, the FASB issued guidance modifying the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The guidance was effective for annual periods ending after December 15, 2020. The application of this guidance did not have a material effect on the Business' disclosures.

Recently Issued Accounting Standards, Not Adopted as of December 31, 2020

In December 2019, the FASB issued guidance that simplifies the accounting for income taxes by eliminating certain exceptions to the guidance related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for annual periods beginning after December 15, 2020. The application of this guidance is not expected to have a material effect on the Business' financial position, results of operations and cash flows.

3. RELATED PARTIES

Historically, the Business has been managed and operated in the ordinary course of business with other affiliates of BHC. Accordingly, certain corporate and shared costs have been allocated to the Business and reflected as expenses in the Combined Financial Statements. There have been no sales made to related parties for all periods presented.

Allocated Centralized Costs

The Combined Financial Statements have been prepared on a standalone basis and are derived from the consolidated financial statements and accounting records of BHC. BHC incurs significant corporate costs for services provided to the Business as well as to other BHC businesses. The allocated corporate and shared costs to the Business for the years 2020, 2019 and 2018 were \$354 million, \$363 million and \$333 million, respectively, and are included in Cost of goods sold (excluding amortization and impairments of intangible assets), Selling, general and administrative and Research and development in the Combined Statements of Operations. All such amounts have been deemed to have been incurred and settled by the Business in the period in which the costs were recorded and are included in the BHC investment. See Note 2, "SIGNIFICANT ACCOUNTING POLICIES" for additional information on the allocation of functional service expenses and general corporate expenses.

In the opinion of management of BHC and the Business, the expense and cost allocations have been determined on a basis considered to be a reasonable reflection of the utilization of services provided or the benefit received by the Business during 2020, 2019 and 2018. The amounts that would have been, or will be

Table of Contents

incurred, on a standalone basis could differ from the amounts allocated due to economies of scale, difference in management judgment, a requirement for more or fewer employees or other factors. In addition, the future results of operations, financial position and cash flows could differ materially from the historical results presented herein.

Accounts Receivable and Payable

Certain related party transactions between the Business and BHC have been included within BHC investment in the periods presented when the related party transactions are not settled in cash.

Certain transactions between the Business and BHC and affiliate businesses are cash-settled on a current basis and, therefore, are reflected in the Combined Balance Sheets. Accounts payable to BHC and its affiliates, and accounts receivables due from BHC and its affiliates were not material for any period presented.

Net Transfers to BHC

The total effect of the settlement of related party transactions is reflected as a financing activity in the Combined Statements of Cash Flows. The components of the Net transfers to BHC for the years 2020, 2019 and 2018 are as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash pooling and general financing activities	<u>\$ (428)</u>	<u>\$ (194)</u>	<u>\$ (735)</u>
Corporate allocations	354	363	333
Benefit from income taxes	<u>(106)</u>	<u>(706)</u>	<u>(193)</u>
Total net transfers to BHC	<u>(180)</u>	<u>(537)</u>	<u>(595)</u>
Share-based compensation	(50)	(50)	(43)
Other, net	5	(6)	(15)
Net transfers to BHC per Combined Statements of Cash Flows	<u>\$ (225)</u>	<u>\$ (593)</u>	<u>\$ (653)</u>

4. LICENSING AGREEMENTS AND ASSETS HELD FOR SALE

Licensing Agreements

In the normal course of business, the Business may enter into select licensing and collaborative agreements for the commercialization and/or development of unique products. These products are sometimes investigational treatments in early stage development that target unique conditions. The ultimate outcome, including whether the product will be: (i) fully developed, (ii) approved by regulatory agencies, (iii) covered by third-party payors or (iv) profitable for distribution, is highly uncertain. The commitment periods under these agreements vary and include customary termination provisions. Expenses arising from commitments, if any, to fund the development and testing of these products and their promotion are recognized as incurred. Royalties due are recognized when earned and milestone payments are accrued when each milestone has been achieved and payment is probable and can be reasonably estimated.

EyeGate Pharmaceuticals, Inc. ("EyeGate") Licensing Agreement

On February 21, 2017, EyeGate granted a subsidiary of the Business the exclusive worldwide licensing rights to manufacture and sell the EyeGate® II Delivery System and EGP-437 combination product candidate for the treatment of post-operative pain and inflammation in ocular surgery patients. Under the terms of the licensing agreement, EyeGate was responsible for the continued development of this product candidate in the U.S. for the treatment of post-operative pain and inflammation in ocular surgery patients, and all associated costs, and the Business had the right to further develop the product in the field outside of

Table of Contents

the U.S. at its cost. In connection with the licensing agreement, the Business paid an initial license fee of \$4 million during the three months ended March 31, 2017 and was obligated to make future payments of: (i) up to \$34 million upon the achievement of certain development and regulatory milestones, of which \$3 million was paid, (ii) up to \$65 million upon the achievement of certain sales-based milestones and (iii) royalties. Based on early stage of development of the asset, and lack of acquired significant inputs, the Business concluded this was an asset acquisition.

On December 14, 2018, the Business issued a notice voluntarily terminating this licensing agreement dated February 21, 2017 and another license agreement dated July 9, 2015 with EyeGate, such termination was effective March 14, 2019. Following the termination of these agreements on March 14, 2019, the Business relinquished all rights to the EyeGate® II Delivery System and EGP-437 combination product. During 2018, the Business fully impaired the EyeGate® II Delivery System and EGP-437 combination product intangible assets and reduced the carrying value of the contingent consideration liabilities associated with these licensing agreements to zero. All payments due to EyeGate for reimbursement of certain out-of-pocket costs incurred in connection with development work have been provided for in the Business' Combined Financial Statements.

Option to Purchase All Ophthalmology Assets of Allegro Ophthalmics LLC ("Allegro")

On September 21, 2020, the Business announced that it had entered into an agreement to acquire an option to purchase all of the ophthalmology assets of Allegro (the "Option"), a privately held biopharmaceutical company focused on the development of therapies that regulate integrin functions for the treatment of ocular diseases. Among the assets to be acquired if the Option was exercised, is the worldwide rights to risuteganib (Luminate®), Allegro's lead investigational compound in retina, which is believed to simultaneously act on the angiogenic, inflammatory and mitochondrial metabolic pathways implicated in diseases such as intermediate dry AMD. A U.S. Phase 2a study with risuteganib in intermediate dry AMD met its primary endpoint of vision recovery and Phase 3 testing is in the planning stages. The aggregate payments to acquire the Option are \$50 million and include an upfront payment of \$10 million and a second payment of \$40 million should Allegro raise additional funding. During 2020, the Business made and expensed the upfront payment of \$10 million as acquired IPR&D included in Other expense, net. The Option has expired and no further payments will be due.

Assets Held for Sale

During 2019, the Business has identified certain products for disposal as of December 31, 2019. The products and the related assets and liabilities of this disposal group qualify as a business. Revenues associated with this business were \$8 million and \$11 million for the years 2019 and 2018, respectively. The carrying value of the business, including inventories, intangible assets, goodwill and deferred income taxes, was adjusted to its estimated fair value less costs to sell and reclassified as held for sale as of December 31, 2019. Included in Asset impairments in 2019 is a charge of \$4 million associated with these assets held for sale. As a result of changing business dynamics, during 2020, the Business decided not to sell these assets and reclassified \$21 million of held for sale assets as assets held and used at their respective fair values at the date of the decision not to sell. This reclassification did not impact the Combined Statement of Operations for 2020.

5. FAIR VALUE MEASUREMENTS

Fair value measurements are estimated based on valuation techniques and inputs categorized as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Table of Contents

- Level 3 Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using discounted cash flow methodologies, pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents the components and classification of the Business' financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

(in millions)	2020				2019			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Assets:								
Cash equivalents	\$ 9	\$ 1	\$ 8	\$ —	\$ 9	\$ 1	\$ 8	\$ —
Marketable securities	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ 3	\$ —
Liabilities:								
Acquisition-related contingent consideration	\$ 9	\$ —	\$ —	\$ 9	\$ 9	\$ —	\$ —	\$ 9

There were no transfers between Level 1, Level 2 or Level 3 during 2020 and 2019.

Foreign Currency Exchange Contracts

During 2020, BHC, on behalf of the Business, entered into foreign currency exchange contracts, with an aggregate notional amount of \$38 million outstanding as of December 31, 2020. Prior to 2020, the Business had no foreign currency exchange contracts for any period presented.

The fair value of the Business' foreign currency exchange contracts as of December 31, 2020 was not material. Amounts included in Accrued and other current liabilities and in Prepaid expenses and other current assets, within the Combined Balance Sheets, were not material. During 2020, the net change in fair value was a gain of \$3 million. Settlements of the Business' foreign currency exchange contracts are reported as a gain or loss in the Combined Statements of Operations as part of Foreign exchange and other and reported as operating activities in the Combined Statements of Cash Flows. During 2020, the Business reported a realized gain of \$3 million related to settlements of the Business' foreign currency exchange contracts.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following table presents the components and classification of the Business' financial assets and liabilities measured at fair value on a non-recurring basis:

(in millions)	December 31, 2020				December 31, 2019			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Other non-current assets:								
Non-current assets held for sale	\$ —	\$ —	\$ —	\$ —	\$ 21	\$ —	\$ —	\$ 21

Non-current assets held for sale of \$21 million included in the Combined Balance Sheets as of December 31, 2019 were remeasured to estimated fair values less costs to sell. Included in Asset

[Table of Contents](#)

impairments in 2019 is a charge of \$4 million associated with these assets held for sale. The estimated fair values of these assets less costs to sell were determined using a discounted cash flow analysis which utilized Level 3 unobservable inputs. See Note 4, "LICENSING AGREEMENTS AND ASSETS HELD FOR SALE" for additional details regarding these assets held for sale.

6. INVENTORIES

Inventories, net as of December 31, 2020 and 2019 consist of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
Raw materials	\$145	\$156
Work in process	33	36
Finished goods	438	400
	<u>\$616</u>	<u>\$592</u>

Inventory write-offs were \$30 million, \$20 million, and \$25 million for 2020, 2019 and 2018, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

The major components of property, plant and equipment as of December 31, 2020 and 2019 consist of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
Land	\$ 48	\$ 45
Buildings	488	467
Machinery and equipment	1,291	1,194
Other equipment and leasehold improvements	204	207
Construction in progress	396	212
	<u>2,427</u>	<u>2,125</u>
Less accumulated depreciation	<u>(1,263)</u>	<u>(1,128)</u>
	<u>\$ 1,164</u>	<u>\$ 997</u>

Depreciation expense was \$119 million, \$121 million and \$118 million for 2020, 2019 and 2018, respectively.

[Table of Contents](#)**8 INTANGIBLE ASSETS AND GOODWILL****Intangible Assets**

The major components of intangible assets as of December 31, 2020 and 2019 consist of:

(in millions)	Weighted-Average Remaining Useful Lives (Years)	2020			2019		
		Gross Carrying Amount	Accumulated Amortization and Impairments	Net Carrying Amount	Gross Amount	Accumulated Amortization and Impairments	Net Carrying Amount
Finite-lived intangible assets:							
Product brands	4	\$ 2,687	\$ (1,999)	\$ 688	\$ 2,592	\$ (1,690)	\$ 902
Corporate brands	7	12	(4)	8	13	(5)	8
Product rights/patents	3	985	(832)	153	979	(754)	225
Technology and other	3	66	(58)	8	66	(51)	15
Total finite-lived intangible assets		3,750	(2,893)	857	3,650	(2,500)	1,150
Acquired IPR&D not in service	NA	7	—	7	7	—	7
B&L Trademark	NA	1,698	—	1,698	1,698	—	1,698
		<u>\$ 5,455</u>	<u>\$ (2,893)</u>	<u>\$ 2,562</u>	<u>\$ 5,355</u>	<u>\$ (2,500)</u>	<u>\$ 2,855</u>

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment charges associated with these assets are included in Other expense, net in the Combined Statement of Operations. The Business continues to monitor the recoverability of its finite-lived intangible assets and tests the intangible assets for impairment if indicators of impairment are present.

Asset impairments for 2020 of \$1 million included impairments associated with the discontinuance of certain product lines.

Assets impairments for 2019 of \$16 million included impairments of: (i) \$12 million due to decreases in forecasted sales of certain product lines and (ii) \$4 million related to assets being classified as held for sale.

Asset impairments for 2018 of \$52 million included impairments of: (i) \$28 million related to Acquired IPR&D not in service related to the EyeGate® II Delivery System and EGP-437 combination product intangible assets, as more fully discussed in Note 4, "LICENSING AGREEMENTS AND ASSETS HELD FOR SALE," (ii) \$19 million associated with the discontinuance of certain product lines and (iii) \$5 million due to decreases in forecasted sales of certain product lines.

The impairments to assets reclassified as held for sale were measured as the difference of the carrying value of these assets as compared to the estimated fair values of these assets less costs to sell determined using a discounted cash flow analysis which utilized Level 3 unobservable inputs. The other impairments and adjustments to finite-lived intangible assets were measured as the difference of the historical carrying value of these finite-lived assets as compared to the estimated fair value as determined using a discounted cash flow analysis using Level 3 unobservable inputs.

Periodically, the Business' products face the expiration of their patent or regulatory exclusivity. The Business anticipates that product sales for such product would decrease shortly following a loss of exclusivity, due to the possible entry of a generic competitor. Where the Business has the rights, it may elect to launch an authorized generic of such product (either as the Business' own branded generic or through a third-party). This may occur prior to, upon or following generic entry, which may mitigate the anticipated decrease in product sales; however, even with launch of an authorized generic, the decline in product sales of such product could still be significant, and the effect on future revenues could be material. Management continually assesses the useful lives related to the Business' long-lived assets to reflect the most current assumptions.

F-55

[Table of Contents](#)

Estimated amortization expense of finite lived intangible assets for the five years ending December 31 and thereafter are as follows

<i>(in millions)</i>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
Amortization	\$291	\$249	\$181	\$87	\$38	\$ 11	\$857

Goodwill

Prior to 2021, the Business had one operating and reportable segment. The changes in the carrying amounts of goodwill during the years 2020, 2019 and 2018 were as follows:

<i>(in millions)</i>	
Balance, January 1, 2018	\$4,666
Foreign exchange and other	(87)
Balance, December 31, 2018	4,579
Goodwill reclassified to assets held for sale (Note 4)	(10)
Foreign exchange and other	(15)
Balance, December 31, 2019	4,554
Assets held for sale reclassified to goodwill (Note 4)	10
Foreign exchange and other	121
Balance, December 31, 2020	<u>\$4,685</u>

Goodwill is not amortized but is tested for impairment at least annually on October 1st at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The Business performs its annual impairment test by first assessing qualitative factors. Where the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative fair value test is performed for that reporting unit (Step 1).

The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants. The Business estimates the fair values of a reporting unit using a discounted cash flow model which utilizes Level 3 unobservable inputs. The discounted cash flow model relies on assumptions regarding revenue growth rates, gross profit, projected working capital needs, selling, general and administrative expenses, research and development expenses, capital expenditures, income tax rates, discount rates and terminal growth rates. To estimate fair value, the Business discounts the forecasted cash flows of each reporting unit. The discount rate the Business uses represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in its reporting unit operations and the rate of return a market participant would expect to earn. The quantitative fair value test is performed utilizing long-term growth rates and discount rates applied to the estimated cash flows in estimation of fair value. To estimate cash flows beyond the final year of its model, the Business estimates a terminal value by applying an in perpetuity growth assumption and discount factor to determine the reporting unit's terminal value.

To forecast a reporting unit's cash flows the Business takes into consideration economic conditions and trends, estimated future operating results, management's and a market participant's view of growth rates and product lives, and anticipates future economic conditions. Revenue growth rates inherent in these forecasts are based on input from internal and external market research that compare factors such as growth in global economies, recent industry trends and product life-cycles. Macroeconomic factors such as changes in economies, changes in the competitive landscape including the unexpected loss of exclusivity to the Business' product portfolio, changes in government legislation, product life-cycles, industry consolidations and other changes beyond the Business' control could have a positive or negative impact on achieving its targets. Accordingly, if market conditions deteriorate, or if the Business is unable to execute its strategies, it may be necessary to record impairment charges in the future.

F-56

Table of Contents

January 1, 2018 Goodwill Impairment Test

The Business conducted quantitative fair value testing of goodwill for impairment as of January 1, 2018, the earliest available reporting date, utilizing a long-term growth rate of 3% and discount rates of 7.5% and 11.0%, in estimation of the fair value of its reporting units. Based on the quantitative fair value tests, the fair value of each reporting unit exceeded its carrying value by more than 35% and as a result there was no impairment to goodwill.

Annual Goodwill Impairment Tests

The Business conducted its annual goodwill impairment tests as of October 1, 2020, 2019 and 2018 by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In management's assessment, no qualitative factors were identified which suggested that it was more likely than not that the carrying amount of a reporting unit exceeded its fair value, and therefore there was no impairment to the goodwill of any reporting unit for the years 2020, 2019 and 2018.

As more fully discussed in Note 2, "SIGNIFICANT ACCOUNTING POLICIES"—*Impacts of COVID-19 Pandemic*, the Business has assessed the potential impact that the COVID-19 pandemic is likely to have on its forecasted cash flows. In performing its assessment, the Business considered the possible effects and outcomes of the COVID-19 pandemic on, among other things, its supply chain, customers and distributors, employee base, product sustainability, research and development activities, product pipeline and consumer demand and related rebates and discounts and has made adjustments, although not considered to be material, to its long-term forecasts as of October 1, 2020 (the date goodwill was last tested for impairment) for these and other matters. After completing this assessment, although not completely insulated from the negative effects of the COVID-19 pandemic, the Business believes that its long-term forecasted cash flows, as adjusted for the possible outcome of the COVID-19 pandemic and other matters, do not indicate that the fair value of any reporting unit may be below its carrying value.

The Business' latest forecasts of cash flows gives consideration to the nature and timing of the expected revenue losses disclosed above. The changes in the amounts and timing of these revenues as presented in the latest forecasts include a range of potential outcomes and, are not substantial enough to materially adversely affect the recoverability of any of the associated reporting units' assets and are not material enough to indicate that the fair values of those reporting units might be below their respective carrying values.

If market conditions deteriorate, or if the Business is unable to execute its strategies, it may be necessary to record impairment charges in the future.

During the second quarter of 2021, the Business realigned and began managing its operations differently, and as a result the Business will reallocate its goodwill to align with the new operating segments during the second quarter of 2021. See Note 20, "SEGMENT INFORMATION" for additional information.

There were no goodwill impairment charges through December 31, 2020.

9. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities as of December 31, 2020 and 2019 consist of:

<i>(in millions)</i>	2020	2019
Employee compensation and benefit costs	\$168	\$146
Product rebates	122	138
Discounts and allowances	86	77
Product returns	77	73
Income taxes payable	1	38
Other	277	301
	\$731	\$773

F-57

[Table of Contents](#)

10 PENSION AND POSTRETIREMENT EMPLOYEE BENEFIT PLANS

Single Employer Plans

The Business has defined benefit plans and a participatory defined benefit postretirement medical and life insurance plan, which covers a closed grandfathered group of legacy U.S. employees and employees in certain other countries. The U.S. defined benefit accruals were frozen as of December 31, 2004 and benefits that were earned up to December 31, 2004 were preserved. Participants continue to earn interest credits on their cash balance at an interest crediting rate that is equal to the greater of: i) the average annual yield on 10-year Treasury bonds in effect for the November preceding the plan year or ii) 4.50%. The most significant non-U.S. plans are two defined benefit plans in Ireland. In 2011, both Ireland defined benefit plans were closed to future service benefit accruals; however, additional accruals related to annual salary increases continued. In December 2014, one of the Ireland defined benefit plans was amended effective August 2014 to eliminate future benefit accruals related to salary increases. All of the pension benefits accrued through the plan amendment date were preserved. As a result of the plan amendment, there are no active plan participants accruing benefits under the amended Ireland defined benefit plan. The U.S. postretirement benefit plan was amended effective January 1, 2005 to eliminate employer contributions after age 65 for participants who did not meet the minimum requirements of age and service on that date. The employer contributions for medical and prescription drug benefits for participants retiring after March 1, 1989 were frozen effective January 1, 2010. Effective January 1, 2014, the Business no longer offers medical and life insurance coverage to new retirees.

In addition to the legacy benefit plans, outside of the U.S., a limited group of the Business' employees are covered by defined benefit pension plans.

The Business uses December 31 as the year end measurement date for all of its defined benefit pension plans and the postretirement benefit plan

Accounting for Pension Benefit Plans and Postretirement Benefit Plan

The Business recognizes in its Combined Balance Sheets an asset or liability equal to the over- or under-funded benefit obligation of each defined benefit pension plan and postretirement benefit plan. Actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost are recognized, net of tax, as a component of other comprehensive income (loss).

The amounts included in Accumulated other comprehensive loss as of December 31, 2020, and 2019 were as follows:

	Pension Benefit Plans				U.S. Postretirement Benefit Plan	
	U.S. Plan		Non-U.S. Plans			
	2020	2019	2020	2019	2020	2019
(in millions)						
Unrecognized actuarial losses	\$ (21)	\$ (20)	\$ (76)	\$ (64)	\$ (3)	\$ (2)
Unrecognized prior service credits	\$—	\$—	\$ 27	\$ 26	\$ 11	\$ 14

F-58

[Table of Contents](#)*Net Periodic (Benefit) Cost*

The following table provides the components of net periodic (benefit) cost for the Business' defined benefit pension plans and postretirement benefit plan in 2020, 2019 and 2018:

(in millions)	Pension Benefit Plans						U.S. Postretirement Benefit Plan		
	U.S. Plan			Non-U.S. Plans					
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Service cost	\$ 1	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ —	\$ —	\$ —
Interest cost	6	8	7	3	4	5	1	1	1
Expected return on plan assets	(13)	(13)	(15)	(5)	(5)	(5)	—	—	—
Amortization of net loss	—	—	—	1	1	1	—	—	—
Amortization of prior service credit	—	—	—	(1)	(1)	(1)	(3)	(2)	(2)
Net periodic (benefit) cost	<u>\$ (6)</u>	<u>\$ (3)</u>	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

Benefit Obligation, Change in Plan Assets and Funded Status

The table below presents components of the change in projected benefit obligation, change in plan assets and funded status for 2020 and 2019:

(in millions)	Pension Benefit Plans				U.S. Postretirement Benefit Plan	
	U.S. Plan		Non-U.S. Plans			
	2020	2019	2020	2019	2020	2019
Change in Projected Benefit Obligation						
Projected benefit obligation, beginning of year	\$227	\$214	\$ 246	\$ 225	\$ 41	\$ 41
Service cost	1	2	2	2	—	—
Interest cost	6	8	3	4	1	1
Employee contributions	—	—	—	—	—	1
Settlements	—	—	(2)	—	—	—
Benefits paid	(15)	(15)	(4)	(8)	(4)	(4)
Actuarial losses	17	18	13	28	1	2
Currency translation adjustments	—	—	22	(5)	—	—
Projected benefit obligation, end of year	<u>236</u>	<u>227</u>	<u>280</u>	<u>246</u>	<u>39</u>	<u>41</u>
Change in Plan Assets						
Fair value of plan assets, beginning of year	216	187	157	143	—	—
Actual return on plan assets	29	42	11	17	—	—
Employee contributions	—	—	—	—	—	1
Company contributions	1	2	8	8	4	3
Settlements	—	—	(2)	—	—	—
Benefits paid	(15)	(15)	(4)	(8)	(4)	(4)
Currency translation adjustments	—	—	15	(3)	—	—
Fair value of plan assets, end of year	<u>231</u>	<u>216</u>	<u>185</u>	<u>157</u>	<u>—</u>	<u>—</u>
Funded Status at end of year	<u>\$ (5)</u>	<u>\$ (11)</u>	<u>\$ (95)</u>	<u>\$ (89)</u>	<u>\$ (39)</u>	<u>\$ (41)</u>
Recognized as:						
Accrued and other current liabilities	\$ —	\$ —	\$ (2)	\$ (1)	\$ (4)	\$ (5)
Other non-current liabilities	\$ (5)	\$ (11)	\$ (93)	\$ (88)	\$ (35)	\$ (36)

F-59

Table of Contents

A number of the Business' pension benefit plans were underfunded as of December 31, 2020 and 2019, having accumulated benefit obligations exceeding the fair value of plan assets. Information for the underfunded pension benefit plans is as follows:

(in millions)	U.S. Plan		Non-U.S. Plans	
	2020	2019	2020	2019
Projected benefit obligation	\$236	\$227	\$ 280	\$ 246
Accumulated benefit obligation	236	227	276	242
Fair value of plan assets	231	216	185	157

The Business' policy for funding its pension benefit plans is to make contributions that meet or exceed the minimum statutory funding requirements. These contributions are determined based upon recommendations made by the actuary under accepted actuarial principles. In 2021, the Business expects to contribute \$0, \$9 million and \$4 million to the U.S. pension benefit plan, the non-U.S. pension benefit plans and the U.S. postretirement benefit plan, respectively. The Business plans to use postretirement benefit plan assets and cash on hand, as necessary, to fund the U.S. postretirement benefit plan benefit payments in 2021.

Estimated Future Benefit Payments

Future benefit payments over the next 10 years for the pension benefit plans and the postretirement benefit plan, which reflect expected future service, as appropriate, are expected to be paid as follows:

(in millions)	Pension Benefit Plans		U.S. Postretirement Benefit Plan
	U.S. Plan	Non-U.S. Plans	
2021	\$ 14	\$ 5	\$ 4
2022	19	5	4
2023	17	5	4
2024	17	5	3
2025	17	6	3
2026-2030	75	33	12

Assumptions

The weighted-average assumptions used to determine net periodic benefit costs and benefit obligations for 2020, 2019 and 2018 were as follows:

	Pension Benefit Plans			U.S. Postretirement Benefit Plan		
	2020	2019	2018	2020	2019	2018
For Determining Net Periodic (Benefit) Cost						
U.S. Plans:						
Discount rate	3.16%	4.25%	3.56%	3.04%	4.16%	3.47%
Expected rate of return on plan assets	6.25%	7.25%	7.50%	—	—	—
Rate of compensation increase	—	—	—	—	—	—
Interest crediting rate	5.00%	5.00%	5.00%			
Non-U.S. Plans:						
Discount rate	1.48%	2.19%	2.13%			
Expected rate of return on plan assets	2.97%	3.45%	3.70%			
Rate of compensation increase	2.99%	2.76%	2.77%			

F-60

[Table of Contents](#)

	Pension Benefit Plans		U.S. Postretirement Benefit Plan	
	2020	2019	2020	2019
For Determining Benefit Obligation				
U.S. Plans:				
Discount rate	2.25%	3.16%	2.09%	3.04%
Rate of compensation increase	—	—	—	—
Interest crediting rate	4.75%	5.00%		
Non-U.S. Plans:				
Discount rate	1.19%	1.47%		
Rate of compensation increase	2.50%	2.96%		

The expected long-term rate of return on plan assets was developed based on a capital markets model that uses expected asset class returns, variance and correlation assumptions. The expected asset class returns were developed starting with current Treasury (for the U.S. pension plan) or Eurozone (for the Ireland pension plans) government yields and then adding corporate bond spreads and equity risk premiums to develop the return expectations for each asset class. The expected asset class returns are forward-looking. The variance and correlation assumptions are also forward looking. They take into account historical relationships, but are adjusted to reflect expected capital market trends.

The discount rate used to determine benefit obligations represents the current rate at which the benefit plan liabilities could be effectively settled considering the timing of expected payments for plan participants.

The 2021 expected rate of return for the U.S. pension benefit plan will be 5.00%. The 2021 expected rate of return for the Ireland pension benefit plans will be 2.75%.

Pension Benefit Plans Assets

Pension benefit plan assets are invested in several asset categories. The following presents the actual asset allocation as of December 31, 2020 and 2019:

	2020	2019
U.S. Plan		
Cash and cash equivalents	1%	1%
Equity securities	39%	55%
Fixed income securities	60%	44%
Non-U.S. Plans		
Cash and cash equivalents	2%	4%
Equity securities	28%	25%
Fixed income securities	59%	66%
Other	11%	5%

The investment strategy underlying pension plan asset allocation is to manage the assets of the plan to provide for the non-current liabilities while maintaining sufficient liquidity to pay current benefits. Pension plan assets are diversified to protect against large investment losses and to reduce the probability of excessive performance volatility. Diversification of assets is achieved by allocating funds to various asset classes and investment styles within asset classes, and retaining investment management firm(s) with complementary investment philosophies, styles and approaches.

The Business' pension plan assets are managed by outside investment managers using a total return investment approach, whereby a mix of equity and debt securities investments are used to maximize the long-term rate of return on plan assets. A significant portion of the assets of the U.S. and Ireland pension plans have been invested in equity securities, as equity portfolios have historically provided higher returns than debt and other asset classes over extended time horizons. Correspondingly, equity investments also

Table of Contents

entail greater risks than other investments. Equity risks are balanced by investing a significant portion of plan assets in broadly diversified fixed income securities.

Fair Value of Plan Assets

The Business measured the fair value of plan assets based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5, "FAIR VALUE MEASUREMENTS" for details on the Business' fair value measurements based on a three-tier hierarchy.

The table below presents total plan assets by investment category as of December 31, 2020 and 2019 and the classification of each investment category within the fair value hierarchy with respect to the inputs used to measure fair value. There were no Level 3 plan assets for any period presented and there were no transfers between Level 1 and Level 2 during 2020 and 2019.

	Pension Benefit Plans—U.S. Plans					
	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
(in millions)						
Cash and cash equivalents	\$ 2	\$ —	\$ 2	\$ 1	\$ —	\$ 1
Commingled funds:						
Equity securities:						
U.S. broad market	—	48	48	—	64	64
Emerging markets	—	9	9	—	15	15
Worldwide developed markets	—	20	20	—	26	26
Other assets	—	14	14	—	15	15
Fixed income securities:						
Investment grade	—	138	138	—	95	95
	<u>\$ 2</u>	<u>\$ 229</u>	<u>\$231</u>	<u>\$ 1</u>	<u>\$ 215</u>	<u>\$216</u>

	Pension Benefit Plans—Non-U.S. Plans					
	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
(in millions)						
Cash equivalents	\$ —	\$ 3	\$ 3	\$ —	\$ 7	\$ 7
Commingled funds:						
Equity securities:						
Emerging markets	—	1	1	—	2	2
Developed markets	—	51	51	—	38	38
Fixed income securities:						
Investment grade	—	6	6	—	9	9
Global high yield	—	1	1	—	3	3
Government bond funds	1	102	103	1	90	91
Other assets	—	20	20	—	7	7
	<u>\$ 1</u>	<u>\$ 184</u>	<u>\$185</u>	<u>\$ 1</u>	<u>\$ 156</u>	<u>\$157</u>

Cash equivalents consisted primarily of term deposits and money market instruments. The fair value of the term deposits approximates their carrying amounts due to their short term maturities. The money market instruments also have short maturities and are valued using a market approach based on the quoted market prices of identical instruments.

Commingled funds are not publicly traded. The underlying assets in these funds are publicly traded on the exchanges and have readily available price quotes. The Ireland pension plans held approximately 95% of the

Table of Contents

non U S commingled funds in 2020 and 2019 The commingled funds held by the U S and Ireland pension plans are primarily invested in index funds.

The underlying assets in the fixed income funds are generally valued using the net asset value per fund share, which is derived using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported trades.

Defined Contribution Plans

BHC sponsors defined contribution plans in the U.S., Ireland and certain other countries, which the Business participates in. Under these plans, employees are allowed to contribute a portion of their salaries to the plans, and the Business matches a portion of the employee contributions. BHC, on behalf of the Business, contributed \$36 million, \$34 million and \$30 million to these plans during the years 2020, 2019 and 2018, respectively.

Multiemployer Plans

BHC offers certain of its defined benefit plans, a participatory defined benefit postretirement medical and life insurance plans and defined contribution plan to be shared amongst its businesses, including Bausch + Lomb, and the participation of its employees and retirees in these plans is reflected as though Bausch + Lomb participated in a multiemployer plan with BHC. A proportionate share of the cost associated with the multiemployer plan is reflected in the Combined Financial Statements, while any assets and liabilities associated with the multiemployer plan are retained by BHC and recorded on BHC's balance sheet. Bausch + Lomb's proportionate share of these costs were not material for any period presented.

11. LEASES

Right-of-use assets and lease liabilities associated with the Business' operating leases are included in the Combined Balance Sheet as of December 31, 2020 and 2019 as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
Right-of-use assets included in:		
Other non-current assets	<u>\$100</u>	<u>\$93</u>
Lease liabilities included in:		
Accrued and other current liabilities	\$ 18	\$ 16
Other non-current liabilities	83	77
Total lease liabilities	<u>\$101</u>	<u>\$93</u>

As of December 31, 2020 and 2019, the Business' finance leases were not material and for 2020 and 2019 sub-lease income and short-term lease expense were not material. Lease expense for 2020 and 2019 includes:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
Operating lease costs	\$ 36	\$ 36
Variable operating lease costs	\$ 5	\$ 7

F-63

[Table of Contents](#)

Other information related to operating leases for 2020 and 2019 is as follows:

<i>(dollars in millions)</i>	<u>2020</u>	<u>2019</u>
Cash paid from operating cash flows for amounts included in the measurement of lease liabilities	\$ 24	\$ 25
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 21	\$ 18
Weighted-average remaining lease term	8.9 years	9.9 years
Weighted-average discount rate	6.2%	6.3%

Right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2019 of \$18 million in the table above does not include \$96 million of right-of-use assets recognized upon adoption of the new standard for accounting for leases on January 1, 2019. See Note 2, "SIGNIFICANT ACCOUNTING POLICIES" for further detail regarding the impact of adoption.

As of December 31, 2020, future payments under noncancelable operating leases for each of the five succeeding years ending December 31 and thereafter are as follows:

<i>(in millions)</i>	
2021	\$ 24
2022	19
2023	15
2024	13
2025	11
Thereafter	53
Total	135
Less: Imputed interest	34
Present value of remaining lease payments	101
Less: Current portion	18
Non-current portion	<u>\$ 83</u>

Upon adopting the new lease guidance, the Business elected the modified retrospective approach without revising prior periods. Rental expense related to operating lease agreements was \$49 million for 2018

12. SHARE-BASED COMPENSATION

The Business participates in BHC's long-term incentive program. Accordingly, the following disclosures represent share-based compensation expense attributable to Bausch + Lomb based on the awards and terms previously granted under BHC's share-based compensation plans. Share-based compensation expense attributable to Bausch + Lomb is derived from: (i) the specific identification of Bausch + Lomb employees, and (ii) an allocation of charges from BHC, related to BHC employees providing corporate services to Bausch + Lomb. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that the Business would have experienced as an independent company for the periods presented.

In May 2014, BHC shareholders approved BHC's 2014 Omnibus Incentive Plan (the "2014 Plan") which replaced the BHC's 2011 Omnibus Incentive Plan (the "2011 Plan") for future equity awards granted by BHC. BHC transferred the common shares available under the 2011 Plan to the 2014 Plan. The maximum number of common shares that may be issued to participants under the 2014 Plan is equal to 18,000,000 common shares, plus the number of common shares under the 2011 Plan reserved but unissued and not underlying outstanding awards and the number of common shares becoming available for reuse after awards are terminated, forfeited, cancelled, exchanged or surrendered under the 2011 Plan and the BHC's 2007 Equity Compensation Plan. BHC registered 20,000,000 common shares for issuance under the 2014 Plan.

Table of Contents

Effective April 30, 2018, BHC amended and restated its 2014 Plan (the "Amended and Restated 2014 Plan"). The Amended and Restated 2014 Plan includes the following amendments: (i) the number of common shares authorized for issuance under the Amended and Restated 2014 Plan has been increased by an additional 11,900,000 common shares, as approved by the requisite number of BHC shareholders at BHC's annual general meeting held on April 30, 2018, (ii) introduction of a \$750,000 aggregate fair market value limit on awards (in either equity, cash or other compensation) that can be granted in any calendar year to a participant who is a non-employee director, (iii) housekeeping changes to address recent changes to Section 162(m) of the Internal Revenue Code, (iv) awards are expressly subject to the BHC's clawback policy and (v) awards not assumed or substituted in connection with a Change of Control (as defined in the Amended and Restated 2014 Plan) will only vest on a pro rata basis.

Effective April 28, 2020, BHC further amended and restated the Amended and Restated 2014 Plan (the "Further Amended and Restated 2014 Plan"). The Further Amended and Restated 2014 Plan includes the following amendments: (i) the number of common shares authorized for issuance under the Further Amended and Restated 2014 Plan has been increased by an additional 13,500,000 common shares, as approved by the requisite number of BHC shareholders at BHC's annual general meeting held on April 28, 2020, (ii) the exercise price of stock options and share appreciation rights ("SARs") will be based on the closing price of the underlying common shares on the date such stock options or SARs are granted (rather than on the last preceding trading date), (iii) additional provisions clarifying that: (a) stock options and SARs will not be eligible for the payment of dividend or dividend equivalents and (b) the Talent and Compensation Committee of the Board of Directors of BHC cannot, without BHC shareholder approval, seek to effect any repricing of any previously granted "underwater" stock option or SAR and (iv) other housekeeping and/or clerical changes.

BHC has a long term incentive program with the objective of realigning the share based awards granted to senior management with BHC's focus on improving its tangible capital usage and allocation while maintaining focus on improving BHC total shareholder return over the long-term. The share-based awards granted under this long-term incentive program consist of time-based stock options, time-based RSUs and performance-based RSUs. Performance-based RSUs are comprised of: (i) awards that vest upon achievement of certain share price appreciation conditions that are based on BHC TSR and (ii) awards that vest upon attainment of certain performance targets that are based on the BHC's ROTC.

Approximately 16,902,000 of BHC's common shares were available for future grants as of December 31, 2020. BHC uses reserved and unissued common shares to satisfy its obligation under its share-based compensation plans.

The components and classification of share-based compensation expense related to stock options and RSUs directly attributable to those employees specifically identified as Bausch + Lomb employees for the years 2020, 2019 and 2018 were as follows

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Stock options	\$ 3	\$ 3	\$ 3
RSUs	27	24	18
Share-based compensation expense	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 21</u>
Research and development expenses	\$ 5	\$ 6	\$ 5
Selling, general and administrative expenses	25	21	16
Share-based compensation expense	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 21</u>

In addition to share-based compensation expense attributable to employees that are specific to the Bausch + Lomb business, share-based compensation expense also includes \$20 million, \$23 million and \$22 million for the years 2020, 2019 and 2018 respectively, of allocated charges from BHC, based on revenues, related to BHC employees providing corporate services to Bausch + Lomb.

Table of Contents

Stock Options

Stock options granted under the 2011 Plan and the Amended and Restated 2014 Plan generally expire on the fifth or tenth anniversary of the grant date. The exercise price of any stock option granted under the 2011 Plan and the Amended and Restated 2014 Plan will not be less than the closing price per common share preceding the date of grant. Stock options generally vest 33% and 25% each year over a three-year and four-year period, respectively, on the anniversary of the date of grant.

The fair values of all stock options granted for the years 2020, 2019 and 2018 were estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Expected stock option life (years)	3.0	3.0	3.0
Expected volatility	38.6%	46.5%	54.1%
Risk-free interest rate	1.2%	2.5%	2.7%
Expected dividend yield	— %	— %	— %

The expected stock option life was determined based on historical exercise and forfeiture patterns associated with historical BHC stock option grants. The expected volatility was determined based on implied volatility in the market traded options of the BHC's common shares. The risk-free interest rate was determined based on the rate at the time of grant for zero-coupon U.S. government bonds with maturity dates equal to the expected life of the stock option. The expected dividend yield was determined based on the stock option's exercise price and expected BHC annual dividend rate at the time of grant.

The Black-Scholes option-pricing model used by BHC to calculate stock option values was developed to estimate the fair value of freely tradable, fully transferable stock options without vesting restrictions, which significantly differ from BHC's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and expected time until exercise.

The weighted-average fair values of stock options granted to Bausch + Lomb employees in 2020, 2019 and 2018 were \$6.60, \$8.47 and \$5.95, respectively. The total intrinsic values of, and proceeds received from, stock options exercised in 2020, 2019 and 2018, by employees specifically identified as Bausch + Lomb employees, were not material.

As of December 31, 2020, the total remaining unrecognized compensation expense related to non-vested stock options of employees specifically identified as Bausch + Lomb employees amounted to \$2 million, which will be amortized over the weighted-average remaining requisite service period of approximately 1.5 years. The total fair value of stock options vested in 2020, 2019 and 2018 were \$2 million, \$2 million and \$3 million, respectively.

RSUs

RSUs generally vest on the first or third anniversary date from the date of grant or 33% a year over a three-year period. Pursuant to the applicable unit agreement, certain RSUs may be subject to the attainment of any applicable performance goals specified by the Board of Directors. If the vesting of the RSUs is conditional upon the attainment of performance goals, any RSUs that do not vest as a result of a determination that the prescribed performance goals failed to be attained will be forfeited immediately upon such determination. RSUs are credited with dividend equivalents, in the form of additional RSUs, when dividends are paid on the BHC's common shares. Such additional RSUs will have the same vesting dates and will vest under the same terms as the RSUs in respect of which such additional RSUs are credited.

To the extent provided for in a RSU agreement, BHC may, in lieu of all or a portion of the common shares which would otherwise be provided to a holder, elect to pay a cash amount equivalent to the market price of the BHC's common shares on the vesting date for each vested RSU. The amount of cash payment will be determined based on the average market price of BHC's common shares on the vesting date. BHC's current intent is to settle vested RSUs through the issuance of common shares.

Table of Contents

Time-Based RSUs

Each vested time-based RSU represents the right of a holder to receive one of BHC's common shares. The fair value of each RSU granted is estimated based on the trading price of BHC's common shares on the date of grant.

As of December 31, 2020, the total remaining unrecognized compensation expense related to non-vested time-based RSUs of those employees specifically identified as Bausch + Lomb employees amounted to \$20 million, which will be amortized over the weighted-average remaining requisite service period of approximately 1.5 years. The total fair value of time-based RSUs vested in 2020, 2019 and 2018 were \$19 million, \$11 million and \$8 million, respectively.

Performance-Based RSUs

Each vested performance-based RSU represents the right of a holder to receive a number of BHC's common shares up to a specified maximum. Performance-based RSUs vest upon achievement of certain BHC share price appreciation conditions or attainment of certain BHC performance targets. If BHC's performance is below a specified performance level, no common shares will be paid.

The fair value of each TSR performance-based RSU granted during 2020, 2019 and 2018 was estimated using a Monte Carlo Simulation model, which utilizes multiple input variables to estimate the probability that the performance condition will be achieved. The fair value of the ROTC performance-based RSUs is estimated based on the trading price of BHC's common shares on the date of grant. Expense recognized for the ROTC performance-based RSUs in each reporting period reflects BHC's latest estimate of the number of ROTC performance-based RSUs that are expected to vest. If the ROTC performance-based RSUs do not ultimately vest due to the ROTC targets not being met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

The fair values of TSR performance-based RSUs granted during 2020, 2019 and 2018 were estimated with the following assumptions:

	2020	2019	2018
Contractual term (years)	3.0	3.0	3.0
Expected volatility	38.6%	46.5%	54.2%
Risk-free interest rate	1.2%	2.5%	2.7%

The expected volatility was determined based on implied volatility in the market traded options of BHC's common shares. The risk-free interest rate was determined based on the rate at the time of grant for zero-coupon U.S. government bonds with maturity dates equal to the contractual term of the performance-based RSUs.

During 2020, approximately 143,000 performance-based RSUs, consisting of approximately 64,000 units of TSR performance-based RSUs with an average grant date fair value of \$26.13 per RSU and approximately 80,000 units of ROTC performance-based RSUs with a weighted-average grant date fair value of \$27.17 per RSU were granted to employees specifically identified as Bausch + Lomb employees.

As of December 31, 2020, the total remaining unrecognized compensation expense related to non-vested performance-based RSUs of employees specifically identified as Bausch + Lomb employees amounted to \$4 million, which will be amortized over the weighted-average remaining requisite service period of approximately 1.4 years. A maximum of approximately 525,000 common shares could be issued upon vesting of the performance-based RSUs outstanding as of December 31, 2020.

[Table of Contents](#)

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss as of December 31, 2020 and 2019 consists of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
Foreign currency translation adjustment	<u>\$(835)</u>	<u>\$(1,003)</u>
Pension adjustment, net of tax	<u>(54)</u>	<u>(43)</u>
	<u><u>\$(889)</u></u>	<u><u>\$(1,046)</u></u>

Income taxes are not provided for foreign currency translation adjustments arising on the translation of the Business' operations having a functional currency other than the U.S. dollar, except to the extent of translation adjustments related to the Business' retained earnings for foreign jurisdictions in which the Business is not considered to be permanently reinvested.

14. RESEARCH AND DEVELOPMENT

Included in Research and development are costs related to product development and quality assurance programs. Quality assurance are the costs incurred to meet evolving customer and regulatory standards. Research and development costs for the years 2020, 2019 and 2018 consists of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Product related research and development	<u>\$236</u>	<u>\$234</u>	<u>\$196</u>
Quality assurance	<u>17</u>	<u>24</u>	<u>25</u>
Research and development	<u><u>\$253</u></u>	<u><u>\$258</u></u>	<u><u>\$221</u></u>

15. OTHER EXPENSE, NET

Other expense, net for the years 2020, 2019 and 2018 consists of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Asset impairments	<u>\$ 1</u>	<u>\$ 16</u>	<u>\$ 52</u>
Restructuring and integration costs	<u>2</u>	<u>8</u>	<u>3</u>
Acquisition-related contingent consideration	<u>—</u>	<u>—</u>	<u>(29)</u>
Net gain on sales of assets	<u>—</u>	<u>—</u>	<u>(13)</u>
Litigation and other matters	<u>6</u>	<u>16</u>	<u>(2)</u>
Acquired in-process research and development costs	<u>28</u>	<u>31</u>	<u>—</u>
Other, net	<u>1</u>	<u>(4)</u>	<u>—</u>
Other expense, net	<u><u>\$ 38</u></u>	<u><u>\$ 67</u></u>	<u><u>\$ 11</u></u>

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable. Asset impairments are discussed in Note 8, "INTANGIBLE ASSETS AND GOODWILL."

The Business evaluates opportunities to improve its operating results and implements cost savings programs to streamline its operations and eliminate redundant processes and expenses. Restructuring and integration costs are expenses associated with the implementation of these cost savings programs include expenses associated with: (i) reducing headcount, (ii) eliminating real estate costs associated with unused or under-utilized facilities and (iii) other cost reduction initiatives.

In 2018, Acquisition-related contingent consideration of \$29 million reflects reduction of the estimated future milestone payments due over time, in accordance with certain acquisition agreements.

[Table of Contents](#)

Litigation and other matters includes net charges related to litigation matters. These matters and other significant matters are discussed in further detail in Note 18, "LEGAL PROCEEDINGS."

In 2020 and 2019, Acquired in-process research and development costs of \$28 million and \$31 million, primarily consist of costs associated with the upfront payments to enter into certain exclusive licensing agreements.

16. INCOME TAXES

The components of Income before (provision for) benefit from income taxes for 2020, 2019 and 2018 consist of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Domestic	\$387	\$ 66	\$ (62)
Foreign	(97)	333	479
	<u>\$290</u>	<u>\$399</u>	<u>\$417</u>

The components of (Provision for) benefit from income taxes for 2020, 2019 and 2018 consist of:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current:			
Domestic	\$(122)	\$ (13)	\$ —
Foreign	(33)	(116)	(135)
	<u>(155)</u>	<u>(129)</u>	<u>(135)</u>
Deferred:			
Domestic	(582)	(7)	610
Foreign	430	40	(173)
	<u>(152)</u>	<u>33</u>	<u>437</u>
	<u>\$(307)</u>	<u>\$ (96)</u>	<u>\$ 302</u>

The (Provision for) benefit from income taxes differs from the expected amount calculated by applying the Business' Canadian statutory rate of 26.9% to Income before (provision for) benefit from income taxes for 2020, 2019 and 2018 as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Income before (provision for) benefit from income taxes	<u>\$ 290</u>	<u>\$ 399</u>	<u>\$ 417</u>
(Provision for) benefit from income taxes			
Expected provision for income taxes at Canadian statutory rate	\$ (78)	\$(108)	\$(112)
Adjustments to tax attributes	(2)	4	(7)
Change in valuation allowance related to foreign tax credits and NOLs	68	(11)	(4)
Change in uncertain tax positions	38	—	(12)
Withholding tax	1	(13)	(4)
Return to provision	18	(16)	(7)
Foreign tax rate differences	(63)	44	71
Tax (provision) benefit on intra-entity transfers	(284)	(7)	381
Other	(5)	11	(4)
	<u>\$(307)</u>	<u>\$ (96)</u>	<u>\$ 302</u>

The tax (provision) benefit on intra-entity transfers is related to the deferred tax effects of transfers of certain assets among the Business' subsidiaries.

Table of Contents

Deferred tax assets and liabilities as of December 31, 2020 and 2019 consist of:

<i>(in millions)</i>	2020	2019
Deferred tax assets:		
Tax loss carryforwards	\$ 579	\$ 424
Intangible assets	362	703
Provisions	137	133
Research and development tax credits	5	4
Share-based compensation	9	11
Other	15	37
Total deferred tax assets	1,107	1,312
Less valuation allowance	(15)	(83)
Net deferred tax assets	1,092	1,229
Deferred tax liabilities:		
Plant, equipment and technology	71	59
Outside basis differences	12	16
Total deferred tax liabilities	83	75
Net deferred tax asset	\$1,009	\$1,154

The realization of deferred tax assets is dependent on the Business generating sufficient domestic and foreign taxable income in the years that the temporary differences become deductible. A valuation allowance has been provided for the portion of the deferred tax assets that the Business determined is more likely than not to remain unrealized based on estimated future taxable income and tax planning strategies. The valuation allowance decreased by \$68 million during 2020 primarily due to an intra-group restructuring whereby the Business' German subsidiary joined its German consolidated group thereby losses became available for use.

As of December 31, 2020 the Business had accumulated taxable losses available to offset future years' federal and provincial taxable income in Canada of approximately \$2 million and expire from 2038 to 2040. As of December 31, 2020 the Business had accumulated taxable losses available to offset future years' federal taxable income in the U.S. of approximately \$81 million and expire from 2021 to 2037. These taxable losses are subject to annual loss limitations as a result of previous ownership changes. As of December 31, 2020 the Business had accumulated taxable losses available to offset future years taxable income in Ireland of approximately \$3,734 million.

The Business provides for withholding tax on the unremitted earnings of its direct foreign affiliates except for its direct U.S. subsidiaries. The Business continues to assert that the unremitted earnings of its U.S. subsidiaries will be permanently reinvested and not repatriated. As of December 31, 2020, the Business estimates a tax liability of \$15 million would be attributable to the permanently reinvested U.S. earnings if recognized.

As of December 31, 2020, unrecognized tax benefits (including interest and penalties) were \$62 million, of which \$62 million would affect the effective income tax rate. In 2020, the remaining unrecognized tax benefits would not impact the effective tax rate as the tax positions are offset against existing tax attributes or are timing in nature. The Business recognized a net decrease of \$15 million during 2020, in the unrecognized tax benefits related to tax positions taken in the prior years.

The Business provides for interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2020 and 2019, accrued interest and penalties related to unrecognized tax benefits were approximately \$7 million and \$8 million, respectively. In 2020, 2019 and 2018, the Business recognized a net decrease of approximately \$2 million and a net increase of approximately \$1 million and \$1 million of interest and penalties, respectively.

F-70

Table of Contents

The Business and one or more of its subsidiaries file federal income tax returns in Canada, the U.S., and other foreign jurisdictions, as well as various provinces and states in Canada and the U.S. The Business and its subsidiaries have open tax years, primarily from 2013 to 2020, with significant taxing jurisdictions listed in the table below, respectively, including Canada and the U.S. These open years contain certain matters that could be subject to differing interpretations of applicable tax laws and regulations and tax treaties, as they relate to the amount, timing, or inclusion of revenues and expenses, or the sustainability of income tax positions of the Business and its subsidiaries. Certain of these tax years are expected to remain open indefinitely.

<u>Jurisdiction:</u>	<u>Open Years</u>
United States—Federal	2015 - 2020
Canada	2015 - 2020
Germany	2014 - 2020
France	2013 - 2020
Ireland	2016 - 2020

The following table presents a reconciliation of the unrecognized tax benefits for 2020, 2019 and 2018:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$100	\$100	\$ 88
Additions based on tax positions related to the current year	—	—	8
Additions for tax positions of prior years	8	6	18
Reductions for tax positions of prior years	(42)	(2)	(10)
Lapse of statute of limitations	(4)	(4)	(4)
Balance, end of year	<u>\$ 62</u>	<u>\$100</u>	<u>\$100</u>

The Business believes that the total amount of unrecognized tax benefits at December 31, 2020 would not change in the next twelve months.

17. SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow disclosures for 2020, 2019 and 2018 are as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Other Payments			
Interest paid	\$ 3	\$ 1	\$—
Income taxes paid	\$ 57	\$ 84	\$ 36

18. LEGAL PROCEEDINGS

The Business is involved, and, from time to time, may become involved, in various legal and administrative proceedings, which include or may include product liability, intellectual property, commercial, tax, antitrust, governmental and regulatory investigations, related private litigation and ordinary course employment-related issues. From time to time, the Business also initiates or may initiate actions or file counterclaims. The Business could be subject to counterclaims or other suits in response to actions it may initiate. The Business believes that the prosecution of these actions and counterclaims is important to preserve and protect the Business, its reputation and its assets. Certain of these proceedings and actions are described below.

As of December 31, 2020, the Business' Combined Balance Sheets includes accrued current loss contingencies of \$5 million related to matters which the Business believes a potential resolution or settlement is both probable and reasonably estimable. For all other matters, unless otherwise indicated, the Business cannot reasonably predict the outcome of these legal proceedings, nor can it estimate the amount

[Table of Contents](#)

of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings could have a material adverse effect on the business, financial condition and results of operations, and could cause the market value of its common shares and/or debt securities to decline.

Product Liability

Shower to Shower® Products Liability Litigation

Since 2016, BHC has been named in a number of product liability lawsuits involving the Shower to Shower® body powder product acquired in September 2012 from Johnson & Johnson; due to dismissals, thirty (30) of such product liability suits currently remain pending. Potential liability (including its attorneys' fees and costs) arising out of these remaining suits is subject to full indemnification obligations of Johnson & Johnson owed to the Business, and legal fees and costs will be paid by Johnson & Johnson. Twenty-eight (28) of these lawsuits filed by individual plaintiffs allege that the use of Shower to Shower® caused the plaintiffs to develop ovarian cancer, mesothelioma or breast cancer. The allegations in these cases include failure to warn, design defect, manufacturing defect, negligence, gross negligence, breach of express and implied warranties, civil conspiracy concert in action, negligent misrepresentation, wrongful death, loss of consortium and/or punitive damages. The damages sought include compensatory damages, including medical expenses, lost wages or earning capacity, loss of consortium and/or compensation for pain and suffering, mental anguish anxiety and discomfort, physical impairment and loss of enjoyment of life. Plaintiffs also seek pre- and post-judgment interest, exemplary and punitive damages, and attorneys' fees. Additionally, two proposed class actions have been filed in Canada against BHC and various Johnson & Johnson entities (one in the Supreme Court of British Columbia and one in the Superior Court of Quebec), on behalf of persons who have purchased or used Johnson & Johnson's Baby Powder or Shower to Shower®. The class actions allege the use of the product increases certain health risks (British Columbia) or negligence in failing to properly test, failing to warn of health risks, and failing to remove the products from the market in a timely manner (Quebec). The plaintiffs in these actions are seeking awards of general, special, compensatory and punitive damages. On November 17, 2020, the British Columbia court issued a judgment declining to certify a class as to BHC or Shower to Shower®, and at this time no appeal of that judgment has been filed.

In accordance with the indemnification agreement, Johnson & Johnson will continue to vigorously defend the Business in each of the remaining actions that are not voluntarily dismissed or subject to a grant of summary judgment.

General Civil Actions

California Proposition 65 Related Matters

On January 29, 2020, Plaintiff Jan Graham filed a lawsuit (Graham v. Bausch Health Companies, Inc., et al., Case No. 20STCV03578) in Los Angeles County Superior Court against BHC, Bausch Health US (as defined below) and several other manufacturers, distributors and retailers of talcum powder products, alleging violations of California Proposition 65 by manufacturing and distributing talcum powder products containing chemicals listed under the statute, without a compliant warning on the label. On January 29, 2021, certain defendants including BHC and Bausch Health US filed a Motion for Summary Judgment or in the Alternative Motion for Summary Adjudication, which remains pending.

On June 19, 2019, plaintiffs filed a proposed class action in California state court against Bausch Health US and Johnson & Johnson (Gutierrez, et al. v. Johnson & Johnson, et al., Case No. 37-2019-00025810-CU-NP-CTL), asserting claims for purported violations of the California Consumer Legal Remedies Act, False Advertising Law and Unfair Competition Law in connection with their sale of talcum powder products that the plaintiffs allege violated Proposition 65 and/or the California Safe Cosmetics Act. This lawsuit was served on Bausch Health US in June 2019 and was subsequently removed to the United States District Court for the Southern District of California, where it is currently pending. Plaintiffs seek

Table of Contents

damages, disgorgement of profits, injunctive relief, and reimbursement/restitution BHC filed a motion to dismiss Plaintiffs' claims, which was granted in April 2020 without prejudice. In May 2020, Plaintiffs filed an amended complaint and in June 2020, filed a motion for leave to amend the complaint further, which was granted. In August 2020, Plaintiffs filed the Fifth Amended Complaint. On January 22, 2021, the Court granted the motion to dismiss with prejudice. On February 19, 2021, Plaintiffs filed a Notice of Appeal with the Ninth Circuit Court of Appeals.

The Business disputes the claims against it and intends to defend each of these lawsuits vigorously.

New Mexico Attorney General Consumer Protection Action

BHC and Bausch Health US were named in an action brought by State of New Mexico ex rel. Hector H. Balderas, Attorney General of New Mexico, in the County of Santa Fe New Mexico First Judicial District Court (New Mexico ex rel. Balderas v. Johnson & Johnson, et al., Civil Action No. D-101-CV-2020-00013, filed on January 2, 2020), alleging consumer protection claims against Johnson & Johnson and Johnson & Johnson Consumer Companies, Inc., BHC and Bausch Health US related to Shower to Shower® and its alleged causal link to mesothelioma and other cancers. In April 2020, Bausch Health US filed a motion to dismiss, which in September 2020, the Court granted in part as to the New Mexico Medicaid Fraud Act and New Mexico Fraud Against Taxpayers Act claims and denied as to all other claims. The State of New Mexico brings claims against all defendants under the New Mexico Unfair Practices Act and other common law and equitable causes of action, alleging defendants engaged in wrongful marketing, sale and promotion of talcum powder products. The lawsuit seeks to recover the cost of the talcum powder products as well as the cost of treating asbestos-related cancers allegedly caused by those products. Bausch Health US filed its Answer on November 16, 2020. On December 30, 2020 Johnson & Johnson filed a Motion for Partial Judgment on the Pleadings and on January 4, 2021, Bausch Health US filed a joinder to that motion, which was denied on March 8, 2021.

The Business disputes the claims against it and intends to defend each of these lawsuits vigorously.

Doctors Allergy Formula Lawsuit

In April 2018, Doctors Allergy Formula, LLC ("Doctors Allergy"), filed a lawsuit against Bausch Health Americas in the Supreme Court of the State of New York, County of New York, asserting breach of contract and related claims under a 2015 Asset Purchase Agreement, which purports to include milestone payments that Doctors Allergy alleges should have been paid by Bausch Health Americas. Doctors Allergy claims its damages are not less than \$23 million. The Business has asserted counterclaims against Doctors Allergy. The Business filed a motion seeking an order granting the Business summary judgment on its counterclaims against Plaintiff and dismissing Plaintiff's claims against the Business. The motion was fully briefed as of May 2021 and remains *sub judice*.

Intellectual Property Matters

PreserVision® AREDS Patent Litigation

PreserVision® AREDS and PreserVision® AREDS 2 are OTC eye vitamin formulas for those with moderate-to-advanced AMD. The PreserVision® U.S. formulation patent expired in March 2021, but a patent covering methods of using the formulation remains in force into 2026. B&L has filed patent infringement proceedings against 15 defendants claiming infringement of these patents and, in certain circumstances, related unfair competition and false advertising causes of action. Ten of these proceedings were subsequently settled; one resulted in a default. One defendant filed a declaratory judgment action after B&L filed its suit, seeking declaratory judgment related to patent claims as well as false advertising and unfair competition claims. Today, there are five ongoing actions, against four companies: (1) Bausch & Lomb Inc. & PF Consumer Healthcare 1 LLC v. ZeaVision LLC, C.A. No. 6:20-cv-06452-CJS (W.D.N.Y.);

Table of Contents

(2) ZeaVision LLC v. Bausch & Lomb Inc. & PF Consumer Healthcare 1 LLC, C.A. No. 4:21-cv-00072-NCC (E.D. Mo.); (3) Bausch & Lomb Inc. & PF Consumer Healthcare 1 LLC v. SBH Holdings LLC, C.A. No. 20-cv-01463-LPS (D. Del.); (4) Bausch & Lomb Inc. & PF Consumer Healthcare 1 LLC v. New Era Real Estate Solutions LLC, C.A. No. 21-cv-00731 (D. Del.); and (5) Bausch & Lomb Inc. & PF Consumer Healthcare 1 LLC v. EyeScience Labs LLC, C.A. No. 21-cv-00730 (D. Del.). The Business remains confident in the strength of these patents and will continue to vigorously pursue these matters and defend its intellectual property.

19. COMMITMENTS AND CONTINGENCIES

The Business has commitments related to capital expenditures of approximately \$49 million as of December 31, 2020.

Under certain agreements, the Business may be required to make payments contingent upon the achievement of specific developmental, regulatory, or commercial milestones. As of December 31, 2020, the Business believes it is reasonably possible that it may potentially make milestone and license fee payments, including sales-based milestone payments, of approximately \$165 million over time, in the aggregate, to third parties for products currently under development or being marketed, primarily consisting of the following:

- Under the terms of a December 2019 agreement with Novaliq GmbH, the Business has acquired an exclusive license for the commercialization and development in the U.S. and Canada of NOV03 (perfluorohexyloctane), an investigational drug to treat dry eye disease associated with Meibomian gland dysfunction and may be required to make sales-based milestone payments. The Business believes it is reasonably possible that these payments over time may approximate \$45 million, in the aggregate, as well as royalties on future sales.
- Under the terms of an October 2020 agreement with Eyenovia, Inc., the Business has acquired an exclusive license in the United States and Canada for the development and commercialization of an investigational microdose formulation of atropine ophthalmic solution, which is being investigated for the reduction of pediatric myopia progression, also known as nearsightedness, in children ages 3-12. Under the terms of the agreement, the Business may be required to make development and sales-based milestone payments. The Business believes it is reasonably possible that these payments over time may approximate \$35 million, in the aggregate.
- Under the terms of a November 2014 agreement with Nicox S.A., the Business has acquired an exclusive license for the commercialization in the U.S. of Vyzulta® (latanoprostene bunod ophthalmic solution, 0.024%), an intraocular pressure lowering single-agent eye drop dosed once daily for patients with open angle glaucoma or ocular hypertension and may be required to make sales-based milestone payments. The Business believes it is reasonably possible that these payments over time may approximate \$20 million.
- Under the terms of a May 2020 agreement with STADA Arzneimittel AG and its development partner, Xbrane Biopharma AB, to commercialize in the United States and Canada a biosimilar candidate to Lucentis (ranibizumab), the Business may be required to make development and sales-based milestone payments.

In addition, under the terms of a September 2020 agreement with Allegro, the Business may be required to make a payment of \$40 million should Allegro raise additional funding. This amount is excluded from the milestone and license fee payments disclosed above. See Note 4, "LICENSING AGREEMENTS AND ASSETS HELD FOR SALE" for additional details regarding this agreement.

Due to the nature of these arrangements, the future potential payments related to the attainment of the specified milestones over a period of several years are inherently uncertain. As of December 31, 2020, no accruals related to the aforementioned agreements exist because the milestone targets are not yet probable of being achieved.

F-74

Table of Contents

Indemnification Provisions

In the normal course of operations, the Business enters into agreements that include indemnification provisions for product liability and other matters. These provisions are generally subject to maximum amounts, specified claim periods and other conditions and limits. In addition, the Business is obligated to indemnify its officers and directors in respect of any legal claims or actions initiated against them in their capacity as officers and directors of the Business in accordance with applicable law. Pursuant to such indemnities, the Business is indemnifying certain former officers and directors in respect of certain litigation and regulatory matters. As of December 31, 2020 and 2019, no material amounts were accrued for the Business' obligations under these indemnification provisions.

20. SEGMENT INFORMATION

Reportable Segments

Bausch + Lomb has historically operated as part of BHC, reported under BHC's segment structure and historically the Chief Operating Decision Maker, ("CODM"), was the CODM of BHC. As the Business is transitioning into an independent, publicly traded company, BHC's CEO, who is the Business' CODM, evaluated how to view and measure the Business' performance. This evaluation necessitated a realignment of the Business' historical segment structure, and during the second quarter of 2021, Bausch + Lomb determined it is organized into three operating segments, which are also its reportable segments. This realignment is consistent with how the CODM: (i) assesses operating performance on a regular basis, (ii) makes resource allocation decisions and (iii) designates responsibilities of his direct reports. Pursuant to these changes, effective in the second quarter of 2021, the Business operates in the following reportable segments which are generally determined based on the decision making structure of the Business and the grouping of similar products and services: (i) Vision Care/Consumer Health Care, (ii) Ophthalmic Pharmaceuticals and (iii) Surgical. Prior period presentations have been recast to conform to the current segment reporting structure.

- *The Vision Care / Consumer Health Care segment* consists of: (i) sales of contact lenses that span the spectrum of wearing modalities, including daily disposable and frequently replaced contact lenses and (ii) sales of contact lens care products and over-the-counter ("OTC") eye drops, eye vitamins and mineral supplements that address various conditions including eye allergies, conjunctivitis and dry eye.
- *The Ophthalmic Pharmaceuticals segment* consists of sales of a broad line of proprietary and generic pharmaceutical products for post-operative treatments and the treatment of a number of eye conditions such as glaucoma, ocular hypertension and retinal diseases and contact lenses that are indicated for therapeutic use and can also provide optical correction during healing if required.
- *The Surgical segment* consists of sales of tools and technologies for the treatment of cataracts, and vitreous and retinal eye conditions and includes intraocular lenses and delivery systems, phacoemulsification equipment and other surgical instruments and devices.

Segment profit is based on operating income after the elimination of intercompany transactions. Certain costs, such as Amortization of intangible assets, Asset impairments, In-process research and development costs, Restructuring and integration costs, Acquisition-related contingent consideration costs and Other expense (income), net, are not included in the measure of segment profit, as management excludes these items in assessing segment financial performance.

Corporate includes the finance, treasury, certain research and development programs, tax and legal operations of Bausch + Lomb's businesses and incurs certain expenses, gains and losses related to the overall management of the Business, which are not allocated to the other business segments. In assessing segment performance and managing operations, management does not review segment assets. Furthermore, a portion of share-based compensation is considered a corporate cost, since the amount of such expense depends on company-wide performance rather than the operating performance of any single segment.

F-75

Table of Contents

Segment Revenues and Profit

Segment revenues and profits for the years 2020, 2019 and 2018 were as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:			
Vision Care/Consumer Health Care	\$2,109	\$2,221	\$2,145
Ophthalmic Pharmaceuticals	726	859	823
Surgical	577	698	697
Total revenues	<u>\$3,412</u>	<u>\$3,778</u>	<u>\$3,665</u>
Segment profit:			
Vision Care/Consumer Health Care	\$ 579	\$ 606	\$ 627
Ophthalmic Pharmaceuticals	302	412	357
Surgical	18	75	78
Total segment profit	899	1,093	1,062
Corporate	(278)	(282)	(258)
Amortization of intangible assets	(323)	(348)	(377)
Other expense, net	(38)	(67)	(11)
Operating income	<u>260</u>	<u>396</u>	<u>416</u>
Interest income	3	1	—
Foreign exchange and other	27	2	1
Income before (provision for) benefit from income taxes	<u>\$ 290</u>	<u>\$ 399</u>	<u>\$ 417</u>

Capital Expenditures

Capital expenditures paid by segment for the years 2020, 2019 and 2018 were as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Vision Care/Consumer Health Care	\$209	\$139	\$ 75
Ophthalmic Pharmaceuticals	33	23	13
Surgical	11	18	13
	<u>\$253</u>	<u>\$180</u>	<u>\$101</u>

Revenues by Segment and by Product Category

The top ten products represented 33%, 31% and 32% of total product sales for the years 2020, 2019 and 2018, respectively. Revenues by segment and product category were as follows:

<i>(in millions)</i>	Vision Care/Consumer Health Care			Ophthalmic Pharmaceuticals			Surgical			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Pharmaceuticals	\$ 11	\$ 13	\$ 12	\$497	\$611	\$607	\$—	\$—	\$—	\$ 508	\$ 624	\$ 619
Devices	752	845	812	—	—	—	562	680	674	1,314	1,525	1,486
OTC	1,310	1,322	1,282	—	—	—	—	—	—	1,310	1,322	1,282
Branded and Other Generics	27	30	27	222	228	201	—	—	—	249	258	228
Other revenues	9	11	12	7	20	15	15	18	23	31	49	50
	<u>\$2,109</u>	<u>\$2,221</u>	<u>\$2,145</u>	<u>\$726</u>	<u>\$859</u>	<u>\$823</u>	<u>\$577</u>	<u>\$698</u>	<u>\$697</u>	<u>\$3,412</u>	<u>\$3,778</u>	<u>\$3,665</u>

F-76

[Table of Contents](#)**Geographic Information**

Revenues are attributed to a geographic region based on the location of the customer for the years 2020, 2019 and 2018 were as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
U.S. and Puerto Rico	\$1,558	\$1,632	\$1,538
China	280	345	350
Japan	220	230	217
France	174	196	198
Germany	137	144	159
Russia	102	138	115
Canada	92	95	91
United Kingdom	84	107	104
Italy	67	80	79
Spain	66	81	78
South Korea	48	51	51
Poland	36	38	39
Sweden	35	31	33
Other	513	610	613
	<u>\$3,412</u>	<u>\$3,778</u>	<u>\$3,665</u>

Long-lived assets consisting of property, plant and equipment, net of accumulated depreciation, are attributed to geographic regions based on their physical location as of December 31, 2020 and 2019 were as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2019</u>
U.S. and Puerto Rico	\$ 572	\$506
Ireland	326	253
Germany	77	66
Canada	44	35
France	34	30
China	29	27
Italy	23	22
England	11	12
Other	48	46
	<u>\$1,164</u>	<u>\$997</u>

Major Customers

No individual customer accounted for 10% or more of total revenues.

F-77

[Table of Contents](#)

Common Shares

BAUSCH + LOMB

Bausch + Lomb Corporation

PRELIMINARY PROSPECTUS

Morgan Stanley
Goldman Sachs & Co. LLC
Citigroup
J.P. Morgan
Barclays
BofA Securities
Guggenheim Securities
Jefferies
Evercore ISI
Wells Fargo Securities
Deutsche Bank Securities
DNB Markets
HSBC
Truist Securities



[Table of Contents](#)

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

	Amount to Be Paid
SEC registration fee	\$ 9,270
Canadian securities regulatory filing fees	15,826
FINRA filing fee	15,500
NYSE listing fee	*
TSX filing fee	*
Transfer agent's fees	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	*
Miscellaneous	*
Total	<u>\$ *</u>

Each of the amounts set forth above, other than the registration fee, the Canadian securities regulatory filing fees, the FINRA filing fee, the NYSE listing fee and the TSX filing fee, is an estimate.

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Under Section 124 of the CBCA, we may indemnify a present or former director or officer of the Company or another individual who acts or acted at our request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Company or other entity. We may not indemnify an individual unless the individual (i) acted honestly and in good faith with a view to the best interests of the Company, or, as the case may be, to the best interests of the other entity for which the individual acted as a director or officer or in a similar capacity at our request, and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the conduct was lawful. The aforementioned individuals are entitled to the indemnification described above from us as a matter of right if they were not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done and if the individual fulfills conditions (i) and (ii) above. We may advance moneys to a director, officer or other individual for the costs, charges and expenses of a proceeding; however, the individual shall repay the moneys if the individual does not fulfill the conditions set out in (i) and (ii) above. The indemnification or the advance of any moneys may be made in connection with a derivative action only with court approval and only if the conditions in (i) and (ii) above are met. Under the CBCA, we may purchase and maintain insurance for the benefit of any of the aforementioned individuals against any liability incurred by the individual in their capacity as a director or officer of the Company, or in their capacity as a director or officer, or similar capacity, of another entity, if the individual acted in such capacity at our request.

The Articles will also provide that, subject to any restrictions in the CBCA, we may indemnify any person. The Articles will further provide that, subject to the limitations contained in the CBCA, we may purchase and maintain insurance for the benefit of any person eligible for indemnification under the Articles.

II-1

Table of Contents

We maintain insurance for certain liabilities incurred by its directors and officers in their capacity with the Company or its subsidiaries. The underwriting agreement(s) that we may enter into may provide for indemnification by any underwriters of the Company, its directors, its officers who sign the registration statement and the Company's controlling persons for some liabilities, including liabilities arising under the Securities Act.

In addition, we have entered, or will enter, into separate indemnity agreements with each of our directors and officers pursuant to which we agree to indemnify and hold harmless our directors and officers against any and all liability, loss, damage, cost or expense in accordance with the terms and conditions of the CBCA and our articles.

Item 15. Recent Sales of Unregistered Securities

We have not sold any securities, registered or otherwise, within the past three years, except as follows: On the date of our incorporation, we issued one share to our sole shareholder, BHC, which was made pursuant to the exemption from registration in Section 4(a)(2) of the Securities Act because the offer and issuance of the shares did not, or will not, involve a public offering. In connection with this offering, we will issue additional shares to the selling shareholder in connection with the Separation, which will be made pursuant to the exemption from registration in Section 4(a)(2) of the Securities Act because the offer and issuance of the shares will not involve a public offering. We have not otherwise sold any securities, registered or otherwise, within the past three years.

Item 16. Exhibits and Financial Statement Schedules

- (a) The list of exhibits set forth under "Exhibit Index" at the end of this Registration Statement is incorporated by reference herein.
- (b) Schedules are omitted because they are not required or because the information is provided elsewhere in the financial statements included in this registration statement.

Item 17. Undertakings

The undersigned registrant hereby undertakes:

- (a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.
- (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this registration statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.
- (c) The undersigned registrant hereby undertakes that:
 - (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
 - (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

[Table of Contents](#)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
1.1	Form of Underwriting Agreement
3.1	Form of Articles of Bausch + Lomb to be effective at closing
3.2	Form of Articles of Bausch + Lomb to be effective upon its continuance under the BCBCA
3.3	Form of By-laws of Bausch + Lomb to be effective at closing
4.1*	Form of Common Share Certificate
5.1	Opinion of Osler, Hoskin & Harcourt LLP
10.1*	Master Separation Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.2*	Arrangement Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.3*	Transition Services Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.4*	Tax Matters Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.5*	Registration Rights Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.6*	Employee Matters Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.7*	Intellectual Property Matters Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.8*	Real Estate Matters Agreement by and between Bausch Health Companies Inc. and Bausch + Lomb Corporation, dated as of , 2022
10.9*	Form of Bausch + Lomb Corporation 2022 Omnibus Incentive Plan
10.10*	Form of Credit Agreement among Bausch + Lomb Corporation, the guarantors party thereto, and each of the financial institutions named therein as lenders and issuing banks and , as Administrative Agent
10.11*	Form of Stock Option Grant Agreement under the Bausch + Lomb Corporation 2022 Omnibus Incentive Plan
10.12*	Form of Restricted Stock Unit Award Agreement under the Bausch + Lomb Corporation 2022 Omnibus Incentive Plan
10.13*	Form of Director Restricted Share Unit Award Agreement (Annual Grant) under the Bausch + Lomb Corporation 2022 Omnibus Incentive Plan
10.14*	Form of Director Restricted Share Unit Award Agreement (Elective Grant) under the Bausch + Lomb Corporation 2022 Omnibus Incentive Plan
10.15	Employment agreement with Joseph C. Papa, Chief Executive Officer and Chairman (incorporated herein by reference to Exhibit 10.1 to Bausch Health Companies Inc.'s Current Report on Form 8-K, filed on April 27, 2016)
10.16	Employment agreement with Sam A Eldessouky, Chief Financial Officer (incorporated herein by reference to Exhibit 10.1 to Bausch Health Companies Inc.'s Quarterly Report on Form 10-Q, filed on August 3, 2021)

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>
10.17	<u>Employment agreement with Christina M. Ackermann, Executive Vice President & General Counsel and President, Ophthalmic Pharmaceuticals (incorporated herein by reference to Exhibit 10.23 to Bausch Health Companies Inc.'s Annual Report on Form 10-K, filed on March 1, 2017)</u>
10.18	<u>Employment agreement with Joseph F. Gordon, President, Global Consumer, Surgical and Vision Care (incorporated herein by reference to Exhibit 10.2 to Bausch Health Companies Inc.'s Quarterly Report on Form 10-Q, filed on May 6, 2019)</u>
10.19	<u>Form of Indemnification Agreement</u>
10.20*	Assignment, Assumption and Amendment Agreement between Bausch Health Companies Inc., Bausch + Lomb Corporation and Joseph Papa dated as of , 2022
10.21*	Assignment, Assumption and Amendment Agreement between Bausch Health Companies Inc., Bausch + Lomb Corporation and Sam A. Eldessouky dated as of , 2022
10.22*	Assignment, Assumption and Amendment Agreement between Bausch Health Companies Inc., Bausch + Lomb Corporation and Christina M. Ackermann dated as of , 2022
10.23*	Assignment, Assumption and Amendment Agreement between Bausch Health Companies Inc., Bausch + Lomb Corporation and Joseph F. Gordon dated as of , 2022
21.1	<u>Subsidiaries of the registrant</u>
23.1	<u>Consent of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm</u>
23.2	<u>Consent of Osler, Hoskin & Harcourt LLP (included in Exhibit 5.1)</u>
24.1	<u>Power of Attorney (included on signature page)</u>
99.1	<u>Consent of Thomas W. Ross, Sr.</u>
99.2	<u>Consent of Nathalie Bernier</u>
99.3	<u>Consent of Andrew C. von Eschenbach</u>
99.4	<u>Consent of Sarah B. Kavanagh</u>
99.5	<u>Consent of John A. Paulson</u>
99.6	<u>Consent of Russel C. Robertson</u>
99.7	<u>Consent of Richard U. De Schutter</u>

* To be filed by amendment.

[Table of Contents](#)**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bridgewater, State of New Jersey, on the 13th day of January, 2022.

BAUSCH + LOMB CORPORATION

By: /s/ Joseph C. Papa

Name: Joseph C. Papa

Title: Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph C. Papa and Sam A. Eldessouky and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and any and all additional registration statements pursuant to Rule 462(b) of the Securities Act of 1933, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agents full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his or her substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Joseph C. Papa</u> Joseph C. Papa	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	January 13, 2022
<u>/s/ Christina M. Ackermann</u> Christina M. Ackermann	Executive Vice President & General Counsel and President, Ophthalmic Pharmaceuticals and Director	January 13, 2022
<u>/s/ Sam A. Eldessouky</u> Sam A. Eldessouky	Chief Financial Officer (principal financial and accounting officer) and Director	January 13, 2022
<u>/s/ Seana Carson</u> Seana Carson	Senior Vice President - Legal and Director	January 13, 2022

II-5