

Allergan plc
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number	Exact name of registrant as specified in its charter, principal office and address and telephone number	State of incorporation or organization	I.R.S. Employer Identification No.
001-36867	Allergan plc Clonshaugh Business and Technology Park Coolock, Dublin, D17 E400, Ireland (862) 261-7000	Ireland	98-1114402

Edgar Filing: Allergan plc - Form 10-Q

001-36887

Warner Chilcott Limited

Bermuda

98-0496358

Cannon's Court 22
 Victoria Street
 Hamilton HM 12
 Bermuda
 (441) 295-2244

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

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Allergan plc	<input type="checkbox"/> Large accelerated filer <input checked="" type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/> Accelerated filer <input checked="" type="checkbox"/> Smaller reporting company
Warner Chilcott Limited	<input type="checkbox"/> Large accelerated filer <input checked="" type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/> Accelerated filer <input checked="" type="checkbox"/> Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Number of shares of Allergan plc's Ordinary Shares outstanding on October 26, 2016: 375,080,162. There is no trading market for securities of Warner Chilcott Limited, all of which are indirectly wholly owned by Allergan plc.

Edgar Filing: Allergan plc - Form 10-Q

This Quarterly Report on Form 10-Q is a combined report being filed separately by two different registrants: Allergan plc and Warner Chilcott Limited. Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc. The information in this Quarterly Report on Form 10-Q is equally applicable to Allergan plc and Warner Chilcott Limited, except where otherwise indicated. Warner Chilcott Limited meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

TABLE OF CONTENTS

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets of Allergan plc as of September 30, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Operations of Allergan plc for the three and nine months ended September 30, 2016 and September 30, 2015</u>	4
<u>Consolidated Statements of Comprehensive Income of Allergan plc for the three and nine months ended September 30, 2016 and September 30, 2015</u>	5
<u>Consolidated Statements of Cash Flows of Allergan plc for the nine months ended September 30, 2016 and 2015</u>	6
<u>Consolidated Balance Sheets of Warner Chilcott Limited as of September 30, 2016 and December 31, 2015</u>	7
<u>Consolidated Statements of Operations of Warner Chilcott Limited for the three and nine months ended September 30, 2016 and September 30, 2015</u>	8
<u>Consolidated Statements of Comprehensive Income of Warner Chilcott Limited for the three and nine months ended September 30, 2016 and September 30, 2015</u>	9
<u>Consolidated Statements of Cash Flows of Warner Chilcott Limited for the nine months ended September 30, 2016 and 2015</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	80
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	116
Item 4. <u>Controls and Procedures</u>	118
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	119
Item 1A. <u>Risk Factors</u>	119
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	119
Item 6. <u>Exhibits</u>	119
<u>Signatures</u>	120

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
ALLERGAN PLC

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except par value)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,554.7	\$ 1,096.0
Marketable securities	19,837.6	9.3
Accounts receivable, net	2,398.5	2,125.4
Inventories	705.5	757.5
Prepaid expenses and other current assets	771.7	495.3
Current assets held for sale	455.9	4,095.6
Total current assets	31,723.9	8,579.1
Property, plant and equipment, net	1,566.3	1,531.3
Investments and other assets	341.1	408.7
Non current assets held for sale	207.2	10,713.3
Deferred tax assets	120.7	49.5
Product rights and other intangibles	63,022.7	67,836.2
Goodwill	46,625.8	46,465.2
Total assets	\$ 143,607.7	\$ 135,583.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$5,425.4	\$ 4,148.6
Income taxes payable	784.6	53.7
Current portion of long-term debt and capital leases	1,591.8	2,396.5
Current liabilities held for sale	223.7	1,693.2
Total current liabilities	8,025.5	8,292.0
Long-term debt and capital leases	31,178.2	40,133.9
Other long-term liabilities	1,022.7	1,262.0
Long-term liabilities held for sale	23.8	535.4
Other taxes payable	815.6	801.9
Deferred tax liabilities	12,811.5	7,968.8
Total liabilities	53,877.3	58,994.0
Commitments and contingencies (Refer to Note 20)		
Equity:		
Preferred shares, \$0.0001 par value per share, 5.1 million shares authorized,		
5.1 million and 5.1 million shares issued and outstanding, respectively	\$4,929.7	\$ 4,929.7
Ordinary shares; \$0.0001 par value per share; 1,000.0 million shares authorized,	-	-

Edgar Filing: Allergan plc - Form 10-Q

383.2 million and 394.5 million shares issued and outstanding, respectively		
Treasury shares, at cost, 1.7 million shares pending and zero shares, respectively	(400.0)	-
Additional paid-in capital	66,184.2	68,508.3
Retained earnings	18,412.7	3,647.5
Accumulated other comprehensive income / (loss)	599.3	(494.1)
Total shareholders' equity	89,725.9	76,591.4
Noncontrolling interest	4.5	(2.1)
Total equity	89,730.4	76,589.3
Total liabilities and equity	\$ 143,607.7	\$ 135,583.3

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	\$3,622.2	\$3,469.5	\$10,706.3	\$9,081.2
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	462.2	710.3	1,381.1	2,150.0
Research and development	622.8	1,260.5	1,662.4	1,927.9
Selling and marketing	796.0	683.6	2,429.6	2,017.2
General and administrative	361.2	339.1	1,033.9	1,188.0
Amortization	1,609.1	1,557.8	4,831.9	3,858.9
In-process research and development impairments	42.0	300.0	316.9	497.6
Asset sales and impairments, net	(4.7)	(4.4)	(24.0)	3.1
Total operating expenses	3,888.6	4,846.9	11,631.8	11,642.7
Operating (loss)	(266.4)	(1,377.4)	(925.5)	(2,561.5)
Interest income	18.1	3.5	23.5	7.6
Interest (expense)	(324.3)	(340.2)	(1,002.9)	(852.0)
Other (expense) income, net	33.6	0.2	184.2	(238.1)
Total other (expense), net	(272.6)	(336.5)	(795.2)	(1,082.5)
(Loss) before income taxes and noncontrolling interest	(539.0)	(1,713.9)	(1,720.7)	(3,644.0)
(Benefit) for income taxes	(158.9)	(838.9)	(825.8)	(1,491.0)
Net (loss) from continuing operations, net of tax	(380.1)	(875.0)	(894.9)	(2,153.0)
Income from discontinued operations, net of tax	15,601.9	6,177.6	15,873.2	6,701.7
Net income	15,221.8	5,302.6	14,978.3	4,548.7
(Income) attributable to noncontrolling interest	(1.8)	(1.4)	(4.3)	(2.6)
Net income attributable to shareholders	15,220.0	5,301.2	14,974.0	4,546.1
Dividends on preferred shares	69.6	69.6	208.8	162.4
Net income attributable to ordinary shareholders	\$15,150.4	\$5,231.6	\$14,765.2	\$4,383.7
(Loss) / income per share attributable to ordinary shareholders - basic:				
Continuing operations	\$(1.15)	\$(2.40)	\$(2.81)	\$(6.46)
Discontinued operations	39.73	15.69	40.25	18.67
Net income per share - basic	\$38.58	\$13.29	\$37.44	\$12.21
(Loss) / income per share attributable to ordinary shareholders - diluted:				
Continuing operations	\$(1.15)	\$(2.40)	\$(2.81)	\$(6.46)

Edgar Filing: Allergan plc - Form 10-Q

Discontinued operations	39.73	15.69	40.25	18.67
Net income per share - diluted	\$38.58	\$13.29	\$37.44	\$12.21
Weighted average shares outstanding:				
Basic	392.7	393.6	394.4	358.9
Diluted	392.7	393.6	394.4	358.9

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$15,221.8	\$5,302.6	\$14,978.3	\$4,548.7
Other comprehensive income / (loss)				
Foreign currency translation (losses) / gains	(19.1)	(42.4)	173.8	409.0
Impact of Teva Transaction	1,544.8	-	1,544.8	-
Unrealized gains (losses) / gains, net of tax	(609.3)	7.5	(625.2)	11.1
Reclassification for gains included in net income, net of tax	-	-	-	-
Total other comprehensive income / (loss), net of tax	916.4	(34.9)	1,093.4	420.1
Comprehensive income	16,138.2	5,267.7	16,071.7	4,968.8
Comprehensive (income) attributable to noncontrolling interest	(1.8)	(1.4)	(4.3)	(2.6)
Comprehensive income attributable to ordinary shareholders	\$16,136.4	\$5,266.3	\$16,067.4	\$4,966.2

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$ 14,978.3	\$ 4,548.7
Reconciliation to net cash provided by operating activities:		
Depreciation	117.6	183.9
Amortization	4,836.7	4,192.8
Provision for inventory reserve	162.7	108.6
Share-based compensation	269.9	510.5
Deferred income tax benefit	(517.1)	(7,470.9)
Pre-tax gain sale of generics business	(24,203.1)	-
Non-cash tax effect of gain on sale of generics business	5,749.9	-
In-process research and development impairments	316.9	497.6
Loss / (gain) on asset sales and impairments, net	(24.0)	57.2
Amortization of inventory step-up	42.4	1,019.8
Amortization of deferred financing costs	44.6	289.2
Contingent consideration adjustments, including accretion	76.7	89.2
Excess tax benefit from stock-based compensation	(26.6)	(54.0)
Other, net	(16.0)	54.9
Changes in assets and liabilities (net of effects of acquisitions):		
Decrease / (increase) in accounts receivable, net	(40.4)	(364.0)
Decrease / (increase) in inventories	(221.6)	(270.1)
Decrease / (increase) in prepaid expenses and other current assets	158.9	(3.3)
Increase / (decrease) in accounts payable and accrued expenses	331.9	(290.6)
Increase / (decrease) in income and other taxes payable	(131.6)	(103.4)
Increase / (decrease) in other assets and liabilities	(397.5)	(21.6)
Net cash provided by operating activities	1,508.6	2,974.5
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(250.5)	(350.7)
Additions to product rights and other intangibles	-	(91.1)
Sale of generics business	33,304.5	-
Additions to investments	(15,445.5)	(27.0)
Proceeds from sale of investments and other assets	40.0	855.8
Proceeds from sales of property, plant and equipment	33.3	133.6
Acquisitions of businesses, net of cash acquired	(74.5)	(35,242.7)
Net cash provided by / (used in) investing activities	17,607.3	(34,722.1)
Cash Flows From Financing Activities:		
Proceeds from borrowings of long-term indebtedness	-	26,456.4
Proceeds from borrowings on credit facility and other	1,050.0	2,882.0
Debt issuance and other financing costs	-	(310.8)

Edgar Filing: Allergan plc - Form 10-Q

Payments on debt, including capital lease obligations and credit facility	(10,831.0)	(4,326.7)
Proceeds from issuance of preferred shares	-	4,929.7
Proceeds from issuance of ordinary shares	-	4,071.1
Proceeds from stock plans	138.0	195.8
Payments of contingent consideration	(77.7)	(138.3)
Repurchase of ordinary shares	(2,758.6)	(108.2)
Dividends	(208.8)	(138.4)
Excess tax benefit from stock-based compensation	26.6	54.0
Net cash (used in) / provided by financing activities	(12,661.5)	33,566.6
Effect of currency exchange rate changes on cash and cash equivalents	4.3	(5.1)
Net increase in cash and cash equivalents	6,458.7	1,813.9
Cash and cash equivalents at beginning of period	1,096.0	250.0
Cash and cash equivalents at end of period	\$7,554.7	\$2,063.9
Supplemental Disclosure of Cash Flow Information		
Taxes paid in connection with the sale of the generics business	\$2,571.7	\$-
Schedule of Non-Cash Investing and Financing Activities:		
Dividends accrued	\$24.2	\$24.0
Receipt of Teva Pharmaceutical Industries Ltd. ordinary shares in connection with the sale of the generics business	\$5,038.6	\$-
Non-cash equity issuance for the Acquisition of Allergan net assets	\$-	\$34,687.2

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,522.8	\$ 1,036.2
Marketable securities	19,837.6	9.3
Accounts receivable, net	2,398.5	2,125.4
Receivables from Parents	2,828.7	457.3
Inventories	705.5	757.5
Prepaid expenses and other current assets	769.6	492.8
Current assets held for sale	455.9	4,095.6
Total current assets	34,518.6	8,974.1
Property, plant and equipment, net	1,566.3	1,531.3
Investments and other assets	341.1	408.7
Non current receivables from Parents	3,985.0	-
Non current assets held for sale	207.2	10,713.3
Deferred tax assets	120.7	49.5
Product rights and other intangibles	63,022.7	67,836.2
Goodwill	46,625.8	46,465.2
Total assets	\$ 150,387.4	\$ 135,978.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,995.8	\$ 4,094.5
Payables to Parents	6,202.2	1,466.8
Income taxes payable	784.6	53.7
Current portion of long-term debt and capital leases	1,591.8	2,396.5
Current liabilities held for sale	223.7	1,693.2
Total current liabilities	13,798.1	9,704.7
Long-term debt and capital leases	31,178.2	40,133.9
Other long-term liabilities	1,022.7	1,262.0
Long-term payables to Parents	419.0	-
Long-term liabilities held for sale	23.8	535.4
Other taxes payable	815.6	801.9
Deferred tax liabilities	12,811.5	7,968.8
Total liabilities	60,068.9	60,406.7
Commitments and contingencies		
Equity:		
Members' capital	72,935.1	72,935.1
Retained earnings	16,779.6	3,132.7
Accumulated other comprehensive income / (loss)	599.3	(494.1)
Total members' equity	90,314.0	75,573.7

Edgar Filing: Allergan plc - Form 10-Q

Noncontrolling interest	4.5	(2.1)
Total equity	90,318.5	75,571.6
Total liabilities and equity	\$ 150,387.4	\$ 135,978.3

See accompanying Notes to Consolidated Financial Statements.

7

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Net revenues	\$3,622.2	\$3,469.5	\$10,706.3	\$9,081.2
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	462.2	710.3	1,381.1	2,150.0
Research and development	622.8	1,260.5	1,662.4	1,927.9
Selling and marketing	796.0	683.6	2,429.6	2,017.2
General and administrative	312.2	333.8	966.2	1,174.9
Amortization	1,609.1	1,557.8	4,831.9	3,858.9
In-process research and development impairments	42.0	300.0	316.9	497.6
Asset sales and impairments, net	(4.7)	(4.4)	(24.0)	3.1
Total operating expenses	3,839.6	4,841.6	11,564.1	11,629.6
Operating (loss)	(217.4)	(1,372.1)	(857.8)	(2,548.4)
Non-operating income (expense):				
Interest income	18.1	3.5	23.5	7.6
Interest (expense)	(324.3)	(340.2)	(1,002.9)	(852.0)
Other (expense) / income, net	33.6	0.2	34.2	(238.1)
Total other (expense), net	(272.6)	(336.5)	(945.2)	(1,082.5)
(Loss) before income taxes and noncontrolling interest	(490.0)	(1,708.6)	(1,803.0)	(3,630.9)
(Benefit) for income taxes	(158.9)	(838.9)	(825.8)	(1,491.0)
Net (loss) from continuing operations, net of tax	(331.1)	(869.7)	(977.2)	(2,139.9)
Income from discontinued operations, net of tax	15,601.9	6,177.6	15,873.2	6,701.7
Net income	15,270.8	5,307.9	14,896.0	4,561.8
(Income) attributable to noncontrolling interest	(1.8)	(1.4)	(4.3)	(2.6)
Net income attributable to members	\$15,269.0	\$5,306.5	\$14,891.7	\$4,559.2

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$15,270.8	\$5,307.9	\$14,896.0	\$4,561.8
Other comprehensive income / (loss)				
Foreign currency translation (losses) / gains	(19.1)	(42.4)	173.8	409.0
Impact of Teva Transaction	1,544.8	-	1,544.8	-
Unrealized (losses) / gains, net of tax	(609.3)	7.5	(625.2)	11.1
Reclassification for gains included in net income, net of tax	-	-	-	-
Total other comprehensive income / (loss), net of tax	916.4	(34.9)	1,093.4	420.1
Comprehensive income	16,187.2	5,273.0	15,989.4	4,981.9
Comprehensive (income) attributable to noncontrolling interest	(1.8)	(1.4)	(4.3)	(2.6)
Comprehensive income attributable to ordinary shareholders	\$16,185.4	\$5,271.6	\$15,985.1	\$4,979.3

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$ 14,896.0	\$ 4,561.8
Reconciliation to net cash provided by operating activities:		
Depreciation	117.6	183.9
Amortization	4,836.7	4,192.8
Provision for inventory reserve	162.7	108.6
Share-based compensation	269.9	510.5
Deferred income tax benefit	(517.1)	(7,470.9)
Pre-tax gain sale of generics business	(24,203.1)	-
Non-cash tax effect of gain on sale of generics business	5,749.9	-
In-process research and development impairments	316.9	497.6
Loss / (gains) on asset sales and impairments, net	(24.0)	57.2
Amortization of inventory step-up	42.4	1,019.8
Amortization of deferred financing costs	44.6	289.2
Contingent consideration adjustments, including accretion	76.7	89.2
Other, net	(16.0)	54.9
Changes in assets and liabilities (net of effects of acquisitions):		
Decrease / (increase) in accounts receivable, net	(40.4)	(363.3)
Decrease / (increase) in inventories	(221.6)	(270.1)
Decrease / (increase) in prepaid expenses and other current assets	156.8	(3.2)
Increase / (decrease) in accounts payable and accrued expenses	361.5	(257.5)
Increase / (decrease) in income and other taxes payable	(131.6)	(103.4)
Increase / (decrease) in other assets and liabilities, including receivable / payable		
with Parents	(1,899.4)	6.5
Net cash (used in) / provided by operating activities	(21.5)	3,103.6
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(250.5)	(350.7)
Additions to product rights and other intangibles	-	(91.1)
Sale of generics business	33,304.5	-
Additions to investments	(15,445.5)	(27.0)
Proceeds from the sale of investments and other assets	40.0	855.8
Proceeds from sales of property, plant and equipment	33.3	133.6
Acquisitions of businesses, net of cash acquired	(74.5)	(35,242.7)
Net cash provided by / (used in) investing activities	17,607.3	(34,722.1)
Cash Flows From Financing Activities:		
Proceeds from borrowings of long-term indebtedness	-	26,456.4
Proceeds from borrowings on credit facility and other	1,050.0	2,882.0

Edgar Filing: Allergan plc - Form 10-Q

Debt issuance and other financing costs	-	(310.8)
Payments on debt, including capital lease obligations and credit facility	(10,831.0)	(4,326.7)
Payments of contingent consideration	(77.7)	(138.3)
Dividend to Parent	(1,244.8)	(138.4)
Contribution from Parent	-	9,000.8
Net cash (used in) / provided by financing activities	(11,103.5)	33,425.0
Effect of currency exchange rate changes on cash and cash equivalents	4.3	(5.1)
Net increase in cash and cash equivalents	6,486.6	1,801.4
Cash and cash equivalents at beginning of period	1,036.2	244.3
Cash and cash equivalents at end of period	\$7,522.8	\$2,045.7

See accompanying Notes to Consolidated Financial Statements

ALLERGAN PLC AND WARNER CHILCOTT LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — General

Allergan plc is focused on developing, manufacturing and commercializing innovative branded pharmaceuticals (“brand”, “branded” or “specialty brand”) and select over-the-counter (“OTC”) products. Prior to completing the Teva Transaction (defined below), the Company also sold high-quality generic and OTC medicines and biologic products for patients around the world.

Allergan markets a portfolio of best-in-class products that provide valuable treatments for the central nervous system, eye care, medical aesthetics, gastroenterology, women's health, urology, and anti-infective therapeutic categories, and operated the world's third-largest global generics business, providing patients around the globe with increased access to affordable, high-quality medicines. Allergan is an industry leader in research and development, with one of the broadest development pipelines in the pharmaceutical industry.

With commercial operations in over 100 countries, Allergan is committed to working with physicians, healthcare providers and patients to deliver innovative and meaningful treatments that help people around the world live longer, healthier lives. Warner Chilcott Limited is a wholly-owned subsidiary of Allergan plc and has the same principal business activities. As a result of the Allergan Acquisition (defined below) which closed on March 17, 2015, the Company expanded its franchises to include ophthalmology, neurosciences and medical aesthetics/dermatology/plastic surgery, which complemented the Company's existing central nervous system, gastroenterology, women's health and urology franchises. The combined company benefits significantly from Allergan, Inc.'s (“Legacy Allergan”) global brand equity and consumer awareness of key products, including Botox® and Restasis®. The Allergan Acquisition also expanded our presence and market and product reach across many international markets, with strengthened commercial positions across Canada, Europe, Southeast Asia and other high-value growth markets, including China, India, the Middle East and Latin America.

On July 26, 2015 we entered into a master purchase agreement (the “Teva Agreement”), under which Teva Pharmaceutical Industries Ltd. (“Teva”) agreed to acquire our global generic pharmaceuticals business and certain other assets (the “Teva Transaction”). Upon the closing of the Teva Transaction on August 2, 2016, we received \$33.3 billion in cash, net of cash acquired by Teva, which includes estimated working capital and other contractual adjustments, and 100.3 million unregistered Teva ordinary shares (or American Depository Shares with respect thereto), which approximated \$5.0 billion in value using the closing date Teva opening stock price discounted at a rate of 5.9 percent due to the lack of marketability. The Company recognized a gain on the sale of our global generics business of \$15,881.5 million as well as deferred liabilities relating to other elements of our arrangements with Teva of \$518.9 million.

As part of the Teva Agreement, Teva acquired our global generics business, including the United States (“U.S.”) and international generic commercial units, our third-party supplier Medis, our global generic manufacturing operations, our global generic research and development (“R&D”) unit, our international OTC commercial unit (excluding OTC eye care products) and certain established international brands.

On October 3, 2016, the Company completed the divestiture of the Anda Distribution business to Teva for an additional \$500.0 million. Teva acquired our Anda Distribution business, which distributes generic, brand, specialty and OTC pharmaceutical products from more than 300 manufacturers to retail independent and chain pharmacies, nursing homes, mail order pharmacies, hospitals, clinics and physician offices across the U.S.

As a result of the Teva Transaction and the divestiture of the Company's Anda Distribution business, and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") number 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", the Company is accounting for the assets and liabilities divested as held for sale. Further, the financial results of the businesses held for sale have been reclassified to discontinued operations for all periods presented in our consolidated financial statements. The results of our discontinued operations include the results of our generic product development, manufacturing and distribution of off-patent pharmaceutical products, certain established international brands marketed similarly to generic products and out-licensed generic pharmaceutical products primarily in Europe through our Medis third-party business through August 2, 2016, as well as our Anda Distribution business.

The accompanying consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2015 ("Annual Report"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") have

been condensed or omitted from the accompanying consolidated financial statements. The accompanying year end consolidated balance sheet was derived from the audited financial statements included in the Annual Report as revised for discontinued operations treatment of our Anda Distribution business. The accompanying interim financial statements are unaudited and reflect all adjustments which are in the opinion of management necessary for a fair statement of the Company's consolidated financial position, results of operations, comprehensive income and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. All intercompany transactions and balances have been eliminated in consolidation. The Company's results of operations, comprehensive income and cash flows for the interim periods are not necessarily indicative of the results of operations, comprehensive income and cash flows that it may achieve in future periods.

In connection with the Allergan Acquisition, the Company changed its name from Actavis plc to Allergan plc. Actavis plc's ordinary shares were traded on the NYSE under the symbol "ACT" until the opening of trading on June 15, 2015, at which time Actavis plc changed its corporate name to "Allergan plc" and changed its ticker symbol to "AGN." Pursuant to Rule 12g-3(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Allergan plc is the successor issuer to Actavis plc's ordinary shares which are deemed to be registered under Section 12(b) of the Exchange Act, and Allergan plc is subject to the informational requirements of the Exchange Act, and the rules and regulations promulgated thereunder.

References throughout to "we," "our," "us," the "Company" or "Allergan" refer to financial information and transactions of Allergan plc. References to "Warner Chilcott Limited" refer to Warner Chilcott Limited, the Company's indirect wholly-owned subsidiary, and, unless the context otherwise requires, its subsidiaries.

NOTE 2 – Reconciliation of Warner Chilcott Limited results to Allergan plc results

Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc (together with other Warner Chilcott Limited parents, the "Parent"), the ultimate parent of the group. The results of Warner Chilcott Limited are consolidated into the results of Allergan plc. Due to the de minimis activity between Allergan plc and Warner Chilcott Limited, references throughout this filing relate to both Allergan plc and Warner Chilcott Limited. Warner Chilcott Limited representations relate only to itself and not to any other company.

Except where otherwise indicated, and excluding certain insignificant cash and non-cash transactions at the Allergan plc level, these notes relate to the consolidated financial statements for both separate registrants, Allergan plc and Warner Chilcott Limited. In addition to certain inter-company payable and receivable amounts between the entities, the following is a reconciliation of the financial position and results of operations of Warner Chilcott Limited to Allergan plc (\$ in millions):

	As of September 30, 2016		As of December 31, 2015	
	Warner Chilcott		Warner Chilcott	
	Allergan plc limited	Difference	Allergan plc limited	Difference
Cash and cash equivalents	\$7,554.7	\$7,522.8	\$ 31.9	\$1,096.0 \$1,036.2 \$ 59.8

Edgar Filing: Allergan plc - Form 10-Q

Prepaid expenses and other current assets	771.7	769.6	2.1	495.3	492.8	2.5
Accounts payable and accrued liabilities	5,425.4	4,995.8	429.6	4,148.6	4,094.5	54.1

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Warner			Warner		
	Chilcott			Chilcott		
	Allergan plc	Limited	Difference	Allergan plc	Limited	Difference
General and administrative expenses	\$ 361.2	\$ 312.2	\$ 49.0	\$ 1,033.9	\$ 966.2	\$ 67.7
Operating (loss)	(266.4)	(217.4)	(49.0)	(925.5)	(857.8)	(67.7)
Other income / (expense)	33.6	33.6	-	184.2	34.2	150.0
(Loss) before income taxes and noncontrolling interest	(539.0)	(490.0)	(49.0)	(1,720.7)	(1,803.0)	82.3
Net (loss) from continuing operations, net of tax	(380.1)	(331.1)	(49.0)	(894.9)	(977.2)	82.3
Net income	15,221.8	15,270.8	(49.0)	14,978.3	14,896.0	82.3
Dividends on preferred stock	69.6	-	69.6	208.8	-	208.8
Net income attributable to ordinary shareholder/members	15,150.4	15,269.0	(118.6)	14,765.2	14,891.7	(126.5)

12

Edgar Filing: Allergan plc - Form 10-Q

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Warner			Warner		
	Chilcott			Chilcott		
	Allergan plc	Limited	Difference	Allergan plc	Limited	Difference
General and administrative expenses	\$ 339.1	\$ 333.8	\$ 5.3	\$ 1,188.0	\$ 1,174.9	\$ 13.1
Operating (loss)	(1,377.4)	(1,372.1)	(5.3)	(2,561.5)	(2,548.4)	(13.1)
(Loss) before income taxes and noncontrolling interest	(1,713.9)	(1,708.6)	(5.3)	(3,644.0)	(3,630.9)	(13.1)
Net (loss) from continuing operations, net of tax	(875.0)	(869.7)	(5.3)	(2,153.0)	(2,139.9)	(13.1)
Net income	5,302.6	5,307.9	(5.3)	4,548.7	4,561.8	(13.1)
Dividends on preferred stock	69.6	-	69.6	162.4	-	162.4
Net income attributable to ordinary shareholder/members	5,231.6	5,306.5	(74.9)	4,383.7	4,559.2	(175.5)

The difference between accounts payable and accrued liabilities as of September 30, 2016 primarily relates to accruals for the Company's share repurchase program and dividends payable which are held by Allergan plc. The difference between general and administrative expenses in the three and nine months ended September 30, 2016 and 2015 were due to corporate related expenses incurred at Allergan plc as well as transaction costs. Movements in equity are due to historical differences in the results of operations of the companies and differences in equity awards.

NOTE 3 — Summary of Significant Accounting Policies

The following are interim updates to certain of the policies described in "Note 4" of the notes to the Company's audited consolidated financial statements for the year ended December 31, 2015 included in the Annual Report.

Reclassifications

In April 2015, the FASB issued guidance which changes the classification of debt issuance costs from being an asset on the balance sheet to netting the costs against the carrying value of the debt. As a result, the Company reclassified debt issuance costs as of December 31, 2015 by decreasing "prepaid expenses and other current assets" and "current portion of long-term debt and capital leases" by \$36.3 million as well as decreasing "investments and other assets" and "long-term debt and capital leases" by \$159.5 million. In addition, the Company made certain presentation reclassifications relating to segment results and guarantor financial statements.

Revenue Recognition

General

Revenue from product sales is recognized when title and risk of loss to the product transfers to the customer, which is based on the transaction shipping terms. Recognition of revenue also requires reasonable assurance of collection of sales proceeds, the seller's price to the buyer to be fixed or determinable and the completion of all performance obligations. The Company warrants products against defects and for specific quality standards, permitting the return of products under certain circumstances. Product sales are recorded net of all sales-related deductions including, but not limited to: chargebacks, trade discounts, sales returns and allowances, commercial and government rebates, customer loyalty programs and fee-for-service arrangements with certain distributors, which we refer to in the aggregate as "SRA" allowances.

Royalty and commission revenue is recognized as a component of net revenues in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and when revenue can be reasonably measured.

Provisions for SRAs

As is customary in the pharmaceutical industry, our gross product sales are subject to a variety of deductions in arriving at reported net product sales. When the Company recognizes gross revenue from the sale of products, an estimate of SRA is recorded, which reduces the product revenues. Accounts receivable and/or accrued liabilities are also reduced and/or increased by the SRA amount depending on whether we have the right of offset with the customer. These provisions are estimated based on historical payment experience, historical relationship of the deductions to gross product revenues, government regulations, estimated utilization

or redemption rates, estimated customer inventory levels and current contract sales terms. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material revenue adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of the SRA reserves to ensure that our financial statements are fairly stated.

Chargebacks — A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid by our wholesale customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product. The chargeback provision and related reserve varies with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at certain contract prices. The Company validates the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent the vast majority of the recipients of the Company's chargeback payments. We continually monitor current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

Rebates — Rebates include volume related incentives to direct and indirect customers, third-party managed care and Medicare Part D rebates, Medicaid rebates and other government rebates. Rebates are accrued based on an estimate of claims to be paid for product sold into trade by the Company. Volume rebates are generally offered to customers as an incentive to use the Company's products and to encourage greater product sales. These rebate programs include contracted rebates based on customers' purchases made during an applicable monthly, quarterly or annual period. The provision for third-party rebates is estimated based on our customers' contracted rebate programs and the Company's historical experience of rebates paid. Any significant changes to our customer rebate programs are considered in establishing the provision for rebates. The provisions for government rebates are based, in part, upon historical experience of claims submitted by the various states / authorities, contractual terms and government regulations. We monitor legislative changes to determine what impact such legislation may have on our provision.

Cash Discounts — Cash discounts are provided to customers that pay within a specific period. The provision for cash discounts is estimated based upon invoice billings and historical customer payment experience. The Company's experience of payment history is fairly consistent and most customer payments qualify for the cash discount.

Returns and Other Allowances — The Company's provision for returns and other allowances include returns, promotional allowances and loyalty cards.

Consistent with industry practice, the Company maintains a returns policy that allows customers to return product for a credit. In accordance with the Company's policy, credits for customer returns of products are applied against outstanding account activity or are settled in cash. Product exchanges are not permitted. Customer returns of product are generally not resalable. The Company's estimate of the provision for returns is based upon historical experience and current trends of actual customer returns. Additionally, we consider other factors when estimating the current period returns provision, including levels of inventory in the distribution channel, as well as significant market changes which may impact future expected returns.

Promotional allowances are credits that are issued in connection with a product launch or as an incentive for customers to carry our product. The Company establishes a reserve for promotional allowances based upon contractual terms.

Loyalty cards allow the end user patients a discount per prescription and are accrued based on historical experience, contract terms and the volume of product and cards in the distribution channel.

Accounts receivable balances in the Company's consolidated financial statements are presented net of SRA estimates. SRA balances in accounts receivable were \$243.8 million and \$245.2 million at September 30, 2016 and December 31, 2015, respectively. SRA balances within accounts payable and accrued expenses were \$1,797.3 million and \$1,570.0 million at September 30, 2016 and December 31, 2015, respectively. The movements in the SRA reserve balances for continuing operations in the nine months ended September 30, 2016 are as follows (\$ in millions):

Balance as of December 31, 2015	\$1,815.2
Provision to reduce gross product sales to net product sales	5,153.0
Payments and other	(4,927.1)
Balance as of September 30, 2016	\$2,041.1

The provisions recorded to reduce gross product sales to net product sales, excluding discontinued operations, were as follows (\$ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross product sales	\$ 5,332.9	\$ 4,918.4	\$ 15,727.7	\$ 12,825.8
Provisions to reduce gross product sales to net product sales	(1,757.3)	(1,503.5)	(5,153.0)	(3,871.3)
Net product sales	\$ 3,575.6	\$ 3,414.9	\$ 10,574.7	\$ 8,954.5
Percentage of provisions to gross sales	33.0 %	30.6 %	32.8 %	30.2 %

The Company's divested generics business also had the following type of SRA's:

Pricing adjustments, included shelf stock adjustments which are credits issued to reflect price decreases in selling prices charged to the Company's direct customers. Shelf stock adjustments are based upon the amount of product our customers have in their inventory at the time of an agreed-upon price reduction. The provision for shelf stock adjustments was based upon specific terms with the Company's customers and includes estimates of existing customer inventory levels based upon their historical purchasing patterns.

Billback adjustments are credits that are issued to certain customers who purchase directly from us as well as indirectly through a wholesaler. These credits are issued in the event there was a difference between the customer's direct and indirect contract price. The provision for billbacks was estimated based upon historical purchasing patterns of qualified customers who purchase product directly from us and supplement their purchases indirectly through our wholesale customers.

The Company's SRA reserves relating to discontinued operations were \$15.5 million and \$1,738.7 million as of September 30, 2016 and December 31, 2015, respectively.

Goodwill and Intangible Assets with Indefinite-Lives

General

The Company tests goodwill and intangible assets with indefinite-lives for impairment annually in the second quarter by comparing the fair value of each of the Company's reporting units to the respective carrying value of the reporting units. Additionally, the Company may perform interim tests if an event occurs or circumstances change that could potentially reduce the fair value of a reporting unit below its carrying amount. The carrying value of each reporting unit is determined by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units.

Goodwill is considered impaired if the carrying amount of the net assets exceeds the fair value of the reporting unit. Impairment, if any, would be recorded in operating income and this could result in a material impact to net income / (loss) and earnings / (loss) per share.

Acquired in-process research and development ("IPR&D") intangible assets represent the value assigned to acquired research and development projects that, as of the date acquired, represent the right to develop, use, sell and/or offer for sale a product or other intellectual property that the Company has acquired with respect to products and/or processes

that have not been completed or approved. The IPR&D intangible assets are subject to impairment testing until completion or abandonment of each project. Upon abandonment, the assets are impaired. Impairment testing requires the development of significant estimates and assumptions involving the determination of estimated net cash flows for each year for each project or product (including net revenues, cost of sales, research and development (“R&D”) costs, selling and marketing costs and other costs which may be allocated), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset’s life cycle, the potential regulatory and commercial success risks, and competitive trends impacting the asset and each cash flow stream as well as other factors. The major risks and uncertainties associated with the timely and successful completion of the IPR&D projects include legal risk, market risk and regulatory risk. Changes in these assumptions could result in future impairment charges. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change or the timely completion of each project to commercial success will occur. For these and other reasons, actual results may vary significantly from estimated results.

Upon successful completion of each project and approval of the product, we will make a separate determination of the useful life of the intangible, transfer the amount to currently marketed products (“CMP”) and amortization expense will be recorded over the estimated useful life.

Annual Testing

In connection with the realignment of the Company’s operating segments in the second quarter of 2016, goodwill was reallocated to reporting units under the new segment structure. The Company evaluated goodwill for six reporting units during the second quarter of 2016. The Company performed its annual impairment test utilizing long-term growth rates for its reporting units ranging from 0% to 2.5% in its estimation of fair value and discount rates ranging from 8.0% to 9.5%. The factors used in evaluating goodwill for impairment are subject to change and are tracked against historical results by management. Changes in the key assumptions by management can change the results of testing. The Company determined there was no impairment associated with goodwill.

During 2016, the Company tested its indefinite-lived trade name intangible assets for impairment noting no impairment.

The Company performed its annual IPR&D impairment test during 2016 noting the impairment of an international eye care pipeline project of \$35.0 million based on a decrease in projected cash flows due to market conditions as well as an impairment of \$20.0 million for a specified indication of a Botox therapeutic product based on a decrease in projected cash flows due to a decline in market demand assumptions. In addition, during the nine months ended September 30, 2016, the Company impaired IPR&D projects relating to women’s healthcare for \$24.0 million and osteoarthritis for approximately \$190.0 million based on clinical results and during the three and nine months ended September 30, 2016, the Company impaired a gastroenterology project for \$42.0 million based on the lack of future availability of active pharmaceutical ingredients.

During the nine months ended September 30, 2015, the Company recorded a \$197.6 million impairment related to IPR&D for select projects as the Company revised its sales forecast of certain assets as well as the timing of the launch of certain projects in connection with the Company’s annual review. In addition, during the three and nine months ended September 30, 2015, the Company made the decision to abandon a select IPR&D asset (acquired in connection with the Allergan Acquisition) based on review of research studies, resulting in an impairment of the full asset value of \$300.0 million.

Litigation and Contingencies

The Company is involved in various legal proceedings in the normal course of its business, including product liability litigation, intellectual property litigation, employment litigation and other litigation. Additionally, the Company, in consultation with its counsel, assesses the need to record a liability for contingencies on a case-by-case basis in accordance with FASB Accounting Standards Codification (“ASC”) Topic 450 “Contingencies” (“ASC 450”). Accruals are recorded when the Company determines that a loss related to a matter is both probable and reasonably estimable. These accruals are adjusted periodically as assessment efforts progress or as additional information becomes available. Acquired contingencies in business combinations are recorded at fair value to the extent determinable, otherwise in accordance with ASC 450. Refer to “NOTE 20 — Commitments and Contingencies” for more information.

Earnings Per Share (“EPS”)

The Company computes EPS in accordance with ASC Topic 260, “Earnings Per Share” (“ASC 260”) and related guidance, which requires two calculations of EPS to be disclosed: basic and diluted. Basic EPS is computed by dividing net (loss) / income by the weighted average ordinary shares outstanding during a period. Diluted EPS is

based on the treasury stock method and includes the effect from potential issuance of ordinary shares, such as shares issuable pursuant to the exercise of stock options and restricted stock units. Diluted EPS also includes the impact of ordinary share equivalents to be issued upon the mandatory conversion of the Company's preferred shares. Ordinary share equivalents have been excluded where their inclusion would be anti-dilutive.

Edgar Filing: Allergan plc - Form 10-Q

A reconciliation of the numerators and denominators of basic and diluted EPS consisted of the following (\$ in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) / income:				
Net (loss) attributable to ordinary shareholders				
excluding income from discontinued operations,				
net of tax	\$ (451.5)	\$ (946.0)	\$ (1,108.0)	\$ (2,318.0)
Income from discontinued operations, net of tax	15,601.9	6,177.6	15,873.2	6,701.7
Net income attributable to ordinary shareholders	\$ 15,150.4	\$ 5,231.6	\$ 14,765.2	\$ 4,383.7
Basic weighted average ordinary shares outstanding	392.7	393.6	394.4	358.9
Basic EPS:				
Continuing operations	\$ (1.15)	\$ (2.40)	\$ (2.81)	\$ (6.46)
Discontinued operations	\$ 39.73	\$ 15.69	\$ 40.25	\$ 18.67
Net income per share	\$ 38.58	\$ 13.29	\$ 37.44	\$ 12.21
Diluted weighted average ordinary shares				
outstanding	392.7	393.6	394.4	358.9
Diluted EPS:				
Continuing operations	\$ (1.15)	\$ (2.40)	\$ (2.81)	\$ (6.46)
Discontinued operations	\$ 39.73	\$ 15.69	\$ 40.25	\$ 18.67
Net income per share	\$ 38.58	\$ 13.29	\$ 37.44	\$ 12.21

Stock awards to purchase 4.4 million and 4.7 million ordinary shares for the three and nine months ended September 30, 2016, respectively, were outstanding, but not included in the computation of diluted EPS, because the awards were anti-dilutive for continuing operations and as such the treatment for discontinued operations is also anti-dilutive. The weighted average impact of ordinary share equivalents of 17.6 million for the three and nine months ended September 30, 2016, respectively, which are anticipated to result from the mandatory conversion of the Company's preferred shares were not included in the calculation of diluted EPS as their impact would be anti-dilutive. As of September 30, 2016, the Company has repurchased 12.8 million shares under the Company's share repurchase program. The impact of the share repurchase on basic EPS was 3.2 million weighted average shares and 1.1 million weighted average shares for the three and nine months ended September 30, 2016, respectively. Refer to "NOTE 16 –Shareholder's Equity" for further discussion on the Company's Share Repurchase Program.

Stock awards to purchase 5.1 million and 5.2 million ordinary shares during the three and nine months ended September 30, 2015, respectively, were outstanding, but not included in the computation of diluted EPS, because the impact of the awards were anti-dilutive for continuing operations and as such the treatment for discontinued operations is also anti-dilutive. The weighted average impact of ordinary share equivalents of 17.6 million and 13.6 million for the three and nine months ended September 30, 2015, respectively, which are anticipated to result from the mandatory conversion of the Company's preferred shares were not included in the calculation of diluted EPS as their impact would be anti-dilutive.

Restructuring Costs

The Company records liabilities for costs associated with exit or disposal activities in the period in which the liability is incurred. In accordance with existing benefit arrangements, employee severance costs are accrued when the restructuring actions are probable and estimable. Costs for one-time termination benefits in which the employee is required to render service until termination in order to receive the benefits are recognized ratably over the future service period. The Company also incurs costs with contract terminations and costs of transferring products as part of restructuring activities. Refer to "NOTE 19 — Business Restructuring Charges" for more information.

Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), with an effective date for annual reporting periods beginning after December 15, 2016, including interim periods within

that reporting period, for public business entities, certain not-for-profit entities, and certain employee benefit plans. The effective date for ASU 2014-09 was deferred by one year through the issuance of ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In January 2016, the FASB issued Accounting Standards Update 2016-01, which changes the requirement to require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance is not anticipated to have a material impact on the Company's financial position or results of operations.

In February 2016, the FASB issued Accounting Standards Update 2016-02, which states that a lessee should recognize the assets and liabilities that arise from leases. This update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In March 2016, the FASB issued ASU No. 2016-07: Simplifying the Transition to the Equity Method of Accounting. This guidance eliminates the requirement to retroactively adopt the equity method of accounting when there is an increase in the level of ownership interest or degree of influence. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Management believes that the adoption of this guidance will not have a material impact on our financial statements.

In March 2016, the FASB has issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 Revenue from Contracts with Customers requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date and transition of these amendments is the same as the effective date and transition requirements in Topic 606. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company is evaluating the impact the pronouncement will have on our financial positions and results of operations.

In April 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following

two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients, which include assessing the specific collectability criterion and accounting for contracts that do not meet the criteria for Step 1 to determine whether a contract is valid and represents a genuine transaction; presentation of sales taxes and other similar taxes collected from customers; noncash consideration; contract modifications at transition; and completed contracts at transition. The amendments also clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption, however, an entity is still required to disclose the effect of the changes on any prior periods retrospectively adjusted. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements for Topic 606. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is evaluating the impact, if any, the pronouncement will have on our financial positions and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on specific cash flow issues including: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and (9) Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is evaluating the impact, if any, the pronouncement will have on our statement of cash flows.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of the amendments are intellectual property and property, plant, and equipment. The amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities in the first interim period if an entity issues interim financial statements. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is evaluating the impact the pronouncement will have on our financial positions and results of operations.

NOTE 4 — Acquisitions and Other Agreements

Edgar Filing: Allergan plc - Form 10-Q

During the nine months ended September 30, 2015, the Company acquired material assets and businesses. The pro forma results of the businesses acquired that materially impacted the reported results of the Company are as follows (unaudited; \$ in millions except per share information):

	Nine Months Ended September 30, 2015 Allergan		
	As reported	Acquisition	Pro Forma
Net Revenue	\$9,081.2	\$ 1,523.0	\$10,604.2
Net income attributable to ordinary shareholders	\$4,383.7	\$ 377.7	\$4,761.4
Net (loss) per share			
Basic	\$12.21		\$11.58
Diluted	\$12.21		\$11.58

2016 Transactions

The following are the significant transactions that were completed in the nine months ended September 30, 2016. Refer to “NOTE 5 – Discontinued Operations” for material divestitures that were completed / entered into in the nine months ended September 30, 2016.

Acquisitions

ForSight VISION 5

On September 23, 2016, the Company acquired ForSight VISION 5 (“ForSight”), a privately held, clinical-stage biotechnology company focused on eye care, in an all cash transaction of approximately \$95.0 million. Under the terms of the agreement, the Company acquired ForSight for an acquisition accounting purchase price of \$74.5 million plus the payment of outstanding indebtedness of \$14.8 million and other miscellaneous charges. ForSight shareholders are eligible to receive contingent consideration of up to \$125.0 million, which has an initial estimated fair value of \$79.8 million, relating to commercialization milestones (the “ForSight Acquisition”). The Company acquired ForSight for its lead development program, a peri-ocular ring designed for extended drug delivery and reducing elevated intraocular pressure (“IOP”) in glaucoma patients.

Assets Acquired and Liabilities Assumed at Fair Value

The ForSight Acquisition has been accounted for using the acquisition method of accounting. This method requires that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The following table summarizes the final fair values of the assets acquired and liabilities assumed at the acquisition date (\$ in millions):

	Amount
Cash and cash equivalents	\$ 1.0
IPR&D intangible asset	158.0
Goodwill	54.2
Current liabilities	(15.8)
Contingent consideration	(79.8)
Deferred tax liabilities, net	(43.1)
Net assets acquired	\$ 74.5

IPR&D and Intangible Assets

IPR&D intangible assets represent the value assigned to acquired R&D projects that, as of the acquisition date, had not established technological feasibility and had no alternative future use. The IPR&D intangible assets are capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project and launch of the product, the Company will make a separate determination of the estimated useful life of the IPR&D intangible asset and the related amortization will be recorded as an expense over the estimated useful life (“IPR&D Acquisition Accounting”).

The estimated fair value of the IPR&D intangible assets was determined using the “income approach,” which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of those asset valuations include the estimated net cash flows for each year for each asset or product (including net revenues, cost of sales, R&D costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future

cash flow stream, the assessment of each asset's life cycle, the potential regulatory and commercial success risks, competitive trends impacting the asset and each cash flow stream as well as other factors (the "IPR&D and Intangible Asset Valuation Technique").

The fair value of the IPR&D intangible assets was determined using the IPR&D and Intangible Asset Valuation Technique. The discount rate used to arrive at the present value for IPR&D intangible assets was 13.0% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. The discount rate of the acquisition was driven by the early stage of the product and the therapeutic indication. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

Goodwill

Among the reasons the Company acquired ForSight and the factors that contributed to the preliminary recognition of goodwill was the expansion of the Company's pipeline of eye care products. Goodwill from the ForSight Acquisition of \$54.2 million was assigned to the US Specialized Therapeutics segment and is non-deductible for tax purposes.

Contingent Consideration

As part of the acquisition, the Company is required to pay the former shareholders of ForSight up to \$125.0 million based on the timing of the first commercial sale, if any. The Company estimated the fair value of the contingent consideration to be \$79.8 million using a probability weighted average approach that considered the possible outcomes of scenarios related to the specified product.

Long-Term Deferred Tax Liabilities and Other Tax Liabilities

Long-term deferred tax liabilities and other tax liabilities result from identifiable intangible assets' fair value adjustments. These adjustments create excess book basis over the tax basis which is multiplied by the statutory tax rate for the jurisdiction in which the deferred taxes exist.

Licenses and Other Transactions Accounted for as Asset Acquisitions

RetroSense Therapeutics, LLC

On September 6, 2016, the Company acquired certain assets of RetroSense Therapeutics LLC ("RetroSense"), a private, clinical-stage biotechnology company focused on novel gene therapy approaches to restore vision in patients suffering from blindness. Under the terms of the transaction, RetroSense received approximately \$60.0 million upfront, and is eligible to receive up to \$495.0 million in contingent regulatory and commercialization milestone payments related to its lead development program, RST-001, a novel gene therapy for the treatment of Retinitis Pigmentosa (the "RetroSense Transaction"). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of \$59.7 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Akarna Therapeutics, Ltd

On August 26, 2016, the Company acquired Akarna Therapeutics, Ltd ("Akarna"), a biopharmaceutical company developing novel small molecule therapeutics that target inflammatory and fibrotic diseases. Under the terms of the transaction, Akarna shareholders received approximately \$50.0 million upfront and are eligible to receive contingent development and commercialization milestones of up to \$1,015.0 million (the "Akarna Transaction"). The Company concluded based on the stage of development of the assets as well as a lack of certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of \$48.2 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Topokine Therapeutics

On April 21, 2016, the Company acquired Topokine Therapeutics ("Topokine"), a privately held, clinical-stage biotechnology company focused on development stage topical medicines for fat reduction. Under the terms of the agreement, Topokine shareholders received an upfront payment of approximately \$85.0 million and are eligible to receive contingent development and commercialization milestones of up to \$260.0 million for XAF5, a first-in-class

topical agent in development for the treatment of steatoblepharon, also known as undereye bags (the “Topokine Transaction”). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of approximately \$85.0 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Heptares Therapeutics

On April 6, 2016, the Company entered into an agreement with Heptares Therapeutics (“Heptares”), under which the Company licensed exclusive global rights to a portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease. Under the terms of the agreement, Heptares received an upfront payment of \$125.0 million and is eligible to receive contingent milestone payments of up to approximately \$665.0 million contingent upon the successful Phase 1, 2 and 3 clinical development and launch of the first three licensed compounds for multiple indications and up to approximately \$2.575 billion associated with achieving certain annual sales thresholds during the several years following launch (the “Heptares Transaction”). In addition, Heptares is eligible to receive contingent tiered royalties on net sales of all products resulting from the partnership. The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront payment of approximately \$125.0 million was expensed as a component of R&D expense and the future milestones will be recorded when the event becomes probable.

Anterios, Inc.

On January 6, 2016, the Company acquired Anterios, Inc. (“Anterios”), a clinical stage biopharmaceutical company developing a next generation delivery system and botulinum toxin-based prescription products. Under the terms of the agreement, Anterios shareholders received an upfront net payment of approximately \$90.0 million and are eligible to receive contingent development and commercialization milestone payments up to \$387.5 million related to an investigational topical formulation of botulinum toxin type A in development for the potential treatment of hyperhidrosis, acne, and crow’s feet lines and the related NDS™, Anterios' proprietary platform delivery technology that enables local, targeted delivery of neurotoxins through the skin without the need for injections (“the Anterios Transaction”). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of approximately \$90.0 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

2015 Transactions

The following are the significant transactions that were completed in the year ended December 31, 2015.

Acquisitions

AqueSys, Inc.

On October 16, 2015, the Company acquired AqueSys, Inc. (“AqueSys”), a private, clinical-stage medical device company focused on developing ocular implants that reduce IOP associated with glaucoma, in an all-cash transaction. Under the terms of the agreement, the Company acquired AqueSys for an acquisition accounting purchase price of \$298.9 million, including \$193.5 million for the estimated fair value of contingent consideration relating to the regulatory approval and commercialization milestone payments. The Company acquired AqueSys for its development program, including XEN45, a soft shunt that is implanted in the sub conjunctival space in the eye through a minimally invasive procedure with a single use, pre-loaded proprietary injector (the “AqueSys Acquisition”).

Assets Acquired and Liabilities Assumed at Fair Value

The AqueSys Acquisition has been accounted for using the acquisition method of accounting. This method requires that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The following table summarizes the final fair values of the assets acquired and liabilities assumed at the acquisition date (\$ in millions):

	Amount
Cash and cash equivalents	\$6.2
Current assets	1.2
IPR&D intangible assets	302.0
Intangible assets	221.0
Goodwill	138.5
Current liabilities	(6.9)
Contingent consideration	(193.5)

Deferred tax liabilities, net	(169.6)
Net assets acquired	\$ 298.9

Kythera Biopharmaceuticals

On October 1, 2015, the Company acquired Kythera Biopharmaceuticals (“Kythera”) for \$75.00 per share, or an acquisition accounting purchase price of \$2,089.5 million (the “Kythera Acquisition”). Kythera was focused on the discovery, development and commercialization of novel prescription aesthetic products. Kythera’s lead product, Kybella® injection, is the first and only Food and Drug Administration (“FDA”) approved, non-surgical treatment for moderate to severe submental fullness, commonly referred to as double chin.

Assets Acquired and Liabilities Assumed at Fair Value

The Kythera Acquisition has been accounted for using the acquisition method of accounting. This method requires that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The following table summarizes the final fair values of the assets acquired and liabilities assumed at the acquisition date (\$ in millions):

	Amount
Cash and cash equivalents	\$78.1
Marketable securities	79.9
Inventory	18.2
Other current assets	14.5
IPR&D intangible assets	320.0
Intangible assets	2,120.0
Goodwill	328.7
Other current liabilities	(48.6)
Deferred tax, net	(766.7)
Outstanding indebtedness	(54.6)
Net assets acquired	\$2,089.5

Allergan, Inc.

On March 17, 2015, the Company acquired Legacy Allergan for approximately \$77.0 billion including outstanding indebtedness assumed of \$2.2 billion, cash consideration of \$40.1 billion and equity consideration of \$34.7 billion, which includes outstanding equity awards (the "Allergan Acquisition"). Under the terms of the agreement, Legacy Allergan shareholders received 111.2 million of the Company's ordinary shares, 7.0 million of the Company's non-qualified stock options and 0.5 million of the Company's share units. The addition of Legacy Allergan's therapeutic franchises in ophthalmology, neurosciences and medical aesthetics/dermatology/plastic surgery complements the Company's existing central nervous system, gastroenterology, women's health and urology franchises. The combined company also benefited significantly from Legacy Allergan's global brand equity and consumer awareness of key products, including Botox® and Restasis®. The transaction expanded our presence and market and product reach across many international markets, with strengthened commercial positions across Canada, Europe, Southeast Asia and other high-value growth markets, including China, India, the Middle East and Latin America.

Inventories

The fair value of inventories acquired included an acquisition accounting fair market value step-up of \$923.9 million. In the nine months ended September 30, 2016, the Company recognized \$21.6 million as a component of cost of sales as the inventory acquired was sold to the Company's customers.

In the three and nine months ended September 30, 2015, the Company recognized \$274.5 million and \$778.9 million, respectively, as a component of cost of sales as the inventory acquired was sold to the Company's customers.

Acquisition-Related Expenses

As a result of the Allergan Acquisition, the Company incurred the following transaction and integration costs in the three months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Legacy Allergan employees	\$ 2.2	\$ 4.7
Acquisition, integration and restructuring related charges	6.6	0.3
Research and development		
Stock-based compensation acquired for Legacy Allergan employees	9.3	16.6
Acquisition, integration and restructuring related charges	6.8	17.5
Selling and marketing		
Stock-based compensation acquired for Legacy Allergan employees	15.8	23.6
Acquisition, integration and restructuring related charges	(1.2)	5.4
General and administrative		
Stock-based compensation acquired for Legacy Allergan employees	9.9	16.8
Acquisition, integration and restructuring related charges	50.4	65.7
Total transaction and integration costs	\$ 99.8	\$ 150.6

As a result of the Allergan Acquisition, the Company incurred the following transaction and integration costs in the nine months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Legacy Allergan employees	\$ 7.4	\$ 18.9
Acquisition, integration and restructuring related charges	12.4	12.4
Research and development		
Stock-based compensation acquired for Legacy Allergan employees	32.6	108.2
Acquisition, integration and restructuring related charges	10.6	83.7
Selling and marketing		
Stock-based compensation acquired for Legacy Allergan employees	53.0	86.5
Acquisition, integration and restructuring related charges	11.7	65.9
General and administrative		
Stock-based compensation acquired for Legacy Allergan employees	28.2	243.0
Acquisition-related expenditures	-	65.5
Acquisition, integration and restructuring related charges	144.0	231.4
Other (expense) income		

Bridge loan facilities expense	-	(264.9)
Interest rate lock	-	30.9
Total transaction and integration costs	\$ 299.9	\$ 1,149.5

Licenses and Other Transactions Accounted for as Asset Acquisitions

Naurex, Inc.

On August 28, 2015, the Company acquired certain products in early stage development of Naurex, Inc. (“Naurex”) in an all-cash transaction of \$571.7 million (the “Naurex Transaction”) plus future contingent payments of up to \$1,150.0 million, which was accounted for as an asset acquisition. The Company recognized the upfront consideration of \$571.7 million as a component of R&D expenses in the three and nine months ended September 30, 2015. The Company concluded based on the stage of development of the assets, the lack of acquired employees and manufacturing as well as certain other inputs and processes that the transaction did not qualify as a business. The Naurex Transaction expands our pipeline with Naurex’s two leading product candidates GLYX-13 and NRX-1074, two compounds that utilize NMDA modulation as a potential new approach to the treatment of Major Depressive Disorder (“MDD”), a disease that can lead to suicidality among the most severe patients.

Migraine License

On August 17, 2015, the Company entered into an agreement with Merck & Co. (“Merck”) under which the Company acquired the exclusive worldwide rights to Merck’s early development stage investigational small molecule oral calcitonin gene-related peptide receptor antagonists, which are being developed for the treatment and prevention of migraines (the “Merck Transaction”). The Merck Transaction was accounted for as an asset acquisition. The Company acquired these rights for an upfront charge of \$250.0 million that was recorded as a component of R&D expense in the three and nine months ended September 30, 2015. The Company concluded based on the stage of development of the assets, the lack of acquired employees and manufacturing as well as certain other inputs and processes that the transaction did not qualify as a business. The Company paid \$125.0 million of the initial charge in the year ended December 31, 2015 and the remaining \$125.0 million was paid in April 2016. In the quarter ended September 30, 2016, the Company incurred \$100.0 million of milestones under the agreement, which were included as a component of R&D expense. Additionally, Merck is owed additional contingent payments based on commercial and development milestones of up to \$865.0 million as well as royalties.

Divestitures

Respiratory Business

As part of the Forest Acquisition (defined below), we acquired certain assets that comprised Legacy Forest’s branded respiratory business in the U.S. and Canada (the “Respiratory Business”). During the year ended December 31, 2014, we held for sale respiratory assets of \$734.0 million, including allocated goodwill to this unit of \$309.1 million. On March 2, 2015, the Company sold the Respiratory Business to AstraZeneca plc (“AstraZeneca”) for consideration of \$600.0 million upon closing, additional funds to be received for the sale of certain of our inventory to AstraZeneca and low single-digit royalties above a certain revenue threshold. AstraZeneca also paid Allergan an additional \$100.0 million and Allergan has agreed to a number of contractual consents and approvals, including certain amendments to the ongoing collaboration agreements between AstraZeneca and Allergan (the “Respiratory Sale”). As a result of the final terms of the agreement, in the nine months ended September 30, 2015, the Company recognized an incremental charge in cost of sales (including the acquisition accounting fair value mark-up of inventory) relating to inventory that will not be sold to AstraZeneca of \$35.3 million. The Company recognized a loss in other (expense) income, net of the sale of the business for \$5.3 million in the nine months ended September 30, 2015.

2014 Transactions

The following are the significant transactions that were completed in the year ended December 31, 2014.

Durata Therapeutics, Inc.

On November 17, 2014, the Company completed its tender offer to purchase all of the outstanding shares of Durata Therapeutics, Inc. (“Durata”), an innovative pharmaceutical company focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses (the “Durata Acquisition”). The Company purchased all outstanding shares of Durata, which were valued at approximately \$724.5 million, including the assumption of debt. Additionally, there is one contingent value right (“CVR”) per share, entitling the holder to receive additional cash payments of up to \$5.00 per CVR if certain regulatory or commercial milestones related to Durata’s lead product Dalvanc[®] are achieved. The CVR had an acquisition date fair value of \$49.0 million.

Contingent Consideration

At the time of the Durata Acquisition, additional consideration was conditionally due to the seller based upon the approval of Dalvance® in Europe, the approval of a single dose indication and the product reaching certain sales milestones. The Company estimated the acquisition accounting fair value of the contingent consideration to be \$49.0 million using a probability weighted approach that considered the possible outcomes based on assumptions related to the timing and probability of the product launch date, discount rates matched to the timing of the payment, and probability of success rates and discount adjustments on the related cash flows. On March 2, 2015, the Company announced that the European Commission had granted Allergan's subsidiary Durata Therapeutics International B.V., marketing authorization for Xydalba™ (dalbavancin) for the treatment of acute bacterial skin and skin structure infections (ABSSSI) in adults. The approval triggered the first CVR payment in the quarter ended March 31, 2015 of \$30.9 million. In January 2016, the Company received approval from the FDA for an expanded label that will include a single dose of Dalvance®, which triggered a second CVR payment of \$30.9 million in the quarter ended March 31, 2016. The difference between the probability weighted fair value and the final payments are recorded as a component of cost of sales.

Forest Laboratories, Inc.

On July 1, 2014, the Company acquired Forest Laboratories, Inc. (“Legacy Forest”) for \$30.9 billion including outstanding indebtedness assumed of \$3.3 billion, equity consideration of \$20.6 billion, which includes outstanding equity awards, and cash consideration of \$7.1 billion (the “Forest Acquisition”). Under the terms of the transaction, Legacy Forest shareholders received 89.8 million Allergan plc ordinary shares, 6.1 million Allergan plc non-qualified stock options and 1.1 million Allergan plc share units. Legacy Forest was a leading, fully integrated, specialty pharmaceutical company largely focused on the United States market. Legacy Forest marketed a portfolio of branded drug products and developed new medicines to treat patients suffering from diseases principally in the following therapeutic areas: central nervous system, cardiovascular, gastrointestinal, respiratory, anti-infective, and cystic fibrosis. A portion of the assets acquired were divested as part of the Teva Transaction.

Inventories

The fair value of inventories acquired included an acquisition accounting fair market value step-up of \$1,036.3 million. In the nine months ended September 30, 2016, the Company recognized \$20.1 million as a component of cost of sales as the inventory acquired on July 1, 2014 was sold to the Company’s customers.

In the three and nine months ended September 30, 2015, the Company recognized \$15.4 million and \$202.0 million, respectively, as a component of cost of sales as the inventory acquired on July 1, 2014 was sold to the Company’s customers in addition to a write-off associated with the Respiratory Sale. A portion of these amounts are included in discontinued operations in the nine months ended September 30, 2015.

As a result of the Forest Acquisition, the Company incurred the following transaction and integration costs in the three months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Forest employees	\$ 0.2	\$ 0.9
Research and development		
Stock-based compensation acquired for Forest employees	2.0	5.5
Acquisition, integration and restructuring related charges	0.2	0.4
Selling and marketing		
Stock-based compensation acquired for Forest employees	6.9	9.4
Acquisition, integration and restructuring related charges	-	0.4
General and administrative		
Stock-based compensation acquired for Forest employees	5.9	10.7
Acquisition, integration and restructuring related charges	0.5	19.6
Total transaction and integration costs	\$ 15.7	\$ 46.9

As a result of the Forest Acquisition, the Company incurred the following transaction and integration costs in the three and nine months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Forest employees	\$ 1.4	\$ 3.6
Acquisition, integration and restructuring related charges	-	1.1
Research and development		
Stock-based compensation acquired for Forest employees	10.9	30.0
Acquisition, integration and restructuring related charges	0.5	9.2
Selling and marketing		
Stock-based compensation acquired for Forest employees	21.7	37.8
Acquisition, integration and restructuring related charges	-	17.3
General and administrative		
Stock-based compensation acquired for Forest employees	24.6	43.0
Acquisition, integration and restructuring related charges	1.7	66.8
Total transaction and integration costs	\$ 60.8	\$ 208.8

NOTE 5 — Discontinued Operations

Global Generics Business

On July 27, 2015, the Company announced that it entered into the Teva Transaction, which closed on August 2, 2016. Under the Teva Agreement, Teva acquired Allergan's global generics business, including the U.S. and international generic commercial units, our third-party supplier Medis, our global generic manufacturing operations, our global generic R&D unit, our international OTC commercial unit (excluding OTC eye care products) and some established international brands. Allergan retained its global branded pharmaceutical and medical aesthetics businesses, as well as its biosimilars development programs, and certain OTC products. The Company will also have continuing involvement with Teva after the close of the transaction. As a result of the Teva Transaction, the Company holds equity in Teva and purchases product manufactured by Teva for sale in our US General Medicine segment as part of ongoing transitional service and contract manufacturing agreements.

The Company notes the following reconciliation of the proceeds received in the Teva Transaction to the gain recognized in income from discontinued operations (\$ in millions):

Net cash proceeds received	\$33,304.5
August 2, 2016 fair value of Teva shares	5,038.6
Total Proceeds	\$38,343.1
Net assets sold to Teva, excluding cash	(12,076.7)

Other comprehensive income disposed	(1,544.8)
Deferral of proceeds relating to additional elements of agreements with Teva	(518.9)
Pre-tax gain on sale of generics business	\$24,202.7
Income taxes	(8,321.2)
Net gain on sale of generics business	\$15,881.5

In October 2016, pursuant to the Teva Agreement, Teva provided its proposed estimated adjustment to the closing date working capital balance to the Company. The final amount of any agreed contractual adjustment could vary materially from the adjustment calculated by the Company at the time of the closing of the Teva Transaction and any agreed adjustment to the Company's proceeds from the Teva Transaction could have a material adverse effect on the Company's results of operations and cash flows. The Company expects the amount of the adjustment will be determined in accordance with and subject to the terms of the Teva Agreement.

The Teva Shares are recorded within "Marketable securities" on the Company's Consolidated Balance Sheet. During the three and nine months ended September 30, 2016, the Company recorded a \$664.2 million unrealized loss on the Teva Shares due to movements in the share price, which was recorded as a component of "Other comprehensive income."

On October 3, 2016, the Company completed the divestiture of the Anda Distribution business for an additional \$500.0 million. Teva acquired our Anda Distribution business, which distributes generic, brand, specialty and OTC pharmaceutical products from

more than 300 manufacturers to retail independent and chain pharmacies, nursing homes, mail order pharmacies, hospitals, clinics and physician offices across the United States.

Financial results of the global generics business through August 2, 2016 and the Anda Distribution business are presented as “Income from discontinued operations” on the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015; and assets and liabilities of the businesses are presented as “Current assets held for sale”, “Non current assets held for sale”, “Current liabilities held for sale” and “Long term liabilities held for sale” on the Consolidated Balance Sheet as applicable.

The following table presents key financial results of the businesses included in "Income from discontinued operations" for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	\$ 756.5	\$ 1,984.8	\$ 4,504.3	\$ 6,362.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	531.0	1,243.3	2,798.3	3,647.1
Research and development	37.3	98.9	269.6	317.4
Selling and marketing	69.1	159.3	352.6	542.2
General and administrative	90.3	204.0	399.4	528.3
Amortization	-	36.1	4.8	333.9
Asset sales and impairments, net	-	3.2	-	54.1
Total operating expenses	727.7	1,744.8	3,824.7	5,423.0
Operating income	28.8	240.0	679.6	939.3
Other (expense) income, net	15,881.5	(0.3)	15,881.1	(8.4)
Provision / (benefit) for income taxes	308.4	(5,937.9)	687.5	(5,770.8)
Net income from discontinued operations	\$ 15,601.9	\$ 6,177.6	\$ 15,873.2	\$ 6,701.7

“Other (expense) income, net” included the gain on sale of the generics business to Teva.

For the nine months ended September 30, 2015, the Company recorded a deferred tax benefit of \$5,985.4 million related to investments in certain subsidiaries. The recognition of this benefit has been reflected in “Income from discontinued operations, net of tax” with the deferred tax asset reflected in non-current “Deferred tax liabilities” on the December 31, 2015 balance sheet as adjusted for activity in the fourth quarter of 2015. For the nine months ended September 30, 2016, the Company recorded a deferred tax expense of \$474.7 million to adjust its deferred tax asset related to investments in certain subsidiaries. The recognition of this expense has been reflected in “Income from discontinued operations, net of tax.” Upon the closing of the Teva Transaction, the Company recorded the reversal of the corresponding deferred tax asset of \$5,273.9 million against the current income taxes payable in continuing operations.

The following table presents the aggregate carrying amounts of the major classes of assets and liabilities related to the businesses (\$ in millions):

	September 30, 2016	December 31, 2015
Assets:		
Accounts receivable, net	\$ 164.3	\$ 2,365.9
Inventories	270.8	1,390.7
Prepaid expenses and other current assets	16.3	329.7
Property, plant and equipment, net	23.6	1,398.2
Investments and other assets	6.6	42.2
Non-current deferred tax assets	-	162.1
Product rights and other intangibles	90.7	3,014.8
Goodwill	86.3	6,096.0
Total assets	\$ 658.6	\$ 14,799.6
Liabilities:		
Accounts payable and accrued expenses	\$ 223.7	\$ 1,656.7
Income taxes payable	-	34.4
Debt and capital leases	-	5.8
Other long-term liabilities	3.9	92.0
Other taxes payable	-	69.0
Long-term deferred tax liabilities	19.9	370.7
Total liabilities	\$ 247.5	\$ 2,228.6

Depreciation and amortization was ceased upon the determination that the held for sale criteria were met, which was the announcement date of the Teva Transaction and June 30, 2016 for the Anda Distribution business. The depreciation, amortization and significant operating and investing non-cash items of the discontinued operations were as follows (\$ in millions):

	Nine Months Ended September 30,	
	2016	2015
Depreciation from discontinued operations	\$2.1	\$86.4
Amortization from discontinued operations	4.8	333.9
Capital expenditures	85.3	182.6
Deferred income taxes expense / (benefit)	5,893.4	(6,301.6)

NOTE 6 – Other Income/(Expense)

On November 23, 2015, the Company announced that it entered into a definitive merger agreement (the “Pfizer Agreement”) under which Pfizer Inc. (“Pfizer”), a global innovative biopharmaceutical company, and Allergan plc would

merge in a stock and cash transaction. On April 6, 2016, the Company announced that its merger agreement with Pfizer was terminated by mutual agreement. In connection with the termination of the merger agreement, Pfizer has paid Allergan plc \$150.0 million for expenses associated with the transaction which is included as a component of other income (expense) in the nine months ended September 30, 2016. In addition, as part of the then pending Pfizer Agreement, the Company incurred transaction related expenses of \$18.0 million and \$92.9 million in the three and nine months ended September 30, 2016, respectively.

As a result of the Teva Transaction, the Company acquired 100.3 million Teva ordinary shares. During the three and nine months ended September 30, 2016, the Company received dividend income of \$34.1 million.

NOTE 7 — Share-Based Compensation

The Company recognizes compensation expense for all share-based compensation awards made to employees and directors based on the fair value of the awards on the date of grant. A summary of the Company's share-based compensation plans is presented below.

Equity Award Plans

The Company has adopted several equity award plans which authorize the granting of options, restricted shares, restricted stock units and other forms of equity awards of the Company's ordinary shares, subject to certain conditions.

The Company granted/grants awards with the following features:

- Time-based vesting restricted stock and restricted stock units awards;
- Performance-based restricted stock unit awards measured to the EBITDA, as defined, of the Company or other performance-based targets defined by the Company;
- Performance-based restricted stock unit awards based on pre-established total shareholder returns metrics;
- Non-qualified options to purchase outstanding shares; and
- Cash-settled awards recorded as a liability. These cash settled awards are based on pre-established total shareholder returns metrics.

Option award plans require options to be granted at the fair value of the shares underlying the options at the date of the grant and generally become exercisable over periods ranging from three to five years. Each option granted expires ten years from the date of the grant. Restricted stock awards are grants that entitle the holder to ordinary shares, subject to certain terms. Restricted stock unit awards are grants that entitle the holder the right to receive an ordinary share, subject to certain terms. Restricted stock and restricted stock unit awards (both time-based vesting and performance-based vesting) generally have restrictions lapsed over a one to four year vesting period. Restrictions generally lapse for non-employee directors after one year. Certain restricted stock units are performance-based awards issued at a target number with the actual number of ordinary shares issued ranging based on achievement of the performance criteria. The Company's equity awards include the acquired awards from the Allergan and Kythera acquisitions ("2015 Acquired Awards").

Fair Value Assumptions

All restricted stock and restricted stock units (whether time-based vesting or performance-based vesting), are granted and expensed, using the fair value per share on the applicable grant date, over the applicable vesting period. Non-qualified options to purchase ordinary shares are granted to employees at exercise prices per share equal to the closing market price per share on the date of grant. The fair value of non-qualified options is determined on the applicable grant dates using the Black-Scholes method of valuation and that amount is recognized as an expense over the vesting period. Using the Black-Scholes valuation model, the fair value of options is based on the following assumptions:

	2016	2015	2015 Acquired
	Grants	Grants	Awards
Dividend yield	0%	0%	0%
Expected volatility	27.0%	26.0-29.0%	26.0-27.0%
Risk-free interest rate	1.3%-1.6%	1.9-2.1%	0.1-2.1%
Expected term (years)	7.0	7.0 - 7.5	up to 6.9

Share-Based Compensation Expense

Edgar Filing: Allergan plc - Form 10-Q

Share-based compensation expense recognized in the Company's results of operations for the three months ended September 30, 2016 and 2015 were as follows (\$ in millions):

	Three Months Ended September 30, 2016 2015	
Equity based compensation awards	\$81.1	\$109.8
Cash-settled equity awards in connection with the ForSight Acquisition	3.1	-
Non equity-settled awards other	7.4	20.4
Total stock-based compensation expense	\$91.6	\$130.2

Included in the table above is stock-based compensation relating to discontinued operations of \$3.2 million and \$7.9 million for the three months ended September 30, 2016 and 2015, respectively.

Share-based compensation expense recognized in the Company's results of operations for the nine months ended September 30, 2016 and 2015 were as follows (\$ in millions):

	Nine Months Ended September 30,	
	2016	2015
Equity-based compensation awards	\$269.9	\$510.5
Cash-settled equity awards in connection with the ForSight Acquisition	3.1	-
Cash-settled equity awards in connection with the Allergan Acquisition	-	127.1
Non equity-settled awards other	14.0	20.4
Total stock-based compensation expense	\$287.0	\$658.0

Included in the table above is stock-based compensation relating to discontinued operations of \$16.0 million and \$27.4 million for the nine months ended September 30, 2016 and 2015, respectively.

Included in the equity-based compensation awards for the three and nine months ended September 30, 2016 and 2015 is the impact of accelerations and step-ups relating to the acquisition accounting treatment of outstanding awards acquired in the Allergan and Forest acquisitions as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Allergan Acquisition	\$ 26.8	\$ 44.6	\$ 86.8	\$ 269.8
Forest Acquisition	10.3	18.2	37.5	89.1
Total	\$ 37.1	\$ 62.8	\$ 124.3	\$ 358.9

Unrecognized future stock-based compensation expense was \$554.3 million as of September 30, 2016, including \$178.2 million from the Allergan Acquisition and \$44.4 million from the Forest Acquisition. This amount will be recognized as an expense over a remaining weighted average period of 1.4 years. Stock-based compensation is being amortized and charged to operations over the same period as the restrictions are eliminated for the participants, which is generally on a straight-line basis.

Share Activity

The following is a summary of equity award activity for unvested restricted stock and stock units in the period from December 31, 2015 through September 30, 2016:

(in millions, except per share data)	Shares	Weighted Average	Weighted Average	Aggregate Grant Date
--------------------------------------	--------	---------------------	---------------------	----------------------------

Edgar Filing: Allergan plc - Form 10-Q

		Grant Date	Fair Value	Remaining Contractual Term (Years)	Fair Value
Restricted shares / units outstanding at December 31, 2015	2.0	\$209.90		1.7	\$ 419.8
Granted	0.6	281.26			168.8
Vested	(0.7)	(168.55)			(118.0)
Forfeited	(0.3)	(228.53)			(70.1)
Restricted shares / units outstanding at September 30, 2016	1.6	\$254.37		1.7	\$ 400.5

The following is a summary of equity award activity for non-qualified options to purchase ordinary shares in the period from December 31, 2015 through September 30, 2016:

(in millions, except per share data)	Options	Price	Weighted Average Remaining Contractual Exercise Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2015	10.5	\$ 149.11	6.7	\$ 1,707.8
Granted	0.2	280.72		
Exercised	(1.2)	(113.07)		
Cancelled	(0.2)	(153.42)		
Outstanding, September 30, 2016	9.3	\$ 112.17	6.0	\$ 1,098.8
Vested and expected to vest at September 30, 2016	8.8	\$ 112.89	6.0	\$ 1,036.1

NOTE 8 — Reportable Segments

During 2016, Allergan announced a realignment of its businesses to streamline operations. Prior to the realignment, the Company operated and managed its business as four distinct operating segments: US Brands, US Medical Aesthetics, International and Anda Distribution. Under the new organizational structure being reported, and the decision to sell our Anda Distribution business, the Company organized its businesses into the following segments: US Specialized Therapeutics, US General Medicine and International. In addition, certain revenues and shared costs, and the results of corporate initiatives, are managed outside of the three segments. Prior period results have been recast to align to the current segment presentation.

The operating segments are organized as follows:

- The US Specialized Therapeutics segment includes sales and expenses relating to branded products within the US, including Medical Aesthetics, Medical Dermatology, Eye Care, Neurosciences and Urology therapeutic products.
- The US General Medicine segment includes sales and expenses relating to branded products within the US that do not fall into the US Specialized Therapeutics business units, including Central Nervous System, Gastrointestinal, Women's Health, Anti-Infectives and Established Brands.
 - The International segment includes sales and expenses relating to products sold outside the US.

The Company evaluates segment performance based on segment contribution. Segment contribution for our segments represents net revenues less cost of sales (defined below), selling and marketing expenses, and select general and administrative expenses. Included in segment revenues are products' sales that are sold through the Anda Distribution business once the Anda Distribution business has sold the product to a third party customer. These sales are included in segment results and are reclassified into revenues from discontinued operations through a reduction of Corporate

revenues which eliminates the sales made by our Anda Distribution business from results of continuing operations. Cost of sales for these products in discontinued operations is equal to our average third party cost of sales for third party branded products distributed by Anda Distribution. The Company does not evaluate the following items at the segment level:

- Revenues and operating expenses within cost of sales, selling and marketing expenses, and general and administrative expenses that result from the impact of corporate initiatives. Corporate initiatives primarily include integration, restructuring, acquisition and other shared costs.
- General and administrative expenses that result from shared infrastructure, including certain expenses located within the United States.
- Total assets including capital expenditures.
- Other select revenues and operating expenses including R&D expenses, amortization, IPR&D impairments and asset sales and impairments, net, as not all such information has been accounted for at the segment level, or such information has not been used by all segments.

The Company defines segment net revenues as product sales and other revenue derived from branded products or licensing agreements. In March 2015, as a result of the Allergan Acquisition, we began to promote Restasis[®], Lumigan[®]/Ganfort[®], Alphagan[®]/Combigan[®], Botox[®], Fillers, other aesthetic products and other eye care products.

Cost of sales within segment contribution includes standard production and packaging costs for the products we manufacture, third party acquisition costs for products manufactured by others, profit-sharing or royalty payments for products sold pursuant to licensing agreements and finished goods inventory reserve charges. Cost of sales included within segment contribution does not include non-standard production costs, such as non-finished goods inventory obsolescence charges, manufacturing variances and excess capacity utilization charges, where applicable. Cost of sales does not include amortization or impairment costs for acquired product rights or other acquired intangibles.

Selling and marketing expenses consist mainly of personnel-related costs, product promotion costs, distribution costs, professional service costs, insurance, depreciation and travel costs.

General and administrative expenses consist mainly of personnel-related costs, facilities costs, transaction costs, insurance, depreciation, litigation and settlement costs and professional services costs which are general in nature and attributable to the segment.

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30, 2016			
	US Specialized Therapeutics	US General Medicine	International	Total
Net revenues	\$ 1,453.2	\$ 1,488.1	\$ 697.8	\$ 3,639.1
Operating expenses:				
Cost of sales ⁽¹⁾	69.2	215.1	95.1	379.4
Selling and marketing	292.4	292.8	188.2	773.4
General and administrative	41.2	42.3	28.0	111.5
Segment Contribution	\$ 1,050.4	\$ 937.9	\$ 386.5	\$ 2,374.8
Contribution margin	72.3 %	63.0 %	55.4 %	65.3 %
Corporate				372.0
Research and development				622.8
Amortization				1,609.1
In-process research and development impairments				42.0
Asset sales and impairments, net				(4.7)
Operating (loss)				\$(266.4)
Operating margin				(7.3)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

	Three Months Ended September 30, 2015			
	US Specialized		International	Total
	Therapeutics	General Medicine		
Net revenues	\$1,296.6	\$ 1,552.0	\$ 660.6	\$3,509.2
Operating expenses:				
Cost of sales ⁽¹⁾	71.6	227.5	108.3	407.4
Selling and marketing	236.2	262.8	155.8	654.8
General and administrative	17.2	17.5	33.3	68.0
Segment Contribution	\$971.6	\$ 1,044.2	\$ 363.2	\$2,379.0
Contribution margin	74.9 %	67.3 %	55.0 %	67.8 %
Corporate				642.5
Research and development				1,260.5
Amortization				1,557.8
In-process research and development impairments				300.0
Asset sales and impairments, net				(4.4)
Operating (loss)				\$(1,377.4)
Operating margin				(39.3)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

The following is a reconciliation of net revenues for the operating segments to the Company's net revenues for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended	
	September 30, 2016	2015
Segment net revenues	\$3,639.1	\$3,509.2
Corporate revenues	(16.9)	(39.7)
Net revenues	\$3,622.2	\$3,469.5

No country outside of the United States represents ten percent or more of net revenues. The US Specialized Therapeutics and US General Medicine segments are comprised solely of sales within the United States.

Edgar Filing: Allergan plc - Form 10-Q

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30, 2016			
	US Specialized	General	International	Total
	Therapeutics	Medicine		
Net revenues	\$4,240.8	\$ 4,390.9	\$ 2,128.1	\$ 10,759.8
Operating expenses:				
Cost of sales ⁽¹⁾	215.0	649.6	309.3	1,173.9
Selling and marketing	844.8	902.8	582.7	2,330.3
General and administrative	126.4	128.2	86.5	341.1
Segment Contribution	\$3,054.6	\$ 2,710.3	\$ 1,149.6	\$6,914.5
Contribution margin	72.0 %	61.7 %	54.0 %	64.3 %
Corporate				1,052.8
Research and development				1,662.4
Amortization				4,831.9
In-process research and development impairments				316.9
Asset sales and impairments, net				(24.0)
Operating (loss)				(925.5)
Operating margin				(8.6)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

	Nine Months Ended September 30, 2015			
	US Specialized	General	International	Total
	Therapeutics	Medicine		
Net revenues	\$2,889.6	\$ 4,803.7	\$ 1,496.4	\$9,189.7
Operating expenses:				
Cost of sales ⁽¹⁾	160.2	674.0	243.8	1,078.0
Selling and marketing	525.0	917.1	394.2	1,836.3
General and administrative	46.1	88.8	75.7	210.6
Segment Contribution	\$2,158.3	\$ 3,123.8	\$ 782.7	\$6,064.8
Contribution margin	74.7 %	65.0 %	52.3 %	66.0 %
Corporate				2,338.8
Research and Development				1,927.9
Amortization				3,858.9
In-process research and development impairments				497.6
Asset sales and impairments, net				3.1
Operating (loss)				(2,561.5)
Operating margin				(27.9)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

The following is a reconciliation of net revenues for the operating segments to the Company's net revenues for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30,	
	2016	2015
Segment net revenues	\$10,759.8	\$9,189.7
Corporate revenues	(53.5)	(108.5)
Net revenues	\$10,706.3	\$9,081.2

No country outside of the United States represents ten percent or more of net revenues. The US Specialized Therapeutics and US General Medicine segments are comprised solely of sales within the United States.

The following tables present global net revenues for the top products of the Company for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,					
	Global		U.S.		International	
	2016	2015	2016	2015	2016	2015
Botox®	\$689.7	\$604.4	\$496.3	\$435.6	\$193.4	\$168.8
Restasis®	371.8	328.3	356.4	312.8	15.4	15.5
Fillers	201.8	167.6	105.0	89.7	96.8	77.9
Linzess®/Constella®	168.7	118.6	164.4	117.5	4.3	1.1
Lumigan®/Ganfort®	164.9	157.9	78.3	71.7	86.6	86.2
Bystolic®	164.4	155.7	163.9	155.3	0.5	0.4
Namenda XR®	146.9	214.5	146.9	214.5	-	-
Alphagan®/Combigan®	134.7	120.8	93.4	81.4	41.3	39.4
Lo Loestrin®	105.7	90.8	105.7	89.8	-	1.0
Estrace® Cream	98.6	87.4	98.6	87.4	-	-
Viibryd®/Fetzima®	87.6	84.5	87.6	84.5	-	-
Breast Implants	86.7	85.5	51.1	50.9	35.6	34.6
Asacol®/Delzicol®	86.4	157.2	72.2	141.9	14.2	15.3
Minastrin® 24	84.9	74.4	84.9	74.4	-	-
Aczone®	69.0	48.0	69.0	48.0	-	-
Ozurdex®	64.3	51.6	20.9	17.6	43.4	34.0
Carafate®/Sulcrate®	57.0	52.9	56.4	52.9	0.6	-
Namenda® IR	2.9	54.9	2.9	54.9	-	-
Other Products Revenues **	859.9	857.9	694.2	671.5	165.7	186.4
Less product sold through Anda Distribution						
business	(23.7)	(43.4)	(23.7)	(43.4)	-	-
Total Net Revenues **	\$3,622.2	\$3,469.5	\$2,924.4	\$2,808.9	\$697.8	\$660.6

** Includes an adjustment of \$31.7 million recorded in the three months ended September 30, 2015 related to International other product revenues for the six months ended June 30, 2015 that were reported in discontinued operations instead of continuing operations during the six months ended June 30, 2015. The impact of this out-of-period adjustment is not material to the six months ended June 30, 2015 or the three months ended September 30, 2015, and had no impact on the nine months ended September 30, 2015.

	Nine Months Ended September 30,					
	Global		U.S.		International	
	2016	2015	2016	2015	2016	2015
Botox®	\$2,046.9	\$1,319.8	\$1,454.0	\$926.4	\$592.9	\$393.4
Restasis®	1,076.1	683.2	1,026.4	651.4	49.7	31.8
Fillers	629.5	388.2	325.3	206.7	304.2	181.5
Lumigan®/Ganfort®	509.6	355.6	240.4	165.9	269.2	189.7
Namenda XR®	486.5	569.8	486.5	569.8	-	-
Bystolic®	479.1	476.9	477.8	476.1	1.3	0.8
Linzess®/Constella®	464.7	328.0	452.0	325.1	12.7	2.9
Alphagan®/Combigan®	401.6	272.3	274.3	184.9	127.3	87.4
Asacol®/Delzicol®	338.4	455.6	297.9	407.8	40.5	47.8
Lo Loestrin®	296.0	253.3	296.0	251.7	-	1.6
Estrace® Cream	276.4	229.4	276.4	229.4	-	-
Breast Implants	261.7	198.4	149.2	112.8	112.5	85.6
Viibryd®/Fetzima®	252.7	244.8	252.6	244.8	0.1	-
Minastrin® 24	248.9	195.9	247.5	195.3	1.4	0.6
Ozurdex®	192.0	109.6	61.8	36.9	130.2	72.7
Carafate®/Sulcrate®	169.4	153.4	167.7	153.4	1.7	-
Aczone®	156.1	114.3	156.1	114.3	-	-
Namenda® IR	12.8	532.9	12.8	532.9	-	-
Other Products Revenues	2,487.9	2,313.6	2,003.5	1,913.0	484.4	400.6
Less product sold through Anda Distribution						
business	(80.0)	(113.8)	(80.0)	(113.8)	-	-
Total Net Revenues	\$10,706.3	\$9,081.2	\$8,578.2	\$7,584.8	\$2,128.1	\$1,496.4

Unless included above, no product represents ten percent or more of total net revenues.

The following table presents top product sales and net revenues for the US Specialized Therapeutics segment for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total Eye Care	\$608.5	\$539.9	\$1,777.6	\$1,213.2
Restasis®	356.4	312.8	1,026.4	651.4
Alphagan®/Combigan®	93.4	81.4	274.3	184.9
Lumigan®/Ganfort®	78.3	71.7	240.4	165.9
Ozurdex®	20.9	17.6	61.8	36.9
Eye Drops	50.2	45.3	140.1	131.8
Other Eye Care	9.3	11.1	34.6	42.3
Total Medical Aesthetics	388.9	340.1	1,182.6	761.4
Facial Aesthetics	293.7	249.0	893.3	547.9
Botox® Cosmetics	174.5	159.3	529.8	341.2
Fillers	105.0	89.7	325.3	206.7
Kybella®	14.2	-	38.2	-
Plastic Surgery	52.2	54.3	153.1	122.5
Breast Implants	51.1	50.9	149.2	112.8
Other Plastic Surgery	1.1	3.4	3.9	9.7
Skin Care	43.0	36.8	136.2	91.0
SkinMedica®	25.8	23.0	81.5	51.6
Latisse®	17.2	13.8	54.7	39.4
Total Medical Dermatology	116.1	107.8	282.2	249.4
Aczone®	69.0	48.0	156.1	114.3
Tazorac®	27.5	27.6	68.0	65.7
Botox® Hyperhidrosis	16.3	15.0	48.9	35.5
Other Medical Dermatology	3.3	17.2	9.2	33.9
Total Neuroscience and Urology	330.7	291.4	963.8	637.2
Botox® Therapeutics	305.5	261.3	875.3	549.7
Rapaflo®	25.2	30.1	87.6	87.5
Other Neuroscience and Urology	-	-	0.9	-
Other Revenues	9.0	17.4	34.6	28.4
Net revenues	\$1,453.2	\$1,296.6	\$4,240.8	\$2,889.6

The following table presents top product sales and revenues for the US General Medicine segment for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Total Central Nervous System (CNS)	\$325.5	\$406.7	\$964.6	\$1,485.1
Namenda XR [®]	146.9	214.5	486.5	569.8
Viibryd [®] /Fetzima [®]	87.6	84.5	252.6	244.8
Saphris [®]	40.8	51.1	123.6	134.3
Vraylar [™]	32.4	-	51.1	-
Namzaric [®]	14.9	1.7	38.0	3.3
Namenda [®] IR	2.9	54.9	12.8	532.9
Total Gastrointestinal (GI)	431.4	398.6	1,277.0	1,138.4
Linzess [®]	164.4	117.5	452.0	325.1
Asacol [®] /Delzicol [®]	72.2	141.9	297.9	407.8
Carafate [®] /Sulcrate [®]	56.4	52.9	167.7	153.4
Zenpep [®]	52.5	43.1	145.1	121.5
Canasa [®] /Salofalk [®]	47.2	34.6	135.0	102.2
Viberzi [®]	30.9	-	55.3	-
Other GI	7.8	8.6	24.0	28.4
Total Women's Health	305.3	268.0	865.1	716.7
Lo Loestrin [®]	105.7	89.8	296.0	251.7
Estrace [®] Cream	98.6	87.4	276.4	229.4
Minastrin [®] 24	84.9	74.4	247.5	195.3
Liletta [®]	4.4	5.8	15.0	10.7
Other Women's Health	11.7	10.6	30.2	29.6
Total Anti-Infectives	52.5	52.3	167.1	138.3
Teflaro [®]	33.3	35.8	101.9	105.3
Dalvance [®]	10.3	4.9	26.7	11.3
Avycaz [®]	4.8	7.5	26.9	12.9
Other Anti-Infectives	4.1	4.1	11.6	8.8
Established Brands	319.3	400.5	1,038.8	1,267.7
Bystolic [®]	163.9	155.3	477.8	476.1
Armour Thyroid	39.1	34.7	121.8	88.9
Savella [®]	28.1	29.0	74.1	80.6
Lexapro [®]	15.6	17.8	50.8	53.6
Enablex [®]	1.9	17.2	14.7	51.5
PacPharma	6.2	27.4	49.7	56.6
Other Established Brands	64.5	119.1	249.9	460.4
Other Revenues	54.1	25.9	78.3	57.5
Net revenues	\$1,488.1	\$1,552.0	\$4,390.9	\$4,803.7

The following table presents top product sales and net revenues for the International segment for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total Eye Care	\$294.2	\$281.5	\$904.4	\$623.7
Lumigan®/Ganfort®	86.6	86.2	269.2	189.7
Alphagan®/Combigan®	41.3	39.4	127.3	87.4
Ozurdex®	43.4	34.0	130.2	72.7
Optive®	25.6	23.2	75.7	51.9
Restasis®	15.4	15.5	49.7	31.8
Other Eye Drops	42.1	44.0	131.2	99.5
Other Eye Care	39.8	39.2	121.1	90.7
Total Medical Aesthetics	251.0	214.8	780.0	509.9
Facial Aesthetics	212.6	176.5	658.7	416.4
Botox® Cosmetics	115.3	98.6	352.9	234.9
Fillers	96.8	77.9	304.2	181.5
Belkyra® (Kybella®)	0.5	-	1.6	-
Plastic Surgery	35.8	34.6	112.9	85.6
Breast Implants	35.6	34.6	112.5	85.6
Earfold™	0.2	-	0.4	-
Skin Care	2.6	3.7	8.4	7.9
Botox® Therapeutics and Other	134.6	155.5	399.0	321.5
Botox® Therapeutics	78.1	70.2	240.0	158.5
Asacol®/Delzicol®	14.2	15.3	40.5	47.8
Constella®	4.3	1.1	12.7	2.9
Other Products **	38.0	68.9	105.8	112.3
Other Revenues	18.0	8.8	44.7	41.3
Net revenues **	\$697.8	\$660.6	\$2,128.1	\$1,496.4

** Includes an adjustment of \$31.7 million recorded in the three months ended September 30, 2015 related to International other product revenues for the six months ended June 30, 2015 that were reported in discontinued operations instead of continuing operations during the six months ended June 30, 2015. The impact of this out-of-period adjustment is not material to the six months ended June 30, 2015 or the three months ended September 30, 2015, and had no impact on the nine months ended September 30, 2015.

NOTE 9 — Inventories

Inventories consist of finished goods held for sale and distribution, raw materials and work-in-process. Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value). The Company writes down

inventories to net realizable value based on forecasted demand, market conditions or other factors, which may differ from actual results.

Inventories consisted of the following (\$ in millions):

	September 30, 2016	December 31, 2015
Raw materials	\$ 276.2	\$ 242.4
Work-in-process	142.2	149.7
Finished goods	389.5	451.9
	807.9	844.0
Less: inventory reserves	102.4	86.5
Total Inventories	\$ 705.5	\$ 757.5

Included in finished goods was \$46.1 million related to the fair-value step-up of acquired inventory as of December 31, 2015.

NOTE 10 — Investments and Other Assets

Investments in marketable securities, including those classified in cash and cash equivalents due to the maturity term of the instrument, other investments and other assets consisted of the following (\$ in millions):

	September 30, 2016	December 31, 2015
Marketable securities:		
U.S. Treasury and agency securities — maturing within one year	\$ 15,463.2	\$ 9.3
Teva shares	4,374.4	-
Total marketable securities	\$ 19,837.6	\$ 9.3
Investments and other assets:		
Legacy Allergan deferred executive compensation investments	\$ 114.3	\$ 118.1
Equity method investments	13.0	17.3
Cost method investments	15.0	16.7
Other long-term investments	70.5	78.2
Taxes receivable	41.4	39.6
Other assets	86.9	138.8
Total investments and other assets	\$ 341.1	\$ 408.7

Investments in securities as of September 30, 2016 included the following:

Investments in Securities as of September 30, 2016:						
	Carrying	Unrecognized	Unrecognized	Estimated	Cash &	Marketable
Level 1	amount	gain	loss	fair value	cash	securities
					equivalents	
Money market funds	\$4,649.4	\$ -	\$ -	\$4,649.4	\$ 4,649.4	\$ -
Commercial paper	1,357.7	-	-	1,357.7	1,357.7	-
Certificates of deposit	250.0	-	-	250.0	250.0	-
Total	\$6,257.1	\$ -	\$ -	\$6,257.1	\$ 6,257.1	\$ -
Level 2	Carrying	Unrecognized	Unrecognized	Estimated	Cash &	Marketable
	amount	gain	loss	fair value	cash	securities
					equivalents	
Commercial paper	11,155.1	6.9	-	11,162.0	-	11,162.0
Investment in Teva						
ordinary shares	5,038.6	-	(664.2)	4,374.4	-	4,374.4
Certificates of deposit	4,301.0	0.2	-	4,301.2	-	4,301.2
Total	\$20,494.7	\$ 7.1	\$ (664.2)	\$19,837.6	\$ -	\$19,837.6

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants. Fair values determined based on Level 1 inputs utilize quoted prices

(unadjusted) in active markets for identical assets or liabilities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Fair values determined based on Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. A financial asset or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Marketable securities and investments consist of available-for-sale investments in U.S. treasury and agency securities and publicly traded equity securities for which market prices are readily available. Unrealized gains or losses on marketable securities and investments are recorded in accumulated other comprehensive (loss) / income. Realized gains or losses on marketable securities and investments are recorded in interest income. The Company's marketable securities and other long-term investments are classified as available-for-sale and are recorded at fair value based on quoted market prices using the specific identification method. These investments are classified as either current or non-current, as appropriate, in the Company's consolidated balance sheets. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and maturity management.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to

any one issuer. The policy requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio.

NOTE 11 — Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (\$ in millions):

	September 30, 2016	December 31, 2015
Accrued expenses:		
Accrued third-party rebates	\$ 1,513.6	\$ 1,281.6
Accrued payroll and related benefits	446.2	401.0
Contractual commitments related to the Teva Transaction	501.6	-
Accrued stock repurchases	400.0	-
Accrued pharmaceutical fees	388.1	162.2
Current portion of contingent consideration obligations	349.1	79.9
Accrued returns	283.7	288.4
Interest payable	170.4	312.0
Royalties payable	167.2	119.1
Litigation-related reserves and legal fees	139.9	191.7
Accrued R&D expenditures	111.7	384.1
Accrued severance, retention and other shutdown costs	83.7	108.5
Accrued non-provision taxes	47.2	98.1
Accrued selling and marketing expenditures	29.6	127.2
Dividends payable	24.2	24.0
Other accrued expenses	472.7	354.9
Total accrued expenses	\$ 5,128.9	\$ 3,932.7
Accounts payable	296.5	215.9
Total Accounts Payable and Accrued Expenses	\$ 5,425.4	\$ 4,148.6

NOTE 12 — Goodwill, Product Rights and Other Intangible Assets

During 2016, there was a strategic shift in the business to streamline our operations. Under the new organizational structure being reported, the Company organized its business into the following segments: US Specialized Therapeutics, US General Medicine and International. The Company recast goodwill by segment as a result of this change.

The Company's goodwill by segment consisted of the following (\$ in millions):

Edgar Filing: Allergan plc - Form 10-Q

	US Specialized	US General		
	Therapeutics	Medicine	International	Total
Balance as of December 31, 2015	\$ 18,347.2	\$ 21,340.5	\$ 6,777.5	\$46,465.2
Additions through acquisitions	54.2	-	-	54.2
Foreign exchange and other adjustments	-	(26.6)	133.0	106.4
Balance as of September 30, 2016	\$ 18,401.4	\$ 21,313.9	\$ 6,910.5	\$46,625.8

As of September 30, 2016 and December 31, 2015, the gross balance of goodwill, pre-impairments, was \$46,643.1 million and \$46,482.5 million, respectively. Goodwill in discontinued operations was \$86.3 million and \$6,096.0 million as of September 30, 2016 and December 31, 2015, respectively.

The following items had a significant impact on goodwill in the nine months ended September 30, 2016:

- An increase in goodwill of \$54.2 million resulting from the ForSight Acquisition.

Edgar Filing: Allergan plc - Form 10-Q

Product rights and other intangible assets consisted of the following (\$ in millions):

Cost Basis	Balance as of December 31, 2015	Acquisitions	Impairments	Disposals/			Balance as of September 30, 2016
				IPR&D to CMP Transfers	Held for Sale/ Other	Foreign Currency Translation	
Intangibles with definite lives:							
Product rights and other related intangibles							
	\$ 64,366.0	\$ 41.6	\$ -	\$ 1,342.4	\$(194.6)	\$ 108.6	\$ 65,664.0
Trade name	690.0	-	-	-	-	-	690.0
Total definite-lived							
intangible assets	\$ 65,056.0	\$ 41.6	\$ -	\$ 1,342.4	\$(194.6)	\$ 108.6	\$ 66,354.0
Intangibles with indefinite lives:							
IPR&D	\$ 11,128.2	\$ 158.0	\$(316.9)	\$(1,342.4)	\$ -	\$ 15.9	\$ 9,642.8
Total indefinite-lived							
intangible assets	\$ 11,128.2	\$ 158.0	\$(316.9)	\$(1,342.4)	\$ -	\$ 15.9	\$ 9,642.8
Total product rights and related intangibles							
	\$ 76,184.2	\$ 199.6	\$(316.9)	\$ -	\$(194.6)	\$ 124.5	\$ 75,996.8

Accumulated Amortization	Balance as of December 31, 2015			Disposals/			Balance as of September 30, 2016
	Amortization	Other	Held for Sale/ Other	Foreign Currency Translation			
Intangibles with definite lives:							
Product rights and other related intangibles							
	\$(8,288.5)	\$(4,773.6)	\$ 176.9	\$ 28.9			\$(12,856.3)
Trade name	(59.5)	(58.3)	-	-			(117.8)
Total definite-lived intangible assets							
	\$(8,348.0)	\$(4,831.9)	\$ 176.9	\$ 28.9			\$(12,974.1)
Total product rights and related intangibles							
	\$(8,348.0)	\$(4,831.9)	\$ 176.9	\$ 28.9			\$(12,974.1)

Net Product Rights and Other

Intangibles	\$ 67,836.2	\$ 63,022.7
-------------	-------------	-------------

The following items had a significant impact on net product rights and other intangibles in the three and nine months ended September 30, 2016:

- The Company acquired \$158.0 million in IPR&D assets in connection with the ForSight Acquisition;
- The Company recognized approximately \$42.0 million in IPR&D impairments on a gastroenterology project based on the lack of future availability of active pharmaceutical ingredients;

The following items had a significant impact on net product rights and other intangibles in the nine months ended September 30, 2016:

- The Company recognized approximately \$190.0 million in IPR&D impairments due to the termination of an osteoarthritis R&D project due to clinical results;
- The Company impaired IPR&D assets relating to an international eye care pipeline project of \$35.0 million based on a decrease in projected cash flows due to market conditions;
- The Company impaired IPR&D assets relating to a specified indication of a Botox® therapeutic product of \$20.0 million based on a decrease in projected cash flows due to a decline in market demand assumptions;
- The Company recognized \$24.0 million in IPR&D impairments due to the termination of a women's healthcare R&D project due to clinical results; and
- During the nine months ended September 30, 2016, the Company reclassified certain intangible assets from IPR&D to CMP primarily related to Aczone®, Juvederm®, Dalvance® and Botox®.

43

Assuming no additions, disposals or adjustments are made to the carrying values and/or useful lives of the intangible assets, annual amortization expense on product rights and other related intangibles as of September 30, 2016 over the remainder of 2016 and each of the next five years is estimated to be as follows (\$ in millions):

	Amortization
	Expense
2016 remaining	\$ 1,610.9
2017	\$ 6,474.4
2018	\$ 5,964.4
2019	\$ 5,857.4
2020	\$ 5,606.1
2021	\$ 4,732.6

The above amortization expense is an estimate. Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, finalization of preliminary fair value estimates, potential impairments, accelerated amortization or other events.

NOTE 13 — Long-Term Debt and Capital Leases

Total debt and capital leases consisted of the following (\$ in millions):

	Balance As of		Fair Market Value As of	
	September 30,	December 31,	September 30,	December 31,
	2016	2015	2016	2015
Senior Notes:				
Floating Rate Notes				
\$500.0 million floating rate notes due September 1, 2016	\$-	\$ 500.0	\$-	\$ 500.5
\$500.0 million floating rate notes due March 12, 2018	500.0	500.0	504.0	499.6
\$500.0 million floating rate notes due March 12, 2020	500.0	500.0	509.0	496.2
	1,000.0	1,500.0	1,013.0	1,496.3
Fixed Rate Notes				
\$800.0 million 5.750% notes due April 1, 2016	-	800.0	-	808.4
\$1,000.0 million 1.850% notes due March 1, 2017	1,000.0	1,000.0	1,002.3	1,001.5
\$500.0 million 1.300% notes due June 15, 2017	500.0	500.0	499.6	496.3
\$1,200.0 million 1.875% notes due October 1, 2017	1,200.0	1,200.0	1,204.2	1,196.0
\$3,000.0 million 2.350% notes due March 12, 2018	3,000.0	3,000.0	3,031.0	3,004.6
\$250.0 million 1.350% notes due March 15, 2018	250.0	250.0	248.9	244.9
\$1,050.0 million 4.375% notes due February 1, 2019	1,050.0	1,050.0	1,105.8	1,099.5
\$500.0 million 2.450% notes due June 15, 2019	500.0	500.0	508.2	494.4
\$400.0 million 6.125% notes due August 14, 2019	400.0	400.0	447.4	444.2
\$3,500.0 million 3.000% notes due March 12, 2020	3,500.0	3,500.0	3,614.5	3,505.1
\$650.0 million 3.375% notes due September 15, 2020	650.0	650.0	680.3	656.6
\$750.0 million 4.875% notes due February 15, 2021	750.0	750.0	830.2	807.4
\$1,200.0 million 5.000% notes due December 15, 2021	1,200.0	1,200.0	1,345.6	1,299.4
\$3,000.0 million 3.450% notes due March 15, 2022	3,000.0	3,000.0	3,149.5	3,006.8
\$1,700.0 million 3.250% notes due October 1, 2022	1,700.0	1,700.0	1,759.6	1,669.6
\$350.0 million 2.800% notes due March 15, 2023	350.0	350.0	348.1	327.7
\$1,200.0 million 3.850% notes due June 15, 2024	1,200.0	1,200.0	1,274.0	1,202.6
\$4,000.0 million 3.800% notes due March 15, 2025	4,000.0	4,000.0	4,227.2	3,984.6
\$2,500.0 million 4.550% notes due March 15, 2035	2,500.0	2,500.0	2,653.1	2,462.2
\$1,000.0 million 4.625% notes due October 1, 2042	1,000.0	1,000.0	1,066.8	956.1
\$1,500.0 million 4.850% notes due June 15, 2044	1,500.0	1,500.0	1,653.0	1,483.6
\$2,500.0 million 4.750% notes due March 15, 2045	2,500.0	2,500.0	2,739.8	2,452.7
	31,750.0	32,550.0	33,389.1	32,604.2
Total Senior Notes Gross	32,750.0	34,050.0	34,402.1	34,100.5
Unamortized premium	182.8	225.9	-	-
Unamortized discount	(98.7)	(107.4)	-	-
Total Senior Notes Net	32,834.1	34,168.5	34,402.1	34,100.5
Term Loan Indebtedness:				
WC Term Loan				
WC Three Year Tranche variable rate debt maturing				
October 1, 2016	-	191.5		
WC Five Year Tranche variable rate debt maturing	-	498.8		

Edgar Filing: Allergan plc - Form 10-Q

October 1, 2018	-	690.3
ACT Term Loan		
2017 Term Loan variable rate debt maturing		
October 31, 2017	-	572.1
2019 Term Loan variable rate debt maturing July 1, 2019	-	1,700.0
	-	2,272.1
AGN Term Loan		
AGN Three Year Tranche variable rate debt maturing		
March 17, 2018	-	2,750.0
AGN Five Year Tranche variable rate debt maturing		
March 17, 2020	-	2,543.8
	-	5,293.8
Total Term Loan Indebtedness	-	8,256.2
Other Indebtedness		
Revolver Borrowings	-	200.0
Debt Issuance Costs	(151.5)	(195.8)
Other	85.2	97.4
Total Other Borrowings	(66.3)	101.6
Capital Leases	2.2	4.1
Total Indebtedness	\$32,770.0	\$ 42,530.4

Fair market value in the table above is determined in accordance with ASC Topic 820 “Fair Value Measurement” (“ASC 820”) under Level 2 based upon quoted prices for similar items in active markets. The book value of the outstanding term loan indebtedness approximates fair value as the debt is at variable interest rates and re-prices frequently.

Unless otherwise indicated, the remaining loan balances after the quarterly required payments are due upon maturity.

Floating Rate Notes

On March 4, 2015, Actavis Funding SCS, a limited partnership (société en commandite simple) organized under the laws of the Grand Duchy of Luxembourg and an indirect wholly-owned subsidiary of Allergan plc, issued floating rate notes due 2016 (the “2016 Floating Rate Notes”), floating rate notes due 2018 (the “2018 Floating Rate Notes”), floating rate notes due 2020 (the “2020 Floating Rate Notes”), 1.850% notes due 2017 (the “1.850% 2017 Notes”), 2.350% notes due 2018 (the “2.350% 2018 Notes”), 3.000% notes due 2020 (the “3.000% 2020 Notes”), 3.450% notes due 2022 (the “3.450% 2022 Notes”), 3.800% notes due 2025 (the “3.800% 2025 Notes”), 4.550% notes due 2035 (the “4.550% 2035 Notes”) and 4.750% notes due 2045 (the “4.750% 2045 Notes”). The notes are fully and unconditionally guaranteed by Actavis Funding SCS’s indirect parents, Warner Chilcott Limited and Actavis Capital S.a.r.l. (“Actavis Capital”), and by Actavis Finance, LLC (formerly known as Actavis, Inc.), a subsidiary of Actavis Capital, on an unsecured and unsubordinated basis. Allergan plc has not guaranteed the notes.

The 2016 Floating Rate Notes were fully repaid on September 1, 2016 and bore interest at the three-month LIBOR plus 0.875%. The 2018 Floating Rate Notes and the 2020 Floating Rate Notes bear interest at a floating rate equal to three-month LIBOR plus 1.080% and 1.255% per annum, respectively. Interest on the 2018 Floating Rate Notes and the 2020 Floating Rate Notes is payable quarterly on March 12, June 12, September 12 and December 12 of each year, and began on June 12, 2015.

Fixed Rate Notes

The Company has issued fixed rate notes over multiple issuances for various business needs. Interest on the various notes is generally payable semi-annually with various payment dates.

Acquired Allergan Notes

On March 17, 2015 in connection with the Allergan Acquisition, the Company acquired, and subsequently guaranteed, along with Warner Chilcott Limited, the indebtedness of Allergan, Inc. comprised of the \$350.0 million 2.800% senior notes due 2023, the \$650.0 million 3.375% senior notes due 2020, the \$250.0 million 1.350% senior notes due 2018 and the \$800.0 million 5.750% senior notes due 2016. Interest payments are due on the \$350.0 million senior notes semi-annually on the principal amount of the notes at a rate of 2.80% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption, if the redemption occurs prior to December 15, 2022 (three months prior to the maturity of the 2023 senior notes). If the redemption occurs on or after December 15, 2022, then such redemption is not subject to the make-whole provision. Interest payments are due on the \$650.0 million senior notes semi-annually on the principal amount of the notes at a rate of 3.375% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. Interest payments are due on the \$250.0 million senior notes semi-annually on the principal amount of the notes at a rate of 1.350% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. Interest payments were due on the \$800.0 million senior notes semi-annually on the principal amount of the notes at a rate of 5.750% per annum. The fair value of the acquired senior notes was determined to be \$2,087.5 million as of March 17, 2015. As such, as part of acquisition accounting, the company recorded a premium of \$37.5 million to be amortized as contra interest over the life of the notes.

The \$800.0 million 5.750% senior notes were paid in full on April 1, 2016 with proceeds from the first quarter of 2016 borrowings under the revolving credit facility of \$900.0 million.

Credit Facility Indebtedness

On August 2, 2016, the Company repaid the remaining balances of all outstanding term-loan indebtedness and terminated its then existing revolving credit facility with proceeds from the Teva Transaction.

WC Term Loan

On December 17, 2014, Allergan plc and certain of its subsidiaries entered into a second amendment agreement (the “WC Term Loan Amendment”) among Allergan plc, Warner Chilcott Limited, Warner Chilcott Finance, LLC, Actavis WC 2 S.à r.l. (“Actavis WC 2”), Warner Chilcott Company, LLC (“WCCL”), Warner Chilcott Corporation (“WC Corporation” and together with Actavis WC 2 and WCCL, the “WC Borrowers”), Bank of America, N.A. (“BofA”), as administrative agent, and the lenders party thereto. The WC Term Loan Amendment amended and restated Allergan plc’s existing amended and restated WC term loan credit and guaranty agreement, dated as of June 9, 2014 (such agreement, prior to its amendment and restatement pursuant to the WC Term Loan Amendment, the “2014 WC Term Loan”), among the WC Borrowers, Allergan plc, Warner Chilcott Limited, Warner Chilcott Finance, LLC, the lenders from time to time party thereto and BofA, as administrative agent, which amended and restated Allergan plc’s existing WC term loan credit and guaranty agreement, dated as of August 1, 2013 (such agreement, prior to its amendment and restatement pursuant to the 2014 WC Term Loan Amendment, the “Existing WC Term Loan”) among the WC Borrowers, Warner Chilcott Finance, LLC, Actavis Limited, BofA, as administrative agent and a syndicate of banks participating as lenders.

Pursuant to the Existing WC Term Loan, on October 1, 2013 (the “WC Closing Date”), the lenders party thereto provided term loans in a total aggregate principal amount of \$2.0 billion, comprised of (i) a \$1.0 billion tranche that would have matured on October 1, 2016 (the “WC Three Year Tranche”) and (ii) a \$1.0 billion tranche that would have matured on October 1, 2018 (the “WC Five Year Tranche”). The proceeds of borrowings under the Existing WC Term Loan Agreement, together with \$41.0 million of cash on hand, were used to finance the repayment in full of all amounts outstanding under Warner Chilcott’s then-existing Credit Agreement, dated as of March 17, 2011, as amended by Amendment No. 1 on August 20, 2012, among the WC Borrowers, Warner Chilcott Holdings Company III, Limited, BofA, as administrative agent and a syndicate of banks participating as lenders.

Borrowings under the WC Term Loan Agreement bore interest at the applicable borrower’s choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from (x) 0.00% per annum to 0.75% per annum under the WC Three Year Tranche and (y) 0.125% per annum to 0.875% per annum under the WC Five Year Tranche, depending on the publicly announced debt ratings for non-credit-enhanced, senior unsecured long-term indebtedness of Allergan plc (such applicable debt rating the “Debt Rating”) or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 1.75% per annum under the WC Three Year Tranche and (y) 1.125% per annum to 1.875% per annum under the WC Five Year Tranche, depending on the Debt Rating.

ACT Term Loan

On December 17, 2014, Allergan plc and certain of its subsidiaries entered into a third amendment agreement (the “ACT Term Loan Amendment”) among Allergan plc, Warner Chilcott Limited, Actavis Capital, Actavis Finance LLC, Actavis Funding SCS, BofA, as administrative agent, and the lenders party thereto. The ACT Term Loan Amendment amends and restates Allergan plc’s existing second amended and restated Allergan term loan credit and guaranty agreement, dated as of March 31, 2014 (such agreement, prior to its amendment and restatement pursuant to the ACT Term Loan Amendment, the “2014 ACT Term Loan Agreement” and together with the Existing ACT Term Loan Agreement (defined below), the “ACT Term Loan”) among Actavis Capital, Allergan plc, Warner Chilcott Limited, Actavis Finance, LLC, Actavis Funding SCS, BofA, as administrative agent, and the lenders from time to time party thereto, which amended and restated Allergan plc’s existing amended and restated Allergan term loan credit and guaranty agreement, dated as of October 1, 2013 (such agreement, prior to its amendment and restatement pursuant to the ACT Term Loan Amendment, the “Existing ACT Term Loan Agreement”) among Actavis Capital, Allergan plc, Actavis Finance, LLC, BofA, as administrative agent, and the lenders from time to time party thereto.

The Existing ACT Term Loan Agreement amended and restated Actavis Finance, LLC's \$1,800.0 million senior unsecured term loan credit facility, dated as of June 22, 2012. At the closing of the Existing ACT Term Loan Agreement, an aggregate principal amount of \$1,572.5 million was outstanding (the "2017 Term Loan").

On March 31, 2014, Allergan plc, Actavis Capital, Actavis Finance, LLC, BofA, as Administrative Agent, and a syndicate of banks participating as lenders entered into the 2014 ACT Term Loan Agreement to amend and restate the Existing ACT Term Loan Agreement. On July 1, 2014, in connection with the Forest Acquisition, the Company borrowed \$2.0 billion of term loan indebtedness under tranche A-2 of the 2014 ACT Term Loan Agreement, which was due July 1, 2019 (the "2019 Term Loan").

Loans under the ACT Term Loan bore interest, at the Company's choice, of a per annum rate equal to either (a) a base rate, plus an applicable margin per annum varying from (x) 0.00% per annum to 1.00% per annum with respect to the 2017 term-loan and (y) 0.125% per annum to 0.875% per annum with respect to the 2019 term-loan, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 2.00% per annum with respect to the 2017 term-loan and (y) 1.125% per annum to 1.875% per annum with respect to the 2019 term-loan, depending on the Debt Rating.

AGN Term Loan

On December 17, 2014, Allergan, Inc., and certain of its subsidiaries entered into a senior unsecured term loan credit agreement (the “AGN Term Loan”), among Actavis Capital, as borrower, Allergan plc, Warner Chilcott Limited, Actavis Finance, LLC, Actavis Funding SCS, the lenders from time to time party thereto (the “Term Lenders”), JPMorgan Chase Bank, N.A. (“JPMCB”), as administrative agent and the other financial institutions party thereto. Under the AGN Term Loan, the Term Lenders provided (i) a \$2.75 billion tranche maturing on March 17, 2018 (the “AGN Three Year Tranche”) and (ii) a \$2.75 billion tranche and maturing on March 17, 2020 (the “AGN Five Year Tranche”). The proceeds of borrowings under the AGN Term Loan were used to finance, in part, the cash component of the Allergan Acquisition consideration and certain fees and expenses incurred in connection with the Allergan Acquisition.

Borrowings under the AGN Term Loan bore interest at our choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from (x) 0.00% per annum to 1.00% per annum under the AGN Three Year Tranche and (y) 0.125% per annum to 1.250% per annum under the AGN Five Year Tranche, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 2.00% per annum under the AGN Three Year Tranche and (y) 1.125% per annum to 2.250% per annum under the AGN Five Year Tranche, depending on the Debt Rating. The outstanding principal amount of loans under the AGN Three Year Tranche was not subject to quarterly amortization and was payable in full on the maturity date. The outstanding principal amount of loans under the AGN Five Year Tranche was payable in equal quarterly amounts of 2.50% per quarter prior to March 17, 2020, with the remaining balance payable on March 17, 2020.

Cash Bridge Loan Facility

On March 11, 2015, Allergan and certain of its subsidiaries entered into a 60-day senior unsecured bridge credit agreement (the “Cash Bridge Loan Facility”), among Actavis Capital, as borrower, Allergan plc, Warner Chilcott Limited, Actavis Finance, LLC, Actavis Funding SCS, the lenders from time to time party thereto (the “Cash Bridge Lenders”), JPMCB, as administrative agent and the other financial institutions party thereto. Under the Cash Bridge Loan Facility, the Cash Bridge Lenders committed to provide, subject to certain conditions, unsecured bridge financing, of which \$2.8 billion was drawn to finance the Allergan Acquisition on March 17, 2015. The outstanding balance of the Cash Bridge Loan Facility was repaid on April 9, 2015.

Borrowings under the Cash Bridge Loan Facility bore interest at our choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from 0.00% per annum to 1.00% per annum, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from 1.00% per annum to 2.00% per annum, depending on the Debt Rating.

Annual Debt Maturities

As of September 30, 2016, annual debt maturities were as follows (\$ in millions):

	Total Payments
2016 remaining	\$-
2017	2,700.0
2018	3,750.0
2019	1,950.0

Edgar Filing: Allergan plc - Form 10-Q

2020	4,650.0
2021	1,950.0
2022 and after	17,750.0
	\$32,750.0
Capital leases	2.2
Debt issuance costs	(151.5)
Other short-term borrowings	85.2
Unamortized premium	182.8
Unamortized discount	(98.7)
Total Indebtedness	\$32,770.0

Amounts represent total anticipated cash payments assuming scheduled repayments.

NOTE 14 — Other Long-Term Liabilities

Other long-term liabilities consisted of the following (\$ in millions):

	September 30, 2016	December 31, 2015
Acquisition related contingent consideration liabilities	\$ 602.0	\$ 788.1
Long-term pension and post retirement liability	190.1	222.1
Legacy Allergan deferred executive compensation	114.3	117.9
Product warranties	28.1	28.4
Long-term contractual obligations	26.8	26.4
Long-term severance and restructuring liabilities	24.9	34.9
Deferred revenue	16.9	18.2
Other long-term liabilities	19.6	26.0
Total other long-term liabilities	\$ 1,022.7	\$ 1,262.0

NOTE 15 — Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2016 was 48.0% compared to 40.9% for the nine months ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax benefit for the nine months ended September 30, 2016 included, but is not limited to, the following items: an expense of \$179.5 million primarily related to a change in a valuation allowance on a portion of U.S. capital loss carryforwards resulting from restructuring associated with the sale of the global generics business, a benefit of \$48.2 million related to the change in tax rates applicable to certain temporary differences, a benefit of \$40.3 million for the recognition of previously unrecognized tax benefits and a benefit of \$37.9 million for the New Jersey Grow income tax credit.

The effective tax rate for the nine months ended September 30, 2015 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax benefit for the nine months ended September 30, 2015 included, but is not limited to, the following items: a benefit of \$318.9 million for the reversal of a valuation allowance on a portion of U.S. capital loss carryforwards resulting from restructuring associated with the sale of the generics business, a benefit of \$36.8 million for the recognition of previously unrecognized tax benefits, a benefit of \$41.3 million for certain IPR&D impairments and a benefit of \$44.0 million for acquired tax attributes.

The increase in the effective tax rate for the period ended September 30, 2016 as compared to the period ended September 30, 2015 is primarily the result of a decrease in acquisition related expenses benefited at lower tax rates.

During the third quarter, the United States Department of the Treasury issued final and temporary regulations under Section 385 of the Internal Revenue Code which are applicable to the federal income tax treatment of certain related party debt. The Company does not expect the regulations to have a material impact on its consolidated financial statements.

During the period ended September 30, 2016 the Company's non-current deferred tax liability increased by \$4,842.7 million primarily due to the reversal of deferred tax assets related to investments in certain U.S. subsidiaries of \$5,273.9 million partially offset by the reversal of deferred tax liabilities of \$673.9 million related to investments in certain non-U.S. subsidiaries. Refer to "NOTE 5 – Discontinued Operations" for further discussion and additional disclosures related to our income tax provision reported as part of discontinued operations.

The Company conducts business globally and, as a result, it files U.S. federal, state and foreign tax returns. The Company strives to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While the Company has accrued for amounts it believes are in accordance with the accounting standard, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the consolidated financial statements. Furthermore, the Company may later decide to challenge any assessments, if made, and may exercise its right to appeal. The uncertain tax positions are reviewed quarterly and adjusted as events occur that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations with tax authorities, identification of new issues and issuance of new legislation, regulations or case law.

The Company has several concurrent audits still pending with the IRS as set forth below:

IRS Audits	Tax Years
Actavis W.C. Holding, Inc.	2013 and 2014
Forest Laboratories, Inc.	2010, 2011, 2012, 2013 and 2014
Warner Chilcott Corporation	2010, 2011, 2012 and 2013
Durata Therapeutics Inc.	2012
Allergan, Inc.	2009, 2010, 2011, 2012 and 2013

NOTE 16 — Shareholders' Equity

A summary of the changes in shareholders' equity for the nine months ended September 30, 2016 consisted of the following (\$ in millions):

	Allergan plc
Shareholders' equity as of December 31, 2015	\$76,591.4
Increase in additional paid in capital for share-based compensation plans	269.9
Net income attributable to ordinary shareholders	14,765.2
Proceeds from stock plans	138.0
Excess tax benefit from employee stock plans	26.6
Other comprehensive income of the Teva Transaction	1,544.8
Repurchase of ordinary shares, including accrued repurchases, under the Share Repurchase Program	(3,089.9)
Repurchase of ordinary shares	(68.7)
Other comprehensive income	(451.4)
Shareholders' equity as of September 30, 2016	\$89,725.9

	Warner Chilcott Limited
Members' equity as of December 31, 2015	\$ 75,573.7
Net income attributable to members	14,891.7
Dividend to Parent	(1,244.8)
Other comprehensive income	(451.4)
Other comprehensive income of the Teva Transaction	1,544.8
Members' equity as of September 30, 2016	\$ 90,314.0

Share Repurchase Program

During the nine months ended September 30, 2016, the Company announced that the Board of Directors approved a \$10.0 billion share repurchase program. As of September 30, 2016, the Company has repurchased/accrued for \$3,089.9 million of ordinary shares. The Company completed the initial \$5.0 billion share repurchase program during the fourth quarter of 2016.

Accumulated Other Comprehensive Income / (Loss)

For most of the Company's international operations, the local currency has been determined to be the functional currency. The results of its non-U.S. dollar based operations are translated to U.S. dollars at the average exchange rates during the period. Assets and liabilities are translated at the rate of exchange prevailing on the balance sheet date. Equity is translated at the prevailing rate of exchange at the date of the equity transaction. Translation adjustments are reflected in shareholders' equity and are included as a component of other comprehensive income / (loss). The effects of converting non-functional currency assets and liabilities into the functional currency are recorded as transaction gains/losses in general and administrative expenses in the consolidated statements of operations.

Edgar Filing: Allergan plc - Form 10-Q

The movements in accumulated other comprehensive income / (loss) for the three and nine months ended September 30, 2016 were as follows (\$ in millions):

	Foreign Currency Translation Items	Unrealized (losses) / gains net of tax	Total Accumulated Other Comprehensive Income / (Loss)
Balance as of December 31, 2015	\$ (564.3)	\$ 70.2	\$ (494.1)
Other comprehensive gain / (loss) before reclassifications into			
general and administrative	192.9	(15.9)	177.0
Total other comprehensive income / (loss)	192.9	(15.9)	177.0
Balance as of June 30, 2016	\$ (371.4)	\$ 54.3	\$ (317.1)
Other comprehensive gain / (loss) before reclassifications into			
general and administrative	(19.1)	54.9	35.8
Impact of Teva Transaction	1,540.6	4.2	1,544.8
Investment in Teva ordinary shares fair value movement	-	(664.2)	(664.2)
Total other comprehensive income / (loss)	1,521.5	(605.1)	916.4
Balance as of September 30, 2016	\$ 1,150.1	\$ (550.8)	\$ 599.3

The movements in accumulated other comprehensive (loss) / income for the three and nine months ended September 30, 2015 were as follows (\$ in millions):

	Foreign Currency Translation Items	Unrealized gains net of tax	Total Accumulated Other Comprehensive Income / (Loss)
Balance as of December 31, 2014	\$ (434.4)	\$ (31.0)	\$ (465.4)
Other comprehensive income before reclassifications into general			
and administrative	451.4	3.6	455.0
Total other comprehensive income	451.4	3.6	455.0
Balance as of June 30, 2015	\$ 17.0	\$ (27.4)	\$ (10.4)

Other comprehensive (loss) / income before reclassifications into general			
and administrative	(42.4)	7.5	(34.9)
Total other comprehensive (loss) / income	(42.4)	7.5	(34.9)
Balance as of September 30, 2015	\$ (25.4)	\$ (19.9)	\$ (45.3)

NOTE 17 — Derivative Instruments and Hedging Activities

The Company's revenue, earnings, cash flows and fair value of its assets and liabilities can be impacted by fluctuations in foreign exchange risks and interest rates, as applicable. The Company manages the impact of foreign exchange risk and interest rate movements through operational means and through the use of various financial instruments, including derivative instruments such as foreign currency derivatives.

Foreign Currency Derivatives

Overall, the Company is a net recipient of currencies other than the U.S. dollar and, as such, benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect the Company's consolidated revenues and favorably impact operating expenses in U.S. dollars.

The Company enters into foreign currency derivatives to reduce current and future earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating

expenses. The Company enters into foreign currency derivatives in amounts between minimum and maximum anticipated foreign exchange exposures. The Company does not designate the current derivative instruments as accounting hedges.

The Company uses foreign currency derivatives, which provide for the sale or purchase or the option to sell or purchase foreign currencies to economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of the Company's business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw materials in currencies other than the U.S. dollar. The foreign currency derivatives are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

The Company recognized realized and unrealized gains on such contracts of \$9.1 million and \$5.7 million during the three and nine months ended September 30, 2016, respectively. The Company recognized realized and unrealized losses on such contracts of \$6.4 million and \$5.8 million during the three and nine months ended September 30, 2015, respectively.

The fair value of outstanding foreign currency derivatives are recorded in "Prepaid expenses and other current assets" or "Investments and other assets" or "Accounts payable and accrued expenses." At September 30, 2016 and December 31, 2015, foreign currency derivative assets associated with the foreign exchange option contracts of \$23.2 million and \$25.0 million, respectively, were included in "Prepaid expenses and other current assets." At September 30, 2016 and December 31, 2015, foreign currency derivative assets associated with the foreign exchange option contracts of \$28.8 million and \$48.5 million, respectively, were included in "Investments and other assets." At December 31, 2015, there were \$0.3 million in foreign currency derivative liabilities associated with the foreign exchange forward contracts included in "Accounts payable and accrued expenses."

NOTE 18 — Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants. Fair values determined based on Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Fair values determined based on Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. A financial asset or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value or disclosed at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 consisted of the following (\$ in millions):

	Fair Value Measurements as of		
	September 30, 2016 Using:		
	Total	Level 1	Level 2

				Level 3
Assets:				
Cash equivalents	\$6,257.1	\$6,257.1	\$-	\$-
Marketable securities	15,463.2	-	15,463.2	-
Deferred executive compensation investments	114.3	92.0	22.3	-
Foreign currency derivatives	52.0	-	52.0	-
Investment in Teva ordinary shares	4,374.4	-	4,374.4	-
Investments and other	98.5	98.5	-	-
Total assets	\$26,359.5	\$6,447.6	\$19,911.9	\$-
Liabilities:				
Deferred executive compensation liabilities	114.3	92.0	22.3	-
Contingent consideration obligations	951.1	-	-	951.1
Total liabilities	\$1,065.4	\$92.0	\$22.3	\$951.1

	Fair Value Measurements as of December 31, 2015 Using:			
	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities	\$29.9	\$29.9	\$-	\$-
Deferred executive compensation investments	118.1	102.3	15.8	-
Foreign currency derivatives	73.2	-	73.2	-
Investments and other	112.2	112.2	-	-
Total assets	\$333.4	\$244.4	\$89.0	\$-
Liabilities:				
Deferred executive compensation liabilities	117.9	102.1	15.8	-
Contingent consideration obligations	868.0	-	-	868.0
Total liabilities	\$985.9	\$102.1	\$15.8	\$868.0

Foreign Currency Contracts

At September 30, 2016 and December 31, 2015, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows (\$ in millions, except average contract rate or strike amount):

	September 30, 2016		December 31, 2015	
	Average Contract		Average Contract	
	Notional Rate or Strike		Notional Rate or Strike	
	Principal Amount		Principal Amount	
Foreign currency forward exchange contracts: (Receive U.S. dollar/pay foreign currency)				
Russian ruble	\$21.6	63.73	\$18.8	72.97
	\$21.6		\$18.8	
Estimated fair value	\$0.1		\$(0.3)	
Foreign currency sold - put options:				
Euro	\$259.9	1.41	\$340.5	1.41
	\$259.9		\$340.5	
Estimated fair value	\$51.9		\$73.5	

The notional principal amounts provide one measure of the transaction volume outstanding as of September 30, 2016 and December 31, 2015, and do not represent the amount of the Company's exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of September 30, 2016 and December 31, 2015. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Contingent Consideration Obligations

The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs and is based on a probability-weighted income approach. The measurement is based upon unobservable inputs supported by little or no market activity based on our own assumptions. Changes in the fair value of the contingent consideration obligations, including accretion, are recorded in our consolidated statements of operations as follows (\$ in millions):

Expense / (income)	Three Months Ended	
	September 30, 2016	September 30, 2015
Cost of sales	\$ 10.4	\$ 20.6
Research and development	5.5	60.1
General and administrative	-	0.6
Total	\$ 15.9	\$ 81.3

Expense / (income)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Cost of sales	\$ 13.4	\$ 53.1
Research and development	65.8	34.7
General and administrative	0.1	(0.5)
Total	\$ 79.3	\$ 87.3

The table below provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Balance as of December 31, 2015	Net transfers		Net accretion		Balance as of September 30, 2016
		in to (out of) Level 3	Purchases and settlements, net adjustments	and fair value translation	Foreign currency	
Liabilities:						
Contingent consideration obligations	\$ 868.0	\$ -	\$ 3.7	\$ 79.3	\$ 0.1	\$ 951.1

	Balance as of December 31, 2014	Net transfers		Net accretion		Balance as of September 30, 2015
		in to (out of) Level 3	Purchases and settlements, net adjustments	and fair value translation	Foreign currency	
Liabilities:						
Contingent consideration obligations	\$ 373.8	\$ -	\$ 317.8	\$ 87.3	\$ (5.0)	\$ 773.9

During the nine months ended September 30, 2016, the following activity in contingent consideration obligations was incurred (\$ in millions):

Balance as of	Acquisitions	Fair Value	Payments	Balance as of
---------------	--------------	------------	----------	---------------

Edgar Filing: Allergan plc - Form 10-Q

	December 31, 2015		Adjustments	and Other	September 30, 2016
			and Accretion		
Allergan Acquisition	\$ 329.7	\$ -	\$ 41.4	\$ (40.0)	\$ 331.1
AqueSys Acquisition	193.5	-	13.8	-	207.3
Medicines 360 acquisition	144.1	-	13.6	(0.5)	157.2
Oculeve Acquisition	90.0	-	8.8	-	98.8
ForSight Acquisition	-	79.8	-	-	79.8
Metrogel acquisition	30.9	-	(7.5)	(4.5)	18.9
Forest Acquisition	20.4	-	(4.7)	(1.0)	14.7
Uteron acquisition	8.2	-	-	0.1	8.3
Durata Acquisition	24.5	-	2.2	(26.7)	-
Other	26.7	-	11.7	(3.4)	35.0
Total	\$ 868.0	\$ 79.8	\$ 79.3	\$ (76.0)	\$ 951.1

NOTE 19 — Business Restructuring Charges

During 2016, activity related to our business restructuring and facility rationalization activities primarily related to the cost optimization initiatives in conjunction with the Allergan Acquisition. Restructuring activities for the nine months ended September 30, 2016 were as follows (\$ in millions):

	Severance and Retention	Share-Based Compensation	Other	Total
Reserve balance at December 31, 2015	\$ 96.7	\$ -	\$48.6	\$145.3
Charged to expense				
Cost of sales	3.5	0.5	5.2	9.2
Research and development	6.5	0.9	0.7	8.1
Selling and marketing	8.0	9.3	1.3	18.6
General and administrative	17.4	9.7	9.0	36.1
Total expense	35.4	20.4	16.2	72.0
Cash payments	(62.9)	-	(25.1)	(88.0)
Other reserve impact	-	(20.4)	(0.3)	(20.7)
Reserve balance at September 30, 2016	\$ 69.2	\$ -	\$39.4	\$108.6

During the three months ended September 30, 2016 and 2015, the Company recognized restructuring charges of \$37.7 million and \$42.1 million, respectively. During the nine months ended September 30, 2016 and 2015, the Company recognized restructuring charges of \$72.0 million and \$674.8 million, respectively.

NOTE 20 — Commitments & Contingencies

The Company and its affiliates are involved in various disputes, governmental and/or regulatory inspections, inquires, investigations and proceedings, and litigation matters that arise from time to time in the ordinary course of business. The process of resolving matters through litigation or other means is inherently uncertain and it is possible that an unfavorable resolution of these matters will adversely affect the Company, its results of operations, financial condition and cash flows. The Company's general practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when losses are probable and reasonably estimable.

The Company evaluates, on a quarterly basis, developments in legal proceedings and other matters that could cause an increase or decrease in the amount of the liability that is accrued. As of September 30, 2016, the Company's consolidated balance sheet includes accrued loss contingencies of approximately \$115.0 million, which includes approximately \$22.0 million which was assumed by Teva as part of the closing of the sale of the Anda Distribution business on October 3, 2016.

The Company's legal proceedings range from cases brought by a single plaintiff to mass tort actions and class actions with thousands of putative class members. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims (including, but not limited to, qui tam actions, antitrust, product liability,

breach of contract, securities, patent infringement and trade practices), some of which present novel factual allegations and/or unique legal theories. In addition, a number of the matters pending against us are at very early stages of the legal process (which in complex proceedings of the sort faced by us often extend for several years). As a result, some matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to estimate a range of possible loss. In those proceedings in which plaintiffs do request publicly quantified amounts of relief, the Company does not believe that the quantified amounts are meaningful because they are merely stated jurisdictional limits, exaggerated and/or unsupported by the evidence or applicable burdens of proof.

As noted above, on October 3, 2016, the Company completed the divestiture of the Anda Distribution business to Teva. At closing Teva assumed certain liabilities and claims of the Company described below under “Teva Assumed Liabilities.”

Antitrust Litigation

Asacol® Litigation. On June 22, 2015, two class action complaints were filed in federal court in Massachusetts on behalf of a putative class of indirect purchasers. In each complaint plaintiffs allege that they paid higher prices for Warner Chilcott’s Asacol® HD and Delzicol® products as a result of Warner Chilcott’s alleged actions preventing or delaying generic competition in the market for Warner Chilcott’s older Asacol® product in violation of U.S. federal antitrust laws and/or state laws. Plaintiffs seek unspecified injunctive relief, treble damages and/or attorneys’ fees. All of the actions were consolidated in the federal district court. On September 21, 2015, three additional complaints were filed on behalf of putative classes of indirect purchasers, each raising similar

allegations to the complaints filed in June 2015. Defendants have moved to dismiss the indirect purchasers' complaint. A hearing was held on the motion to dismiss on May 11, 2016. On July 20, 2016, the court issued a decision granting the motion in part, dismissing the indirect purchaser plaintiffs' claims based on purported reverse payments and dismissed several of indirect purchaser plaintiffs' claims based on state laws. On August 15, 2016, the indirect purchaser plaintiffs filed a second amended complaint. The Company filed an answer to the second amended complaint on October 4, 2016. A complaint was filed on behalf of a putative class of direct purchasers of Asacol® in federal court in New York on April 26, 2016. The direct purchaser complaint makes similar allegations to the complaints filed by the indirect purchaser plaintiffs. On May 25, 2016, defendants filed a motion to transfer the direct purchaser action to the federal court in Massachusetts where it could be consolidated with the indirect purchaser cases. Two additional direct purchaser putative class action complaints were filed in federal court in New York on June 29, 2016. On September 7, 2016, direct purchaser plaintiffs agreed to transfer the cases filed in New York to the federal court in Massachusetts where they were consolidated. On October 11, 2016, the Company filed a motion to dismiss the direct purchasers' consolidated complaint. The Company believes it has substantial meritorious defenses and intends to defend itself vigorously. However, these actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Botox® Litigation. On February 24, 2015, a class action complaint was filed in federal court in California. The complaint alleges unlawful market allocation in violation of Section 1 of the Sherman Act, 15 U.S.C. §1, agreement in restraint of trade in violation of 15 U.S.C. §1 of the Sherman Act, unlawful maintenance of monopoly market power in violation of Section 2 of the Sherman Act, 15 U.S.C. §2 of the Sherman Act, violations of California's Cartwright Act, Section 16700 et seq. of Calif. Bus. and Prof. Code., and violations of California's unfair competition law, Section 17200 et seq. of Calif. Bus. and Prof. Code. Plaintiffs filed an amended complaint on May 29, 2015. On June 29, 2015, the Company filed a motion to dismiss the complaint. On October 20, 2015, the Court denied the Company's motion to dismiss the complaint. On December 18, 2015, plaintiffs filed a motion for partial judgment on the pleadings or, in the alternative, for partial summary judgment or adjudication. The Company filed a response to the motion for judgment on the pleadings on February 11, 2016. The court held oral argument on plaintiff's motion on March 4, 2016 and took the matter under submission. On May 31, 2016, the court denied plaintiffs' motion for partial judgment on the pleadings or, in the alternative, for partial summary judgment or adjudication. On June 14, 2016, plaintiffs filed a motion for reconsideration of the court's denial of the motion. On July 19, 2016, plaintiffs filed a motion for class certification. On October 14, 2016, the Company filed an opposition to plaintiffs' motion for class certification. The Company believes it has substantial meritorious defenses and intends to defend itself vigorously. However, these actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Doryx® Litigation. In July 2012, Mylan Pharmaceuticals Inc. ("Mylan") filed a complaint against Warner Chilcott and Mayne Pharma International Pty. Ltd. ("Mayne") in federal court in Pennsylvania alleging that Warner Chilcott and Mayne prevented or delayed Mylan's generic competition to Warner Chilcott's Doryx® products in violation of U.S. federal antitrust laws and tortiously interfered with Mylan's prospective economic relationships under Pennsylvania state law. In the complaint, Mylan seeks unspecified treble and punitive damages and attorneys' fees. Following the filing of Mylan's complaint, three putative class actions were filed against Warner Chilcott and Mayne by purported direct purchasers, and one putative class action was filed by purported indirect purchasers. In addition, four retailers filed in the same court a civil antitrust complaint in their individual capacities. In each of the class and individual cases the plaintiffs allege that they paid higher prices for Warner Chilcott's Doryx® products as a result of Warner Chilcott's and Mayne's alleged actions preventing or delaying generic competition in violation of U.S. federal antitrust laws and/or state laws. Plaintiffs seek unspecified injunctive relief, treble damages and/or attorneys' fees. All of the actions were consolidated in the federal district court.

Warner Chilcott and Mayne's motion to dismiss was denied without prejudice by the court in June 2013. Thereafter, Warner Chilcott and Mayne reached agreements to settle the claims of the Direct Purchaser Plaintiff class representatives, the Indirect Purchaser Plaintiff class representatives and each of the individual retailer plaintiffs. Warner Chilcott and Mylan filed motions for summary judgment on March 10, 2014. On April 16, 2015, the court issued an order granting Warner Chilcott and Mayne's motion for summary judgment, denying Mylan's summary judgment motion and entering judgment in favor of Warner Chilcott and Mayne on all counts. Mylan appealed the district court's decision to the Third Circuit Court of Appeals. On September 28, 2016, the Court of Appeals issued its decision and affirmed the ruling of the district court. On October 12, 2016 Mylan petitioned the Third Circuit for a rehearing en banc.

The Company intends to vigorously defend its rights in the litigations. However, it is impossible to predict with certainty the outcome of any litigation and whether any additional similar suits will be filed.

Loestrin® 24 Litigation. On April 5, 2013, two putative class were filed in the federal district court against Warner Chilcott and certain affiliates alleging that Warner Chilcott's 2009 patent lawsuit settlements with Watson Laboratories and Lupin related to Loestrin® 24 Fe (norethindrone acetate/ethinyl estradiol tablets and ferrous fumarate tablets, "Loestrin® 24") were unlawful. The complaints, both asserted on behalf of putative classes of end-payors, generally allege that Watson and Lupin improperly delayed

launching generic versions of Loestrin[®] 24 in exchange for substantial payments from Warner Chilcott in violation of federal and state antitrust and consumer protection laws. The complaints each seek declaratory and injunctive relief and damages. Additional complaints have been filed by different plaintiffs seeking to represent the same putative class of end-payors. In addition to the end-payor suits, two lawsuits have been filed on behalf of a class of direct payors. After a hearing on September 26, 2013, the JPML issued an order transferring all related Loestrin[®] 24 cases to the federal court for the District of Rhode Island. On September 4, 2014, the court granted the defendants' motion to dismiss the complaint. The plaintiffs appealed the district court's decision to the First Circuit Court of Appeals and oral argument was held on December 7, 2015. On February 22, 2016 the First Circuit issued its decision vacating the decision of, and remanding the matter to, the district court. On June 11, 2016, defendants filed an omnibus motion to dismiss the claims of the direct purchaser class plaintiffs, end-payor class plaintiffs and individual direct purchaser plaintiffs.

Namenda[®] Litigation. On September 15, 2014, the State of New York, through the Office of the Attorney General of the State of New York, filed a lawsuit in the United States District Court for the Southern District of New York alleging that Forest was acting to prevent or delay generic competition to Forest's immediate-release product Namenda[®] in violation of federal and New York antitrust laws and committed other fraudulent acts in connection with its commercial plans for Namenda[®] XR. In the complaint, the state seeks unspecified monetary damages and injunctive relief. On September 24, 2014, the state filed a motion for a preliminary injunction prohibiting Forest from discontinuing or otherwise limiting the availability of immediate-release Namenda[®] until the conclusion of the litigation. A hearing was held in November 2014 on the state's preliminary injunction motion. On December 11, 2014, the district court issued a ruling granting the state's injunction motion and issued an injunction on December 15, 2014. On May 22, 2015, the Court of Appeals for the Second Circuit affirmed the preliminary injunction. On June 5, 2015, Forest filed a petition with the Second Circuit for rehearing en banc which was denied. Forest and the New York Attorney General reached a settlement on November 24, 2015. On May 29, 2015, a putative class action was filed on behalf of a class of direct purchasers and on June 8, 2015 a similar putative class action was filed on behalf of a class of indirect purchasers. Since that time, additional complaints have been filed on behalf of putative classes of direct and indirect purchasers. The class action complaints make claims similar to those asserted by the New York Attorney General and also include claims that Namenda[®] patent litigation settlements between Forest and generic companies also violated the antitrust laws. On December 22, 2015, Forest and its co-defendants filed motions to dismiss the pending complaints of the putative classes of direct and indirect purchasers. On September 13, 2016, the court issued a decision denying the Company's motion to dismiss. On September 27, 2016 the Company filed an answer to the amended complaint. The Company believes it has substantial meritorious defenses and intends to defend both its brand and generic defendant entities vigorously. However, these actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Zymar[®]/Zymaxid[®] Litigation. On February 16, 2012, Apotex Inc. and Apotex Corp. filed a complaint in the federal district court in Delaware against Senju Pharmaceuticals Co., Ltd. ("Senju"), Kyorin Pharmaceutical Co., Ltd. ("Kyorin"), and Allergan, Inc. ("Allergan") alleging monopolization in violation of Section 2 of the Sherman Act, conspiracy to monopolize, and unreasonable restraint of trade in the market for gatifloxacin ophthalmic formulations, which includes Allergan's ZYMAR[®] gatifloxacin ophthalmic solution 0.3% and ZYMAXID[®] gatifloxacin ophthalmic solution 0.5% products. On May 24, 2012, Allergan filed a motion to dismiss the complaint to the extent it seeks to impose liability for alleged injuries occurring prior to August 19, 2011, which is the date Apotex obtained final approval of its proposed generic product. Allergan and the other defendants also moved to dismiss. Defendants also filed a motion to stay the action pending resolution of related patent actions in the federal court in Delaware and in the U.S. Court of Appeals for the Federal Circuit. On February 7, 2013, the court granted defendants' motion to stay the proceedings pending resolution of the appeal in the patent dispute and denied the motion to dismiss without prejudice to renew. On September 18, 2014, defendants filed a new motion to dismiss the Apotex plaintiffs' complaint. The court dismissed Allergan's motion on May 2, 2015. Thereafter, Allergan filed an answer to Apotex's complaint on June 1,

2015. On June 6, 2014, a separate antitrust class action complaint was filed in the federal district court in Delaware against the same defendants as in the Apotex case. The complaint alleges that defendants unlawfully excluded or delayed generic competition in the gatifloxacin ophthalmic formulations market (generic versions of ZYMAR® and ZYMAXID®). On September 18, 2014, Allergan filed a motion to dismiss for lack of subject matter jurisdiction and joined in co-defendants' motion to dismiss for failure to state a claim. On August 19, 2015, the court granted Allergan's motion to dismiss. On September 18, 2015, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit. The Third Circuit oral argument was held on June 13, 2016. On September 7, 2016, the U.S. Court of Appeals for the Third Circuit vacated the District Court's granting of Allergan's motion to dismiss and remanded to the District Court for further proceedings. The Company believes it has substantial meritorious defenses and intends to defend itself vigorously. However, these actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Commercial Litigation

Celexa®/Lexapro® Class Actions. Forest and certain of its affiliates were named as defendants in three federal court actions filed on behalf of individuals who purchased Celexa® and/or Lexapro® for pediatric use, all of which have been consolidated for pretrial purposes in an MDL proceeding in the federal district court Massachusetts (the "Celexa®/Lexapro® MDL"). These actions, two of

which were originally filed as putative nationwide class actions, and one of which is a putative California-wide class action, allege that Forest marketed Celexa[®] and/or Lexapro[®] for off-label pediatric use and paid illegal kickbacks to physicians to induce prescriptions of Celexa[®] and Lexapro[®]. The complaints assert various similar claims, including claims under the state consumer protection statutes and state common laws. Plaintiffs in the various actions sought to have certified California, Missouri, Illinois and New York state-wide classes. However, only the Missouri state class was certified. Forest subsequently reached an agreement with the MDL plaintiffs to settle the Missouri class claims, including claims by both individuals and third party payors that purchased Celexa[®] or Lexapro[®] for use by a minor from 1998 to December 31, 2013, for \$7.65 million with a potential to increase the amount to \$10.35 million if settling plaintiffs meet certain thresholds. On September 8, 2014 the court granted final approval for the settlement.

Additional actions relating to the promotion of Celexa[®] and/or Lexapro[®] have been filed all of which have been consolidated in the Celexa[®]/Lexapro[®] MDL. On May 3, 2013, an action was filed in federal court in California on behalf of individuals who purchased Lexapro[®] for adolescent use, seeking to certify a state-wide class action in California and alleging that our promotion of Lexapro[®] for adolescent depression has been deceptive. On March 5, 2014 the court granted Forest's motion to dismiss this complaint. Plaintiff then appealed the district court's decision to the Court of Appeals for the First Circuit and on February 20, 2015, the First Circuit affirmed the dismissal of the complaint, ruling that Plaintiffs' California state law claims were preempted by the Federal Food, Drug, and Cosmetic Act (FDCA). On November 13, 2013, an action was filed in federal court in Minnesota seeking to certify a nationwide class of third-party payor entities that purchased Celexa[®] and Lexapro[®] for pediatric use. The complaint asserts claims under the federal Racketeer Influenced and Corrupt Organizations Act, alleging that Forest engaged in an off-label marketing scheme and paid illegal kickbacks to physicians to induce prescriptions of Celexa[®] and Lexapro[®]. Forest moved to dismiss the complaint and on December 12, 2014, the court issued a ruling dismissing plaintiff's claims under Minnesota's Deceptive Trade Practices Act, but denying the remaining portions of the motion. A motion for class certification was filed in February, 2016, and denied on June 2, 2016. Thereafter, plaintiffs filed a 23(f) petition with the First Circuit requesting leave to appeal the denial of class certification. The district court judge entered an Order dated August 8, 2016, staying discovery in the case until the First Circuit renders a decision on plaintiffs' 23(f) petition. On March 13, 2014, an action was filed in the federal court in Massachusetts by two third-party payors seeking to certify a nationwide class of persons and entities that purchased Celexa[®] and Lexapro[®] for use by pediatric use. The complaint asserts claims under the federal Racketeer Influenced and Corrupt Organizations Act, state consumer protection statutes, and state common laws, alleging that Forest engaged in an off-label marketing scheme and paid illegal kickbacks to physicians to induce prescriptions of Celexa[®] and Lexapro[®]. The court granted Forest's motion to dismiss this complaint in its December 12, 2014 ruling. On August 28, 2014, an action was filed in the federal district court in Washington seeking to certify a nationwide class of consumers and subclasses of Washington and Massachusetts consumers that purchased Celexa[®] and Lexapro[®] for pediatric use. The complaint asserts claims under the federal Racketeer Influenced and Corrupt Organizations Act, alleging that Forest engaged in off-label marketing scheme and paid illegal kickbacks to physicians to induce prescriptions of Celexa[®] and Lexapro[®]. Forest's response to the complaint was filed on December 19, 2014. On June 16, 2015, the court issued a ruling on the motion to dismiss, granting it in part and denying it in part. Plaintiffs thereafter filed an amended complaint. Forest moved to dismiss the amended complaint. On June 9, 2016, the court denied Forest's motion.

Forest and certain of its affiliates were also named as defendants in two actions filed on behalf of entities or individuals who purchased or reimbursed certain purchases of Celexa[®] and Lexapro[®] for pediatric use pending in the Missouri state court. These claims arise from similar allegations as those contained in the federal actions described in the preceding paragraphs. One action, filed on November 6, 2009, was brought by two entities that purchased or reimbursed certain purchases of Celexa[®] and/or Lexapro[®]. The complaint asserts claims under the Missouri consumer protection statute and Missouri common law, and seeks unspecified damages and attorneys' fees. The other action, filed on July 22, 2009, was filed as a putative class action on behalf of a class of Missouri citizens who purchased Celexa[®] for pediatric use. The complaint asserts claims under the Missouri consumer protection statute and Missouri common law, and seeks unspecified damages and attorneys' fees. In October 2010, the court certified a class of

Missouri domiciliary citizens who purchased Celexa[®] for pediatric use at any time prior to the date of the class certification order, but who do not have a claim for personal injury. The Company reached agreements with both sets of plaintiffs in the Missouri actions to resolve each matter for payments that are not material to our financial condition or results of operations.

The Company intends to continue to vigorously defend against these actions. At this time, the Company does not believe losses, if any, would have a material effect on the results of operations or financial position taken as a whole.

Telephone Consumer Protection Act Litigation. In October 2012, Forest and certain of its affiliates were named as defendants, in a putative class action in federal court in Missouri. This suit alleges that Forest and another defendant violated the TCPA and was filed on behalf of a proposed class that includes all persons who, from four years prior to the filing of the action, were sent telephone facsimile messages of material advertising the commercial availability of any property, goods, or services by or on behalf of defendants, which did not display an opt-out notice compliant with a certain regulation promulgated by the FCC. On July 17, 2013, the district court granted Forest's motion to stay the action pending the administrative proceeding initiated by the pending FCC Petition and a separate petition Forest filed. On October 31, 2015, another class action complaint was filed in Missouri state court against Allergan USA, Inc., Warner Chilcott Corporation and Actavis, Inc. alleging violations of the Telephone Consumer Protection

Act, the Missouri Consumer Fraud and Protection Act and conversion on behalf of a putative nationwide class of plaintiffs to who defendant Warner Chilcott Corporation sent unsolicited facsimile advertisements. Defendants removed this action to the federal district court for the Western District of Missouri on December 10, 2015 and responded to the complaint on February 8, 2016. On February 17, 2016, plaintiffs voluntarily dismissed defendants Allergan USA, Inc. and Actavis, Inc. from the litigation.

In a related matter, on June 27, 2013, Forest filed a Petition for Declaratory Ruling with the FCC requesting that the FCC find that (1) the faxes at issue in the action complied, or substantially complied with the FCC regulation, and thus did not violate it, or (2) the FCC regulation was not properly promulgated under the TCPA. On January 31, 2014, the FCC issued a Public Notice seeking comment on Forest's and several other similar petitions. On October 30, 2014, the FCC issued a final order on the FCC Petition granting Forest and several other petitioners a retroactive waiver of the opt-out notice requirement for all faxes sent with express consent. The litigation plaintiffs, who had filed comments on the January 2014 Public Notice, have appealed the final order to the Court of Appeals for the District of Columbia. Forest and other petitioners have moved to intervene in the appeal seeking review of that portion of the FCC final order addressing the statutory basis for the opt out/express consent portion of the regulation. Warner Chilcott has filed a similar petition with the FCC.

Forest and Warner Chilcott believe they have substantial meritorious defenses to the putative class actions brought under the TCPA, and intend to defend the actions vigorously. However, these actions, if successful, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Prescription Drug Abuse Litigation. On May 21, 2014, the California counties Santa Clara and Orange filed a lawsuit in California state court on behalf of the State of California against several pharmaceutical manufacturers. Plaintiffs named Actavis plc in the suit. The California plaintiffs filed an amended complaint on June 9, 2014. On June 2, 2014, the City of Chicago also filed a complaint in Illinois state court against the same set of defendants, including Actavis plc, that were sued in the California Action. Co-defendants in the action removed the matter to the federal court in Illinois. Both the California and Chicago complaints allege that the manufacturer defendants engaged in a deceptive campaign to promote their products in violation of state and local laws. Each of the complaints seeks unspecified monetary damages, penalties and injunctive relief. Defendants have moved to dismiss the complaints in each action. On May 8, 2015, the court in the Chicago litigation granted the Company's motion to dismiss the complaint. On August 26, 2015, the City of Chicago filed a second amended complaint. On September 29, 2016, the court in the Chicago litigation granted in part and denied in part defendants' motion to dismiss the second amended complaint. In the California action, on August 27, 2015, the court stayed the action based on primary jurisdiction arguments raised in the motions to dismiss. On June 3, 2016, the California plaintiffs filed a motion to lift the stay and a motion for leave to file a third amended complaint. On July 1, 2016, the Company and codefendants filed joint oppositions to the California plaintiffs' motion to lift the stay and motion for leave to file a third amended complaint. On July 27, 2016, the court ordered the California plaintiffs to file another motion for leave to file an amended complaint along with a proposed amended complaint. On October 19, 2016, the court in the California litigation lifted the stay in part permitting defendants to challenge the third amended complaint and for the parties to discuss settlement and maintaining the stay in all other respects. On December 15, 2015, the State of Mississippi filed a lawsuit in Mississippi state court against several pharmaceutical manufacturers. The Mississippi action parallels the allegations in the California and Chicago matters and seeks monetary and equitable relief. In March and April 2016, the defendants filed motions to dismiss, stay, and transfer venue in the Mississippi action. The Company anticipates that additional suits will be filed. The Company believes it has several meritorious defenses to the claims alleged. However, an adverse determination in these actions could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

Testosterone Replacement Therapy Class Action. On November 24, 2014, the Company was served with a putative class action complaint filed on behalf a class of third party payers in federal court in Illinois. The suit alleges that the

Company and other named pharmaceutical defendants violated various laws including the federal Racketeer Influenced and Corrupt Organizations Act and state consumer protection laws in connection with the sale and marketing of certain testosterone replacement therapy pharmaceutical products (“TRT Products”), including the Company’s Androdern® product. This matter was filed in the TRT Products Liability MDL, described in more detail below, notwithstanding that it is not a product liability matter. Plaintiff alleges that it reimbursed third parties for dispensing TRT Products to beneficiaries of its insurance policies. Plaintiff seeks to obtain certain equitable relief, including injunctive relief and an order requiring restitution and/or disgorgement, and to recover damages and multiple damages in an unspecified amount. Defendants filed a joint motion to dismiss the complaint, after which plaintiff amended its complaint. Defendants jointly filed a motion to dismiss the amended complaint, which was granted in part and denied in part on February 3, 2016. The Court dismissed plaintiff’s substantive RICO claims for mail and wire fraud for failure to plead with particularity under Rule 9(b) but granted plaintiffs leave to replead. The court also dismissed plaintiff’s state law statutory claims and common law claims for fraud and unjust enrichment. The Court declined to dismiss plaintiff’s conspiracy claims pursuant to 18 U.S.C. § 1962(d) and its claims for negligent misrepresentation. On March 2, 2016, the defendants jointly filed a Motion for Reconsideration of the court’s ruling on plaintiff’s claims under 18 U.S.C. § 1962(d). Plaintiff filed its Third Amended Complaint on April 7, 2016. Defendants jointly filed a motion to dismiss the Third Amended Complaint on May 5, 2016, plaintiffs filed opposition to same on June 20, 2016 and defendants jointly filed a reply on July 7, 2016. On August 2, 2016, the Court dismissed all claims in the Third Amended Complaint against the

Company except Count XXIV alleging conspiracy under 18 U.S.C. § 1962(d). On August 29, 2016, the Company filed a Motion for Reconsideration or, in the Alternative, Motion to Certify for Interlocutory Appeal, which the Court denied on the September 8, 2016. Discovery is in the early stages. The Company believes it has substantial meritorious defenses to the claims alleged and intends to vigorously defend the action. However, an adverse determination in the case could have an adverse effect on the Company's business, results of operations, financial condition and cash flows.

TNS Products Litigation. On March 19, 2014, a complaint was filed in the federal district court in California. The complaint alleges violations of the California Unfair Competition Law, the Consumers Legal Remedies Act, and the False Advertising Law, and deceit. On June 2, 2014, Plaintiff filed a first amended complaint. On June 23, 2014, Allergan filed a motion to dismiss the first amended complaint. On September 5, 2014, the court granted-in-part and denied-in-part Allergan's motion to dismiss. On September 8, 2014, the court set trial for September 1, 2015. On November 4, 2014, Allergan and SkinMedica filed a motion to dismiss. On January 7, 2015, Allergan and SkinMedica's motion to dismiss was denied. On January 15, 2015, the court set a trial date of February 16, 2016. On February 19, 2015 Plaintiff filed a third amended complaint. On May 27, 2015, the case was stayed pending the decision of the Ninth Circuit Court of Appeals in another matter involving similar legal issues. The Company believes it has substantial meritorious defenses and intends to defend itself vigorously. However, these actions, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Xaleron Dispute. On February 5, 2016, Xaleron Pharmaceuticals, Inc. filed a lawsuit against Allergan, Inc. and Actavis, Inc. in state court in New York. The complaint, filed on February 26, 2016, alleges Allergan misappropriated Xaleron's confidential business information and asserts claims for unfair competition, tortious interference with prospective economic advantage and unjust enrichment. The company filed a motion to dismiss the complaint on April 15, 2016. On September 13, 2016 the court issued a decision denying the Company's motion. The Company filed an answer to the complaint and the parties are now engaged in discovery. The Company intends to vigorously defend against this action. However, this action, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Employment Litigation

In July 2012, Forest and certain of its affiliates were named as defendants in an action brought by certain former company sales representatives and specialty sales representatives in the federal district court in New York. The action is a putative class and collective action, and alleges class claims under Title VII for gender discrimination with respect to pay and promotions, as well as discrimination on the basis of pregnancy, and a collective action claim under the Equal Pay Act. The proposed Title VII gender class includes all current and former female sales representatives employed by the Company throughout the U.S. from 2008 to the date of judgment, and the proposed Title VII pregnancy sub-class includes all current and former female sales representatives who have been, are, or will become pregnant while employed by the Company throughout the U.S. from 2008 to the date of judgment. The proposed Equal Pay Act collective action class includes current, former, and future female sales representatives who were not compensated equally to similarly-situated male employees during the applicable liability period. The Second Amended Complaint also includes non-class claims on behalf of certain of the named Plaintiffs for sexual harassment and retaliation under Title VII, and for violations of the Family and Medical Leave Act. On August 14, 2014, the court issued a decision on the Company's motion to dismiss, granting it in part and denying it in part, striking the plaintiffs' proposed class definition and instead limiting the proposed class to a smaller set of potential class members and dismissing certain of the individual plaintiffs' claims. Plaintiffs filed a motion for conditional certification of an Equal Pay Act collective action on May 22, 2015 which the Company has opposed. On September 2, 2015, the court granted plaintiffs motion to conditionally certify a collective action. The Company intends to continue to vigorously defend

against this action. At this time, the Company does not believe losses, if any, would have a material effect on the results of operations or financial position taken as a whole.

Patent Litigation

Patent Enforcement Matters

Amrix®. In August 2014, Aptalis Pharmatech, Inc. (“Aptalis”) and Ivax International GmbH (“Ivax”), Aptalis’s licensee for Amrix, brought an action for infringement of U.S. Patent No. 7,790,199 (the “199 patent”), and 7,829,121 (the “121 patent”) in the U.S. District Court for the District of Delaware against Apotex Inc. and Apotex Corp. (collectively “Apotex”). Apotex has notified Aptalis that it has filed an ANDA with the FDA seeking to obtain approval to market a generic version of Amrix before these patents expire. (The ’199 and ’121 patents expire in November 2023.) This lawsuit triggered an automatic stay of approval of Apotex’s ANDA until no earlier than December 27, 2016 (unless there is a final court decision adverse to Forest sooner, and subject to any other exclusivities, such as a first filer 180 day market exclusivity). A bench trial concluded on November 17, 2015. Post-trial briefing concluded on April 8, 2016. On September 29, 2016, Adare Pharmaceuticals, Inc., and Ivax filed suit in U.S. District Court for the

District of Delaware against Apotex asserting that Apotex's generic product will infringe U.S. Patent No. 9,399,025. No schedule has been set. The Company believes it has meritorious claims to prevent the generic applicant from launching a generic version of Amrix. However, there can be no assurance a generic version will not be launched.

Bystolic® IPR. On December 23, 2015, Forest Laboratories Holdings Limited ("Forest") received a notification letter that an Inter Partes Review of the USPTO ("IPR") petition was filed by Lower Drug Prices for Consumers, LLC ("LDPC") regarding U.S. Patent No. 6,545,040, expiring on December 17, 2021 (the "'040 Patent"). LDPC filed the IPR petition on December 22, 2015, and refiled a corrected petition on January 20, 2016. Forest filed a Patent Owner's Preliminary Response on April 22, 2016. On July 1, 2016, the USPTO Patent and Trial Appeal Board ("PTAB") filed their decision denying institution of the IPR. Thereafter, LDPC filed a Request for Rehearing of the decision denying institution of the IPR. On October 19, 2016, the PTAB denied the Request for Rehearing.

Canasa®. In July 2013, Aptalis Pharma US, Inc. and Aptalis Pharma Canada Inc. brought actions for infringement of U.S. Patent Nos. 8,217,083 (the "'083 patent") and 8,436,051 (the "'051 patent") in the U.S. District Court for the District of New Jersey against Mylan and Sandoz. These companies have notified Aptalis that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Canasa® before these patents expire. Amended complaints were filed against these companies in November 2013 adding claims for infringement of U.S. Patent No. 7,854,384 (the "'384 patent"). The '083, '051, and '384 patents expire in June 2028. On November 11, 2015, Aptalis entered into a settlement agreement with Mylan. Under the terms of the settlement agreement, Mylan may launch its generic version of Canasa® on December 15, 2018, or earlier under certain circumstances. On March 22, 2016, Aptalis entered into a settlement agreement with Sandoz. On December 14, 2015, Aptalis brought an action for infringement of the '083, '051, and '384 patents in the U.S. District Court for the District of New Jersey against Pharmaceutical Sourcing Partners, Inc. ("PSP"). PSP had notified Aptalis that it had filed an ANDA with the FDA seeking to obtain approval to market generic versions of Canasa® before certain of these patents expire. This lawsuit triggered an automatic stay of approval of PSP's ANDA that expires no earlier than May 2018 (unless a court issues a decision adverse to Aptalis sooner). On December 23 and 27, 2015, Aptalis brought actions for infringement of the '083, '051, and '384 patents in the U.S. District Courts for the District of New Jersey and the District of Delaware, respectively, against Delcor Asset Corp., Renaissance Pharma, Inc. and Renaissance Acquisition Holdings, LLC ("Delcor"). Delcor has notified Aptalis that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Canasa before certain of these patents expire. These lawsuits triggered an automatic stay of approval of Delcor's ANDA that expires no earlier than May 2018 (unless there is a final court decision adverse to Aptalis sooner). On March 14, 2016, Aptalis filed a motion to dismiss PSP's Seventh and Eighth counterclaims alleging unfair competition and tortious interference under state law, or in the alternative, to bifurcate the trial and stay discovery relating to PSP's Seventh and Eighth counterclaims. Trial is scheduled for November 2017 in the PSP action. On April 8, 2016, Aptalis entered into a settlement agreement with Delcor. On May 27, 2016, the Court denied Aptalis' motion to the extent that it concerns dismissal of PSP's Seventh and Eighth counterclaims, denied without prejudice to the extent that the motion concerns bifurcation and a stay and granted leave to Aptalis to move again concerning bifurcation and a stay. On June 24, 2016, Aptalis filed an answer to PSP's counterclaims. On October 13, 2016, Aptalis entered into a settlement agreement with PSP, and the case was dismissed on October 20, 2016.

Combigan® II-III. In 2012, Allergan filed a complaint against Sandoz, Alcon, Apotex and Watson in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging that their proposed products infringe U.S. Patent Number 8,133,890 ("890 Patent"), and subsequently amended their complaint to assert infringement of U.S. Patent Number 8,354,409. In March 2013, Allergan received a Paragraph IV invalidity and non-infringement certification from Sandoz, contending that the '890 Patent is invalid and not infringed by the proposed generic product. In October 2013, Allergan filed a motion to stay and administratively close the Combigan II matter, which was granted. In April 2015, Allergan filed a stipulation of dismissal and the U.S. District Court granted the Order with respect to the Watson defendants. In October 2015, the U.S. District Court entered an order consolidating the Combigan® III matter C.A.

2:15-cv-00347-JRG into this matter C.A. 2:12-cv-00207-JRG, as lead case and subsequently, set the bench trial for October 25, 2016. A Markman Hearing was held on March 2, 2016.

On May 19, 2016, Sandoz filed an opposed motion for leave to amend its answer and counterclaim seeking to add a count for declaratory judgment of invalidity of the '149 Patent. On July 20, 2016, Alcon and Sandoz filed motions for summary judgment of invalidity and non-infringement of claim 4 of the '149 Patent, and Allergan filed a motion for summary judgment of infringement of claim 4 of the '149 Patent and to preclude Sandoz from re-challenging the validity of that claim. On September 30, 2016, the Court denied the parties' motions for summary judgment. Trial began October 25, 2016. . While the Company intends to vigorously defend the patents at issue in this litigation, Allergan can offer no assurance as to whether the lawsuit will be successful and that a generic version will not be launched.

Delzicol[®]. On August 28, 2015, Warner Chilcott Company, LLC, Warner Chilcott (US), LLC, and Qualicaps Co., Ltd. (collectively, "Plaintiffs") brought an action for infringement of U.S. Patent No. 6,649,180 (the "'180 patent") in the United States District Court for the Eastern District of Texas against Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries Ltd. (collectively, "Teva"). Teva notified Plaintiffs that it has filed an ANDA with the FDA seeking to obtain approval to market generic

versions of Delzicol® before the '180 patent expires in April 2020. This lawsuit triggered an automatic stay of approval of Teva's ANDA that expires no earlier than January 2018 (unless there is a final court decision adverse to Plaintiffs sooner). Trial is scheduled for October 2017. On November 9, 2015, Plaintiffs also brought an action for infringement of '180 patent in the United States District Court for the Eastern District of Texas against Mylan Pharmaceuticals, Inc., Mylan Laboratories Limited and Mylan, Inc. (collectively, "Mylan"). Mylan notified Plaintiffs that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Delzicol® before the '180 patent expires in April 2020. This lawsuit triggered an automatic stay of approval of Mylan's ANDA that expires no earlier than March 2018 (unless a court issues a decision adverse to Plaintiffs sooner). On December 16, 2015, Mylan filed a motion to dismiss for failure to state a claim, lack of personal jurisdiction, and improper venue, which remains pending. Trial is scheduled for October 2017. In March 2016, the Court entered an order consolidating the Mylan litigation (C.A. 2:15-cv-01740) with the Teva litigation (C.A. 2:15-cv-01471) matter as the lead case.

On April 1, 2016, Warner Chilcott Company, LLC, Warner Chilcott (US), LLC, Allergan Pharmaceuticals International Ltd., Allergan USA, LLC and Qualicaps Co., Ltd. (collectively, "Plaintiffs") brought an action for infringement of the '180 patent in the United States District Court for the Eastern District of Texas against Zydus International Pvt. Ltd., Zydus Pharmaceuticals (USA) Inc. and Cadila Healthcare Ltd. (collectively, "Zydus"). Zydus notified the Company that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Delzicol® before the '180 patent expires. In May 2016, Plaintiffs filed a first amended complaint against Mylan and a first amended and second amended complaint against Teva. In June 2016, Plaintiffs filed a second amended complaint against Mylan and a third amended complaint against Teva. On June 27, 2016, Teva filed an answer and counterclaims and Mylan filed a motion to dismiss the second amended complaint for failure to state a claim, lack of personal jurisdiction, and improper venue, which remains pending. On June 9, 2016, Zydus filed an answer and counterclaims.

On July 21, 2016, the Plaintiffs filed an answer to Teva's counterclaim and to Zydus's counterclaim. While the Company intends to vigorously defend the patent at issue in these litigations, Warner Chilcott can offer no assurance as to whether the lawsuits will be successful and that a generic version will not be launched.

Gelnique® 10% gel. In October 2015, Actavis Laboratories, UT, Inc. ("Actavis") filed a complaint in the U.S. District Court for the District of Delaware for infringement of U.S. Patent Nos. 7,029,694 ("694 Patent"), 7,179,483 ("483 Patent"), 8,241,662 ("662 Patent"), and 8,920,392 ("392 Patent") against Par Pharmaceutical, Inc. ("Par"). Par notified Plaintiff that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Gelnique® 10% gel before the '694 Patent, '483 Patent, '662 Patent, and the '392 Patent expires. The '694, '483, and '662 Patents expire in April 2020, and the '392 Patent expires in March 2031. This lawsuit triggered an automatic stay of approval of Par's ANDA that expires no earlier than February 19, 2018 (unless there is a final court decision adverse to Plaintiff sooner). In June and July 2016, the Court entered stipulations and orders staying this litigation. On October 4, 2016, the parties entered into a settlement agreement, and the case was dismissed.

Lastacaft®. In May 2016, Allergan, Inc. ("Allergan") and Vistakon Pharmaceuticals, LLC ("Vistakon") filed a complaint in the U.S. District Court for the District of Delaware for infringement of U.S. Patent No. 8,664,215 ("215 Patent") against Somerset Therapeutics, LLC ("Somerset"). Somerset notified Allergan and Vistakon that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Lastacaft® before the '215 Patent expires. On October 18, 2016, the parties entered into a settlement agreement, and the case was dismissed.

Latisse® III. In December 2014, Allergan and Duke University filed a complaint for declaratory judgment of infringement of U.S. Patent Nos. 8,906,962 ("962 Patent") against Apotex. In January 2015, Allergan and Duke subsequently filed an amended complaint against Apotex to assert infringement of U.S. Patent Number 8,926,953 ("953 Patent"). In March 2015, Allergan and Duke filed a second amended complaint asserting only the '953 Patent. Apotex filed a motion to dismiss for failure to state a claim with respect to the '953 Patent. On August 31, 2015, the

court issued an order and judgment dismissing the case with prejudice in favor of Apotex, Sandoz and Akorn on all of Allergan's claims alleging infringement of the '953 patent. In the Sandoz and Akorn matters, the court also declared and adjudged the '953 patent invalid as obvious, and collaterally estopped Allergan from asserting the '953 patent against Sandoz or Akorn or contesting the invalidity of the '953 patent. In late September, the court entered a final judgment that declared and adjudged claims 8, 23 and 26 of the '953 patent invalid as obvious and collaterally estopped Allergan from asserting claims 8, 23 and 26 of the '953 patent against Apotex and Akorn or contesting the invalidity of claims 8, 23 and 26 of the '953 patent. On September 30, 2015, Allergan filed a Notice of Appeal to the Court of Appeals for the Federal Circuit. On October 19, 2015, the U.S. Court of Appeals for the Federal Circuit docketed the appeal filed by Allergan. In March 2016, Allergan filed its opening brief. In June 2016, Akorn, Apotex, Hi-Tech and Sandoz filed their response brief. In July 2016, Allergan filed its reply brief. While the Company intends to vigorously defend the patents at issue in this litigation, Allergan can offer no assurance as to whether the lawsuit will be successful and that a generic version will not be launched.

Linzess®. In October 2016, the Company and Ironwood received Paragraph IV certification notice letters from Teva Pharmaceuticals USA, Inc. ("Teva") indicating that it had submitted to FDA an ANDA seeking approval to manufacture and sell a generic version of LINZESS® 145 mcg and 290 mcg capsules ("LINZESS") before the expiration of the nine patents listed in the

Orange Book, including U.S. Patent Nos. 7,304,036 (the “‘036 Patent”); 7,371,727 (the “‘727 Patent”); 7,704,947 (the “‘947 Patent”); 7,745,409 (the “‘409 Patent”); 8,080,526 (the “‘526 Patent”); 8,110,553 (the “‘553 Patent”); 8,748,573 (the “‘573 Patent”); 8,802,628 (the “‘628 Patent”); and 8,933,030 (the “‘030 Patent”). In October 2016, the Company and Ironwood also received Paragraph IV certification notice letters from Aurobindo Pharma Ltd. (“Aurobindo”) indicating that it had submitted to FDA an ANDA seeking approval to manufacture and sell a generic version of LINZESS before the expiration of the ‘573, ‘628 and ‘030 Patents. (The ‘727, ‘947, ‘409, ‘526 and ‘553 Patents expire in January 2024; the ‘036 Patent expires in August 2026; and the ‘573, ‘628 and ‘030 Patents expire in 2031.) Teva and Aurobindo claim that the patents discussed in their respective notice letters are invalid, unenforceable and/or would not be infringed. The Company is evaluating patent infringement actions in response to these ANDA filings.

Namenda XR[®]. Between January and October 2014, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd. (collectively, “Forest”) and Merz Pharma and Adamas Pharmaceuticals, Forest’s licensors for Namenda XR[®] (collectively, “Plaintiffs”), brought actions for infringement of some or all of U.S. Patent Nos. 5,061,703 (the “‘703 patent”), 8,039,009 (the “‘009 patent”), 8,168,209 (the “‘209 patent”), 8,173,708 (the “‘708 patent”), 8,283,379 (the “‘379 patent”), 8,329,752 (the “‘752 patent”), 8,362,085 (the “‘085 patent”), and 8,598,233 (the “‘233 patent”) in the U.S. District Court for the District of Delaware against Wockhardt, Teva, Sun, Apotex, Anchen, Zydus, Watson, Par, Mylan, Amneal, Ranbaxy, and Amerigen, and related subsidiaries and affiliates thereof. These companies have notified Plaintiffs that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Namenda XR[®] before these certain patents expire. Including a 6-month pediatric extension of regulatory exclusivity, the ‘703 patent expires in October 2015, the ‘009 patent expires in September 2029, and the ‘209, ‘708, ‘379, ‘752, ‘085, and ‘233 patents expire in May 2026. These lawsuits triggered an automatic stay of approval of the applicable ANDAs that expires no earlier than June 2016 (unless there is a final court decision adverse to Plaintiffs sooner). On June 11, 2014, Mylan filed a motion to dismiss for lack of personal jurisdiction, which the district court denied on March 30, 2015. On December 18, 2014, Ranbaxy filed an IPR before the Patent Trial and Appeal Board, U.S. Patent and Trademark Office, with respect to the ‘085 patent. Adamas filed a preliminary response on April 14, 2015. On May 1, 2015, Forest entered into a settlement agreement with Ranbaxy. On May 15, 2015, the Patent Trial and Appeal Board granted Adamas and Ranbaxy’s joint motion to terminate the case. On October 17, 2014, Forest and Actavis Laboratories FL, Inc. (f/k/a Watson Laboratories, Inc. — Florida) filed a stipulation dismissing their respective claims without prejudice. On November 3, 2014, Plaintiffs entered into a settlement agreement with Wockhardt. Under the terms of the settlement agreement, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Plaintiffs will provide a license to Wockhardt that will permit it to launch its generic version of Namenda XR[®] as of the date that is the later of (a) two (2) calendar months prior to the expiration date of the last to expire of the ‘703 patent, the ‘209 patent, the ‘708 patent, the ‘379 patent, the ‘752 patent, the ‘085 patent, and the ‘233 patent, including any extensions and/or pediatric exclusivities; or (b) the date that Wockhardt obtains final FDA approval of its ANDA, or earlier in certain circumstances. On January 13, 2015, Plaintiffs entered into settlement agreements with Anchen and Par. Under the terms of the settlement agreements, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Plaintiffs will provide licenses to Anchen and Par that will permit them to launch their generic versions of Namenda XR[®] as of the date that is the later of (a) two (2) calendar months prior to the expiration date of the last to expire of the ‘209 patent, the ‘708 patent, the ‘379 patent, the ‘752 patent, the ‘085 patent, and the ‘233 patent, as well as the ‘009 patent for Par only, including any extensions and/or pediatric exclusivities; or (b) the dates that Anchen and Par obtain final FDA approval of their respective ANDAs, or earlier in certain circumstances. On May 11, 2015, Forest entered into a settlement agreement with Sun. On August 18, 2015, Forest entered into a settlement agreement with Zydus. On September 9, 2015, Forest entered into a settlement agreement with Amneal. Under the terms of the settlement agreement, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Plaintiffs will provide a license to Amneal that will permit it to launch its generic version of Namenda XR[®] beginning January 31, 2020, following receipt by Amneal of final approval from the FDA on its ANDA for generic Namenda XR[®]; or (b) under certain circumstances, Amneal has an option to launch an authorized generic version of Namenda XR[®] beginning on January 31, 2021. The Company entered into a settlement agreement with Amerigen on October 20, 2015. The Company entered into a settlement agreement with Mylan on November 16, 2015. The

Company entered into a settlement agreement with Lupin on December 22, 2015. On January 5, 2016, the district court issued a claim construction ruling that included findings of indefiniteness as to certain claim terms in the asserted patents. On February 11, 2016, the Company settled with Apotex. Trial began on February 16, 2016 with the remaining defendant Teva with respect to the '009 patent. Post-trial briefing concluded on April 29, 2016. The Parties have reached agreement on settlement with Teva subject to Court approval. In June 2016, after reaching an agreement to settle, the parties filed and the Court entered a judgment of infringement in favor of Plaintiffs and against Teva regarding the '009 patent. On July 26, 2016, the Court entered a final judgment of invalidity of claim 1 of the '209 patent, claims 1, 6, 10 and 15 of the '708 patent, claim 1 of the '379 patent, claims 1 and 9 of the '752 patent, claims 1 and 7 of the '085 patent and claim 1 of the '233 patent in favor of Teva. On August 23, 2016, the Company filed a Notice of Appeal to the U.S. Court of Appeals for the Federal Circuit in the actions involving Teva with respect to the district court's January 5, 2016 claim construction opinion and order, and the July 26, 2016 final judgment of invalidity. On August 24, 2016, the U.S. Court of Appeals for the Federal Circuit docketed the appeal filed by the Company. The Company's opening brief is due on December 8, 2016. The Company believes that its arguments on appeal are substantial and meritorious. On September 29, 2016, the Company issued a press release following announcement of ANDA approvals, including FDA final approval by Lupin. If the district court ruling is upheld on appeal to the U.S. Court of Appeals for the Federal Circuit, there is a possibility that generic entry for Namenda XR could occur following an adverse decision. On October 9, 2015, the Company also brought an action for infringement of the '009, '209, '708, '379, '752, '085, and '233 patents in the U.S.

District Court for the District of Delaware against Accord Healthcare, Inc. and Intas Pharmaceuticals Limited (collectively, “Accord”). The Accord defendants have notified Plaintiffs that they have filed an ANDA with the FDA seeking to obtain approval to market generic versions of Namenda XR[®] before these patents expire. On January 14, 2016, Forest entered into a settlement agreement with Accord. On December 8, 2015, the Company also brought an action for infringement of the ‘209, ‘708, ‘379, ‘752, ‘085, and ‘233 patents in the U.S. District Court for the District of Delaware against Panacea Biotech, Ltd. (“Panacea”). Panacea has notified Plaintiffs that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Namenda XR[®] before these patents expire. On May 17, 2016, the Company entered into a settlement agreement with Panacea.

Namzanic[®]. On August 27, 2015, Forest Laboratories, LLC, Forest Laboratories Holdings, Ltd. (collectively, “Forest”) and Adamas Pharmaceuticals, Inc. (all collectively, “Plaintiffs”), brought an action for infringement of some or all of U.S. Patent Nos. 8,039,009 (the “‘009 patent”), 8,058,291 (the “‘291 patent”), 8,168,209 (the “‘209 patent”), 8,173,708 (the “‘708 patent”), 8,283,379 (the “‘379 patent”), 8,293,794 (the “‘794 patent”), 8,329,752 (the “‘752 patent”), 8,338,485 (the “‘485 patent”), 8,338,486 (the “‘486 patent”), 8,362,085 (the “‘085 patent”), 8,580,858 (the “‘858 patent”) and 8,598,233 (the “‘233 patent”) in the U.S. District Court for the District of Delaware against Amneal Pharmaceuticals LLC and Par Pharmaceutical, Inc., and related subsidiaries and affiliates thereof. These companies have notified Plaintiffs that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Namzanic[®] before these certain patents expire. Including a 6-month pediatric extension of regulatory exclusivity, the ‘009 patent expires in September 2029, and the ‘209, ‘708, ‘379, ‘752, ‘085, and ‘233 patents expire in May 2026. The ‘291 patent expires in December 2029, and the ‘794, ‘485, ‘486, and ‘858 patents expire in November 2025. These lawsuits triggered an automatic stay of approval of the applicable ANDAs that expires no earlier than January 2018 (unless there is a final court decision adverse to Plaintiffs sooner). On October 23, 2015, the Company also brought an action for infringement of the ‘009, ‘291, ‘209, ‘708, ‘379, ‘794, ‘752, ‘485, ‘486, ‘085, ‘858 and ‘233 patents in the U.S. District Court for the District of Delaware against Amerigen Pharmaceuticals, Inc. and Amerigen Pharmaceuticals Ltd. (collectively, “Amerigen”). The Amerigen defendants have notified Plaintiffs that they have filed an ANDA with the FDA seeking to obtain approval to market generic versions of Namzanic[®] before these certain patents expire. On January 5, 2016, the district court in the Namenda XR[®] patent litigations issued a claim construction ruling that included findings of indefiniteness as to certain claim terms in certain of the patents also asserted in the pending Namzanic[®] patent litigations. The Company entered into a settlement agreement with Par on April 29, 2016. Under the terms of the settlement agreement, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Plaintiffs will provide a license to Par that will permit it to launch its generic version of Namzanic[®] as of June 5, 2029, or earlier in certain circumstances. Trial is scheduled for October 2017. In June 2016, Forest filed a motion for leave to file an amended complaint to add the ‘009 patent against Amneal, which the District Court granted on July 19, 2016. On May 20, 2016, the Company also brought an action for infringement of the ‘009, ‘291, ‘209, ‘708, ‘379, ‘794, ‘752, ‘485, ‘486, ‘085, ‘858 and ‘233 patents in the U.S. District Court for the District of Delaware against Accord Healthcare Inc. USA and Intas Pharmaceuticals Limited (collectively, “Accord”). The Accord defendants have notified Plaintiffs that they have filed an ANDA with the FDA seeking to obtain approval to market generic versions of Namzanic[®] before these certain patents expire. The Company entered into a settlement agreement with Accord on July 20, 2016. On August 30, 2016, Plaintiffs entered into a settlement agreement with Amneal, who is believed to be a first applicant. Under the terms of the agreement, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Plaintiffs will provide a license to Amneal that will permit it to launch its generic version of Namzanic[®] as of January 1, 2025, or earlier in certain circumstances. Alternatively, under certain circumstances, Amneal has an option to launch an authorized generic version of Namzanic beginning on January 1, 2026. On October 21, 2016, Plaintiffs entered into a settlement agreement with Amerigen, and the case was dismissed.

Rapaflo[®]. On June 17, 2013, Actavis, Inc., Watson Laboratories, Inc., (collectively, “Actavis”) and Kissei Pharmaceutical Co., Ltd. (“Kissei”) sued Hetero USA Inc., Hetero Labs Limited, and Hetero Labs Limited, Unit 3 (collectively, “Hetero”) in the United States District Court for the District of Delaware, alleging that sales of silodosin tablets, a generic version of Actavis’ Rapaflo[®] tablets, would infringe U.S. Patent No. 5,387,603 (the “‘603 patent”). On

June 17, 2013 Actavis and Kissei sued Sandoz Inc. (“Sandoz”) in the United States District Court for the District of Delaware, alleging that sales of Sandoz’s generic version of Rapaflo® would infringe the ‘603 patent. The complaint seeks injunctive relief. On December 22, 2014 the Parties completed a settlement agreement with Hetero. Actavis and Kissei’s lawsuit against Sandoz have been consolidated and remain pending. Pursuant to the provisions of the Hatch-Waxman Act, the FDA is precluded from granting final approval to the generic applicants prior to April 8, 2016. The Company believes it has meritorious claims to prevent the generic applicants from launching a generic version of Rapaflo®. However, if a generic applicant prevails in the pending litigation or launches a generic version of Rapaflo® before the pending litigation is finally resolved, it could have an adverse effect on the Company’s business, results of operations, financial condition and cash flows.

Restasis®. Between August and September 2015, Allergan brought actions for infringement of U.S. Patent Nos. 8,629,111 (the “‘111 patent”), 8,633,162 (the “‘162 patent”), 8,642,556 (the “‘556 patent”), 8,648,048 (the “‘048 patent”), and 8,685,930 (the “‘930 patent”) in the U.S. District Court for the Eastern District of Texas against Akorn, Inc., Apotex, Inc., Mylan Pharmaceuticals, Inc., Teva Pharmaceuticals USA, Inc., InnoPharma, Inc., and Pfizer, Inc., and related subsidiaries and affiliates thereof. On September 14, 2015, Allergan brought an action for infringement of these patents in the U.S. District Court for the District of Delaware against InnoPharma, Inc. and Pfizer, Inc. These companies have notified Allergan that they have filed ANDAs with the FDA seeking to obtain

approval to market generic versions of Restasis® before these patents expire in August 2024. In the Texas actions the District Court granted joint motions to dismiss without prejudice Teva Pharmaceutical Industries Ltd. and Pfizer, Inc., on October 12 and October 22, 2015, respectively. Teva Pharmaceuticals USA, Inc. (“Teva”) and InnoPharma, Inc. (“InnoPharma”) remain defendants in the respective actions. In October 2015, Mylan Pharmaceuticals, Inc. and Mylan, Inc. (“Mylan”) filed a motion to dismiss for lack of personal jurisdiction and improper venue, and for failure to state a claim as to Mylan, Inc.; Teva filed a motion to dismiss for lack of personal jurisdiction and improper venue; Apotex, Inc. and Apotex Corp. (“Apotex”) filed an answer, affirmative defenses and counterclaim; Akorn, Inc. (“Akorn”) filed an answer and counterclaim; and Teva filed an answer, counterclaim and motion to dismiss. Allergan entered into a settlement agreement with Apotex on December 15, 2015. In December 2015, Allergan and Apotex filed a joint stipulation of dismissal and the U.S. District Court granted the Order with respect to the Apotex defendants. In January 2016, the Court scheduled a bench trial for August 29, 2017.

In February 2016, Allergan filed an amended complaint to include U.S. Patent Number 9,248,191 (the “’191 patent”). In February and March 2016, Allergan received Paragraph IV letters from Apotex, Mylan and Teva notifying Allergan that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Restasis® before the patents expire in August 2024, contending that the ‘191 patent is invalid and not infringed by their respective proposed generic products.

On March 1, 2016, Allergan received a Paragraph IV letter from Famy Care Limited (“Famy Care”) notifying Allergan that they have filed an ANDA with the FDA seeking to obtain approval to market generic versions of Restasis® before the patents expire in August 2024, contending that the ‘111 patent, the ‘162 patent, the ‘556 patent, the ‘048 patent, the ‘930 patent, and the ‘191 patent are invalid and not infringed by their respective proposed generic products. In March 2016, the Court entered an order requesting supplemental briefs on the effect of the Federal Circuit’s Acorda decision (No. 2014-1456) on Teva’s and Mylan’s pending motions to dismiss. In their supplemental briefs, Teva acknowledged that, under the Acorda decision, it is subject to specific personal jurisdiction in the Eastern District of Texas and that venue is proper, and Mylan requested that the District Court refrain from taking action on its pending motion until after Mylan has sought panel and en banc rehearing in the Acorda action. In April 2016, the Court issued a memorandum and opinion denying Mylan’s and Teva’s motions to dismiss. On April 12, 2016, Allergan filed a complaint for infringement of the ‘111 patent, ‘162 patent, ‘556 patent, ‘048 patent, ‘930 patent, and the ‘191 patent in the U.S. District Court for the Eastern District of Texas against Famy Care. In March and April 2016, Allergan filed answers to Teva, Akorn and InnoPharma’s counterclaims. On June 6, 2016, Famy Care filed an answer, affirmative defenses and counterclaims. In June 2016, Allergan filed a motion for consolidation and the Court entered an order consolidating the Famy Care matter, C.A. 2:16-cv-00401-WCB, into C.A. 2:15-cv-01455-WCB, (the “Lead” case).

On July 20, 2016, Allergan filed a complaint for infringement of the ‘111 patent, ‘162 patent, ‘556 patent, ‘048 patent, ‘930 patent, and the ‘191 patent in the U.S. District Court for the District of Delaware and, on July 21, 2016, a complaint in the U.S. District Court for the Eastern District of Texas against TWi Pharmaceuticals, Inc. and TWi Pharmaceuticals USA, Inc. (“TWi”). TWi notified Allergan that it has filed an ANDA with the FDA seeking to obtain approval to market generic versions of Restasis® before these certain patents expire. While the Company intends to vigorously defend the patents at issue in this litigation, Allergan can offer no assurance as to whether the lawsuit will be successful and that a generic version will not be launched.

Restasis® IPR. On June 6, 2016, Allergan, Inc. (“Allergan”) received notification letters that Inter Partes Review of the USPTO (“IPR”) petitions were filed by Mylan Pharmaceuticals Inc. (“Mylan”) regarding U.S. Patent Nos. 8,629,111 (the “‘111 patent”), 8,633,162 (the “‘162 patent”), 8,642,556 (the “‘556 patent”), 8,648,048 (the “‘048 patent”), 8,685,930 (the “‘930 patent”), and 9,248,191 (the “‘191 patent”), which patents expire on August 27, 2024. Mylan filed the IPR petition on June 3, 2016. On June 23, 2016, Allergan received a notification letter that a IPR petition and motion for joinder was filed by Argentum Pharmaceuticals LLC (“Argentum”) regarding the ‘111 patent.

Saphris®. Between September 2014 and May 2015, Forest Laboratories, LLC, and Forest Laboratories Holdings, Ltd. (collectively, “Forest”) brought actions for infringement of some or all of U.S. Patent Nos. 5,763,476 (the “‘476 patent”), 7,741,358 (the “‘358 patent”) and 8,022,228 (the “‘228 patent”) in the U.S. District Court for the District of Delaware against Sigmapharm Laboratories, LLC, Hikma Pharmaceuticals, LLC, Breckenridge Pharmaceutical, Inc., Alembic Pharmaceuticals, Ltd. and Amneal Pharmaceuticals, LLC, and related subsidiaries and affiliates thereof. Including a 6-month pediatric extension of regulatory exclusivity, the ‘476 patent expires in December 2020, and the ‘358 and ‘228 patents expire in October 2026. These lawsuits triggered an automatic stay of approval of the applicable ANDAs that expires no earlier than February 13, 2017 (unless a court issues a decision adverse to Forest sooner). On February 3, 2015, the District Court consolidated the then-pending actions for all purposes. On September 30, 2015, the District Court consolidated all pending actions. On March 28, 2016, the Court entered Forest and Hikma’s proposed joint stipulation and order of adverse judgment and dismissal of claims related to the ‘358 and ‘228 patents. In April 2016, the Court granted the proposed consent judgment of non-infringement and order of dismissal of counterclaims related to the ‘358 and ‘228 patents, as well as a stipulation and order with respect to infringement of Claims 1, 2, and 6 of the ‘476 patent, between Plaintiffs and Breckenridge. The Court also granted the proposed stipulation of entry and proposed order of adverse judgment and dismissal of counterclaims related to the ‘358 and ‘228 patents between Plaintiffs and Sigmapharm. Trial is scheduled to begin in October 2016

with respect to the '476 patent, the only remaining patent-in-suit. In April, May and July 2016, the Court granted the proposed stipulations and orders of infringement of certain claims of the '476 patent as to Hikma, Breckenridge and Alembic. On October 13, 2016, the Court stayed trial as to Sigmapharm and extended the 30-month stay as to Sigmapharm. Trial started on October 24, 2016. The Company believes it has meritorious claims to prevent the generic applicants from launching a generic version of Saphris®. However, there can be no assurance a generic version will not be launched.

Savella®. Between September 2013 and February 2014, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd. (collectively, "Forest") and Royalty Pharma Collection Trust ("Royalty"), Forest's licensor for Savella®, brought actions for infringement of U.S. Patent Nos. 6,602,911 (the "'911 patent"), 7,888,342 (the "'342 patent"), and 7,994,220 (the "'220 patent") in the U.S. District Court for the District of Delaware against Amneal, Apotex, First Time US Generics, Glenmark, Hetero, Lupin, Mylan, Par, Ranbaxy, and Sandoz, and related subsidiaries and affiliates thereof. These companies have notified Forest and Royalty that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Savella before these patents expire. (The '342 patent expires in November 2021, the '911 patent expires in January 2023, and the '220 patent expires in September 2029.) These lawsuits triggered an automatic stay of approval of the applicable ANDAs until July 14, 2016 (unless a court issues a decision adverse to Forest and Royalty Pharma sooner). On March 7, 2014, Forest and Royalty voluntarily dismissed, without prejudice, all claims against Sandoz. On March 20, 2014, the district court consolidated all of the remaining pending actions for all purposes and issued a scheduling order setting a trial date in January 2016. On May 12, 2014, Forest and Royalty entered into a settlement agreement with First Time US Generics. Under the terms of the settlement agreement, and subject to review of the settlement terms by the U.S. Federal Trade Commission, Forest will provide a license to First Time that will permit it to launch its generic version of Savella® as of the date that is the later of (a) six (6) -calendar months prior to the expiration date of the last to expire of the '911 patent, the '342 patent, and the '220 patent, including any extensions and/or pediatric exclusivities; or (b) the date that First Time obtains final FDA approval of its ANDA, or earlier in certain circumstances. On December 15, 2014, Forest and Royalty entered into a settlement agreement with Ranbaxy. On April 8, 2015, Defendants filed a motion to dismiss for lack of standing. On or about April 29, 2015, Forest entered into a settlement agreement with Par that will permit Par to launch its generic version of Savella® as of the date that is the later of (a) six (6) calendar months prior to the expiration date of the last to expire of the '911 patent, the '342 patent, and the '220 patent, including any extensions and/or pediatric exclusivities; or (b) the date that Par obtains final FDA approval of its ANDA, or earlier in certain circumstances. On December 11, 2015, Forest and Royalty entered into settlement agreements with Hetero and Glenmark. On January 8, 2016, Forest and Royalty entered into a settlement agreement with Amneal. On January 19, 2016, Forest and Royalty entered into a settlement agreement with Apotex. The defendants under these agreements may enter the market as of March 19, 2026. A bench trial concluded on January 26, 2016. Post-trial briefing concluded on April 26, 2016. In June 2016, Forest and Royalty entered into a settlement agreement with Lupin. On July 11, 2016, the Court entered an order, opinion and judgment in favor of Plaintiffs and against Mylan, that Mylan infringes the asserted claims of the '911, '342 and '220 patents, and that the asserted claims of the '911, '342 and '220 patents are valid. On August 9, 2016, Mylan filed a notice of appeal. On September 30, 2016, Forest and Royalty entered into a settlement agreement with Mylan, and the appeal was dismissed. Pursuant to the settlement agreement, Mylan may enter the market as of March 19, 2026, or earlier under certain circumstances.

Teflaro®. In January 2015, Forest Laboratories, LLC, Forest Laboratories Holdings, Ltd., and Cerexa, Inc. (collectively, "Forest") and Takeda Pharmaceutical Company Limited ("Takeda"), Forest's licensor for Teflaro®, brought an action for infringement of some or all of U.S. Patent Nos. 6,417,175 (the "'175 patent"), 6,906,055 (the "'055 patent"), 7,419,973 (the "'973 patent") and 8,247,400 (the "'400 patent") in the U.S. District Court for the District of Delaware against Apotex and Sandoz, and related subsidiaries and affiliates thereof. These companies have notified Forest and Takeda that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Teflaro® before some or all of the '175, '055, '973 and '400 patents expire. (The '175 patent expires in April 2022, the '055 and '973 patents expire in December 2021, and the '400 patent expires in February 2031.) These lawsuits triggered

an automatic stay of approval of the applicable ANDAs until April 29, 2018 (unless a court issues a decision adverse to Forest and Takeda sooner). On June 24, 2015, the District Court issued a scheduling order setting a trial date in June 2017.

In April 2016, Forest filed a complaint for infringement of the '175 patent in the U.S. District Court for the District of Delaware against Apotex. Apotex had notified Forest and Takeda that they have filed an ANDA with the FDA seeking to obtain approval to market generic versions of Teflaro® before the '175 patent expires in April 2022. This lawsuit triggered an automatic stay of approval of the applicable ANDA with respect to the '175 patent until September 8, 2018 (unless a court issues a decision adverse to Forest and Takeda sooner). In May 2016, Apotex filed an answer and counterclaim as to the '175 patent and Forest filed an answer to Apotex's counterclaims. On June 14, 2016, Allergan filed a motion for consolidation and the Court entered an order consolidating C.A. 1:16-cv-00269-GMS, into C.A. 1:15-cv-00018-GMS, (the "Lead" case). On July 27, 2016, Forest and Takeda dismissed the '055 and '973 patents with respect to Sandoz. On August 5, 2016, Forest and Takeda dismissed the '175 patent as to Sandoz, leaving the '400 patent as the only patent asserted against Sandoz. The '175 patent and the '400 patent are still asserted against Apotex. While the company intends to vigorously defend the patents at issue in this litigation, Forest can offer no assurance as to whether the lawsuit will be successful and that a generic version will not be launched.

Viibryd®. In March 2015, Forest Laboratories, LLC, Forest Laboratories Holdings, Ltd., (collectively, “Forest”) and Merck KGaA and Merck Patent Gesellschaft Mit Beschränkter Haftung (collectively, “Merck”), Forest’s licensor for Viibryd, brought actions for infringement of U.S. Patent Nos. 7,834,020 (the “‘020 patent”), 8,193,195 (the “‘195 patent”), 8,236,804 (the “‘804 patent”) and 8,673,921 (the “‘921 patent”) in the U.S. District Court for the District of Delaware against Accord Healthcare Inc. (“Accord”), Alembic Pharmaceuticals, Ltd. (“Alembic”), Apotex, Inc. (“Apotex”), InvaGen Pharmaceuticals, Inc. (“InvaGen”), and Teva Pharmaceuticals USA, Inc. (“Teva”), and related subsidiaries and affiliates thereof. These companies have notified Forest and/or Merck that they have filed ANDAs with the FDA seeking to obtain approval to market generic versions of Viibryd before the ‘020, ‘195, ‘804 and ‘921 patents expire in June 2022. These lawsuits triggered an automatic stay of approval of the applicable ANDAs until July 21, 2018 (unless a court issues a decision adverse to Forest and Merck sooner). On August 24, 2015, the District Court consolidated the actions for all purposes and issued a scheduling order setting a trial date in January 2018. On November 23, 2015, Forest and Merck brought an action for infringement of the ‘020, ‘195, ‘804 and ‘921 patents in the U.S. District Court for the District of Delaware against InvaGen, which matter was consolidated with the earlier-filed action against InvaGen. While the Company intends to vigorously defend the patents at issue in this litigation, Forest can offer no assurance as to whether the lawsuit will be successful and that a generic version will not be launched.

Product Liability Litigation

Actonel® Litigation. Warner Chilcott is a defendant in approximately 171 cases and a potential defendant with respect to approximately 374 unfiled claims involving a total of approximately 554 plaintiffs and potential plaintiffs relating to Warner Chilcott’s bisphosphonate prescription drug Actonel®. The claimants allege, among other things, that Actonel® caused them to suffer osteonecrosis of the jaw (“ONJ”), a rare but serious condition that involves severe loss or destruction of the jawbone, and/or atypical fractures of the femur (“AFF”). All of the cases have been filed in either federal or state courts in the United States. Warner Chilcott is in the initial stages of discovery in these litigations. In addition, Warner Chilcott is aware of four purported product liability class actions that were brought against Warner Chilcott in provincial courts in Canada alleging, among other things, that Actonel® caused the plaintiffs and the proposed class members who ingested Actonel® to suffer atypical fractures or other side effects. It is expected that these plaintiffs will seek class certification. Plaintiffs have typically asked for unspecified monetary and injunctive relief, as well as attorneys’ fees. Warner Chilcott is indemnified by Sanofi for certain Actonel claims pursuant to a collaboration agreement relating to the two parties’ co-promotion of the product in the United States and other countries. In addition, Warner Chilcott is also partially indemnified by the Procter & Gamble Company (“P&G”) for ONJ claims that were pending at the time Warner Chilcott acquired P&G’s global pharmaceutical business in October 2009. In May and September 2013, Warner Chilcott entered into two settlement agreements that resolved a majority of the then-existing ONJ-related claims which are subject to the acceptance by the individual respective claimants.

The Company believes it has substantial meritorious defenses to these cases and intends to defend these claims vigorously. Warner Chilcott maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company’s business, results of operations, financial condition and cash flows.

Benicar® Litigation. The Company is named in approximately 1,740 actions involving allegations that Benicar®, a treatment for hypertension that Forest co-promoted with Daiichi Sankyo between 2002 and 2008, caused certain gastrointestinal injuries. Under Forest’s Co-Promotion Agreement, Daiichi Sankyo is defending us in these lawsuits.

Celexa®/Lexapro® Litigation. Forest and its affiliates are defendants in approximately 179 actions alleging that Celexa® or Lexapro® caused various birth defects. Several of the cases involve multiple minor-plaintiffs. The majority of these actions have been consolidated in state court in Missouri where one case is set for trial in May 2017. There are also four matters pending in state court in New Jersey where one case is set for trial in February 2017. There are

birth defect cases pending in other jurisdictions, none of which are set for trial.

The Company believes it has substantial meritorious defenses to the Celexa[®]/Lexapro[®] cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Testosterone Litigation. Beginning in 2014, a number of product liability suits were filed against the Company and certain of its affiliates, as well as other manufacturers and distributors of testosterone products, for personal injuries including but not limited to cardiovascular events allegedly arising out of the use of Androderm[®] testosterone cypionate, AndroGel and/or testosterone enanthate. Actavis, Inc. and/or one or more of its subsidiaries have been served in approximately 547 currently pending actions, one of which is

pending in state courts and the remainder of which are pending in federal court. The federal court actions have been consolidated in an MDL in federal court in Illinois. The defendants have responded to the plaintiffs' master complaint in the MDL. Plaintiffs have dismissed all claims relating to any of Actavis' generic TRT products from the cases. These cases are in the initial stages and discovery is ongoing. The Company anticipates that additional suits will be filed. The Company believes that it has substantial meritorious defenses to these cases and maintains product liability insurance against such cases. However, litigation is inherently uncertain and the Company cannot predict the outcome of this litigation. These actions, if successful, or if insurance does not provide sufficient coverage against such claims, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Government Investigations, Government Litigation and Qui Tam Litigation

Forest. Forest received a subpoena dated August 5, 2013 from the U.S. Department of Health and Human Services, Office of Inspector General. The subpoena requests documents relating to the marketing and promotion of Bystolic®, Savella®, and Namenda®, including with respect to speaker programs for these products. In February 2014, the U.S. District Court for the Eastern District of Wisconsin unsealed a qui tam complaint. The complaint asserts claims under the False Claims Act and contains allegations regarding off-label promotion of Bystolic® and Savella® and "kickbacks" provided to physicians to induce prescriptions of Bystolic®, Savella®, and Viibryd®. Forest moved to dismiss the complaint. On January 6, 2015, the court granted Forest's motion to dismiss the complaint. On February 5, 2016, the relator filed a second amended complaint. The U.S. Attorney's Office declined to intervene in this action but has reserved the right to do so at a later date. On February 23 and 24, 2016, the parties participated in a non-binding mediation. As a result of the mediation, a framework now exists for the parties to reach an agreement to settle this matter. The settlement, if approved, would include the dismissal of the action pending in federal court in Wisconsin. The Company has recorded a contingent liability for the quarter ended September 30, 2016 under ASC 450, Contingencies, based on its analysis of this matter, however, there can be no assurance that the Company's estimate will not differ materially from the recorded contingent liability. The Company continues to cooperate with this investigation and to discuss these issues with the government.

Forest received a subpoena, dated April 29, 2015, from the U.S. Department of Health and Human Services, Office of Inspector General ("OIG"). The subpoena requests documents relating to Average Manufacturer ("AMP") and Best Price calculations for several of its products. Subsequently, Forest received a Civil Investigative Demand from the OIG, dated August 16, 2016 primarily related to the calculation of Best Price. The Company is cooperating fully with the OIG's requests.

In April 2014, the federal district court in Massachusetts unsealed a qui tam complaint which asserts claims under the False Claims Act and contains allegations regarding off-label promotion of Namenda®. The Company filed a motion to dismiss the relator's Second Amended Complaint and the court granted in part and denied in part Forest's motion, dismissing the False Claims Act conspiracy claim only. On October 7, 2016, the Company filed a second motion to dismiss the relator's Second Amended Complaint based on newly discovered evidence. The U.S. Attorney's Office declined to intervene in this action but has reserved the right to do so at a later date. The Company intends to vigorously defend itself in this litigation. However, this case is in the early stages, it is impossible to predict with certain the outcome of this case, and the Company can offer no assurance as to when the lawsuit will be decided, whether the Company will be successful in its defense and whether any additional similar suits will be filed. If this claim is successful, such claim could adversely affect the Company and could have a material adverse effect on the Company's business, financial condition, results of operation and cash flows.

Forest and certain of its affiliates are defendants in three state court actions pending in Illinois, Utah and Wisconsin involving qui tam actions alleging generally that the plaintiffs (all government agencies) were overcharged for their share of Medicaid drug reimbursement costs. Discovery is ongoing in these actions. Forest and the other defendants

filed a motion to dismiss Utah's amended complaint. This motion to dismiss was denied in part, and discovery is proceeding. On February 17, 2014, the Wisconsin state court granted defendants' motion to dismiss plaintiff's Second Amended Complaint. However, the relator filed a separate action making the same basic allegations as in its amended complaint in the original action. The Company intends to continue to vigorously defend against these actions. At this time, the Company does not believe losses, if any, would have a material effect on the results of operations or financial position taken as a whole.

On December 28, 2015, a putative class action complaint was filed in state court in Pennsylvania on behalf of a putative class of private payers. Defendants removed the complaint to the federal court in Pennsylvania. The complaint alleges that manufacturers of generic drugs including a subsidiary of Forest Laboratories, Inc. that in the past had marketed generic products, caused plaintiffs to overpay for prescription drug products through the use of inflated AWP's. The complaint alleges violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law, negligent misrepresentation/fraud, unjust enrichment, civil conspiracy and aiding and abetting. Defendants removed this action to the federal court in Pennsylvania under the Class Action Fairness Act. Plaintiffs filed an amended complaint on March 29, 2016. On May 3, 2016, the court issued an order staying all deadlines in this action. An additional complaint then was filed in state court in Pennsylvania on behalf an individual indirect purchaser containing similar allegations to the class complaint.

With regard to the remaining drug pricing actions, the Company believes that it has meritorious defenses and intends to vigorously defend itself in those actions. The Company continually monitors the status of these actions and may settle or otherwise resolve some or all of these matters on terms that the Company deems to be in its best interests. However, the Company can give no assurance that it will be able to settle the remaining actions on terms it deems reasonable, or that such settlements or adverse judgments in the remaining actions, if entered, will not exceed the amounts of the liability reserves. Additional actions by other states, cities and/or counties are anticipated. These actions and/or the actions described above, if successful, could adversely affect the Company and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Allergan. In December 2011, the federal district court in Pennsylvania issued an order partially unsealing the second amended qui tam complaint, filed by relators Herbert J. Nevyas, M.D. and Anita Nevyas-Wallace, M.D., to be informally provided to Allergan, Inc. The complaint asserts claims under Federal and State False Claims Acts and Federal and State Anti-Kickback Acts. On December 16, 2013, the court entered an order to unseal this qui tam action. On April 1, 2014, Allergan filed a motion to dismiss. On May 26, 2015, the court issued a ruling granting, in part, the motion to dismiss and denying it in part. Allergan filed an answer to the remaining claims on June 25, 2015. On July 7, 2015, the court scheduled trial in this matter for October 31, 2016. In May 2016, the parties reached a settlement, which remains subject to approval by various Federal and State agencies.

On November 25, 2014, prior to the completion of its merger with Actavis plc ("Actavis"), Allergan, Inc. received a request for documents and information from the United States Securities and Exchange Commission ("SEC") related to Actavis or Salix Pharmaceuticals, Inc. ("Salix"). On June 30, 2015, Allergan, Inc. received a subpoena from the SEC requesting documents related to Actavis or Salix. On June 30, 2015, Actavis received a subpoena from the SEC requesting documents related to Allergan. In January 2016, the SEC began meeting with current and former employees of Allergan and Actavis and indicated that its review focused on the content of Allergan, Inc.'s disclosures during the pendency of the tender offer by Valeant Pharmaceuticals International for Allergan, Inc.'s common stock. The company is cooperating fully with the SEC in responding to the subpoena.

The Company and its affiliates are involved in various other disputes, governmental and/or regulatory inspections, inquiries, investigations and proceedings that could result in litigation, and other litigation matters that arise from time to time. The process of resolving matters through litigation or other means is inherently uncertain and it is possible that an unfavorable resolution of these matters will adversely affect the Company, its results of operations, financial condition and cash flows.

Teva Assumed Liabilities

The following matter was assumed by Teva as part of the completion of the divestiture of the Anda Distribution business to Teva on October 3, 2016.

Telephone Consumer Protection Act Litigation. A putative class action complaint against Anda, Inc. ("Anda"), a subsidiary of the Company, was filed in Missouri state court alleging claims for conversion and alleged violations of the Telephone Consumer Protection Act ("TCPA") and Missouri Consumer Fraud and Deceptive Business Practices Act. An amended complaint alleges that by sending unsolicited facsimile advertisements, Anda misappropriated the class members' paper, toner, ink and employee time when they received the alleged unsolicited faxes, and that the alleged unsolicited facsimile advertisements were sent to the plaintiff in violation of the TCPA and Missouri Consumer Fraud and Deceptive Business Practices Act. The complaint seeks to assert class action claims on behalf of the plaintiff and other similarly situated third parties. On May 19, 2011, the plaintiff's filed a motion seeking certification of a class of entities with Missouri telephone numbers who were sent Anda faxes for the period January

2004 through January 2008 but the court vacated the class certification hearing until the FCC Petition, described in more detail below, was addressed. On May 1, 2012, a separate action was filed in federal court in Florida, purportedly on behalf of the “end users of the fax numbers in the United States but outside Missouri to which faxes advertising pharmaceutical products for sale by Anda were sent.” On July 10, 2012, Anda filed its answer and affirmative defenses. The parties filed a joint motion to stay the action pending the resolution of the FCC Petition which the court granted.

In a related matter, in November 2010 Anda filed a petition with the FCC, asking the FCC to clarify the statutory basis for its regulation requiring “opt-out” language on faxes sent with express permission of the recipient (the “FCC Petition”). On May 2, 2012, the Consumer & Governmental Affairs Bureau of the FCC dismissed the FCC Petition. On May 14, 2012, Anda filed an application for review of the Bureau’s dismissal by the full Commission, requesting the FCC to vacate the dismissal and grant the relief sought in the FCC Petition. The FCC did not rule on the application for review. On June 27, 2013, Forest filed a Petition for Declaratory Ruling with the FCC requesting that the FCC find that (1) the faxes at issue in the action complied, or substantially complied with the FCC regulation, and thus did not violate it, or (2) the FCC regulation was not properly promulgated under the TCPA. On January 31, 2014, the FCC issued a Public Notice seeking comment on several other recently-filed petitions, all similar to the one Anda filed in 2010. On October 30, 2014, the FCC issued a final order on the FCC Petition granting Anda and several other petitioners a retroactive waiver of the opt-out notice requirement for all faxes sent with express consent. The litigation plaintiffs, who had filed comments on the January

2014 Public Notice, have appealed the final order to the Court of Appeals for the District of Columbia. Anda and other petitioners have moved to intervene in the appeal seeking review of that portion of the FCC final order addressing the statutory basis for the opt out/express consent portion of the regulation.

NOTE 21 — Warner Chilcott Limited (“WCL”) Guarantor and Non-Guarantor Condensed Consolidating Financial Information

The following financial information is presented to segregate the financial results of WCL, Actavis Funding SCS, and Actavis Finance, LLC (the issuers of the long-term notes), the guarantor subsidiaries for the long-term notes and the non-guarantor subsidiaries. The guarantors jointly and severally, and fully and unconditionally, guarantee the Company’s obligation under the long-term notes.

The information includes elimination entries necessary to consolidate the guarantor and the non-guarantor subsidiaries. Investments in subsidiaries are accounted for using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries, equity and intercompany balances and transactions.

WCL, Actavis Capital S.a.r.l. and Actavis Finance, LLC are guarantors of the long-term notes.

Warner Chilcott Limited has revised its consolidating financial statements as previously presented in Footnote 21 of the September 30, 2015 Quarterly Report on Form 10-Q and its December 31, 2015 balance sheet in Footnote 26 of the Annual Report due to a change in the Company’s legal entity structure and other reclassifications that occurred during the nine months ended September 30, 2016. As a result, prior period information has been recast to conform to the current period presentation.

The following financial information presents the consolidating balance sheets as of September 30, 2016 and December 31, 2015, the related statement of operations for the three and nine months ended September 30, 2016 and 2015 and the statement of cash flows for the nine months ended September 30, 2016 and 2015.

Warner Chilcott Limited

Consolidating Balance Sheets

As of September 30, 2016

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer and Non- Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Current assets:							
Cash and cash equivalents	\$0.1	\$2,101.1	\$-	\$-	\$5,421.6	\$-	\$7,522.8
Marketable securities	-	-	-	-	19,837.6	-	19,837.6
Accounts receivable, net	-	-	-	-	2,398.5	-	2,398.5
Receivable from Parents	-	-	-	-	2,828.7	-	2,828.7
Inventories, net	-	-	-	-	705.5	-	705.5
Intercompany receivables	-	22,969.8	3,400.3	78.7	23,471.2	(49,920.0)	-
Prepaid expenses and other current assets	-	9.2	-	21.3	739.1	-	769.6
Current assets held for sale	-	-	-	-	455.9	-	455.9
Total current assets	0.1	25,080.1	3,400.3	100.0	55,858.1	(49,920.0)	34,518.6
Property, plant and equipment, net	-	-	-	-	1,566.3	-	1,566.3
Investments and other assets	-	-	-	16.4	324.7	-	341.1
Investment in subsidiaries	90,318.4	90,267.6	-	73,710.3	-	(254,296.3)	-
Non current intercompany receivables	-	46,647.4	22,483.3	-	57,859.6	(126,990.3)	-
Non current receivables from Parents	-	-	-	-	3,985.0	-	3,985.0
Non current assets held for sale	-	-	-	-	207.2	-	207.2
Deferred tax assets	-	-	-	-	120.7	-	120.7
	-	-	-	-	63,022.7	-	63,022.7

Edgar Filing: Allergan plc - Form 10-Q

Product rights and other intangibles							
Goodwill	-	-	-	-	46,625.8	-	46,625.8
Total assets	\$90,318.5	\$161,995.1	\$25,883.6	\$73,826.7	\$229,570.1	\$(431,206.6)	\$150,387.4
Current liabilities:							
Accounts payable and accrued expenses	-	-	74.1	-	4,921.7	-	4,995.8
Intercompany payables	-	12,347.1	1,796.5	9,327.6	26,448.8	(49,920.0)	-
Payable to Parents	-	5,000.0	-	-	1,202.2	-	6,202.2
Income taxes payable	-	-	-	-	784.6	-	784.6
Current portion of long-term debt and capital leases	-	-	1,527.3	-	64.5	-	1,591.8
Current liabilities held for sale	-	-	-	-	223.7	-	223.7
Total current liabilities	-	17,347.1	3,397.9	9,327.6	33,645.5	(49,920.0)	13,798.1
Long-term debt and capital leases	-	-	22,483.3	4,275.6	4,419.3	-	31,178.2
Other long-term liabilities	-	-	-	-	1,022.7	-	1,022.7
Long-term intercompany payables	-	57,859.6	-	-	69,130.7	(126,990.3)	-
Long-term payables to Parents	-	-	-	-	419.0	-	419.0
Non current liabilities held for sale	-	-	-	-	23.8	-	23.8
Other taxes payable	-	-	-	-	815.6	-	815.6
Deferred tax liabilities	-	-	-	-	12,811.5	-	12,811.5
Total liabilities	-	75,206.7	25,881.2	13,603.2	122,288.1	(176,910.3)	60,068.9
Total equity / (deficit)	90,318.5	86,788.4	2.4	60,223.5	107,282.0	(254,296.3)	90,318.5
Total liabilities and equity	\$90,318.5	\$161,995.1	\$25,883.6	\$73,826.7	\$229,570.1	\$(431,206.6)	\$150,387.4

Warner Chilcott Limited

Consolidating Balance Sheets

As of December 31, 2015

(\$ in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Current assets:							
Cash and cash equivalents	\$-	\$13.5	\$-	\$2.0	\$1,020.7	\$-	\$1,036.2
Marketable securities	-	-	-	-	9.3	-	9.3
Accounts receivable, net	-	-	-	-	2,125.4	-	2,125.4
Receivable from Parents	-	-	-	-	457.3	-	457.3
Inventories	-	-	-	-	757.5	-	757.5
Intercompany receivables	-	55,415.1	25,225.6	302.4	60,464.0	(141,407.1)	-
Prepaid expenses and other current assets	-	5.0	-	6.1	481.7	-	492.8
Current assets held for sale	-	-	-	-	4,095.6	-	4,095.6
Total current assets	-	55,433.6	25,225.6	310.5	69,411.5	(141,407.1)	8,974.1
Property, plant and equipment, net	-	-	-	34.3	1,497.0	-	1,531.3
Investments and other assets	-	-	-	33.6	375.1	-	408.7
Investment in subsidiaries	75,571.6	79,597.3	-	73,037.7	-	(228,206.6)	-
Non current intercompany receivables	-	39,584.1	-	-	41,400.8	(80,984.9)	-
Non current receivables from Parents	-	-	-	-	-	-	-
Non current assets held for sale	-	-	-	45.8	10,667.5	-	10,713.3
Deferred tax assets	-	-	-	-	49.5	-	49.5
Product rights and other intangibles	-	-	-	-	67,836.2	-	67,836.2
Goodwill	-	-	-	-	46,465.2	-	46,465.2

Edgar Filing: Allergan plc - Form 10-Q

Total assets	\$75,571.6	\$174,615.0	\$25,225.6	\$73,461.9	\$237,702.8	\$(450,598.6)	\$135,978.3
Current liabilities:							
Accounts payable and accrued expenses	-	3.9	210.5	171.5	3,708.6	-	4,094.5
Intercompany payables	-	51,148.7	526.3	8,789.0	80,943.1	(141,407.1)	-
Payable to Parents	-	-	-	-	1,466.8	-	1,466.8
Income taxes payable	-	-	-	44.1	9.6	-	53.7
Current portion of long-term debt and capital leases	-	749.1	475.5	-	1,171.9	-	2,396.5
Current liabilities held for sale	-	-	-	23.3	1,669.9	-	1,693.2
Total current liabilities	-	51,901.7	1,212.3	9,027.9	88,969.9	(141,407.1)	9,704.7
Long-term debt and capital leases	-	6,995.0	24,013.0	4,269.4	4,856.5	-	40,133.9
Other long-term liabilities	-	-	-	-	1,262.0	-	1,262.0
Long-term intercompany payables	-	40,944.8	-	456.0	39,584.1	(80,984.9)	-
Long-term payables to Parents	-	-	-	-	-	-	-
Non current liabilities for sale	-	-	-	-	535.4	-	535.4
Other taxes payable	-	-	-	72.1	729.8	-	801.9
Deferred tax liabilities	-	-	-	-	7,968.8	-	7,968.8
Total liabilities	-	99,841.5	25,225.3	13,825.4	143,906.5	(222,392.0)	60,406.7
Total equity / (deficit)	75,571.6	74,773.5	0.3	59,636.5	93,796.3	(228,206.6)	75,571.6
Total liabilities and equity	\$75,571.6	\$174,615.0	\$25,225.6	\$73,461.9	\$237,702.8	\$(450,598.6)	\$135,978.3

Warner Chilcott Limited

Consolidating Statements of Operations

For the Three Months Ended September 30, 2016

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Net revenues	\$-	\$-	\$-	\$-	\$3,622.2	\$-	\$3,622.2
Operating expenses:							
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	-	-	-	-	462.2	-	462.2
Research and development	-	-	-	-	622.8	-	622.8
Selling and marketing	-	-	-	-	796.0	-	796.0
General and administrative	-	4.1	-	-	308.1	-	312.2
Amortization	-	-	-	-	1,609.1	-	1,609.1
In-process research and development impairments	-	-	-	-	42.0	-	42.0
Asset sales and impairments, net	-	-	-	-	(4.7)	-	(4.7)
Total operating expenses	-	4.1	-	-	3,835.5	-	3,839.6
Operating (loss)	-	(4.1)	-	-	(213.3)	-	(217.4)
Non-operating income (expense):							
Interest income / (expense), net	-	911.6	(216.6)	(40.3)	(960.9)	-	(306.2)
Other income (expense), net	-	-	-	-	33.6	-	33.6
	-	911.6	(216.6)	(40.3)	(927.3)	-	(272.6)

Total other income (expense), net							
Income / (loss) before income taxes and							
noncontrolling interest	-	907.5	(216.6)	(40.3)	(1,140.6)	-	(490.0)
Provision / (benefit) for income taxes	-	-	-	(22.6)	(136.3)	-	(158.9)
(Earnings) / losses of equity interest							
subsidiaries	(15,269.0)	(11,485.0)	-	747.6	-	26,006.4	-
Net income / (loss) from continuing operations,							
net of tax	\$ 15,269.0	\$ 12,392.5	\$ (216.6)	\$ (765.3)	\$ (1,004.3)	\$ (26,006.4)	\$ (331.1)
Income from discontinued operations							
	-	-	-	-	15,601.9	-	15,601.9
Net income / (loss)	\$ 15,269.0	\$ 12,392.5	\$ (216.6)	\$ (765.3)	\$ 14,597.6	\$ (26,006.4)	\$ 15,270.8
(Income) attributable to noncontrolling							
interest	-	-	-	-	(1.8)	-	(1.8)
Net income / (loss) attributable to ordinary							
shareholders	\$ 15,269.0	\$ 12,392.5	\$ (216.6)	\$ (765.3)	\$ 14,595.8	\$ (26,006.4)	\$ 15,269.0
Other comprehensive income / (loss)							
	916.4	958.4	-	900.2	916.4	(2,775.0)	916.4
Comprehensive income / (loss)	\$ 16,185.4	\$ 13,350.9	\$ (216.6)	\$ 134.9	\$ 15,512.2	\$ (28,781.4)	\$ 16,185.4

Warner Chilcott Limited

Consolidating Statements of Operations

For the Nine Months Ended September 30, 2016

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Net revenues	-	-	-	-	10,706.3	-	10,706.3
Operating expenses:							
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	-	-	-	-	1,381.1	-	1,381.1
Research and development	-	-	-	-	1,662.4	-	1,662.4
Selling and marketing	-	-	-	-	2,429.6	-	2,429.6
General and administrative	-	4.6	-	19.8	941.8	-	966.2
Amortization	-	-	-	-	4,831.9	-	4,831.9
In process research and development impairments	-	-	-	-	316.9	-	316.9
Asset sales and impairments, net	-	-	-	-	(24.0)	-	(24.0)
Total operating expenses	-	4.6	-	19.8	11,539.7	-	11,564.1
Operating (loss)	-	(4.6)	-	(19.8)	(833.4)	-	(857.8)
Non-operating income (expense):							
Interest income / (expense), net	-	1,349.2	2.2	(117.2)	(2,213.6)	-	(979.4)
Other income (expense), net	-	-	-	-	34.2	-	34.2
Total other income (expense), net	-	1,349.2	2.2	(117.2)	(2,179.4)	-	(945.2)

Edgar Filing: Allergan plc - Form 10-Q

Income / (loss) before
income taxes and

noncontrolling interest	-	1,344.6	2.2	(137.0)	(3,012.8)	-	(1,803.0)
Provision / (benefit) for income taxes	-	-	-	(51.4)	(774.4)	-	(825.8)
(Earnings) / losses of equity interest							
subsidiaries	(14,891.7)	(10,701.3)	-	198.6	-	25,394.4	-
Net income / (loss) from continuing operations,							
net of tax	\$ 14,891.7	\$ 12,045.9	\$ 2.2	\$ (284.2)	\$ (2,238.4)	\$ (25,394.4)	\$ (977.2)
Income from discontinued operations	-	-	-	-	15,873.2	-	15,873.2
Net income / (loss)	\$ 14,891.7	\$ 12,045.9	\$ 2.2	\$ (284.2)	\$ 13,634.8	\$ (25,394.4)	\$ 14,896.0
(Income) attributable to noncontrolling							
interest	-	-	-	-	(4.3)	-	(4.3)
Net income / (loss) attributable to ordinary							
shareholders	\$ 14,891.7	\$ 12,045.9	\$ 2.2	\$ (284.2)	\$ 13,630.5	\$ (25,394.4)	\$ 14,891.7
Other comprehensive income / (loss)	1,093.4	1,213.8	-	871.1	1,093.4	(3,178.3)	1,093.4
Comprehensive income / (loss)	\$ 15,985.1	\$ 13,259.7	\$ 2.2	\$ 586.9	\$ 14,723.9	\$ (28,572.7)	\$ 15,985.1

Warner Chilcott Limited

Consolidating Statements of Operations

For the Three Months Ended September 30, 2015

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Finance, LLC Funding (Issuer) SCS (Issuer)	Actavis and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Net revenues	\$ -	\$ -	\$ -	\$ -	\$ 3,469.5	\$ -	\$ 3,469.5
Operating expenses:							
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	-	-	-	-	710.3	-	710.3
Research and development	-	-	-	-	1,260.5	-	1,260.5
Selling and marketing	-	-	-	-	683.6	-	683.6
General and administrative	-	-	-	79.1	254.7	-	333.8
Amortization	-	-	-	-	1,557.8	-	1,557.8
In process research and development impairments	-	-	-	-	300.0	-	300.0
Asset sales and impairments, net	-	-	-	-	(4.4)	-	(4.4)
Total operating expenses	-	-	-	79.1	4,762.5	-	4,841.6
Operating (loss)	-	-	-	(79.1)	(1,293.0)	-	(1,372.1)
Non-operating income (expense):							
Interest income / (expense), net	-	444.3	0.3	(40.3)	(741.0)	-	(336.7)
Other income (expense), net	-	-	-	(0.1)	0.3	-	0.2
Total other income (expense), net	-	444.3	0.3	(40.4)	(740.7)	-	(336.5)
	-	444.3	0.3	(119.5)	(2,033.7)	-	(1,708.6)

Income / (loss) before income
taxes and

noncontrolling interest							
(Benefit) for income taxes	-	-	-	(28.0)	(810.9)	-	(838.9)
(Earnings) / losses of equity interest							
subsidiaries	(5,306.5)	1,857.2	-	117.7	-	3,331.6	-
Net income / (loss) from continuing operations,							
net of tax	\$5,306.5	\$(1,412.9)	\$ 0.3	\$(209.2)	\$(1,222.8)	\$(3,331.6)	\$(869.7)
Income from discontinued operations	-	-	-	-	6,177.6	-	6,177.6
Net income / (loss)	\$5,306.5	\$(1,412.9)	\$ 0.3	\$(209.2)	\$4,954.8	\$(3,331.6)	\$5,307.9
(Income) attributable to noncontrolling							
interest	-	-	-	-	(1.4)	-	(1.4)
Net income / (loss) attributable to ordinary							
shareholders	\$5,306.5	\$(1,412.9)	\$ 0.3	\$(209.2)	\$4,953.4	\$(3,331.6)	\$5,306.5
Other comprehensive income / (loss)	(34.9)	(35.3)	-	24.0	(34.9)	46.2	(34.9)
Comprehensive income / (loss)	\$5,271.6	\$(1,448.2)	\$ 0.3	\$(185.2)	\$4,918.5	\$(3,285.4)	\$5,271.6

Warner Chilcott Limited

Consolidating Statements of Operations

For the Nine Months Ended September 30, 2015

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer) and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Net revenues	\$-	\$-	\$-	\$-	\$9,081.2	\$-	\$9,081.2
Operating expenses:							
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	-	-	-	-	2,150.0	-	2,150.0
Research and development	-	-	-	-	1,927.9	-	1,927.9
Selling and marketing	-	-	-	-	2,017.2	-	2,017.2
General and administrative	-	213.2	16.1	148.8	796.8	-	1,174.9
Amortization	-	-	-	-	3,858.9	-	3,858.9
In process research and development impairments	-	-	-	-	497.6	-	497.6
Asset sales and impairments, net	-	-	-	-	3.1	-	3.1
Total operating expenses	-	213.2	16.1	148.8	11,251.5	-	11,629.6
Operating (loss)	-	(213.2)	(16.1)	(148.8)	(2,170.3)	-	(2,548.4)
Non-operating income (expense):							
Interest income / (expense), net	-	732.6	(14.4)	(127.7)	(1,434.9)	-	(844.4)
Other income (expense), net	-	(265.4)	31.0	-	(3.7)	-	(238.1)
Total other income (expense), net	-	467.2	16.6	(127.7)	(1,438.6)	-	(1,082.5)

Edgar Filing: Allergan plc - Form 10-Q

Income / (loss) before income taxes and

noncontrolling interest	-	254.0	0.5	(276.5)	(3,608.9)	-	(3,630.9)
(Benefit) for income taxes	-	-	-	(95.8)	(1,395.2)	-	(1,491.0)
(Earnings) / losses of equity interest							
subsidiaries	(4,559.2)	2,466.7	-	(242.2)	-	2,334.7	-
Net income /(loss) from continuing operations,							
net of tax	\$4,559.2	\$ (2,212.7)	\$ 0.5	\$ 61.5	\$ (2,213.7)	\$ (2,334.7)	\$ (2,139.9)
Income from discontinued operations	-	-	-	-	6,701.7	-	6,701.7
Net income / (loss)	\$4,559.2	\$ (2,212.7)	\$ 0.5	\$ 61.5	\$4,488.0	\$ (2,334.7)	\$4,561.8
(Income) attributable to noncontrolling interest	-	-	-	-	(2.6)	-	(2.6)
Net income / (loss) income attributable to ordinary shareholders	\$4,559.2	\$ (2,212.7)	\$ 0.5	\$ 61.5	\$4,485.4	\$ (2,334.7)	\$4,559.2
Other comprehensive income / (loss)	420.1	485.3	-	859.8	420.1	(1,765.2)	420.1
Comprehensive income/ (loss) income	\$4,979.3	\$ (1,727.4)	\$ 0.5	\$ 921.3	\$4,905.5	\$ (4,099.9)	\$4,979.3

Warner Chilcott Limited

Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2016

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Cash Flows From Operating Activities:							
Net income / (loss)	\$ 14,891.7	\$ 12,045.9	\$ 2.2	\$ (284.2)	\$ 13,634.8	\$ (25,394.4)	\$ 14,896.0
Reconciliation to net cash provided by operating activities:							
(Earnings) / losses of equity interest							
subsidaries	(14,891.7)	(10,701.3)	-	198.6	-	25,394.4	-
Depreciation	-	-	-	-	117.6	-	117.6
Amortization	-	-	-	-	4,836.7	-	4,836.7
Provision for inventory reserve	-	-	-	-	162.7	-	162.7
Share-based compensation	-	-	-	-	269.9	-	269.9
Deferred income tax benefit	-	-	-	-	(517.1)	-	(517.1)
Pre-tax gain sale of generics business	-	-	-	-	(24,203.1)	-	(24,203.1)
Non-cash tax effect of gain on sale of generics business	-	-	-	-	5,749.9	-	5,749.9
In-process research and development							
impairments	-	-	-	-	316.9	-	316.9
Loss on asset sales and impairments,	-	-	-	-	(24.0)	-	(24.0)

Edgar Filing: Allergan plc - Form 10-Q

net							
Amortization of inventory step-up	-	-	-	-	42.4	-	42.4
Amortization of deferred financing costs	-	21.7	18.3	3.2	1.4	-	44.6
Contingent consideration adjustments, including							
accretion	-	-	-	-	76.7	-	76.7
Dividends from subsidiaries	1,244.8	1,244.8	-	-	-	(2,489.6)	-
Other, net	-	-	-	-	(16.0)	-	(16.0)
Changes in assets and liabilities (net of							
effects of acquisitions)	0.1	8,487.2	479.5	80.4	(10,821.9)	-	(1,774.7)
Net cash provided by / (used in) operating activities							
	1,244.9	11,098.3	500.0	(2.0)	(10,373.1)	(2,489.6)	(21.5)
Cash Flows From Investing Activities:							
Additions to property plant and equipment							
	-	-	-	-	(250.5)	-	(250.5)
Additions to product rights and other intangibles							
	-	-	-	-	-	-	-
Sale of generics business							
	-	-	-	-	33,304.5	-	33,304.5
Additions to investments							
	-	-	-	-	(15,445.5)	-	(15,445.5)
Proceeds from sale of investments and other							
assets	-	-	-	-	40.0	-	40.0
Proceeds from sales of property, plant and							
equipment	-	-	-	-	33.3	-	33.3
Acquisitions of business, net of cash acquired							
	-	-	-	-	(74.5)	-	(74.5)
Net cash provided by investing activities							
	-	-	-	-	17,607.3	-	17,607.3
Cash Flows From Financing Activities:							
Proceeds from borrowings of long-term							
indebtedness	-	-	-	-	-	-	-
Proceeds from borrowings on credit facility							
	-	1,050.0	-	-	-	-	1,050.0
Debt issuance and other financing costs							
	-	-	-	-	-	-	-
Payments on debt, including capital lease							
	-	(8,815.9)	(500.0)	-	(1,515.1)	-	(10,831.0)

obligations							
Payments of contingent consideration	-	-	-	-	(77.7)	-	(77.7)
Dividends to Parent	(1,244.8)	(1,244.8)	-	-	(1,244.8)	2,489.6	(1,244.8)
Contribution from Parent	-	-	-	-	-	-	-
Net cash (used in) financing activities	(1,244.8)	(9,010.7)	(500.0)	-	(2,837.6)	2,489.6	(11,103.5)
Effect of currency exchange rate changes on							
cash and cash equivalents	-	-	-	-	4.3	-	4.3
Net increase / (decrease) in cash and							
cash equivalents	0.1	2,087.6	-	(2.0)	4,400.9	-	6,486.6
Cash and cash equivalents at beginning of period	-	13.5	-	2.0	1,020.7	-	1,036.2
Cash and cash equivalents at end of period	\$0.1	\$2,101.1	\$-	\$-	\$5,421.6	\$-	\$7,522.8

Warner Chilcott Limited

Consolidating Statement of Cash Flows

For the Nine Months Ended September 30, 2015

(Unaudited; in millions)

	Warner Chilcott Limited (Parent Guarantor)	Actavis Capital S.a.r.l. (Guarantor)	Actavis Funding SCS (Issuer)	Actavis Finance, LLC (Issuer and Guarantor)	Non- guarantors	Eliminations	Consolidated Warner Chilcott Limited
Cash Flows From Operating Activities:							
Net income / (loss)	\$4,559.2	\$(2,212.7)	\$0.5	\$ 61.5	\$4,488.0	\$(2,334.7)	\$4,561.8
Reconciliation to net cash provided by operating activities:							
(Earnings) / losses of equity interest subsidiaries							
	(4,559.2)	2,466.7	-	(242.2)	-	2,334.7	-
Depreciation	-	-	-	0.2	183.7	-	183.9
Amortization	-	-	-	-	4,192.8	-	4,192.8
Provision for inventory reserve	-	-	-	-	108.6	-	108.6
Share-based compensation	-	-	-	35.6	474.9	-	510.5
Deferred income tax benefit	-	-	-	-	(7,470.9)	-	(7,470.9)
In-process research and development							
impairments	-	-	-	-	497.6	-	497.6
Loss / (gain) on asset sales and impairments,							
net	-	-	-	-	57.2	-	57.2
Amortization of inventory step-up	-	-	-	-	1,019.8	-	1,019.8
Amortization of deferred financing costs	-	268.8	14.8	3.1	2.5	-	289.2
	-	-	-	-	89.2	-	89.2

Edgar Filing: Allergan plc - Form 10-Q

Contingent consideration
adjustments, including

accretion							
Dividends from subsidiaries	138.4	138.4	-	-	-	(276.8)	-
Other, net	-	-	-	-	54.9	-	54.9
Changes in assets and liabilities (net of effects of							
acquisitions)	(0.1)	(4,977.5)	(20,827.2)	179.8	24,634.0	-	(991.0)
Net cash provided by / (used in) operating activities	138.3	(4,316.3)	(20,811.9)	38.0	28,332.3	(276.8)	3,103.6
Cash Flows From Investing Activities:							
Additions to property plant and equipment	-	-	-	(35.5)	(315.2)	-	(350.7)
Additions to product rights and other intangibles	-	-	-	-	(91.1)	-	(91.1)
Additions to investments	(9,000.8)	(9,000.8)	-	-	(27.0)	18,001.6	(27.0)
Proceeds from sale of investments and other							
assets	-	-	-	-	855.8	-	855.8
Proceeds from sales of property, plant and equipment	-	-	-	-	133.6	-	133.6
Acquisitions of business, net of cash acquired	-	-	-	-	(35,242.7)	-	(35,242.7)
Net cash (used in) investing activities	(9,000.8)	(9,000.8)	-	(35.5)	(34,686.6)	18,001.6	(34,722.1)
Cash Flows From Financing Activities:							
Proceeds from borrowings of long-term							
indebtedness	-	5,500.0	20,955.6	-	0.8	-	26,456.4
Proceeds from borrowings on credit facility	-	2,810.0	-	-	72.0	-	2,882.0
Debt issuance and other financing costs	-	(167.1)	(143.7)	-	-	-	(310.8)
Payments on debt, including capital lease obligations	-	(3,692.5)	-	-	(634.2)	-	(4,326.7)
Payments of contingent consideration	-	-	-	-	(138.3)	-	(138.3)
Dividends to Parent	(138.4)	(138.4)	-	-	(138.4)	276.8	(138.4)

Edgar Filing: Allergan plc - Form 10-Q

Contribution from Parent	9,000.8	9,000.8	-	-	9,000.8	(18,001.6)	9,000.8
Net cash provided by financing activities	8,862.4	13,312.8	20,811.9	-	8,162.7	(17,724.8)	33,425.0
Effect of currency exchange rate changes on cash and cash equivalents	-	-	-	-	(5.1)	-	(5.1)
Movement in cash held for sale	-	-	-	-	-	-	-
Net (decrease) / increase in cash and cash equivalents	(0.1)	(4.3)	-	2.5	1,803.3	-	1,801.4
Cash and cash equivalents at beginning of period	0.1	5.5	-	1.5	237.2	-	244.3
Cash and cash equivalents at end of period	\$-	\$1.2	\$-	\$4.0	\$2,040.5	\$-	\$2,045.7

NOTE 22 — Subsequent Events

Tobira Therapeutics, Inc.

On November 1, 2016, the Company completed the acquisition of Tobira Therapeutics, Inc., a clinical-stage biopharmaceutical company focused on developing and commercializing therapies for non-alcoholic steatohepatitis (“NASH”) and other liver diseases for \$28.35 per share, in cash, plus contingent consideration of up to \$49.84 per share in CVRs that may be payable based on the successful completion of certain development, regulatory and commercial milestones, for a total potential consideration of up to approximately \$1.7 billion. The acquisition adds Cenicriviroc and Evogliptin, two differentiated, complementary development programs for the treatment of the multi-factorial elements of NASH, including inflammation, metabolic syndromes and fibrosis, to Allergan's global Gastroenterology R&D pipeline.

Vitae Pharmaceuticals, Inc.

On October 25, 2016, the Company completed the acquisition of Vitae Pharmaceuticals, Inc., a clinical-stage biotechnology company for \$21.00 per share, in cash, for a total transaction value of approximately \$600.0 million. The acquisition will strengthen Allergan's dermatology product pipeline, with the addition of VTP-43742, a Phase II first-in-class, orally active ROR γ t (retinoic acid receptor-related orphan receptor gamma) inhibitor for the potential treatment of psoriasis and other autoimmune disorders. VTP-43742 acts through the potent inhibition of IL-17 activity.

AstraZeneca License

On October 2, 2016, the Company entered into a licensing agreement with MedImmune, AstraZeneca's global biologics research and development arm, for the global rights to Brazikumab. Brazikumab is an anti-IL-23 monoclonal antibody currently in Phase IIb clinical development for the treatment of patients with moderate-to-severe Crohn's disease and is Phase II ready for ulcerative colitis and other related conditions. Under the terms of the agreement, AstraZeneca will receive \$250.0 million for the exclusive, worldwide license to develop and commercialize Brazikumab and is eligible to receive contingent consideration of up to \$1.27 billion, payable over a period of up to 15 years, including development and launch milestone payments of up to \$435.0 million and sales-based milestone payments of \$725.0 million, as well as tiered royalties on sales of the product. The transaction is expected to close in the fourth quarter of 2016 and is subject to customary closing conditions.

CNS Other

The Company entered into an acquisition agreement with a clinical-stage biopharmaceutical company focused on CNS. The Company agreed to pay \$125.0 million upfront plus potential regulatory and commercial milestones of up to \$875.0 million. The transaction may close in the fourth quarter of 2016 and is subject to customary closing conditions.

Motus Therapeutics

On October 27, 2016, the Company announced that it agreed to exercise its option to acquire Motus Therapeutics (“Motus”) for \$200.0 million. Motus has the worldwide rights to RM-131 (relamorelin), a peptide ghrelin agonist being developed by Motus for the treatment of diabetic gastroparesis. Under the terms of the agreement, Motus is eligible to receive contingent consideration of \$185.0 million in connection with the commercial launch of the product.

Accelerated Share Repurchase Program and Quarterly Dividend

On November 2, 2016, the Company announced that its Board of Directors has approved the expansion of its previously announced share repurchase program and the initiation of a regular quarterly cash dividend for shareholders. Under the authorization, the Company will enter into an accelerated share repurchase agreement to purchase an additional \$10.0 billion of Allergan common stock. This new program follows completion of the Company's repurchase of \$5.0 billion in common stock as part of its previously announced share repurchase program. The Board of Directors has also authorized the initiation of a quarterly dividend of \$0.70 per share with the first payment on March 28, 2017, to shareholders of record at the close of business on February 28, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and the results of operations should be read in conjunction with the "Consolidated Financial Statements" and notes thereto included elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report") and our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report"). This discussion contains forward-looking statements that are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those identified under "Risk Factors" in our Annual Report, and elsewhere in this Quarterly Report.

References throughout to "we," "our," "us," the "Company" or "Allergan" refer to financial information and transactions of Allergan plc. References to "Warner Chilcott Limited" refer to Warner Chilcott Limited, the Company's indirect wholly-owned subsidiary, and, unless the context otherwise requires, its subsidiaries. Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc, the ultimate parent of the group. The results of Warner Chilcott Limited are consolidated into the results of Allergan plc. Due to the de minimis activity between Allergan plc and Warner Chilcott Limited, references throughout this filing relate to both Allergan plc and Warner Chilcott Limited. Warner Chilcott Limited representations relate only to itself and not to any other company.

Overview

Allergan plc is focused on developing, manufacturing and commercializing innovative branded pharmaceuticals ("brand", "branded" or "specialty brand") and select over-the-counter ("OTC") products. Prior to completing the Teva Transaction (defined below), the Company also sold high-quality generic and OTC medicines and biologic products for patients around the world.

Allergan markets a portfolio of best-in-class products that provide valuable treatments for the central nervous system, eye care, medical aesthetics, gastroenterology, women's health, urology, and anti-infective therapeutic categories, and operated the world's third-largest global generics business, providing patients around the globe with increased access to affordable, high-quality medicines. Allergan is an industry leader in research and development, with one of the broadest development pipelines in the pharmaceutical industry.

With commercial operations in over 100 countries, Allergan is committed to working with physicians, healthcare providers and patients to deliver innovative and meaningful treatments that help people around the world live longer, healthier lives. Warner Chilcott Limited is a wholly-owned subsidiary of Allergan plc and has the same principal business activities. As a result of the Allergan Acquisition (defined below) which closed on March 17, 2015, the Company expanded its franchises to include ophthalmology, neurosciences and medical aesthetics/dermatology/plastic surgery, which complemented the Company's existing central nervous system, gastroenterology, women's health and urology franchises. The combined company benefits significantly from Allergan, Inc's ("Legacy Allergan") global brand equity and consumer awareness of key products, including Botox® and Restasis®. The Allergan Acquisition also expanded our presence and market and product reach across many international markets, with strengthened commercial positions across Canada, Europe, Southeast Asia and other high-value growth markets, including China, India, the Middle East and Latin America.

On July 26, 2015 we entered into a master purchase agreement (the "Teva Agreement"), under which Teva Pharmaceutical Industries Ltd. ("Teva") agreed to acquire our global generic pharmaceuticals business and certain other assets (the "Teva Transaction"). Upon the closing of the Teva Transaction on August 2, 2016, we received \$33.3 billion in cash, net of cash acquired by Teva, which includes estimated working capital and other contractual adjustments, and 100.3 million unregistered Teva ordinary shares (or American Depositary Shares with respect thereto), which

approximated \$5.0 billion in value using the closing date Teva opening stock price discounted at a rate of 5.9 percent due to the lack of marketability. The Company recognized a gain on the sale of our global generics business of \$15,881.2 million as well as deferred liabilities relating to other elements of our arrangements with Teva of \$518.9 million.

As part of the Teva Agreement, Teva acquired our global generics business, including the United States (“U.S.”) and international generic commercial units, our third-party supplier Medis, our global generic manufacturing operations, our global generic research and development (“R&D”) unit, our international OTC commercial unit (excluding OTC eye care products) and certain established international brands.

On October 3, 2016, the Company completed the divestiture of the Anda Distribution business to Teva for an additional \$500.0 million. Teva acquired our Anda Distribution business, which distributes generic, brand, specialty and OTC pharmaceutical products from more than 300 manufacturers to retail independent and chain pharmacies, nursing homes, mail order pharmacies, hospitals, clinics and physician offices across the U.S.. As a result of the Teva Transaction and the divestiture of the Company’s Anda

Distribution business, and in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) number 2014-08 “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, the Company is accounting for the assets and liabilities divested as held for sale. Further, the financial results of the businesses held for sale have been reclassified to discontinued operations for all periods presented in our consolidated financial statements.

The results of our discontinued operations include the results of our generic product development, manufacturing and distribution of off-patent pharmaceutical products, certain established international brands marketed similarly to generic products and out-licensed generic pharmaceutical products primarily in Europe through our Medis third-party business through August 2, 2016, as well as our Anda Distribution business.

2016 Transactions

The following are the significant transactions that were completed in the nine months ended September 30, 2016.

Acquisitions

ForSight VISION 5

On September 23, 2016, the Company acquired ForSight VISION 5 (“ForSight”), a privately held, clinical-stage biotechnology company focused on eye care, in an all cash transaction of approximately \$95.0 million. Under the terms of the agreement, the Company acquired ForSight for an acquisition accounting purchase price of \$74.5 million plus the payment of outstanding indebtedness of \$14.8 million and other miscellaneous charges. ForSight shareholders are eligible to receive contingent consideration of up to \$125.0 million, which has an initial estimated fair value of \$79.8 million, relating to commercialization milestones (the “ForSight Acquisition”). The Company acquired ForSight for its lead development program, a peri-ocular ring designed for extended drug delivery and reducing elevated intraocular pressure (“IOP”) in glaucoma patients.

Licenses and Other Transactions Accounted for as Asset Acquisitions

RetroSense Therapeutics LLC

On September 6, 2016, the Company acquired certain assets of RetroSense Therapeutics LLC (“RetroSense”), a private, clinical-stage biotechnology company focused on novel gene therapy approaches to restore vision in patients suffering from blindness. Under the terms of the transaction, RetroSense received approximately \$60.0 million upfront and is eligible to receive up to \$495.0 million in contingent regulatory and commercialization milestone payments related to its lead development program, RST-001, a novel gene therapy for the treatment of Retinitis Pigmentosa (the “RetroSense Transaction”). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of \$59.7 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Akarna Therapeutics, Ltd

On August 26, 2016, the Company acquired Akarna Therapeutics, Ltd (“Akarna”), a biopharmaceutical company developing novel small molecule therapeutics that target inflammatory and fibrotic diseases. Under the terms of the transaction, Akarna shareholders received approximately \$50.0 million upfront and are eligible to receive contingent development and commercialization milestones of up to \$1,015.0 million (the “Akarna Transaction”). The Company

concluded based on the stage of development of the assets as well as a lack of certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of \$48.2 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Topokine Therapeutics

On April 21, 2016, the Company acquired Topokine Therapeutics (“Topokine”), a privately held, clinical-stage biotechnology company focused on development stage topical medicines for fat reduction. Under the terms of the agreement, Topokine shareholders received an upfront payment of approximately \$85.0 million and are eligible to receive contingent development and commercialization milestones of up to \$260.0 million for XAF5, a first-in-class topical agent in development for the treatment of steatoblepharon, also known as undereye bags (the “Topokine Transaction”). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of approximately \$85.0 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Heptares Therapeutics

On April 6, 2016, the Company entered into an agreement with Heptares Therapeutics (“Heptares”), under which the Company licensed exclusive global rights to a portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease. Under the terms of the agreement, Heptares received an upfront payment of \$125.0 million and is eligible to receive contingent milestone payments of up to approximately \$665.0 million associated with the successful Phase 1, 2 and 3 clinical development and launch of the first three licensed compounds for multiple indications and up to approximately \$2.575 billion contingent upon achieving certain annual sales thresholds during the several years following launch (the “Heptares Transaction”). In addition, Heptares is eligible to receive contingent tiered royalties on net sales of all products resulting from the partnership. The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront payment of approximately \$125.0 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

Anterios, Inc.

On January 6, 2016, the Company acquired Anterios, Inc. (“Anterios”), a clinical stage biopharmaceutical company developing a next generation delivery system and botulinum toxin-based prescription products. Under the terms of the agreement, Anterios shareholders received an upfront net payment of approximately \$90.0 million and are eligible to receive contingent development and commercialization milestone payments of up to \$387.5 million related to an investigational topical formulation of botulinum toxin type A in development for the potential treatment of hyperhidrosis, acne, and crow's feet lines and the related NDS™, Anterios' proprietary platform delivery technology that enables local, targeted delivery of neurotoxins through the skin without the need for injections (the “Anterios Transaction”). The Company concluded based on the stage of development of the assets, the lack of acquired employees as well as certain other inputs and processes that the transaction did not qualify as a business. The total upfront net payment of approximately \$90.0 million was expensed as a component of R&D expense and the future milestones will be recorded if the corresponding events become probable.

2015 Transactions

The following are the significant transactions that were completed in the year ended December 31, 2015.

Acquisitions

AqueSys, Inc.

On October 16, 2015, the Company acquired AqueSys, Inc. (“AqueSys”), a private, clinical-stage medical device company focused on developing ocular implants that reduce IOP associated with glaucoma, in an all-cash transaction, which is being accounted for as a business acquisition. Under the terms of the agreement, the Company acquired AqueSys for an acquisition accounting purchase price of \$298.9 million, including \$193.5 million for the estimated fair value of contingent consideration relating to the regulatory approval and commercialization milestone payments. The Company acquired AqueSys for its lead development program, including XEN45, a soft shunt that is implanted in the sub conjunctival space in the eye through a minimally invasive procedure with a single use, pre-loaded proprietary injector (the “AqueSys Acquisition”).

Kythera Biopharmaceuticals

On October 1, 2015, the Company acquired Kythera Biopharmaceuticals (“Kythera”) for \$75 per share, or an acquisition accounting purchase price of \$2,089.5 million (the “Kythera Acquisition”), which is being accounted for as a business acquisition. Kythera was focused on the discovery, development and commercialization of novel prescription aesthetic products. Kythera’s lead product, Kybella® injection, is the first and only Food and Drug Administration (“FDA”) approved, non-surgical treatment for moderate to severe submental fullness, commonly referred to as double chin.

Allergan, Inc.

On March 17, 2015, the Company acquired Legacy Allergan for approximately \$77.0 billion including outstanding indebtedness assumed of \$2.2 billion, cash consideration of \$40.1 billion and equity consideration of \$34.7 billion, which includes outstanding equity awards (the “Allergan Acquisition”). Under the terms of the agreement, Legacy Allergan shareholders received 111.2 million of the Company’s ordinary shares, 7.0 million of the Company’s non-qualified stock options and 0.5 million of the Company’s share units. The addition of Legacy Allergan’s therapeutic franchises in ophthalmology, neurosciences and medical aesthetics/dermatology/plastic surgery complements the Company’s existing central nervous system, gastroenterology, women’s health and urology franchises. The combined company also benefited significantly from Legacy Allergan’s global brand equity and

82

consumer awareness of key products, including Botox® and Restasis®. The transaction expanded our presence and market and product reach across many international markets, with strengthened commercial positions across Canada, Europe, Southeast Asia and other high-value growth markets, including China, India, the Middle East and Latin America.

As a result of the Allergan Acquisition, the Company incurred the following transaction and integration costs in the three months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Legacy Allergan employees	\$ 2.2	\$ 4.7
Acquisition, integration and restructuring related charges	6.6	0.3
Research and development		
Stock-based compensation acquired for Legacy Allergan employees	9.3	16.6
Acquisition, integration and restructuring related charges	6.8	17.5
Selling and marketing		
Stock-based compensation acquired for Legacy Allergan employees	15.8	23.6
Acquisition, integration and restructuring related charges	(1.2)	5.4
General and administrative		
Stock-based compensation acquired for Legacy Allergan employees	9.9	16.8
Acquisition, integration and restructuring related charges	50.4	65.7
Total transaction and integration costs	\$ 99.8	\$ 150.6

As a result of the Allergan Acquisition, the Company incurred the following transaction and integration costs in the nine months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Legacy Allergan employees	\$ 7.4	\$ 18.9
Acquisition, integration and restructuring related charges	12.4	12.4
Research and development		
Stock-based compensation acquired for Legacy Allergan employees	32.6	108.2
Acquisition, integration and restructuring related charges	10.6	83.7
Selling and marketing		
Stock-based compensation acquired for Legacy Allergan employees	53.0	86.5
Acquisition, integration and restructuring related charges	11.7	65.9
General and administrative		
Stock-based compensation acquired for Legacy Allergan employees	28.2	243.0

Edgar Filing: Allergan plc - Form 10-Q

Acquisition-related expenditures	-	65.5
Acquisition, integration and restructuring related charges	144.0	231.4
Other (expense) income		
Bridge loan facilities expense	-	(264.9)
Interest rate lock	-	30.9
Total transaction and integration costs	\$ 299.9	\$ 1,149.5

Licenses and Other Transactions Accounted for as Asset Acquisitions

Naurex, Inc.

On August 28, 2015, the Company acquired certain products in early stage development of Naurex, Inc. (“Naurex”) in an all-cash transaction of \$571.7 million (the “Naurex Transaction”), plus future contingent payments up to \$1,150.0 million, which was accounted for as an asset acquisition. The Company recognized the upfront consideration of \$571.7 million as a component of R&D expense in the three and nine months ended September 30, 2015. The Company concluded based on the stage of development of the assets, the lack of acquired employees and manufacturing as well as certain other inputs and processes that the transaction did not qualify as a business. The Naurex Transaction expands our pipeline with Naurex’s two leading product candidates GLYX-13 and

NRX-1074, two compounds that utilize NMDA modulation as a potential new approach to the treatment of Major Depressive Disorder (“MDD”), a disease that can lead to suicidality among the most severe patients.

Migraine License

On August 17, 2015, the Company entered into an agreement with Merck & Co. (“Merck”) under which the Company acquired the exclusive worldwide rights to Merck’s early development stage investigational small molecule oral calcitonin gene-related peptide receptor antagonists, which are being developed for the treatment and prevention of migraines (the “Merck Transaction”). The Merck Transaction was accounted for as an asset acquisition. The Company acquired these rights for an upfront charge of \$250.0 million that was recorded as a component of R&D expense in the three and nine months ended September 30, 2015. The Company concluded based on the stage of development of the assets, the lack of acquired employees and manufacturing as well as certain other inputs and processes that the transaction did not qualify as a business. The Company paid \$125.0 million of the initial charge in the year ended December 31, 2015 and the remaining \$125.0 million was paid in April 2016. In the quarter ended September 30, 2016, the Company incurred \$100.0 million of milestones under the agreement, which were included as a component of R&D expense. Additionally, Merck is owed additional contingent payments based on commercial and development milestones of up to \$865.0 million as well as royalties.

Divestitures

Respiratory Business

As part of the Forest Acquisition (defined below), we acquired certain assets that comprised Legacy Forest’s branded respiratory business in the U.S. and Canada (the “Respiratory Business”). During the year ended December 31, 2014, we held for sale respiratory assets of \$734.0 million, including allocated goodwill to this unit of \$309.1 million. On March 2, 2015, the Company sold the Respiratory Business to AstraZeneca plc (“AstraZeneca”) for consideration of \$600.0 million upon closing, additional funds to be received for the sale of certain of our inventory to AstraZeneca and low single-digit royalties above a certain revenue threshold. AstraZeneca also paid Allergan an additional \$100.0 million and Allergan has agreed to a number of contractual consents and approvals, including certain amendments to the ongoing collaboration agreements between AstraZeneca and Allergan (the “Respiratory Sale”). As a result of the final terms of the agreement, in the nine months ended September 30, 2015, the Company recognized an incremental charge in cost of sales (including the acquisition accounting fair value mark-up of inventory) relating to inventory that will not be sold to AstraZeneca of \$35.3 million. The Company recognized a loss in other (expense) income, net for the sale of the business of \$5.3 million in the nine months ended September 30, 2015.

2014 Transactions

The following are the significant transactions that were completed in the year ended December 31, 2014.

Durata Therapeutics, Inc.

On November 17, 2014, the Company completed its tender offer to purchase all of the outstanding shares of Durata Therapeutics, Inc. (“Durata”), an innovative pharmaceutical company focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses (the “Durata Acquisition”). The Company purchased all outstanding shares of Durata, which were valued at approximately \$724.5 million, including the assumption of debt. Additionally, there is one contingent value right (“CVR”) per share, entitling the holder to receive additional cash payments of up to \$5.00 per CVR if certain regulatory or commercial milestones related to Durata’s lead product Dalvanc[®] are achieved. The CVR had an acquisition date fair value of \$49.0 million.

Contingent Consideration

At the time of the Durata Acquisition, additional consideration was conditionally due to the seller based upon the approval of Dalvance® in Europe, the approval of a single dose indication and the product reaching certain sales milestones. The Company estimated the acquisition accounting fair value of the contingent consideration to be \$49.0 million using a probability weighted approach that considered the possible outcomes based on assumptions related to the timing and probability of the product launch date, discount rates matched to the timing of the payment, and probability of success rates and discount adjustments on the related cash flows. On March 2, 2015, the Company announced that the European Commission had granted Allergan's subsidiary Durata Therapeutics International B.V., marketing authorization for Xydalba™ (dalbavancin) for the treatment of acute bacterial skin and skin structure infections (ABSSSI) in adults. The approval triggered the first CVR payment in the quarter ended March 31, 2015 of \$30.9 million. In January 2016, the Company received approval from the FDA for an expanded label that will include a single dose of

Dalvance[®], which triggered a second CVR payment of \$30.9 million in the quarter ended March 31, 2016. The difference between the probability weighted fair value and the final payments are recorded as a component of cost of sales.

Forest Laboratories, Inc.

On July 1, 2014, the Company acquired Forest Laboratories, Inc. (“Legacy Forest”) for \$30.9 billion including outstanding indebtedness assumed of \$3.3 billion, equity consideration of \$20.6 billion, which includes outstanding equity awards, and cash consideration of \$7.1 billion (the “Forest Acquisition”). Under the terms of the transaction, Legacy Forest shareholders received 89.8 million Allergan plc ordinary shares, 6.1 million Allergan plc non-qualified stock options and 1.1 million Allergan plc share units. Legacy Forest was a leading, fully integrated, specialty pharmaceutical company largely focused on the United States market. Legacy Forest marketed a portfolio of branded drug products and developed new medicines to treat patients suffering from diseases principally in the following therapeutic areas: central nervous system, cardiovascular, gastrointestinal, respiratory, anti-infective, and cystic fibrosis. A portion of the assets acquired were divested as part of the Teva Transaction.

As a result of the Forest Acquisition, the Company incurred the following transaction and integration costs in the three months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Cost of sales		
Stock-based compensation acquired for Forest employees	\$ 0.2	\$ 0.9
Research and development		
Stock-based compensation acquired for Forest employees	2.0	5.5
Acquisition, integration and restructuring related charges	0.2	0.4
Selling and marketing		
Stock-based compensation acquired for Forest employees	6.9	9.4
Acquisition, integration and restructuring related charges	-	0.4
General and administrative		
Stock-based compensation acquired for Forest employees	5.9	10.7
Acquisition, integration and restructuring related charges	0.5	19.6
Total transaction and integration costs	\$ 15.7	\$ 46.9

As a result of the Forest Acquisition, the Company incurred the following transaction and integration costs in the nine months ended September 30, 2016 and 2015, respectively (\$ in millions):

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cost of sales		

Edgar Filing: Allergan plc - Form 10-Q

Stock-based compensation acquired for Forest employees	\$ 1.4	\$ 3.6
Acquisition, integration and restructuring related charges	-	1.1
Research and development		
Stock-based compensation acquired for Forest employees	10.9	30.0
Acquisition, integration and restructuring related charges	0.5	9.2
Selling and marketing		
Stock-based compensation acquired for Forest employees	21.7	37.8
Acquisition, integration and restructuring related charges	-	17.3
General and administrative		
Stock-based compensation acquired for Forest employees	24.6	43.0
Acquisition, integration and restructuring related charges	1.7	66.8
Total transaction and integration costs	\$ 60.8	\$ 208.8

Operating results

Segments

During 2016, Allergan announced a realignment of its businesses to streamline operations. Prior to the realignment, the Company operated and managed its business as four distinct operating segments: US Brands, US Medical Aesthetics, International

and Anda Distribution. Under the new organizational structure being reported, and the decision to sell our Anda Distribution business, the Company organized its businesses into the following segments: US Specialized Therapeutics, US General Medicine and International. In addition, certain revenues and shared costs, and the results of corporate initiatives, are managed outside of the three segments. Prior period results have been recast to align to the current segment presentation.

The operating segments are organized as follows:

- The US Specialized Therapeutics segment includes sales and expenses relating to branded products within the US, including Medical Aesthetics, Medical Dermatology, Eye Care, Neurosciences and Urology therapeutic products.
- The US General Medicine segment includes sales and expenses relating to branded products within the US that do not fall into the US Specialized Therapeutics business units, including Central Nervous System, Gastrointestinal, Women's Health, Anti-Infectives and Established Brands.
 - The International segment includes sales and expenses relating to products sold outside the US.

The Company evaluates segment performance based on segment contribution. Segment contribution for our segments represents net revenues less cost of sales (defined below), selling and marketing expenses, and select general and administrative expenses. Included in segment revenues are products sales that are sold through the Anda Distribution business once the Anda Distribution business has sold the product to a third party customer. These sales are included in segment results and are reclassified into revenues from discontinued operations through a reduction of Corporate revenues which eliminates the sales made by our Anda Distribution business from results of continuing operations. Cost of sales for these products in discontinued operations is equal to our average third party cost of sales for third party brand products distributed by Anda Distribution. The Company does not evaluate the following items at the segment level:

- Revenues and operating expenses within cost of sales, selling and marketing expenses, and general and administrative expenses that result from the impact of corporate initiatives. Corporate initiatives primarily include integration, restructuring, acquisition and other shared costs.
- General and administrative expenses that result from shared infrastructure, including certain expenses located within the United States.
- Total assets including capital expenditures.
- Other select revenues and operating expenses including R&D expenses, amortization, IPR&D impairments and asset sales and impairments, net as not all such information has been accounted for at the segment level, or such information has not been used by all segments.

The Company defines segment net revenues as product sales and other revenue derived from branded products or licensing agreements. In March 2015, as a result of the Allergan Acquisition, we began to promote Restasis[®], Lumigan[®]/Ganfort[®], Alphagan[®]/Combigan[®], Botox[®], Fillers, other aesthetic products and other eye care products.

Cost of sales within segment contribution includes standard production and packaging costs for the products we manufacture, third party acquisition costs for products manufactured by others, profit-sharing or royalty payments for products sold pursuant to licensing agreements and finished goods inventory reserve charges. Cost of sales included within segment contribution does not include non-standard production costs, such as non-finished goods inventory obsolescence charges, manufacturing variances and excess capacity utilization charges, where applicable. Cost of sales does not include amortization or impairment costs for acquired product rights or other acquired intangibles.

Selling and marketing expenses consist mainly of personnel-related costs, product promotion costs, distribution costs, professional service costs, insurance, depreciation and travel costs.

General and administrative expenses consist mainly of personnel-related costs, facilities costs, transaction costs, insurance, depreciation, litigation and settlement costs and professional services costs which are general in nature and attributable to the segment.

Three Months Ended September 30, 2016 and 2015

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30, 2016			
	US Specialized Therapeutics	General Medicine	International	Total
Net revenues	\$ 1,453.2	\$ 1,488.1	\$ 697.8	\$ 3,639.1
Operating expenses:				
Cost of sales ⁽¹⁾	69.2	215.1	95.1	379.4
Selling and marketing	292.4	292.8	188.2	773.4
General and administrative	41.2	42.3	28.0	111.5
Segment Contribution	\$ 1,050.4	\$ 937.9	\$ 386.5	\$ 2,374.8
Contribution margin	72.3 %	63.0 %	55.4 %	65.3 %
Corporate				372.0
Research and development				622.8
Amortization				1,609.1
In-process research and development impairments				42.0
Asset sales and impairments, net				(4.7)
Operating (loss)				\$(266.4)
Operating margin				(7.3)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

	Three Months Ended September 30, 2015			
	US Specialized Therapeutics	General Medicine	International	Total
Net revenues	\$ 1,296.6	\$ 1,552.0	\$ 660.6	\$ 3,509.2
Operating expenses:				
Cost of sales ⁽¹⁾	71.6	227.5	108.3	407.4
Selling and marketing	236.2	262.8	155.8	654.8
General and administrative	17.2	17.5	33.3	68.0
Segment Contribution	\$ 971.6	\$ 1,044.2	\$ 363.2	\$ 2,379.0
Contribution margin	74.9 %	67.3 %	55.0 %	67.8 %
Corporate				642.5
Research and development				1,260.5
Amortization				1,557.8
In-process research and development impairments				300.0
Asset sales and impairments, net				(4.4)
Operating (loss)				\$(1,377.4)
Operating margin				(39.3)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

87

The following is a reconciliation of net revenues for the operating segments to the Company's net revenues for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Segment net revenues	\$3,639.1	\$3,509.2	\$129.9	3.7 %
Corporate revenues	(16.9)	(39.7)	22.8	57.4 %
Net revenues	\$3,622.2	\$3,469.5	\$152.7	4.4 %

No country outside of the United States represents ten percent or more of net revenues. The US Specialized Therapeutics and US General Medicine segments are comprised solely of sales within the United States.

The following table represents global net revenues for the top products for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,								
	2016	2015	\$	\$	\$	%	%	%	%
			Overall	Currency	Operational	Overall	Currency	Operational	
			Change	Change	Change	Change	Change	Change	Change
Botox®	\$689.7	\$604.4	\$85.3	\$ (2.6)	\$ 87.9	14.1 %	(0.4)%	14.5 %	
Restasis®	371.8	328.3	43.5	(0.2)	43.7	13.3 %	(0.1)%	13.4 %	
Fillers	201.8	167.6	34.2	(0.9)	35.1	20.4 %	(0.5)%	20.9 %	
Linzess®/Constella®	168.7	118.6	50.1	(0.2)	50.3	42.2 %	(0.2)%	42.4 %	
Lumigan®/Ganfort®	164.9	157.9	7.0	(1.9)	8.9	4.4 %	(1.2)%	5.6 %	
Bystolic®	164.4	155.7	8.7	-	8.7	5.6 %	-	5.6 %	
Namenda XR®	146.9	214.5	(67.6)	-	(67.6)	(31.5)%	-	(31.5)%	
Alphagan®/Combigan®	134.7	120.8	13.9	(0.3)	14.2	11.5 %	(0.2)%	11.7 %	
Lo Loestrin®	105.7	90.8	14.9	-	14.9	16.4 %	-	16.4 %	
Estrace® Cream	98.6	87.4	11.2	-	11.2	12.8 %	-	12.8 %	
Viibryd®/Fetzima®	87.6	84.5	3.1	-	3.1	3.7 %	-	3.7 %	
Breast Implants	86.7	85.5	1.2	0.1	1.1	1.4 %	0.1 %	1.3 %	
Asacol®/Delzicol®	86.4	157.2	(70.8)	(1.6)	(69.2)	(45.0)%	(1.0)%	(44.0)%	
Miniastrin® 24	84.9	74.4	10.5	-	10.5	14.1 %	-	14.1 %	
Aczone®	69.0	48.0	21.0	-	21.0	43.8 %	-	43.8 %	
Ozurdex®	64.3	51.6	12.7	(0.4)	13.1	24.6 %	(0.8)%	25.4 %	
Carafate®/Sulcrate®	57.0	52.9	4.1	-	4.1	7.8 %	-	7.8 %	
Namenda® IR	2.9	54.9	(52.0)	-	(52.0)	(94.7)%	-	(94.7)%	
Other Products Revenues **	859.9	857.9	2.0	(1.4)	3.4	0.2 %	(0.2)%	0.4 %	
Less product sold through Anda	(23.7)	(43.4)	19.7	-	19.7	(45.4)%	-	(45.4)%	

Distribution business

Total Net Revenues **	\$3,622.2	\$3,469.5	\$152.7	\$ (9.4)	\$ 162.1	4.4	%	(0.3)%	4.7	%
-----------------------	-----------	-----------	---------	-----------	----------	-----	---	---------	-----	---

** Includes an adjustment of \$31.7 million recorded in the three months ended September 30, 2015 related to International other product revenues for the six months ended June 30, 2015 that were reported in discontinued operations instead of continuing operations during the six months ended June 30, 2015. The impact of this out-of-period adjustment is not material to the six months ended June 30, 2015 or the three months ended September 30, 2015, and had no impact on the nine months ended September 30, 2015.

US Specialized Therapeutics Segment

The following table presents top product sales and net contribution for the US Specialized Therapeutics segment for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Change	
	2016 ⁽¹⁾	2015 ⁽¹⁾	Dollars	%
Total Eye Care	\$608.5	\$539.9	\$68.6	12.7 %
Restasis [®]	356.4	312.8	43.6	13.9 %
Alphagan [®] /Combigan [®]	93.4	81.4	12.0	14.7 %
Lumigan [®] /Ganfort [®]	78.3	71.7	6.6	9.2 %
Ozurdex [®]	20.9	17.6	3.3	18.8 %
Eye Drops	50.2	45.3	4.9	10.8 %
Other Eye Care	9.3	11.1	(1.8)	(16.2)%
Total Medical Aesthetics	388.9	340.1	48.8	14.3 %
Facial Aesthetics	293.7	249.0	44.7	18.0 %
Botox [®] Cosmetics	174.5	159.3	15.2	9.5 %
Fillers	105.0	89.7	15.3	17.1 %
Kybella [®]	14.2	-	14.2	n.a.
Plastic Surgery	52.2	54.3	(2.1)	(3.9)%
Breast Implants	51.1	50.9	0.2	0.4 %
Other Plastic Surgery	1.1	3.4	(2.3)	(67.6)%
Skin Care	43.0	36.8	6.2	16.8 %
SkinMedica [®]	25.8	23.0	2.8	12.2 %
Latisse [®]	17.2	13.8	3.4	24.6 %
Total Medical Dermatology	116.1	107.8	8.3	7.7 %
Aczone [®]	69.0	48.0	21.0	43.8 %
Tazorac [®]	27.5	27.6	(0.1)	(0.4)%
Botox [®] Hyperhidrosis	16.3	15.0	1.3	8.7 %
Other Medical Dermatology	3.3	17.2	(13.9)	(80.8)%
Total Neuroscience and Urology	330.7	291.4	39.3	13.5 %
Botox [®] Therapeutics	305.5	261.3	44.2	16.9 %
Rapaflo [®]	25.2	30.1	(4.9)	(16.3)%
Other Neuroscience and Urology	-	-	-	n.a.
Other Revenues	9.0	17.4	(8.4)	(48.3)%
Net revenues	\$1,453.2	\$1,296.6	\$156.6	12.1 %
Operating expenses:				
Cost of sales ⁽²⁾	69.2	71.6	(2.4)	(3.4)%
Selling and marketing	292.4	236.2	56.2	23.8 %
General and administrative	41.2	17.2	24.0	139.5%
Segment contribution	\$1,050.4	\$971.6	\$78.8	8.1 %
Segment margin	72.3 %	74.9 %	(2.6)%	
Segment gross margin ⁽³⁾	95.2 %	94.5 %	0.7 %	

⁽¹⁾Includes revenues earned that were distributed through the Anda Distribution business to third party customers.

(2) Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

(3) Defined as net revenues less segment related cost of sales as a percentage of net revenues.

Net Revenues

The increase in revenues was primarily driven by increases in total Eye Care, Facial Aesthetics and Neuroscience and Urology revenues.

Within Eye Care, Restasis[®] revenues increased \$43.6 million, or 13.9%, versus the prior year period primarily due to net price appreciation and demand growth. Alphagan[®]/Combigan[®] revenues increased \$12.0 million, or 14.7%, versus the prior year period primarily due to net price appreciation.

The increase in Facial Aesthetics revenues was driven in part by Botox[®] Cosmetics which increased \$15.2 million, or 9.5%, versus the prior year period primarily due to demand growth. Also contributing was an increase in Fillers revenues of \$15.3 million, or 17.1% versus the prior year period driven primarily by demand growth offset, in part, by modest price depreciation, as well as the launch of Kybella[®].

Within Medical Dermatology, Aczone[®] increased \$21.0 million, or 43.8%, due to net price appreciation, as well as the launch of Aczone[®] 7.5%.

Within Neuroscience and Urology, Botox[®] Therapeutics revenues increased \$44.2 million, or 16.9%, versus the prior year period driven by demand growth.

Cost of Sales

The decrease in cost of sales was primarily due to product mix. Segment gross margins remained stable at 95.2% for the three months ended September 30, 2016 compared to 94.5% for the three months ended September 30, 2015.

Selling and Marketing Expenses

The increase in selling and marketing expenses primarily relates to an increase in selling and promotion costs associated with the Facial Aesthetics business driven in part by the launch of Kybella[®]. The Company also increased promotional effort for Restasis[®] and Botox[®] Therapeutics.

General and Administrative Expenses

The increase in general and administrative costs is a result of the Company's new operating management structure wherein more costs are directly supporting the operating segments versus corporate functions. Consequently, general and administrative expenses increased as a result of this change. In addition, there was also a period over period increase in compensation costs.

US General Medicine Segment

The following table presents top product sales and net contribution for the US General Medicine segment for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Change	
	2016 ⁽¹⁾	2015 ⁽¹⁾	Dollars	%
Total Central Nervous System (CNS)	\$325.5	\$406.7	\$(81.2)	(20.0)%
Namenda XR [®]	146.9	214.5	(67.6)	(31.5)%
Viibryd [®] /Fetzima [®]	87.6	84.5	3.1	3.7 %
Saphris [®]	40.8	51.1	(10.3)	(20.2)%
Vraylar [™]	32.4	-	32.4	n.a.
Namzaric [®]	14.9	1.7	13.2	n.m.
Namenda [®] IR	2.9	54.9	(52.0)	(94.7)%
Total Gastrointestinal (GI)	431.4	398.6	32.8	8.2 %
Linzess [®]	164.4	117.5	46.9	39.9 %
Asacol [®] /Delzicol [®]	72.2	141.9	(69.7)	(49.1)%
Carafate [®] /Sulcrate [®]	56.4	52.9	3.5	6.6 %
Zenpep [®]	52.5	43.1	9.4	21.8 %
Canasa [®] /Salofalk [®]	47.2	34.6	12.6	36.4 %
Viberzi [®]	30.9	-	30.9	n.a.
Other GI	7.8	8.6	(0.8)	(9.3)%
Total Women's Health	305.3	268.0	37.3	13.9 %
Lo Loestrin [®]	105.7	89.8	15.9	17.7 %
Estrace [®] Cream	98.6	87.4	11.2	12.8 %
Minastrin [®] 24	84.9	74.4	10.5	14.1 %
Liletta [®]	4.4	5.8	(1.4)	(24.1)%
Other Women's Health	11.7	10.6	1.1	10.4 %
Total Anti-Infectives	52.5	52.3	0.2	0.4 %
Teflaro [®]	33.3	35.8	(2.5)	(7.0)%
Dalvance [®]	10.3	4.9	5.4	110.2%
Avycaz [®]	4.8	7.5	(2.7)	(36.0)%
Other Anti-Infectives	4.1	4.1	-	0.0 %
Established Brands	319.3	400.5	(81.2)	(20.3)%
Bystolic [®]	163.9	155.3	8.6	5.5 %
Armour Thyroid	39.1	34.7	4.4	12.7 %
Savella [®]	28.1	29.0	(0.9)	(3.1)%
Lexapro [®]	15.6	17.8	(2.2)	(12.4)%
Enablex [®]	1.9	17.2	(15.3)	(89.0)%
PacPharma	6.2	27.4	(21.2)	(77.4)%
Other Established Brands	64.5	119.1	(54.6)	(45.8)%
Other Revenues	54.1	25.9	28.2	108.9%
Net revenues	\$1,488.1	\$1,552.0	\$(63.9)	(4.1)%
Operating expenses:				
Cost of sales ⁽²⁾	215.1	227.5	(12.4)	(5.5)%
Selling and marketing	292.8	262.8	30.0	11.4 %

Edgar Filing: Allergan plc - Form 10-Q

General and administrative	42.3	17.5	24.8	141.7%
Segment contribution	\$937.9	\$1,044.2	\$(106.3)	(10.2)%
Segment margin	63.0	%	67.3	%
Segment gross margin ⁽³⁾	85.5	%	85.3	%

⁽¹⁾Includes revenues earned that were distributed through the Anda Distribution business to third party customers.

⁽²⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

⁽³⁾Defined as net revenues less segment related cost of sales as a percentage of net revenues.

91

Net Revenues

The decrease in segment revenues is primarily due to a decrease in Central Nervous System revenues driven by the loss of exclusivity in July of 2015 for Namenda® IR, which declined by \$52.0 million, or 94.7%, versus the prior year period. Namenda XR® contributed revenues of \$146.9 million in the three months ended September 30, 2016, a decline of \$67.6 million, or 31.5%, versus the prior year period due to a decrease in demand coupled with a lower average selling price to maintain formulary coverage. Central Nervous System revenue declines were offset, in part, by the launch of Vraylar™.

Growth within our Gastrointestinal franchise was primarily driven by Linzess® and newly launched Viberzi®. Linzess® revenues increased \$46.9 million, or 39.9%, versus the prior year period primarily due to strong demand growth coupled with net price appreciation. Our Asacol®/ Delzicol® franchise revenues decreased \$69.7 million, or 49.1%, primarily due to a reduction in demand for Asacol® HD following the launch of an authorized generic in August. A decline in Delzicol® revenues was attributable to decreased demand due to lower promotion and some loss in formulary coverage, offset by net price appreciation. Offsetting this decline, in part, is royalty revenue of \$26.0 million relating to our authorized generic version of Asacol® HD, which is included within “Other revenues”.

Our Women’s Healthcare franchise increase versus the prior year period is primarily due to both price and volume increases within our top products. Lo Loestrin® increased 17.7% due to strong demand growth and net price appreciation. Estrace® Cream increased 12.8% as a result of demand growth and modest net price appreciation. Minastrin® 24 increased 14.1% as a result of net price appreciation.

The decline in Established Brands revenues is primarily due to loss of exclusivity on certain products and product divestitures.

Cost of Sales

The decrease in cost of sales was primarily a result of a decrease in product revenues. Segment gross margins remained stable at 85.5% for the three months ended September 30, 2016 compared to 85.3% for the three months ended September 30, 2015.

Selling and Marketing Expenses

The increase in selling and marketing expenses relates to promotional spending associated with recently launched products, including Viberzi® and Vraylar™.

General and Administrative Expenses

The increase in general and administrative costs is a result of the Company’s new operating management structure wherein more costs are directly supporting the operating segments versus corporate functions. Consequently, general and administrative expenses increased as a result of this change. In addition, there was also a period over period increase in compensation costs.

International Segment

The following table presents top product sales and net contribution for the International segment for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Change			% Overall			% Operational		
	2016	2015	\$	\$	\$	%	%	%	%	%	
Total Eye Care	\$294.2	\$281.5	\$12.7	\$ (4.2)	\$ 16.9	4.5 %	(1.5)%	6.0 %			
Lumigan®/Ganfort®	86.6	86.2	0.4	(1.9)	2.3	0.5 %	(2.2)%	2.7 %			
Alphagan®/Combigan®	41.3	39.4	1.9	(0.3)	2.2	4.8 %	(0.8)%	5.6 %			
Ozurdex®	43.4	34.0	9.4	(0.4)	9.8	27.6 %	(1.2)%	28.8 %			
Optive®	25.6	23.2	2.4	(0.2)	2.6	10.3 %	(0.9)%	11.2 %			
Restasis®	15.4	15.5	(0.1)	(0.2)	0.1	(0.6)%	(1.3)%	0.7 %			
Other Eye Drops	42.1	44.0	(1.9)	(0.8)	(1.1)	(4.3)%	(1.8)%	(2.5)%			
Other Eye Care	39.8	39.2	0.6	(0.4)	1.0	1.5 %	(1.0)%	2.5 %			
Total Medical Aesthetics	251.0	214.8	36.2	(2.1)	38.3	16.9 %	(1.0)%	17.9 %			
Facial Aesthetics	212.6	176.5	36.1	(2.2)	38.3	20.5 %	(1.2)%	21.7 %			
Botox® Cosmetics	115.3	98.6	16.7	(1.3)	18.0	16.9 %	(1.3)%	18.2 %			
Fillers	96.8	77.9	18.9	(0.9)	19.8	24.3 %	(1.2)%	25.5 %			
Belkyra® (Kybella®)	0.5	-	0.5	-	0.5	n.a.	n.a.	n.a.			
Plastic Surgery	35.8	34.6	1.2	0.1	1.1	3.5 %	0.3 %	3.2 %			
Breast Implants	35.6	34.6	1.0	0.1	0.9	2.9 %	0.3 %	2.6 %			
Earfold™	0.2	-	0.2	-	0.2	n.a.	n.a.	n.a.			
Skin Care	2.6	3.7	(1.1)	-	(1.1)	(29.7)%	0.0 %	(29.7)%			
Botox® Therapeutics and											
Other	134.6	155.5	(20.9)	(3.1)	(17.8)	(13.4)%	(2.0)%	(11.4)%			
Botox® Therapeutics	78.1	70.2	7.9	(1.3)	9.2	11.3 %	(1.9)%	13.2 %			
Asacol®/Delzicol®	14.2	15.3	(1.1)	(1.6)	0.5	(7.2)%	(10.5)%	3.3 %			
Constella®	4.3	1.1	3.2	(0.2)	3.4	n.m.	(18.2)%	n.m.			
Other Products **	38.0	68.9	(30.9)	-	(30.9)	(44.8)%	0.0 %	(44.8)%			
Other Revenues	18.0	8.8	9.2	-	9.2	104.5 %	0.0 %	104.5 %			
Net revenues **	\$697.8	\$660.6	\$37.2	\$ (9.4)	\$ 46.6	5.6 %	(1.4)%	7.0 %			
Operating expenses:											
Cost of sales ⁽¹⁾	95.1	108.3	(13.2)	(1.1)	(12.1)	(12.2)%	(1.0)%	(11.2)%			
Selling and marketing	188.2	155.8	32.4	(2.8)	35.2	20.8 %	(1.8)%	22.6 %			
General and administrative	28.0	33.3	(5.3)	(1.0)	(4.3)	(15.9)%	(3.0)%	(12.9)%			
Segment contribution	\$386.5	\$363.2	\$23.3	\$ (4.5)	\$ 27.8	6.4 %	(1.2)%	7.6 %			
Segment margin	55.4 %	55.0 %				0.4 %					
Segment gross margin ⁽²⁾	86.4 %	83.6 %				2.8 %					

(1) Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

(2) Defined as net revenues less segment related cost of sales as a percentage of net revenues.

** Includes an adjustment of \$31.7 million recorded in the three months ended September 30, 2015 related to International other product revenues for the six months ended June 30, 2015 that were reported in discontinued operations instead of continuing operations during the six months ended June 30, 2015. The impact of this out-of-period adjustment is not material to the six months ended June 30, 2015 or the three months ended September 30, 2015, and had no impact on the nine months ended September 30, 2015.

Net Revenues

The increase in segment net revenues is primarily due to the performance of total Eye Care and Facial Aesthetics. Within total Eye Care, Ozurdex[®] increased \$9.4 million, or 27.6% versus the prior year period, primarily driven by demand growth. Within Facial Aesthetics, Fillers revenues increased \$18.9 million, or 24.3% versus the prior year period, primarily resulting from demand growth, offset in part, by unfavorable currency impacts. Botox[®] Cosmetic sales also grew 16.9% driven by demand growth, offset in part, by unfavorable currency impacts. Botox[®] Therapeutics sales also grew 11.3% driven by demand growth, offset in part, by unfavorable currency impacts.

Cost of Sales

The decrease in cost of sales was primarily due to the increase in net revenues, offset, in part, by favorable product mix. Segment gross margins improved to 86.4% for the three months ended September 30, 2016 compared to 83.6% for the three months ended September 30, 2015.

Selling and Marketing Expenses

The increase in selling and marketing expenses relates to promotional spending associated with Ozurdex[®], Botox[®] Cosmetic and Fillers and recent product launches including Earfold[™], Belkyra[®] and Constella[®].

General and Administrative Expenses

The decrease in general and administrative costs is primarily due to the impact of corporate restructuring programs.

Corporate

Corporate represents the results of corporate initiatives as well as the impact of select revenues and shared costs. The following represents the corporate amounts for the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30, 2016						
	Integration and Restructuring Adjustments	Fair Value Adjustments	Effect of Purchase Accounting	Reclassification of Sales Distributed Through And to Discontinued Operations	Other	Revenues and Shared Costs	Total
Net Sales	\$-	\$ -	\$ -	\$ (23.7)	\$-	\$ 6.8	\$(16.9)
Operating expenses:							
Cost of sales ⁽¹⁾	8.0	10.4	1.7	(23.0)	(0.1)	85.8	82.8
Selling and marketing	4.1	-	16.3	-	-	2.2	22.6
General and administrative	60.2	-	12.0	-	57.7	119.8	249.7
Contribution	\$(72.3)	\$(10.4)	\$(30.0)	\$(0.7)	\$(57.6)	\$(201.0)	\$(372.0)

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights.

Three Months Ended September 30, 2015

	Integration	Fair Value	Effect of Purchase	Discontinued	Reclassification of Sales Distributed Through And to	Revenues and Shared Costs	Total
	Restructuring	Adjustments	Accounting	Operations	Other		
Net Sales	\$-	\$ -	\$ -	\$ (43.4	)\$-	\$ 3.7	\$(39.7)
Operating expenses:							
Cost of sales ⁽¹⁾	0.4	20.6	297.2	(37.1	) -	21.8	302.9
Selling and marketing	3.7	-	24.6	-	-	0.5	28.8
General and administrative	87.6	-	18.6	-	22.0	142.9	271.1
Contribution	\$(91.7)	\$(20.6	)\$ (340.4	)\$ (6.3	)\$(22.0)	\$(161.5	)\$(642.5)

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights.

In the three months ended September 30, 2016, integration and restructuring charges were primarily related to the integration of the Legacy Allergan business as well as charges incurred with the terminated merger with Pfizer, Inc. of \$18.0 million. The Company

incurred charges related to the purchase accounting impact on stock-based compensation related to the Allergan and Forest acquisitions, which increased cost of sales, selling and marketing and general and administrative expenses. Included in other in the three months ended September 30, 2016 are mark-to-market unrealized losses for foreign currency option contracts that are entered into in order to offset future exposure to movements in currencies of \$18.2 million as well as legal settlement charges of \$40.8 million.

Shared costs primarily include above site and unallocated costs associated with running our global manufacturing facilities. The increase in shared cost of sales is primarily due to an increase in costs no longer attributable to the operating segments as the Company continues to streamline and centralize operations. This has the impact of lowering segment cost of sales and increasing corporate cost of sales versus prior year periods. In addition, the three months ended September 30, 2016 included higher costs for product validations and capacity expansions. Also, within shared costs are corporate general and administrative expenses. The decrease in costs versus the prior year period is primarily due to more costs included within operating segments as part of our new management reporting structure, which reduced corporate expenses.

In the three months ended September 30, 2015, integration and restructuring charges primarily related to integration of the Allergan and Forest businesses. In the three months ended September 30, 2015, the Company incurred purchase accounting effects of \$292.9 million in cost of sales primarily related to fair value inventory step-up from the Allergan and Forest acquisitions as products were sold to the Company's third party customers. The Company also incurred charges related to the purchase accounting impact on stock-based compensation related to the Allergan and Forest acquisitions, which increased cost of sales, selling and marketing and general and administrative expenses. In the three months ended September 30, 2015, the Company incurred mark-to-market unrealized losses for foreign currency option contracts that are entered into to offset future exposure to movements in currencies of \$4.5 million.

Research and Development Expenses

R&D expenses consist predominantly of personnel-related costs, active pharmaceutical ingredient costs, contract research, biostudy and facilities costs associated with product development.

R&D expenses consisted of the following components in the three months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Ongoing operating expenses	\$386.4	\$305.0	\$81.4	26.7 %
Brand related milestone payments and upfront license payments	207.9	857.3	(649.4)	(75.7)%
Acquisition accounting fair market value adjustment to stock-based compensation	8.0	15.4	(7.4)	(48.1)%
Acquisition, integration, and restructuring charges	15.0	22.7	(7.7)	(33.9)%
Contingent consideration adjustments, net	5.5	60.1	(54.6)	(90.8)%
Total expenditures	\$622.8	\$1,260.5	\$(637.7)	(50.6)%

The increase in ongoing operating expenses in the three months ended September 30, 2016 versus the prior year period is primarily due to an increase in clinical trial activity primarily in the Ophthalmology and CNS therapeutic areas.

In the three months ended September 30, 2016, the Company had brand related milestone payments relating to the Akarna Transaction of \$48.2 million, the Retrosense Transaction of \$59.7 million and the Merck Transaction of \$100.0 million. In the three months ended September 30, 2015, brand related milestone payments and upfront license charges included \$250.0 million relating to the migraine license with Merck and \$571.7 million related to upfront charges as part of the Naurex Transaction.

Amortization

Amortization in the three months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Change	
(\$ in millions)	2016	2015	Dollars	%
Amortization	\$1,609.1	\$1,557.8	\$51.3	3.3%

Amortization for the three months ended September 30, 2016 increased as compared to the prior period as a result of the Kythera Acquisition and amortization related to recently launched products.

IPR&D Impairments and Asset Sales and Impairments, Net

IPR&D impairments and Asset sales and impairments, net consisted of the following components in the three months ended September 30, 2016 and 2015:

(\$ in millions)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
IPR&D impairments	\$42.0	\$300.0	\$(258.0)	(86.0)%
Asset sales and impairments, net	(4.7)	(4.4)	(0.3)	6.8%

In the three months ended September 30, 2016, the Company recorded \$42.0 million in IPR&D impairments on a gastroenterology project as a result of the lack of future availability of active pharmaceutical ingredients.

During the three months ended September 30, 2015, the Company made the decision to abandon a select IPR&D asset (acquired in connection with the Allergan Acquisition) based on the review of research studies, resulting in an impairment of the full asset value of \$300.0 million.

Asset sales and impairments, net in the three months ended September 30, 2016, included the gain on the sale of certain investments.

Interest Income

Interest income in the three months ended September 30, 2016 and 2015 was as follows:

(\$ in millions)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Interest income	\$ 18.1	\$ 3.5	\$ 14.6	417.1%

Interest income in the three months ended September 30, 2016 increased as a result of the Company investing the cash proceeds from the Teva Transaction in Marketable securities and Cash and cash equivalents.

Interest Expense

Interest expense consisted of the following components in the three months ended September 30, 2016 and 2015:

(\$ in millions)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Fixed Rate Notes	\$284.7	\$289.5	(4.8)	(1.7)%
AGN Term Loan	19.4	25.2	(5.8)	(23.0)%
ACT Term Loan	8.7	11.0	(2.3)	(20.9)%
Floating Rate Notes	5.8	5.9	(0.1)	(1.7)%
WC Term Loan	-	3.4	(3.4)	(100.0)%
Revolving Credit Facility	-	0.2	(0.2)	(100.0)%
Other	5.7	5.0	0.7	14.0 %
Interest expense	\$324.3	\$340.2	\$(15.9)	(4.7)%

Interest expense in the three months ended September 30, 2016 decreased as a result of the Company fully repaying outstanding term loans with the cash proceeds from the Teva Transaction on August 2, 2016.

Other (expense) income, net

Other (expense) income, net consisted of the following components in the three months ended September 30, 2016 and 2015:

s(\$ in millions)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Dividend income	\$ 34.1	\$ -	\$34.1	n.a.
Other (expense) income	(0.5)	0.2	(0.7)	(350.0)%
Other (expense) income, net	\$ 33.6	\$ 0.2	\$33.4	16700.0%

Dividend income in the three months ended September 30, 2016 was earned on the Company's investment in Teva ordinary shares received from the Teva Transaction. Teva shares pay dividends quarterly, currently at a rate of \$0.34 per share.

(Benefit) for Income Taxes

(\$ in millions)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
(Benefit) for income taxes	\$(158.9)	\$(838.9)	\$680.0	(81.1)%
Effective tax rate	29.5 %	48.9 %		

The Company's effective tax rate for the three months ended September 30, 2016 was 29.5% compared to 48.9% for the three months ended September 30, 2015. The effective tax rate for the three months ended September 30, 2016 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax benefit for the three months ended September 30, 2016 included, but not limited to, the following items: a benefit of \$48.2 million related to the change in tax rates applicable to certain temporary differences, a benefit of \$37.9 million for the New Jersey Grow income tax credit and a benefit of \$15.7 million primarily related to a valuation allowance release in Ireland.

The effective tax rate for the three months ended September 30, 2015 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax provision for the three months ended September 30, 2015 included, but not limited to, the following items: a benefit of \$318.9 million for the reversal of a valuation allowance on a portion of U.S. capital loss carryforwards resulting from restructuring associated with the sale of the generics business, a benefit of \$36.8 million for the recognition of previously unrecognized tax benefits, a benefit of \$41.3 million for certain IPR&D impairments and a benefit of \$44.0 million for acquired tax attributes.

The decrease in the effective tax rate for the period ended September 30, 2016 as compared to the period ended September 30, 2015 is the result of changes in the mix of income and losses in jurisdictions with rates other than the Irish statutory rate and the change in the valuation allowance recorded in the three months ended September 30, 2015.

Nine Months Ended September 30, 2016 and 2015

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30, 2016			
	US Specialized		International	Total
	Therapeutics	Medicine		
Net revenues	\$4,240.8	\$ 4,390.9	\$ 2,128.1	\$10,759.8
Operating expenses:				
Cost of sales ⁽¹⁾	215.0	649.6	309.3	1,173.9
Selling and marketing	844.8	902.8	582.7	2,330.3
General and administrative	126.4	128.2	86.5	341.1
Segment Contribution	\$3,054.6	\$ 2,710.3	\$ 1,149.6	\$6,914.5
Contribution margin	72.0 %	61.7 %	54.0 %	64.3 %
Corporate				1,052.8
Research and development				1,662.4
Amortization				4,831.9
In-process research and development impairments				316.9
Asset sales and impairments, net				(24.0)
Operating (loss)				(925.5)
Operating margin				(8.6)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

	Nine Months Ended September 30, 2015			
	US Specialized		International	Total
	Therapeutics	Medicine		
Net revenues	\$2,889.6	\$ 4,803.7	\$ 1,496.4	\$9,189.7
Operating expenses:				
Cost of sales ⁽¹⁾	160.2	674.0	243.8	1,078.0
Selling and marketing	525.0	917.1	394.2	1,836.3
General and administrative	46.1	88.8	75.7	210.6
Segment Contribution	\$2,158.3	\$ 3,123.8	\$ 782.7	\$6,064.8
Contribution margin	74.7 %	65.0 %	52.3 %	66.0 %
Corporate				2,338.8
Research and Development				1,927.9
Amortization				3,858.9
In-process research and development impairments				497.6
Asset sales and impairments, net				3.1

Operating (loss)	(2,561.5)
Operating margin	(27.9)%

⁽¹⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

98

The following is a reconciliation of net revenues for the operating segments to the Company's net revenues for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended		Change	
	September 30, 2016	2015	Dollars	%
Segment net revenues	\$10,759.8	\$9,189.7	\$1,570.1	17.1%
Corporate revenues	(53.5)	(108.5)	55.0	50.7%
Net revenues	\$10,706.3	\$9,081.2	\$1,625.1	17.9%

No country outside of the United States represents ten percent or more of net revenues. The US Specialized Therapeutics and US General Medicine segments are comprised solely of sales within the United States.

The following tables represent global net revenues for the top products for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30,								
		\$	\$	\$	%	%	%		
	Overall	Currency	Operational	Overall	Currency	Operational			
	2016	2015	Change	Change	Change	Change	Change	Change	Change
Botox®	\$2,046.9	\$1,319.8	\$727.1	\$(15.4)	\$742.5	55.1 %	(1.2)%	56.3 %	
Restasis®	1,076.1	683.2	392.9	(1.6)	394.5	57.5 %	(0.2)%	57.7 %	
Fillers	629.5	388.2	241.3	(7.4)	248.7	62.2 %	(1.9)%	64.1 %	
Lumigan®/Ganfort®	509.6	355.6	154.0	(4.8)	158.8	43.3 %	(1.3)%	44.6 %	
Namenda XR®	486.5	569.8	(83.3)	-	(83.3)	(14.6)%	-	(14.6)%	
Bystolic®	479.1	476.9	2.2	-	2.2	0.5 %	-	0.5 %	
Linzess®/Constella®	464.7	328.0	136.7	(0.4)	137.1	41.7 %	(0.1)%	41.8 %	
Alphagan®/Combigan®	401.6	272.3	129.3	(3.2)	132.5	47.5 %	(1.2)%	48.7 %	
Asacol®/Delzicol®	338.4	455.6	(117.2)	(2.6)	(114.6)	(25.7)%	(0.6)%	(25.1)%	
Lo Loestrin®	296.0	253.3	42.7	-	42.7	16.9 %	-	16.9 %	
Estrace® Cream	276.4	229.4	47.0	-	47.0	20.5 %	-	20.5 %	
Breast Implants	261.7	198.4	63.3	(1.8)	65.1	31.9 %	(0.9)%	32.8 %	
Viibryd®/Fetzima®	252.7	244.8	7.9	-	7.9	3.2 %	-	3.2 %	
Minestrin® 24	248.9	195.9	53.0	-	53.0	27.1 %	-	27.1 %	
Ozurdex®	192.0	109.6	82.4	(1.1)	83.5	75.2 %	(1.0)%	76.2 %	
Carafate®/Sulcrate®	169.4	153.4	16.0	-	16.0	10.4 %	-	10.4 %	
Aczone®	156.1	114.3	41.8	-	41.8	36.6 %	-	36.6 %	
Namenda® IR	12.8	532.9	(520.1)	-	(520.1)	(97.6)%	-	(97.6)%	
Other Products Revenues	2,487.9	2,313.6	174.3	(14.7)	189.0	7.5 %	(0.6)%	8.1 %	
Less product sold through Anda	(80.0)	(113.8)	33.8	-	33.8	(29.7)%	-	(29.7)%	

Distribution business

Total Net Revenues	\$10,706.3	\$9,081.2	\$1,625.1	\$ (53.0)	\$ 1,678.1	17.9 %	(0.6)%	18.5 %
--------------------	------------	-----------	-----------	------------	------------	--------	---------	--------

US Specialized Therapeutics Segment

The following table presents top product sales and net contribution for the US Specialized Therapeutics segment for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30,		Change	
	2016 ⁽¹⁾	2015 ⁽¹⁾	Dollars	%
Total Eye Care	\$1,777.6	\$1,213.2	\$564.4	46.5 %
Restasis [®]	1,026.4	651.4	375.0	57.6 %
Alphagan [®] /Combigan [®]	274.3	184.9	89.4	48.4 %
Lumigan [®] /Ganfort [®]	240.4	165.9	74.5	44.9 %
Ozurdex [®]	61.8	36.9	24.9	67.5 %
Eye Drops	140.1	131.8	8.3	6.3 %
Other Eye Care	34.6	42.3	(7.7)	(18.2)%
Total Medical Aesthetics	1,182.6	761.4	421.2	55.3 %
Facial Aesthetics	893.3	547.9	345.4	63.0 %
Botox [®] Cosmetics	529.8	341.2	188.6	55.3 %
Fillers	325.3	206.7	118.6	57.4 %
Kybella [®]	38.2	-	38.2	n.a.
Plastic Surgery	153.1	122.5	30.6	25.0 %
Breast Implants	149.2	112.8	36.4	32.3 %
Other Plastic Surgery	3.9	9.7	(5.8)	(59.8)%
Skin Care	136.2	91.0	45.2	49.7 %
SkinMedica [®]	81.5	51.6	29.9	57.9 %
Latisse [®]	54.7	39.4	15.3	38.8 %
Total Medical Dermatology	282.2	249.4	32.8	13.2 %
Aczone [®]	156.1	114.3	41.8	36.6 %
Tazorac [®]	68.0	65.7	2.3	3.5 %
Botox [®] Hyperhidrosis	48.9	35.5	13.4	37.7 %
Other Medical Dermatology	9.2	33.9	(24.7)	(72.9)%
Total Neuroscience and Urology	963.8	637.2	326.6	51.3 %
Botox [®] Therapeutics	875.3	549.7	325.6	59.2 %
Rapaflo [®]	87.6	87.5	0.1	0.1 %
Other Neuroscience and Urology	0.9	-	0.9	n.a.
Other Revenues	34.6	28.4	6.2	21.8 %
Net revenues	\$4,240.8	\$2,889.6	\$1,351.2	46.8 %
Operating expenses:				
Cost of sales ⁽²⁾	215.0	160.2	54.8	34.2 %
Selling and marketing	844.8	525.0	319.8	60.9 %
General and administrative	126.4	46.1	80.3	174.2 %
Segment contribution	\$3,054.6	\$2,158.3	\$896.3	41.5 %
Segment margin	72.0 %	74.7 %		(2.7)%
Segment gross margin ⁽³⁾	94.9 %	94.5 %		0.4 %

⁽¹⁾Includes revenues earned that were distributed through the Anda Distribution business to third party customers.

(2) Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

(3) Defined as net revenues less segment related cost of sales as a percentage of net revenues.

Net Revenues

The increase in net revenues was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015.

100

Cost of Sales

The increase in cost of sales was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015. Segment gross margins remained stable at 94.9% for the nine months ended September 30, 2016 compared to 94.5% for the nine months ended September 30, 2015.

Selling and Marketing Expenses

The increase in selling and marketing expenses was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015 as well as costs incurred with recent product launches.

General and Administrative Expenses

The increase in general and administrative expenses was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015 and an increase due to the Company's new operating management structure wherein more costs are directly supporting the operating segments versus corporate functions. Consequently, general and administrative expenses increased as a result of this change. In addition, there was also a period over period increase in compensation costs.

US General Medicine Segment

The following table presents top product sales and net contribution for the US General Medicine segment for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30,		Change	
	2016 ⁽¹⁾	2015 ⁽¹⁾	Dollars	%
Total Central Nervous System (CNS)	\$964.6	\$1,485.1	\$(520.5)	(35.0)%
Namenda XR [®]	486.5	569.8	(83.3)	(14.6)%
Viibryd [®] /Fetzima [®]	252.6	244.8	7.8	3.2%
Saphris [®]	123.6	134.3	(10.7)	(8.0)%
Vraylar [™]	51.1	-	51.1	n.a.
Namzaric [®]	38.0	3.3	34.7	n.m.
Namenda [®] IR	12.8	532.9	(520.1)	(97.6)%
Total Gastrointestinal (GI)	1,277.0	1,138.4	138.6	12.2%
Linzess [®]	452.0	325.1	126.9	39.0%
Asacol [®] /Delzicol [®]	297.9	407.8	(109.9)	(26.9)%
Carafate [®] /Sulcrate [®]	167.7	153.4	14.3	9.3%
Zenpep [®]	145.1	121.5	23.6	19.4%
Canasa [®] /Salofalk [®]	135.0	102.2	32.8	32.1%
Viberzi [®]	55.3	-	55.3	n.a.
Other GI	24.0	28.4	(4.4)	(15.5)%
Total Women's Health	865.1	716.7	148.4	20.7%
Lo Loestrin [®]	296.0	251.7	44.3	17.6%
Estrace [®] Cream	276.4	229.4	47.0	20.5%
Minastrin [®] 24	247.5	195.3	52.2	26.7%
Liletta [®]	15.0	10.7	4.3	40.2%
Other Women's Health	30.2	29.6	0.6	2.0%
Total Anti-Infectives	167.1	138.3	28.8	20.8%
Teflaro [®]	101.9	105.3	(3.4)	(3.2)%
Avycaz [®]	26.9	12.9	14.0	108.5%
Dalvance [®]	26.7	11.3	15.4	136.3%
Other Anti-Infectives	11.6	8.8	2.8	31.8%
Established Brands	1,038.8	1,267.7	(228.9)	(18.1)%
Bystolic [®]	477.8	476.1	1.7	0.4%
Armour Thyroid	121.8	88.9	32.9	37.0%
Savella [®]	74.1	80.6	(6.5)	(8.1)%
Lexapro [®]	50.8	53.6	(2.8)	(5.2)%
Enablex [®]	14.7	51.5	(36.8)	(71.5)%
PacPharma	49.7	56.6	(6.9)	(12.2)%
Other Established Brands	249.9	460.4	(210.5)	(45.7)%
Other Revenues	78.3	57.5	20.8	36.2%
Net revenues	\$4,390.9	\$4,803.7	\$(412.8)	(8.6)%
Operating expenses:				
Cost of sales ⁽²⁾	649.6	674.0	(24.4)	(3.6)%
Selling and marketing	902.8	917.1	(14.3)	(1.6)%

Edgar Filing: Allergan plc - Form 10-Q

General and administrative	128.2	88.8	39.4	44.4 %
Segment contribution	\$2,710.3	\$3,123.8	\$(413.5)	(13.2)%
Segment margin	61.7 %	65.0 %		(3.3)%
Segment gross margin ⁽³⁾	85.2 %	86.0 %		(0.8)%

⁽¹⁾Includes revenues earned that were distributed through the Anda Distribution business to third party customers.

⁽²⁾Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

⁽³⁾Defined as net revenues less segment related cost of sales as a percentage of net revenues.

102

Net Revenues

The decrease in segment revenues is primarily driven by the loss of exclusivity on Namenda[®] IR, which declined \$520.1 million, or 97.6%, versus the prior year period. Namenda XR[®] contributed revenues of \$486.5 million in the nine months ended September 30, 2016, a decline of \$83.3 million, or 14.6%, versus the prior year period due to a decline in average net selling price to maintain strong formulary, coupled with a decline in demand. The launches of Namzarcic[®] and Vraylar[™] have partially offset the impact of the decline of Namenda[®] IR and XR.

Growth within our Gastrointestinal franchise was primarily driven by Linzess[®] and newly launched Viberzi[®]. Linzess[®] revenues increased \$126.9 million, or 39.0%, versus the prior year period primarily due to strong demand growth and price appreciation. The Asacol[®] / Delzicol[®] franchise revenues decreased \$109.9 million, or 26.9% primarily due to a reduction in demand as a result of lower promotion and some loss in formulary coverage, offset, in part, by net price appreciation. In addition, an authorized generic of Asacol[®] HD was launched in August. Offsetting this decline, in part, is royalty revenue of \$26.0 million relating to our authorized generic version of Asacol[®] HD, which is included within "Other Revenues".

Our Women's Healthcare franchise increased \$148.4 million or 20.7%, versus the prior year period. Lo Loestrin[®] increased 17.6% due to strong demand growth and modest net price appreciation. Estrace[®] Cream increased 20.5% as a result of net price appreciation and modest demand growth. Minastrin[®] 24 increased 26.7% primarily as a result of net price appreciation.

The decline in Established Brands revenues is primarily due to loss of exclusivity on certain products and product divestitures.

Cost of Sales

The decrease in cost of sales was primarily due to a decline in product revenues as well as an unfavorable product mix. Segment gross margins declined to 85.2% for the nine months ended September 30, 2016 compared to 86.0% for the nine months ended September 30, 2015.

Selling and Marketing Expenses

A modest decrease in selling and marketing expenses is attributable to the overall decline in revenues offset, in part, by redeployment of promotional efforts to key growth brands including newly launched products Viberzi[®] and Vraylar[™].

General and Administrative Expenses

The increase in general and administrative costs is a result of the Company's new operating management structure wherein more costs are directly supporting the operating segments versus corporate functions. Consequently, general and administrative expenses increased as a result of this change. In addition, there was also a period over period increase in compensation costs.

International Segment

The following table presents top products sales and net contribution for the International segment for the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended September 30,		Change			% Change		
	2016	2015	\$ Overall	% Currency	% Operational	% Overall	% Currency	% Operational
Total Eye Care	\$904.4	\$623.7	\$280.7	\$(21.8)	\$302.5	45.0 %	(3.5)%	48.5 %
Lumigan®/Ganfort®	269.2	189.7	79.5	(4.8)	84.3	41.9 %	(2.5)%	44.4 %
Ozurdex®	130.2	72.7	57.5	(1.1)	58.6	79.1 %	(1.5)%	80.6 %
Alphagan®/Combigan®	127.3	87.4	39.9	(3.2)	43.1	45.7 %	(3.7)%	49.4 %
Optive®	75.7	51.9	23.8	(1.8)	25.6	45.9 %	(3.5)%	49.4 %
Restasis®	49.7	31.8	17.9	(1.6)	19.5	56.3 %	(5.0)%	61.3 %
Other Eye Drops	131.2	99.5	31.7	(3.9)	35.6	31.9 %	(3.9)%	35.8 %
Other Eye Care	121.1	90.7	30.4	(5.4)	35.8	33.5 %	(6.0)%	39.5 %
Total Medical Aesthetics	780.0	509.9	270.1	(18.7)	288.8	53.0 %	(3.7)%	56.7 %
Facial Aesthetics	658.7	416.4	242.3	(16.7)	259.0	58.2 %	(4.0)%	62.2 %
Botox® Cosmetics	352.9	234.9	118.0	(9.3)	127.3	50.2 %	(4.0)%	54.2 %
Fillers	304.2	181.5	122.7	(7.4)	130.1	67.6 %	(4.1)%	71.7 %
Belkyra® (Kybella®)	1.6	-	1.6	-	1.6	n.a.	n.a.	n.a.
Plastic Surgery	112.9	85.6	27.3	(1.8)	29.1	31.9 %	(2.1)%	34.0 %
Breast Implants	112.5	85.6	26.9	(1.8)	28.7	31.4 %	(2.1)%	33.5 %
Earfold™	0.4	-	0.4	-	0.4	n.a.	n.a.	n.a.
Skin Care	8.4	7.9	0.5	(0.2)	0.7	6.3 %	(2.5)%	8.8 %
Botox® Therapeutics and Other	399.0	321.5	77.5	(12.5)	90.0	24.1 %	(3.9)%	28.0 %
Botox® Therapeutics	240.0	158.5	81.5	(6.1)	87.6	51.4 %	(3.8)%	55.2 %
Asacol®/Delzicol®	40.5	47.8	(7.3)	(2.6)	(4.7)	(15.3)%	(5.4)%	(9.9)%
Constella®	12.7	2.9	9.8	(0.4)	10.2	n.m.	(13.8)%	n.m.
Other Products	105.8	112.3	(6.5)	(3.4)	(3.1)	(5.8)%	(3.0)%	(2.8)%
Other Revenues	44.7	41.3	3.4	-	3.4	8.2 %	0.0 %	8.2 %
Net revenues **	\$2,128.1	\$1,496.4	\$631.7	\$(53.0)	\$684.7	42.2 %	(3.5)%	45.7 %
Operating expenses:								
Cost of sales ⁽¹⁾	309.3	243.8	65.5	(8.2)	73.7	26.9 %	(3.4)%	30.3 %
Selling and marketing	582.7	394.2	188.5	(14.7)	203.2	47.8 %	(3.7)%	51.5 %
General and administrative	86.5	75.7	10.8	(3.1)	13.9	14.3 %	(4.1)%	18.4 %
Segment contribution	\$1,149.6	\$782.7	\$366.9	\$(27.0)	\$393.9	46.9 %	(3.4)%	50.3 %
Segment margin	54.0 %	52.3 %				1.7 %		
Segment gross margin ⁽²⁾	85.5 %	83.7 %				1.8 %		

(1)

Excludes amortization and impairment of acquired intangibles including product rights, as well as indirect cost of sales not attributable to segment results.

⁽²⁾Defined as net revenues less segment related cost of sales as a percentage of net revenues.

Net Revenues

The increase in net revenues was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015.

Cost of Sales

The increase in cost of sales was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015.

Selling and Marketing Expenses

The increase in selling and marketing expenses was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015, offset, in part, by cost savings due to corporate initiatives.

General and Administrative Expenses

The increase in general and administrative expenses was primarily due to the contribution from the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015, offset, in part, by cost savings due to corporate initiatives.

Corporate

Nine Months Ended September 30, 2016

Reclassification
of

Sales
Distributed

Through And
to

Integration Fair Value Effect of Purchase Discontinued Revenues and

Restructuring Adjustments Accounting Operations Other Shared Costs Total

Net Sales	\$-	\$ -	\$ -	\$ (80.0	)\$-	\$ 26.5	\$(53.5)
Operating expenses:							
Cost of sales(1)	16.0	13.4	48.8	(78.2	) -	207.2	207.2
Selling and marketing	38.0	-	55.3	-	0.1	5.9	99.3
General and administrative	196.8	0.1	35.7	-	122.9	337.3	692.8
Contribution	\$(250.8)	\$(13.5)	\$(139.8)	\$(1.8)	\$(123.0)	\$(523.9)	\$(1,052.8)

(1) Excludes amortization and impairment of acquired intangibles including product rights.

Nine Months Ended September 30, 2015

Integration Fair Value Effect of Purchase Reclassification Other Revenues and Total

and Adjustments Accounting Shared Costs

Restructuring

Sales
Distributed

Through And
to

Discontinued

Edgar Filing: Allergan plc - Form 10-Q

Operations

Net Sales	\$-	\$ -	\$ -	\$ (113.8)	\$-	\$ 5.3	\$(108.5)
Operating expenses:							
Cost of sales(1)	48.8	53.1	996.9	(105.8)	-	79.0	1,072.0
Selling and marketing	80.1	-	100.2	-	(1.7)	2.3	180.9
General and administrative	365.7	(0.5)	262.1	-	72.3	277.8	977.4
Contribution	\$(494.6)	\$(52.6)	\$(1,359.2)	\$(8.0)	\$(70.6)	\$(353.8)	\$(2,338.8)

(1) Excludes amortization and impairment of acquired intangibles including product rights.

In the nine months ended September 30, 2016, integration and restructuring charges primarily related to the integration of the Legacy Allergan business as well as charges incurred with the terminated merger with Pfizer, Inc. of \$92.9 million. In the nine months ended September 30, 2016, the Company incurred purchase accounting effects of \$42.4 million in cost of sales primarily related to the fair value inventory step-up from the Allergan and Forest acquisitions as products were sold to the Company's third party customers. The Company also incurred charges related to the purchase accounting impact on stock-based compensation related to the Allergan and Forest acquisitions, which increased cost of sales, selling and marketing and general and administrative expenses. In the nine months ended September 30, 2016, general and administrative costs included legal settlement charges of \$100.0 million.

Shared costs primarily include above site and unallocated costs associated with running our global manufacturing facilities and corporate general and administrative expenses. The increase in shared cost of sales is primarily due to an increase in costs no longer attributable to the operating segments as the Company continues to streamline and centralize operations. This has the impact of lowering segment cost of sales and increasing corporate cost of sales versus prior year periods. In addition, the nine months ended September 30, 2016 included higher costs for product validations and capacity expansions. In the nine months ended September 30, 2016, the increase in “Revenues and Shared Costs” versus the prior year were also due to the Allergan Acquisition, which contributed a full nine months in 2016 as opposed to six and a half months in 2015.

In the nine months ended September 30, 2015, integration and restructuring charges primarily related to the integration of the Allergan business, as well as the acquisition of Forest. In the nine months ended September 30, 2015, the Company incurred \$977.7 million in cost of sales related to the fair value of inventory step-up primarily related to the Allergan Acquisition and the Forest Acquisition as inventory acquired was sold to the Company’s third party customers. The Effect of Purchase Accounting also includes an increase in stock-based compensation resulting from the acquisition accounting impact on acquired Allergan and Forest stock-based compensation plans. In addition, in the nine months ended September 30, 2015, the Company incurred mark-to-market unrealized losses for foreign currency option contracts that are entered into to offset future exposure to movements in currencies of \$42.2 million.

Research and Development Expenses

R&D expenses consisted of the following components in the nine months ended September 30, 2016 and 2015 (\$ in millions):

	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Ongoing operating expenses	\$1,007.9	\$778.7	\$229.2	29.4 %
Brand-related milestone payments and upfront license payments	542.1	897.3	(355.2)	(39.6)%
Acquisition accounting fair market value adjustment to stock-based compensation	31.8	119.0	(87.2)	(73.3)%
Acquisition, integration, and restructuring charges	14.8	98.2	(83.4)	(84.9)%
Contingent consideration adjustments, net	65.8	34.7	31.1	89.6 %
Total expenditures	\$1,662.4	\$1,927.9	\$(265.5)	(13.8)%

The increase in ongoing operating expenses in the nine months ended September 30, 2016 versus the prior year period is primarily due to the impact of the Allergan Acquisition which contributed nine months in 2016 versus six and a half months in 2015 coupled with an increase in clinical trial activity.

Included in brand related milestones for the nine months ended September 30, 2016 are milestones and upfront license and acquisition charges relating to the Akarna Transaction of \$48.2 million, the Retrosense Transaction of \$59.7 million, the Merck Transaction of \$100.0 million, the Heptares Transaction of \$125.0 million, the Topokine Transaction of \$85.8 million and the Anterios Transaction of \$89.2 million.

In the nine months ended September 30, 2015, the Company had brand related milestones and upfront license charges including \$250.0 million relating to the migraine license with Merck and \$571.7 million related to upfront charges as part of the Naurex Transaction.

Amortization

Amortization in the nine months ended September 30, 2016 and 2015 was as follows:

	Nine Months Ended September 30,		Change	
(\$ in millions)	2016	2015	Dollars	%
Amortization	\$4,831.9	\$3,858.9	\$973.0	25.2%

Amortization for the nine months ended September 30, 2016 increased as compared to the prior year period primarily as a result of increased amortization of \$2,962.2 million of identifiable assets acquired in the Allergan Acquisition, compared to \$1,898.8 million in the nine months ended September 30, 2015 as well as amortization related to products acquired as part of the Kythera Acquisition and recently launched products.

IPR&D Impairments and Asset Sales and Impairments, Net

IPR&D impairments and Asset sales and impairments, net consisted of the following components in the nine months ended September 30, 2016 and 2015:

(\$ in millions)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
IPR&D impairments	\$316.9	\$497.6	\$(180.7)	(36.3)%
Asset sales and impairments, net	(24.0)	3.1	(27.1)	(874.2)%

In the nine months ended September 30, 2016, the Company recorded an impairment of an international eye care pipeline project of \$35.0 million based on a decrease in projected cash flows due to market conditions as well as an impairment of \$20.0 million for a specified indication of a Botox[®] therapeutic product based on a decrease in projected cash flows due to a decline in market demand assumptions. In addition, during the nine months ended September 30, 2016, the Company impaired IPR&D projects relating to women's healthcare of \$24.0 million and osteoarthritis of approximately \$190.0 million based on clinical trial results. Also in the nine months ended September 30, 2016, the Company recorded a \$42.0 million IPR&D impairments on a gastroenterology project based on the lack of future availability of active pharmaceutical ingredients.

During the nine months ended September 30, 2015, the Company recorded an impairment of \$192.1 million related to a reduction in cash flows for women's healthcare portfolio products acquired in the Warner Chilcott Acquisition as planned promotional initiatives on these future products have been reduced. In addition, during the nine months ended September 30, 2015, the Company made the decision to abandon a select IPR&D asset (acquired in connection with the Allergan Acquisition) based on the review of research studies, resulting in an impairment of the full asset value of \$300.0 million.

Asset sales and impairments, net in the nine months ended September 30, 2016, included the gain on the sale of certain investments.

Interest Income

Interest income in the nine months ended September 30, 2016 and 2015 was as follows:

	Nine Months Ended	Change
--	-------------------	--------

Edgar Filing: Allergan plc - Form 10-Q

	September 30,			
(\$ in millions)	2016	2015	Dollars	%
Interest income	\$ 23.5	\$ 7.6	\$ 15.9	209.2%

Interest income in the three months ended September 30, 2016 increased as a result of the Company investing the cash proceeds from the Teva Transaction in Marketable Securities and Cash and Cash Equivalents.

Interest Expense

Interest expense consisted of the following components in the nine months ended September 30, 2016 and 2015:

(\$ in millions)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Fixed Rate Notes	\$855.9	\$716.0	\$139.9	19.5 %
AGN Term Loan	74.9	54.4	20.5	37.7 %
ACT Term Loan	34.9	39.8	(4.9)	(12.3)%
Floating Rate Notes	17.6	12.9	4.7	36.4 %
WC Term Loan	6.4	14.1	(7.7)	(54.6)%
Revolving Credit Facility	2.6	2.1	0.5	23.8 %
Other	10.6	12.7	(2.1)	(16.5)%
Interest expense	\$1,002.9	\$852.0	\$150.9	17.7 %

Interest expense increased to \$150.9 million for the nine months ended September 30, 2016 primarily due to interest from the indebtedness incurred as part of the Allergan Acquisition of \$650.0 million compared to \$491.7 million in the nine months ended September 30, 2015, offset, in part, by interest savings due to the repayment of term loan indebtedness on August 2, 2016 in connection with the Teva Transaction.

Other (expense) income, net

Other (expense) income, net consisted of the following components in the nine months ended September 30, 2016 and 2015:

(\$ in millions)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
Pfizer termination fee (Allergan plc only)	\$150.0	\$-	\$150.0	n.a.
Dividend income	34.1	-	34.1	n.a.
Bridge loan commitment fee	-	(264.9)	264.9	(100.0)%
Interest rate lock	-	31.0	(31.0)	(100.0)%
Other (expense) income	0.1	(4.2)	4.3	(102.4)%
Other (expense) income, net	\$184.2	\$(238.1)	\$422.3	(177.4)%

Pfizer termination fee

In the nine months ended September 30, 2016, the Company has received a payment of \$150.0 million from Pfizer Inc. for reimbursement of expenses associated with the termination of the merger agreement which is reported as other income.

Dividend income

Dividend income in the nine months ended September 30, 2016 is as a result of the Company's investment in Teva ordinary shares received from the Teva Transaction. Teva shares pay dividends quarterly, currently at a rate of \$0.34 per share.

Bridge Loan Commitment Fee

During the nine months ended September 30, 2015, the Company incurred costs associated with bridge loan commitments in connection with the Allergan Acquisition of \$264.9 million.

108

Interest Rate Lock

During the nine months ended September 30, 2015, the Company entered into interest rate locks on a portion of the \$21.0 billion of debt issued as part of the Allergan Acquisition. As a result of the interest rate locks, the Company recorded income of \$31.0 million.

(Benefit) for Income Taxes

(\$ in millions)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Dollars	%
(Benefit) for income taxes	\$ (825.8)	\$ (1,491.0)	\$ 665.2	(44.6)%
Effective tax rate	48.0 %	40.9 %		

The Company's effective tax rate for the nine months ended September 30, 2016 was 48.0% compared to 40.9% for the nine months ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax benefit for the nine months ended September 30, 2016 included, but not limited to, the following items: an expense of \$179.5 million primarily related to a change in a valuation allowance on a portion of U.S. capital loss carryforwards resulting from restructuring associated with the sale of the global generics business, a benefit of \$48.2 million related to the change in tax rates applicable to certain temporary differences, a benefit of \$40.3 million for the recognition of previously unrecognized tax benefits, a benefit of \$37.9 million for the New Jersey Grow income tax credit and other non-recurring items.

The effective tax rate for the nine months ended September 30, 2015 was impacted by income earned in jurisdictions with tax rates lower than the Irish statutory rate and U.S. losses tax benefited at rates greater than the Irish statutory rate. Additionally, the tax benefit for the nine months ended September 30, 2015 included, but not limited to, the following items: a benefit of \$318.9 million for the reversal of a valuation allowance on a portion of U.S. capital loss carryforwards resulting from restructuring associated with the sale of the generics business, a benefit of \$36.8 million for the recognition of previously unrecognized tax benefits, a benefit of \$41.3 million for certain IPR&D impairments and a benefit of \$44.0 million for acquired tax attributes.

The increase in the effective tax rate for the period ended September 30, 2016 as compared to the period ended September 30, 2015 is primarily the result of a decrease in acquisition related expenses benefited at lower tax rates.

Discontinued Operations

On July 27, 2015, the Company announced that it entered into the Teva Transaction, which closed on August 2, 2016. Under the Teva Agreement, Teva acquired Allergan's global generics business, including the U.S. and international generic commercial units, our third-party supplier Medis, our global generic manufacturing operations, our global generic R&D unit, our international OTC commercial unit (excluding OTC eye care products) and some established international brands. Allergan retained its global branded pharmaceutical and medical aesthetics businesses, as well as its biosimilars development programs, certain OTC products. The Company will also have continuing involvement with Teva after the close of the transaction. As a result of the Teva Transaction, the Company holds equity in Teva and purchases product manufactured by Teva for sale in our US General Medicine segment as part of ongoing transitional service and contract manufacturing agreements.

The Company notes the following reconciliation of the proceeds received in the Teva Transaction to the gain recognized in income from discontinued operations (\$ in millions):

Net cash proceeds received	\$33,304.5
August 2, 2016 fair value of Teva shares	5,038.6
Total Proceeds	\$38,343.1
Net assets sold to Teva, excluding cash	(12,076.7)
Other comprehensive income disposed	(1,544.8)
Deferral of proceeds relating to additional elements of agreements with Teva	(518.9)
Pre-tax gain on sale of generics business	\$24,202.7
Income taxes	(8,321.2)
Net gain on sale of generics business	\$15,881.5

In October 2016, pursuant to the Teva Agreement, Teva provided its proposed estimated adjustment to the closing date working capital balance to the Company. The final amount of any agreed contractual adjustment could vary materially from the adjustment calculated by the Company at the time of the closing of the Teva Transaction and any agreed adjustment to the Company's proceeds from the Teva Transaction could have a material adverse effect on the Company's results of operations and cash flows. The Company expects the amount of the adjustment will be determined in accordance with and subject to the terms of the Teva Agreement.

The Teva Shares are recorded within "Marketable securities" on the Company's Consolidated Balance Sheet. During the nine months ended September 30, 2016, the Company recorded a \$664.2 million unrealized loss on the Teva Shares due to movements in the share price, which was recorded as a component of "Other comprehensive income."

On October 3, 2016, the Company completed the divestiture of the Anda Distribution business for an additional \$500.0 million. Teva acquired our Anda Distribution business, which distributes generic, brand, specialty and OTC pharmaceutical products from more than 300 manufacturers to retail independent and chain pharmacies, nursing homes, mail order pharmacies, hospitals, clinics and physician offices across the United States.

Financial results of the global generics business and the Anda Distribution business are presented as "Income from discontinued operations" on the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015; and assets and liabilities of the businesses are presented as "Current assets held for sale", "Non current assets held for sale", "Current liabilities held for sale" and "Long term liabilities held for sale" on the Consolidated Balance Sheet as applicable.

The following table presents key financial results of the businesses included in "Income from discontinued operations" for the three and nine months ended September 30, 2016 and 2015 (\$ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	\$756.5	\$1,984.8	\$4,504.3	\$6,362.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	531.0	1,243.3	2,798.3	3,647.1
Research and development	37.3	98.9	269.6	317.4
Selling and marketing	69.1	159.3	352.6	542.2
General and administrative	90.3	204.0	399.4	528.3
Amortization	-	36.1	4.8	333.9
Asset sales and impairments, net	-	3.2	-	54.1
Total operating expenses	727.7	1,744.8	3,824.7	5,423.0
Operating income	28.8	240.0	679.6	939.3
Other (expense) income, net	15,881.5	(0.3)	15,881.1	(8.4)
Provision / (benefit) for income taxes	308.4	(5,937.9)	687.5	(5,770.8)
Net income from discontinued operations	\$15,601.9	\$6,177.6	\$15,873.2	\$6,701.7

The operating income reflects approximately seven months of operating activity of the Company's former generics business in the nine months ended September 30, 2016 versus nine months activity in the prior year period. "Other (expense) income, net" included the gain on sale of the generics business to Teva.

For the nine months ended September 30, 2015, the Company recorded a deferred tax benefit of \$5,985.4 million related to investments in certain subsidiaries. The recognition of this benefit has been reflected in "Income from discontinued operations, net of tax" with the deferred tax asset reflected in non-current "Deferred tax liabilities" on the December 31, 2015 balance sheet as adjusted for activity in the fourth quarter of 2015. For the nine months ended September 30, 2016, the Company recorded a deferred tax expense of \$474.7 million to adjust its deferred tax asset related to investments in certain subsidiaries. The recognition of this expense has been reflected in "Income from discontinued operations, net of tax." Upon the closing of the Teva Transaction, the Company recorded the reversal of the corresponding deferred tax asset of \$5,273.9 million against the current income taxes payable in continuing operations.

Liquidity and Capital Resources

Working Capital Position

Working capital at September 30, 2016 and December 31, 2015 is summarized as follows:

(\$ in millions):	September 30, 2016	December 31, 2015	Increase (Decrease)
Current Assets:			
Cash and cash equivalents	\$ 7,554.7	\$ 1,096.0	\$ 6,458.7
Marketable securities	19,837.6	9.3	19,828.3
Accounts receivable, net	2,398.5	2,125.4	273.1
Inventories	705.5	757.5	(52.0)
Prepaid expenses and other current assets	771.7	495.3	276.4
Current assets held for sale	455.9	4,095.6	(3,639.7)
Total current assets	31,723.9	8,579.1	23,144.8
Current liabilities:			
Accounts payable and accrued expenses	\$ 5,425.4	\$ 4,148.6	\$ 1,276.8
Income taxes payable	784.6	53.7	730.9
Current portion of long-term debt and capital leases	1,591.8	2,396.5	(804.7)
Current liabilities held for sale	223.7	1,693.2	(1,469.5)
Total current liabilities	8,025.5	8,292.0	(266.5)
Working Capital	\$ 23,698.4	\$ 287.1	\$ 23,411.3
Working Capital excluding assets held for sale, net	\$ 23,466.2	\$ (2,115.3)	\$ 25,581.5
Current Ratio, excluding net assets held for sale	4.01	0.68	

Working capital excluding assets held for sale, net, increased \$25,581.5 million primarily due to cash and marketable securities received in the Teva Transaction of \$38,343.1 million. The proceeds were offset in part by the payment of cash taxes relating to the Teva Transaction of \$2,571.7 million, the net repayment of long-term and current indebtedness in the nine months ended September 30, 2016 of \$9,781.0 million and the repurchase of ordinary shares in connection with the share repurchase program and stock-based compensation plans of \$2,758.6 million. The increase in accounts payable and accrued expenses primarily relates to contractual commitments incurred in connection with the Teva Transaction of \$501.6 million and accrued stock repurchases of \$400.0 million.

Cash Flows from Operations

Summarized cash flow from operations is as follows:

(\$ in millions)	Nine Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	\$ 1,508.6	\$ 2,974.5

Cash flows from operations represent net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities decreased \$1,465.9 million in the nine months ended September 30, 2016 versus the prior year period, due primarily to \$2,571.7 million in cash tax payments made in connection with the sale of the generics business offset, in part by, an increase in net income excluding the cash-taxes associated with the Teva Transaction, adjusted for non-cash activity of \$352.5 million (\$4,380.0 million and \$4,027.5 million of net income, adjusted for non-cash activities in the nine months ended September 30, 2016 and 2015, respectively) as well as a lower net increase in net working capital versus the prior year period.

Management expects that available cash balances and the remaining 2016 cash flows from operating activities will provide sufficient resources to fund our operating liquidity needs and expected 2016 capital expenditure funding requirements.

Investing Cash Flows

Our cash flows from investing activities are summarized as follows:

(\$ in millions)	Nine Months Ended	
	September 30,	
	2016	2015
Net cash provided by / (used in) investing activities	\$17,607.3	\$(34,722.1)

Investing cash flows consist primarily of cash used in acquisitions of businesses and intangibles assets (primarily product rights), capital expenditures and purchases of investments and marketable securities partially offset by proceeds from the sale of a business, investments and marketable securities. Included in the nine months ended September 30, 2016 were cash proceeds received from the sale of the generics business to Teva of \$33,304.5 million offset, in part, by purchases of marketable securities of \$15,445.5 million, cash used for capital expenditures of \$250.5 million and cash used in connection with the ForSight Acquisition of \$74.5 million.

Included in the nine months ended September 30, 2015 was cash used in connection with the Allergan Acquisition and the Auden Acquisition, net of cash acquired, of \$34,646.2 million and \$463.7 million, respectively, and capital expenditures for property, plant and equipment of \$350.7 million, offset, in part by cash received from the sale of assets, primarily the Respiratory Business, of \$855.8 million.

Financing Cash Flows

Our cash flows from financing activities are summarized as follows:

(\$ in millions)	Nine Months Ended	
	September 30,	
	2016	2015
Net cash (used in) / provided by financing activities	\$(12,661.5)	\$33,566.6

Financing cash flows consist primarily of borrowings and repayments of debt, repurchases of ordinary shares and proceeds from the exercise of stock options. Cash used in financing activities in the nine months ended September 30, 2016 included payments of debt of \$10,831.0 million, contingent consideration of \$77.7 million, dividends of \$208.8 million and the repurchase of ordinary shares of \$2,758.6, including \$2,689.9 million repurchased under the Company's share repurchase program, offset by borrowings under the credit facility of \$1,050.0 million.

Included in the nine months ended September 30, 2015 was the issuance of indebtedness of \$29,338.4 million, the issuance of ordinary shares of \$4,071.1 million and the issuance of Mandatory Convertible Preferred Shares of \$4,929.7 million in connection with the Allergan Acquisition, offset in part by payments of debt of \$4,326.7 million and debt issuance costs of \$310.8 million.

Debt and Borrowing Capacity

Total debt and capital leases consisted of the following (\$ in millions):

	Balance As of		Fair Market Value As of	
	September 30,	December 31,	September 30,	December 31,
	2016	2015	2016	2015
Senior Notes:				
Floating Rate Notes				
\$500.0 million floating rate notes due September 1, 2016	\$-	\$ 500.0	\$-	\$ 500.5
\$500.0 million floating rate notes due March 12, 2018	500.0	500.0	504.0	499.6
\$500.0 million floating rate notes due March 12, 2020	500.0	500.0	509.0	496.2
	1,000.0	1,500.0	1,013.0	1,496.3
Fixed Rate Notes				
\$800.0 million 5.750% notes due April 1, 2016	-	800.0	-	808.4
\$1,000.0 million 1.850% notes due March 1, 2017	1,000.0	1,000.0	1,002.3	1,001.5
\$500.0 million 1.300% notes due June 15, 2017	500.0	500.0	499.6	496.3
\$1,200.0 million 1.875% notes due October 1, 2017	1,200.0	1,200.0	1,204.2	1,196.0
\$3,000.0 million 2.350% notes due March 12, 2018	3,000.0	3,000.0	3,031.0	3,004.6
\$250.0 million 1.350% notes due March 15, 2018	250.0	250.0	248.9	244.9
\$1,050.0 million 4.375% notes due February 1, 2019	1,050.0	1,050.0	1,105.8	1,099.5
\$500.0 million 2.450% notes due June 15, 2019	500.0	500.0	508.2	494.4
\$400.0 million 6.125% notes due August 14, 2019	400.0	400.0	447.4	444.2
\$3,500.0 million 3.000% notes due March 12, 2020	3,500.0	3,500.0	3,614.5	3,505.1
\$650.0 million 3.375% notes due September 15, 2020	650.0	650.0	680.3	656.6
\$750.0 million 4.875% notes due February 15, 2021	750.0	750.0	830.2	807.4
\$1,200.0 million 5.000% notes due December 15, 2021	1,200.0	1,200.0	1,345.6	1,299.4
\$3,000.0 million 3.450% notes due March 15, 2022	3,000.0	3,000.0	3,149.5	3,006.8
\$1,700.0 million 3.250% notes due October 1, 2022	1,700.0	1,700.0	1,759.6	1,669.6
\$350.0 million 2.800% notes due March 15, 2023	350.0	350.0	348.1	327.7
\$1,200.0 million 3.850% notes due June 15, 2024	1,200.0	1,200.0	1,274.0	1,202.6
\$4,000.0 million 3.800% notes due March 15, 2025	4,000.0	4,000.0	4,227.2	3,984.6
\$2,500.0 million 4.550% notes due March 15, 2035	2,500.0	2,500.0	2,653.1	2,462.2
\$1,000.0 million 4.625% notes due October 1, 2042	1,000.0	1,000.0	1,066.8	956.1
\$1,500.0 million 4.850% notes due June 15, 2044	1,500.0	1,500.0	1,653.0	1,483.6
\$2,500.0 million 4.750% notes due March 15, 2045	2,500.0	2,500.0	2,739.8	2,452.7
	31,750.0	32,550.0	33,389.1	32,604.2
Total Senior Notes Gross	32,750.0	34,050.0	34,402.1	34,100.5
Unamortized premium	182.8	225.9	-	-
Unamortized discount	(98.7)	(107.4)	-	-
Total Senior Notes Net	32,834.1	34,168.5	34,402.1	34,100.5
Term Loan Indebtedness:				
WC Term Loan				
WC Three Year Tranche variable rate debt maturing				
October 1, 2016	-	191.5		
WC Five Year Tranche variable rate debt maturing	-	498.8		

Edgar Filing: Allergan plc - Form 10-Q

October 1, 2018	-	690.3
ACT Term Loan		
2017 Term Loan variable rate debt maturing		
October 31, 2017	-	572.1
2019 Term Loan variable rate debt maturing July 1, 2019	-	1,700.0
	-	2,272.1
AGN Term Loan		
AGN Three Year Tranche variable rate debt maturing		
March 17, 2018	-	2,750.0
AGN Five Year Tranche variable rate debt maturing		
March 17, 2020	-	2,543.8
	-	5,293.8
Total Term Loan Indebtedness	-	8,256.2
Other Indebtedness		
Revolver Borrowings	-	200.0
Debt Issuance Costs	(151.5)	(195.8)
Other	85.2	97.4
Total Other Borrowings	(66.3)	101.6
Capital Leases	2.2	4.1
Total Indebtedness	\$32,770.0	\$ 42,530.4

Fair market value in the table above is determined in accordance with ASC Topic 820 “Fair Value Measurement” (“ASC 820”) under Level 2 based upon quoted prices for similar items in active markets. The book value of the outstanding term loan indebtedness approximates fair value as the debt is at variable interest rates and re-prices frequently.

Unless otherwise indicated, the remaining loan balances after the quarterly required payments are due upon maturity.

Floating Rate Notes

On March 4, 2015, Actavis Funding SCS, a limited partnership (société en commandite simple) organized under the laws of the Grand Duchy of Luxembourg and an indirect wholly-owned subsidiary of Allergan plc, issued floating rate notes due 2016 (the “2016 Floating Rate Notes”), floating rate notes due 2018 (the “2018 Floating Rate Notes”), floating rate notes due 2020 (the “2020 Floating Rate Notes”), 1.850% notes due 2017 (the “1.850% 2017 Notes”), 2.350% notes due 2018 (the “2.350% 2018 Notes”), 3.000% notes due 2020 (the “3.000% 2020 Notes”), 3.450% notes due 2022 (the “3.450% 2022 Notes”), 3.800% notes due 2025 (the “3.800% 2025 Notes”), 4.550% notes due 2035 (the “4.550% 2035 Notes”) and 4.750% notes due 2045 (the “4.750% 2045 Notes”). The notes are fully and unconditionally guaranteed by Actavis Funding SCS’s indirect parents, Warner Chilcott Limited and Actavis Capital S.a.r.l. (“Actavis Capital”), and by Actavis Finance, LLC (formerly known as Actavis, Inc.), a subsidiary of Actavis Capital, on an unsecured and unsubordinated basis. Allergan plc has not guaranteed the notes.

The 2016 Floating Rate Notes were fully repaid on September 1, 2016 and bore interest at the three-month LIBOR plus 0.875%. The 2018 Floating Rate Notes and the 2020 Floating Rate Notes bear interest at a floating rate equal to three-month LIBOR plus 1.080% and 1.255% per annum, respectively. Interest on the 2018 Floating Rate Notes and the 2020 Floating Rate Notes is payable quarterly on March 12, June 12, September 12 and December 12 of each year, and began on June 12, 2015.

Fixed Rate Notes

The Company has issued fixed rate notes over multiple issuances for various business needs. Interest on the various notes is generally payable semi-annually with various payment dates.

Acquired Allergan Notes

On March 17, 2015 in connection with the Allergan Acquisition, the Company acquired, and subsequently guaranteed, along with Warner Chilcott Limited, the indebtedness of Allergan, Inc. comprised of the \$350.0 million 2.800% senior notes due 2023, the \$650.0 million 3.375% senior notes due 2020, the \$250.0 million 1.350% senior notes due 2018 and the \$800.0 million 5.750% senior notes due 2016. Interest payments are due on the \$350.0 million senior notes semi-annually on the principal amount of the notes at a rate of 2.80% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption, if the redemption occurs prior to December 15, 2022 (three months prior to the maturity of the 2023 senior notes). If the redemption occurs on or after December 15, 2022, then such redemption is not subject to the make-whole provision. Interest payments are due on the \$650.0 million senior notes semi-annually on the principal amount of the notes at a rate of 3.375% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. Interest payments are due on the \$250.0 million senior notes semi-annually on the principal amount of the notes at a rate of 1.350% per annum, and are redeemable at any time at the Company’s option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. Interest payments were due on the \$800.0 million senior notes semi-annually on the principal amount of the notes at a rate of 5.750% per annum. The fair value of the acquired senior notes was determined to be \$2,087.5 million as of March 17, 2015. As such, as part of acquisition accounting, the company recorded a premium of \$37.5 million to be amortized as contra interest over the life of the notes.

The \$800.0 million 5.750% senior notes were paid in full on April 1, 2016 with proceeds from the first quarter of 2016 borrowings under the revolving credit facility of \$900.0 million.

Credit Facility Indebtedness

On August 2, 2016, the Company repaid the remaining balances of all outstanding term-loan indebtedness and terminated its then existing revolving credit facility with proceeds from the Teva Transaction.

WC Term Loan

On December 17, 2014, Allergan plc and certain of its subsidiaries entered into a second amendment agreement (the “WC Term Loan Amendment”) among Allergan plc, Warner Chilcott Limited, Warner Chilcott Finance, LLC, Actavis WC 2 S.à r.l. (“Actavis WC 2”), Warner Chilcott Company, LLC (“WCCL”), Warner Chilcott Corporation (“WC Corporation” and together with Actavis WC 2 and WCCL, the “WC Borrowers”), Bank of America, N.A. (“BofA”), as administrative agent, and the lenders party thereto. The WC Term Loan Amendment amended and restated Allergan plc’s existing amended and restated WC term loan credit and guaranty agreement, dated as of June 9, 2014 (such agreement, prior to its amendment and restatement pursuant to the WC Term Loan

Amendment, the “2014 WC Term Loan”), among the WC Borrowers, Allergan plc, Warner Chilcott Limited, Warner Chilcott Finance, LLC, the lenders from time to time party thereto and BofA, as administrative agent, which amended and restated Allergan plc’s existing WC term loan credit and guaranty agreement, dated as of August 1, 2013 (such agreement, prior to its amendment and restatement pursuant to the 2014 WC Term Loan Amendment, the “Existing WC Term Loan”) among the WC Borrowers, Warner Chilcott Finance, LLC, Actavis Limited, BofA, as administrative agent and a syndicate of banks participating as lenders.

Pursuant to the Existing WC Term Loan, on October 1, 2013 (the “WC Closing Date”), the lenders party thereto provided term loans in a total aggregate principal amount of \$2.0 billion, comprised of (i) a \$1.0 billion tranche that would have matured on October 1, 2016 (the “WC Three Year Tranche”) and (ii) a \$1.0 billion tranche that would have matured on October 1, 2018 (the “WC Five Year Tranche”). The proceeds of borrowings under the Existing WC Term Loan Agreement, together with \$41.0 million of cash on hand, were used to finance the repayment in full of all amounts outstanding under Warner Chilcott’s then-existing Credit Agreement, dated as of March 17, 2011, as amended by Amendment No. 1 on August 20, 2012, among the WC Borrowers, Warner Chilcott Holdings Company III, Limited, BofA, as administrative agent and a syndicate of banks participating as lenders.

Borrowings under the WC Term Loan Agreement bore interest at the applicable borrower’s choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from (x) 0.00% per annum to 0.75% per annum under the WC Three Year Tranche and (y) 0.125% per annum to 0.875% per annum under the WC Five Year Tranche, depending on the publicly announced debt ratings for non-credit-enhanced, senior unsecured long-term indebtedness of Allergan plc (such applicable debt rating the “Debt Rating”) or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 1.75% per annum under the WC Three Year Tranche and (y) 1.125% per annum to 1.875% per annum under the WC Five Year Tranche, depending on the Debt Rating.

ACT Term Loan

On December 17, 2014, Allergan plc and certain of its subsidiaries entered into a third amendment agreement (the “ACT Term Loan Amendment”) among Allergan plc, Warner Chilcott Limited, Actavis Capital, Actavis Finance LLC Actavis Funding SCS, BofA, as administrative agent, and the lenders party thereto. The ACT Term Loan Amendment amends and restates Allergan plc’s existing second amended and restated Allergan term loan credit and guaranty agreement, dated as of March 31, 2014 (such agreement, prior to its amendment and restatement pursuant to the ACT Term Loan Amendment, the “2014 ACT Term Loan Agreement” and together with the Existing ACT Term Loan Agreement (defined below), the “ACT Term Loan”) among Actavis Capital, Allergan plc, Warner Chilcott Limited, Actavis Finance, LLC Actavis Funding SCS, BofA, as administrative agent, and the lenders from time to time party thereto, which amended and restated Allergan plc’s existing amended and restated Allergan term loan credit and guaranty agreement, dated as of October 1, 2013 (such agreement, prior to its amendment and restatement pursuant to the ACT Term Loan Amendment, the “Existing ACT Term Loan Agreement”) among Actavis Capital, Allergan plc, Actavis Finance, LLC, BofA, as administrative agent, and the lenders from time to time party thereto.

The Existing ACT Term Loan Agreement amended and restated Actavis Finance, LLC’s \$1,800.0 million senior unsecured term loan credit facility, dated as of June 22, 2012. At the closing of the Existing ACT Term Loan Agreement, an aggregate principal amount of \$1,572.5 million was outstanding (the “2017 Term Loan”).

On March 31, 2014, Allergan plc, Actavis Capital, Actavis Finance, LLC, BofA, as Administrative Agent, and a syndicate of banks participating as lenders entered into the 2014 ACT Term Loan Agreement to amend and restate the Existing ACT Term Loan Agreement. On July 1, 2014, in connection with the Forest Acquisition, the Company borrowed \$2.0 billion of term loan indebtedness under tranche A-2 of the 2014 ACT Term Loan Agreement, which was due July 1, 2019 (the “2019 Term Loan”).

Loans under the ACT Term Loan bore interest, at the Company's choice, of a per annum rate equal to either (a) a base rate, plus an applicable margin per annum varying from (x) 0.00% per annum to 1.00% per annum with respect to the 2017 term-loan and (y) 0.125% per annum to 0.875% per annum with respect to the 2019 term-loan, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 2.00% per annum with respect to the 2017 term-loan and (y) 1.125% per annum to 1.875% per annum with respect to the 2019 term-loan, depending on the Debt Rating.

AGN Term Loan

On December 17, 2014, Allergan, Inc. and certain of its subsidiaries entered into a senior unsecured term loan credit agreement (the "AGN Term Loan"), among Actavis Capital, as borrower, Allergan plc, Warner Chilcott Limited, Actavis Finance LLC, Actavis Funding SCS, the lenders from time to time party thereto (the "Term Lenders"), JPMorgan Chase Bank, N.A. ("JPMCB"), as administrative agent and the other financial institutions party thereto. Under the AGN Term Loan, the Term Lenders provided (i) a \$2.75 billion tranche maturing on March 17, 2018 (the "AGN Three Year Tranche") and (ii) a \$2.75 billion tranche and maturing on March 17,

2020 (the “AGN Five Year Tranche”). The proceeds of borrowings under the AGN Term Loan were used to finance, in part, the cash component of the Allergan Acquisition consideration and certain fees and expenses incurred in connection with the Allergan Acquisition.

Borrowings under the AGN Term Loan bore interest at our choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from (x) 0.00% per annum to 1.00% per annum under the AGN Three Year Tranche and (y) 0.125% per annum to 1.250% per annum under the AGN Five Year Tranche, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from (x) 1.00% per annum to 2.00% per annum under the AGN Three Year Tranche and (y) 1.125% per annum to 2.250% per annum under the AGN Five Year Tranche, depending on the Debt Rating. The outstanding principal amount of loans under the AGN Three Year Tranche was not subject to quarterly amortization and was payable in full on the maturity date. The outstanding principal amount of loans under the AGN Five Year Tranche was payable in equal quarterly amounts of 2.50% per quarter prior to March 17, 2020, with the remaining balance payable on March 17, 2020.

Cash Bridge Loan Facility

On March 11, 2015, Allergan and certain of its subsidiaries entered into a 60-day senior unsecured bridge credit agreement (the “Cash Bridge Loan Facility”), among Actavis Capital, as borrower, Allergan plc, Warner Chilcott Limited, Actavis Finance, LLC Actavis Funding SCS, the lenders from time to time party thereto (the “Cash Bridge Lenders”), JPMCB, as administrative agent and the other financial institutions party thereto. Under the Cash Bridge Loan Facility, the Cash Bridge Lenders committed to provide, subject to certain conditions, unsecured bridge financing, of which \$2.8 billion was drawn to finance the Allergan Acquisition on March 17, 2015. The outstanding balance of the Cash Bridge Loan Facility was repaid on April 9, 2015.

Borrowings under the Cash Bridge Loan Facility bore interest at our choice of a per annum rate equal to either (a) a base rate plus an applicable margin per annum varying from 0.00% per annum to 1.00% per annum, depending on the Debt Rating or (b) a Eurodollar rate, plus an applicable margin varying from 1.00% per annum to 2.00% per annum, depending on the Debt Rating.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, net revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion provides forward-looking quantitative and qualitative information about our potential exposure to market risk. Market risk represents the potential loss arising from adverse changes in the value of financial instruments. The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows or future earnings. We are exposed to market risk for changes in the market values of our investments (Investment Risk), the impact of interest rate changes (Interest Rate Risk) and the impact of foreign currency exchange changes (Foreign Currency Exchange Risk).

We maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and government agency obligations with ratings of A or better and money market funds. Our investments

in marketable securities are governed by our investment policy which seeks to preserve the value of our principal, provide liquidity and maximize return on the Company's investment against minimal interest rate risk. Consequently, our interest rate and principal risk are minimal on our non-equity investment portfolio. The quantitative and qualitative disclosures about market risk are set forth below.

Investment Risk

As of September 30, 2016, our total investments in marketable and equity securities of other companies, including equity method investments, but excluding securities considered cash and cash equivalents were \$19,936.1 million (included in marketable securities and investments and other assets). The fair values of these investments are subject to significant fluctuations due to volatility of the stock market and changes in general economic conditions.

As of August 2, 2016, the Company owns 100.3 million Teva ordinary shares, which are subject to changes in value based on the price of Teva shares. The Company is subject to lock-up restrictions with the investment in Teva, and as such, is also subject to liquidity risk.

We regularly review the carrying value of our investments and identify and recognize losses, for income statement purposes, when events and circumstances indicate that any declines in the fair values of such investments below our accounting basis are other than temporary.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our non-equity investment portfolio and our floating rate debt. Our cash is invested in bank deposits and A-rated or better money market mutual funds.

Our portfolio of marketable securities includes U.S. treasury and agency securities classified as available-for-sale securities, with no security having a maturity in excess of two years. These securities are exposed to interest rate fluctuations. Because of the short-term nature of these investments, we are subject to minimal interest rate risk and do not believe that an increase in market rates would have a significant negative impact on the realized value of our portfolio.

Floating Rate Debt

At September 30, 2016, borrowings outstanding under the floating rate notes were \$1,000.0 million. Assuming a one percent increase in the applicable interest rate on the Company's floating rates notes, annual interest expense would increase by approximately \$10.0 million over the next twelve months.

Fixed Rate Debt

The Company has outstanding borrowings under its fixed rate notes. Changes in market interest rates generally affect the fair value of fixed-rate debt, but do not impact earnings or cash flows.

Foreign Currency Exchange Risk

Overall, we are a net recipient of currencies other than the U.S. dollar and, as such, benefit from a weaker dollar and are adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect our consolidated revenues or operating costs and expenses as expressed in U.S. dollars.

From time to time, we enter into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow our management to focus its attention on our core business issues. Accordingly, we enter into various contracts which change in value as foreign exchange rates change to allow the Company at its option to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. We enter into foreign currency option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures.

We use foreign currency option contracts, which provide for the sale or purchase of foreign currencies, if exercised, to economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of our business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in the Euro. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

Net foreign currency gains and losses did not have a material effect on the Company's results of operations for the nine months ended September 30, 2016 and 2015, respectively.

Other

We do not believe that inflation has had a significant impact on our revenues or operations, nor do we have any material commodity price risks.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains “disclosure controls and procedures,” as such term is defined under Rule 13a-15(e) of the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation and because of the material weakness described below the Company’s Principal Executive Officer and Principal Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of March 31, 2016, June 30, 2016 and September 30, 2016.

Material Weakness and Remediation Plans

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our internal controls did not operate effectively to appropriately assess the tax implications of certain transactions between our subsidiaries. This control deficiency did not result in the material misstatement of our current or prior period consolidated financial statements. However, this control deficiency could have resulted in a misstatement to the income tax accounts and disclosures, which would have resulted in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

Management has begun to take steps to remediate the material weaknesses above including adding resources and reassessing existing controls and income tax reporting policies and procedures.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting, during the fiscal quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, refer to “PART I, ITEM 3. LEGAL PROCEEDINGS,” of our Annual Report on Form 10-K for the year ended December 31, 2015 and “Legal Matters” in “NOTE 20 — Commitments and Contingencies” in the accompanying “Notes to Consolidated Financial Statements” in this Quarterly Report.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes in the Company’s risk factors from those disclosed in the Company’s Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sale of Unregistered Securities; Uses of Proceeds from Registered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended September 30, 2016, we repurchased 7,603 of our ordinary shares to satisfy tax withholding obligations in connection with the vesting of restricted shares issued to employees.

Share Repurchase Program

During the nine months ended September 30, 2016, the Company announced that the Board of Directors approved a \$10.0 billion share repurchases program. As of September 30, 2016, the Company has repurchased/accrued for \$3,089.9 million of ordinary shares at an average price of \$237.59 per share.

Period	Total	Average	Total	Approximate
	Number	Price	Number of	Dollar Value
	of Shares	Paid	Shares	of

Edgar Filing: Allergan plc - Form 10-Q

	Purchased	per	Purchased	Shares that
		Share	as Part of	May
			Publically	Yet Be
			Announced	Purchased
			Program	Under the
				Program
				(\$ in
				millions)
July 1 - 31, 2016	3,907	\$234.79	—	—
August 1 - 31, 2016	2,235	\$253.27	2,936,585	9,267.7
September 1 - 30, 2016	1,461	\$247.63	9,886,375	6,910.1
July 1 – September 30, 2016	7,603	\$242.69	—	6,910.1

ITEM 6. EXHIBITS

Reference is hereby made to the Exhibit Index on page 122.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 4, 2016.

ALLERGAN PLC

WARNER CHILCOTT LIMITED

By: /s/ Maria Teresa Hilado

Name: Maria Teresa Hilado

Title: Chief Financial Officer

(Principal Financial Officer)

By: /s/ James C. D'Arecca

Name: James C. D'Arecca

Title: Chief Accounting Officer

(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit	Description
2.1	Second Amendment to the Master Purchase Agreement, dated as of July 5, 2016, by and between Teva Pharmaceutical Industries Ltd. and Allergan plc. (incorporated by reference to Exhibit 2.1 to Allergan plc's Current Report on Form 8-K filed on July 13, 2016).
2.2	Third Amendment to the Master Purchase Agreement, dated as of July 11, 2016, by and between Teva Pharmaceutical Industries Ltd. and Allergan plc. (incorporated by reference to Exhibit 2.1 to Allergan plc's Current Report on Form 8-K filed on July 13, 2016).
2.3	Letter Agreement, dated as of July 11, 2016, between Teva Pharmaceutical Industries Ltd. and Allergan plc. (incorporated by reference to Exhibit 2.4 to Allergan plc's Current Report on Form 8-K filed on July 13, 2016)
3.2*	Amended and Restated Memorandum and Articles of Association of Allergan plc.
10.1#	Amended and Restated Allergan plc 2011 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to Allergan plc's Quarterly Report on Form 10-Q filed on August 8, 2016)
10.2#	Amended and Restated 2013 Incentive Award Plan of Allergan plc (incorporated by reference to Exhibit 10.1 to Allergan plc's Quarterly Report on Form 10-Q filed on August 8, 2016)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14a of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14a of the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. of Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. of the Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Scheme Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Label Definition Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

#Indicates a management contract or compensatory plan or arrangement.

*Filed herewith.

**Furnished herewith and not "filed" for purposes of Section 18 of the Exchange Act.