

Allergan plc  
Form 10-Q  
August 06, 2015

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 June 30, 2015

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
001-36887	Warner Chilcott Limited  Cannon's Court 22 Victoria Street	Bermuda	98-0496358

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

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 July 31, 2015: 393,635,637. There is no trading market for securities of Warner Chilcott Limited, all of which are indirectly wholly owned by Allergan plc.

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.

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## PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
ALLERGAN PLC

## CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except par value)

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,517.9	\$250.0
Marketable securities	8.5	1.0
Accounts receivable, net	4,420.1	2,372.3
Inventories	2,786.0	2,075.5
Prepaid expenses and other current assets	1,004.8	733.4
Current assets held for sale	38.0	949.2
Deferred tax assets	711.6	500.3
Total current assets	10,486.9	6,881.7
Property, plant and equipment, net	2,859.0	1,594.7
Investments and other assets	530.3	235.4
Deferred tax assets	113.6	107.4
Product rights and other intangibles	72,825.0	19,188.4
Goodwill	51,596.3	24,521.5
Total assets	\$138,411.1	\$52,529.1
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$5,945.0	\$4,170.6
Income taxes payable	70.4	50.4
Current portion of long-term debt and capital leases	1,550.9	697.4
Deferred revenue	25.7	27.0
Current liabilities held for sale	—	25.9
Deferred tax liabilities	57.5	47.3
Total current liabilities	7,649.5	5,018.6
Long-term debt and capital leases	41,319.4	14,846.3
Deferred revenue	56.4	38.8
Other long-term liabilities	1,167.5	335.8
Other taxes payable	907.7	892.2
Deferred tax liabilities	15,236.1	3,061.9
Total liabilities	66,336.6	24,193.6

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Commitments and contingencies

Equity:

Preferred shares, \$0.0001 par value per share, 5.1 million shares authorized, 5.1 million and zero shares issued and outstanding, respectively	4,929.7	—
Ordinary shares; \$0.0001 par value per share; 1,000.0 million shares authorized, 393.1 million and 265.9 million shares issued and outstanding, respectively	—	—
Additional paid-in capital	68,103.1	28,994.7
(Accumulated deficit)	(953.3 )	(198.2 )
Accumulated other comprehensive (loss)	(10.4 )	(465.4 )
Total shareholders' equity	72,069.1	28,331.1
Noncontrolling interest	5.4	4.4
Total equity	72,074.5	28,335.5
Total liabilities and equity	\$ 138,411.1	\$ 52,529.1

See accompanying Notes to Consolidated Financial Statements.

## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three Months		Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
Net revenues	\$5,755.0	\$2,667.2	\$9,989.2	\$5,322.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	2,130.1	1,296.5	3,843.5	2,589.5
Research and development	454.9	158.0	885.9	329.5
Selling and marketing	981.0	291.5	1,716.5	574.6
General and administrative	480.2	270.1	1,173.2	545.9
Amortization	1,673.5	422.9	2,598.9	847.1
In-process research and development impairments	197.6	16.3	197.6	16.3
Asset sales and impairments, net	0.6	5.8	58.4	5.4
Total operating expenses	5,917.9	2,461.1	10,474.0	4,908.3
Operating (loss) / income	(162.9 )	206.1	(484.8 )	414.0
Interest income	2.6	1.2	4.4	2.2
Interest expense	(339.9 )	(79.1 )	(511.8 )	(151.9 )
Other (expense) income, net	(48.7 )	(35.8 )	(246.7 )	(30.8 )
Total other income (expense), net	(386.0 )	(113.7 )	(754.1 )	(180.5 )
(Loss) / income before income taxes and noncontrolling interest	(548.9 )	92.4	(1,238.9 )	233.5
(Benefit) / provision for income taxes	(307.3 )	43.6	(485.0 )	88.0
Net (loss) / income	(241.6 )	48.8	(753.9 )	145.5
(Income) attributable to noncontrolling interest	(1.5 )	(0.1 )	(1.2 )	(0.3 )
Net (loss) attributable to shareholders	(243.1 )	48.7	(755.1 )	145.2
Dividends on preferred shares	69.6	—	92.8	—
Net (loss) / income attributable to ordinary shareholders	\$(312.7 )	\$48.7	\$(847.9 )	\$145.2
(Loss) / earnings per share attributable to ordinary shareholders:				
Basic	\$(0.80 )	\$0.28	\$(2.48 )	\$0.83
Diluted	\$(0.80 )	\$0.28	\$(2.48 )	\$0.83
Weighted average shares outstanding:				
Basic	392.6	174.2	341.3	174.0

Diluted	392.6	175.0	341.3	175.0
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See accompanying Notes to Consolidated Financial Statements.

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## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net (loss) / income	\$(241.6)	\$48.8	\$(753.9)	\$145.5
Other comprehensive (loss) / income				
Foreign currency translation gains / (losses)	765.3	6.6	451.4	(0.9 )
Unrealized gains, net of tax	7.6	—	3.6	0.7
Reclassification for gains included in net income, net of tax	—	—	—	—
Total other comprehensive income / (loss), net of tax	772.9	6.6	455.0	(0.2 )
Comprehensive income / (loss)	531.3	55.4	(298.9)	145.3
Comprehensive (income) attributable				
to noncontrolling interest	(1.5 )	(0.1 )	(1.2 )	(0.3 )
Comprehensive income / (loss) attributable to ordinary shareholders	\$529.8	\$55.3	\$(300.1)	\$145.0

See accompanying Notes to Consolidated Financial Statements.

## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net (loss) / income	\$(753.9 )	\$145.5
<b>Reconciliation to net cash provided by operating activities:</b>		
Depreciation	132.5	105.1
Amortization	2,598.9	847.1
Provision for inventory reserve	63.4	75.3
Share-based compensation	400.7	31.2
Deferred income tax benefit	(588.9 )	(151.5 )
In-process research and development impairments	197.6	16.3
Loss / (gain) on asset sales and impairments, net	58.4	27.4
Amortization of inventory step up	706.1	210.0
Amortization of deferred financing costs	280.5	26.4
Accretion and contingent consideration	8.1	(27.9 )
Excess tax benefit from stock-based compensation	(36.3 )	(22.7 )
Other, net	64.3	(10.0 )
<b>Changes in assets and liabilities (net of effects of acquisitions):</b>		
Decrease / (increase) in accounts receivable, net	(896.1 )	(162.9 )
Decrease / (increase) in inventories	(234.8 )	(154.4 )
Decrease / (increase) in prepaid expenses and other current assets	83.1	30.5
Increase / (decrease) in accounts payable and accrued expenses	108.6	53.0
Increase / (decrease) in income and other taxes payable	(216.2 )	(101.4 )
Increase / (decrease) in other assets and liabilities	(49.7 )	(27.9 )
Net cash provided by operating activities	1,926.3	909.1
<b>Cash Flows From Investing Activities:</b>		
Additions to property, plant and equipment	(248.2 )	(80.8 )
Additions to product rights and other intangibles	(28.5 )	—
Additions to investments	(21.0 )	—
Proceeds from sale of investments and other assets	855.8	18.0
Proceeds from sales of property, plant and equipment	81.5	4.2
Acquisitions of business, net of cash acquired	(35,109.9)	(119.2 )
Net cash (used in) investing activities	(34,470.3)	(177.8 )
<b>Cash Flows From Financing Activities:</b>		
Proceeds from borrowings of long-term indebtedness	26,456.4	3,676.2
Proceeds from borrowings on credit facility and other	2,882.0	80.0
Debt issuance and other financing costs	(310.8 )	(51.9 )
Payments on debt, including capital lease obligations	(4,096.2 )	(467.8 )
Proceeds from issuance of preferred shares	4,929.7	—
Proceeds from issuance of ordinary shares	4,071.1	—

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Proceeds from stock plans	108.2	8.1
Payments of contingent consideration	(92.0 )	(7.8 )
Repurchase of ordinary shares	(101.0 )	(59.4 )
Dividends	(68.7 )	—
Excess tax benefit from stock-based compensation	36.3	22.7
Net cash provided by financing activities	33,815.0	3,200.1
Effect of currency exchange rate changes on cash and cash equivalents	(3.1 )	(3.8 )
Movement in cash held for sale	—	37.0
Net increase in cash and cash equivalents	1,267.9	3,964.6
Cash and cash equivalents at beginning of period	250.0	329.0
Cash and cash equivalents at end of period	\$1,517.9	\$4,293.6
Schedule of Non-Cash Investing and Financing Activities		
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)

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,465.4	\$244.3
Marketable securities	8.5	1.0
Accounts receivable, net	4,420.1	2,371.6
Receivable from Parents	388.7	269.8
Inventories	2,786.0	2,075.5
Prepaid expenses and other current assets	1,000.7	730.5
Current assets held for sale	38.0	949.2
Deferred tax assets	711.6	500.3
<b>Total current assets</b>	<b>10,819.0</b>	<b>7,142.2</b>
Property, plant and equipment, net	2,859.0	1,593.8
Investments and other assets	530.3	235.4
Deferred tax assets	113.6	107.4
Product rights and other intangibles	72,825.0	19,188.4
Goodwill	51,596.3	24,521.5
<b>Total assets</b>	<b>\$138,743.2</b>	<b>\$52,788.7</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$5,907.6	\$4,167.5
Payables to Parents	1,039.8	521.1
Income taxes payable	70.4	50.4
Current portion of long-term debt and capital leases	1,550.9	697.4
Deferred revenue	25.7	27.0
Current liabilities held for sale	—	25.9
Deferred tax liabilities	57.5	47.3
<b>Total current liabilities</b>	<b>8,651.9</b>	<b>5,536.6</b>
Long-term debt and capital leases	41,319.4	14,846.3
Deferred revenue	56.4	38.8
Other long-term liabilities	1,167.5	335.9
Other taxes payable	907.7	892.2
Deferred tax liabilities	15,236.1	3,061.9
<b>Total liabilities</b>	<b>67,339.0</b>	<b>24,711.7</b>
Commitments and contingencies		
Equity:		
Member's capital	73,074.4	29,455.9
(Accumulated deficit)	(1,665.2 )	(917.9 )
Accumulated other comprehensive (loss)	(10.4 )	(465.4 )

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Total shareholders' equity	71,398.8	28,072.6
Noncontrolling interest	5.4	4.4
Total equity	71,404.2	28,077.0
Total liabilities and equity	\$138,743.2	\$52,788.7

See accompanying Notes to Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenues	\$5,755.0	\$2,667.2	\$9,989.2	\$5,322.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	2,130.1	1,296.5	3,843.5	2,589.5
Research and development	454.9	158.0	885.9	329.5
Selling and marketing	981.0	291.5	1,716.5	574.6
General and administrative	476.0	262.6	1,165.4	539.0
Amortization	1,673.5	422.9	2,598.9	847.1
In-process research and development impairments	197.6	16.3	197.6	16.3
Asset sales and impairments, net	0.6	5.8	58.4	5.4
Total operating expenses	5,913.7	2,453.6	10,466.2	4,901.4
Operating (loss) / income	(158.7 )	213.6	(477.0 )	420.9
Non-Operating income (expense):				
Interest income	2.6	1.2	4.4	2.2
Interest expense	(339.9 )	(79.1 )	(511.8 )	(151.9 )
Other income (expense), net	(48.7 )	(35.8 )	(246.7 )	(30.8 )
Total other income (expense), net	(386.0 )	(113.7 )	(754.1 )	(180.5 )
(Loss) / income before income taxes and noncontrolling interest	(544.7 )	99.9	(1,231.1 )	240.4
(Benefit) / provision for income taxes	(307.3 )	36.9	(485.0 )	81.3
Net (loss) / income	(237.4 )	63.0	(746.1 )	159.1
(Income) attributable to noncontrolling interest	(1.5 )	(0.1 )	(1.2 )	(0.3 )
Net (loss) / income to member's	\$(238.9 )	\$62.9	\$(747.3 )	\$158.8

See accompanying Notes to Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

(Unaudited; in millions)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Net (loss) / income	\$(237.4)	\$63.0	\$(746.1)	\$159.1
Other comprehensive (loss) / income				
Foreign currency translation gains / (losses)	765.3	6.6	451.4	(0.9 )
Unrealized gains, net of tax	7.6	—	3.6	0.7
Reclassification for gains included in net income, net of tax	—	—	—	—
Total other comprehensive income / (loss), net of tax	772.9	6.6	455.0	(0.2 )
Comprehensive income / (loss)	535.5	69.6	(291.1)	158.9
Comprehensive (income) attributable				
to noncontrolling interest	(1.5 )	(0.1)	(1.2 )	(0.3 )
Comprehensive income / (loss) attributable to members	\$534.0	\$69.5	\$(292.3)	\$158.6

See accompanying Notes to Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net (loss) / income	\$(746.1 )	\$159.1
<b>Reconciliation to net cash provided by operating activities:</b>		
Depreciation	132.5	105.1
Amortization	2,598.9	847.1
Provision for inventory reserve	63.4	75.3
Share-based compensation	400.7	31.2
Deferred income tax benefit	(588.9 )	(151.5 )
In-process research and development impairments	197.6	16.3
Loss / (gain) on asset sales and impairments, net	58.4	27.4
Amortization of inventory step up	706.1	210.0
Amortization of deferred financing costs	280.5	26.4
Accretion and contingent consideration	8.1	(27.9 )
Other, net	64.3	(10.0 )
<b>Changes in assets and liabilities (net of effects of acquisitions):</b>		
Decrease / (increase) in accounts receivable, net	(895.4 )	(162.1 )
Decrease / (increase) in inventories	(234.8 )	(154.4 )
Decrease / (increase) in prepaid expenses and other current assets	81.9	31.1
Increase / (decrease) in accounts payable and accrued expenses	142.9	58.8
Increase / (decrease) in income and other taxes payable	(216.2 )	(108.1 )
Increase / (decrease) in other assets and liabilities, including receivable / payable	(130.8 )	(88.3 )
with Parents		
Net cash provided by operating activities	1,923.1	885.5
<b>Cash Flows From Investing Activities:</b>		
Additions to property, plant and equipment	(248.2 )	(80.8 )
Additions to product rights and other intangibles	(28.5 )	—
Additions to investments	(21.0 )	—
Proceeds from the sale of investments and other assets	855.8	18.0
Proceeds from sales of property, plant and equipment	81.5	4.2
Acquisitions of business, net of cash acquired	(35,109.9)	(119.2 )
Net cash (used in) investing activities	(34,470.3)	(177.8 )
<b>Cash Flows From Financing Activities:</b>		
Proceeds from borrowings of long-term indebtedness	26,456.4	3,676.2
Proceeds from borrowings on credit facility and other	2,882.0	80.0
Debt issuance and other financing costs	(310.8 )	(51.9 )
Payments on debt, including capital lease obligations	(4,096.2 )	(467.8 )
Payments of contingent consideration	(92.0 )	(7.8 )



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Dividend to Parent	(68.8 )	—
Contribution from Parent	9,000.8	—
Net cash provided by financing activities	33,771.4	3,228.7
Effect of currency exchange rate changes on cash and cash equivalents	(3.1 )	(3.8 )
Movement in cash held for sale	—	37.0
Net increase in cash and cash equivalents	1,221.1	3,969.6
Cash and cash equivalents at beginning of period	244.3	323.5
Cash and cash equivalents at end of period	\$ 1,465.4	\$ 4,293.1

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 a global specialty pharmaceutical company engaged in the development, manufacturing, marketing, and distribution of brand name (“brand”, “branded” or “specialty brand”), medical aesthetics, generic, branded generic, biosimilar and over-the-counter (“OTC”) pharmaceutical products. The Company has operations in more than 100 countries. Warner Chilcott Limited is a wholly owned subsidiary of Allergan plc and it 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 complements 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 transaction also expands 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.

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, 2014 (“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. 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 / (loss) 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 / (loss) and cash flows for the interim periods are not necessarily indicative of the results of operations, comprehensive income / (loss) and cash flows that it may achieve in future periods.

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.

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.

Effective July 26, 2015 we entered into a master purchase agreement under which Teva Pharmaceutical Industries Ltd. (“Teva”) agreed to acquire our global generic pharmaceuticals business and certain other assets for \$40.5 billion. We will receive \$33.75 billion in cash and \$6.75 billion in Teva stock. Under the agreement, Teva will acquire our global generics business, including the United States (“U.S.”) and international generic commercial units, third-party supplier Medis, global generic manufacturing operations, the global generic R&D unit, the international over-the-counter (OTC) commercial unit (excluding OTC eye care products) and some established international brands. The results of these operations are primarily reflected in our International Brands and Global Generics segments, along with certain shared general and administrative corporate costs. The transaction is subject to customary closing conditions and expected to close in 2016.

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, or “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.

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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 results of Warner Chilcott Limited to Allergan plc (\$ in millions):

	June 30, 2015			December 31, 2014		
	Warner		Difference	Warner		Difference
	Allergan plc Limited	Chilcott		Allergan plc Limited	Chilcott	
Cash and cash equivalents	\$ 1,517.9	\$ 1,465.4	\$ 52.5	\$ 250.0	\$ 244.3	\$ 5.7
Accounts receivable, net	4,420.1	4,420.1	—	2,372.3	2,371.6	0.7
Prepaid expenses and other current assets	1,004.8	1,000.7	4.1	733.4	730.5	2.9
Property, plant and equipment, net	2,859.0	2,859.0	—	1,594.7	1,593.8	0.9
Accounts payables and accrued liabilities	5,945.0	5,907.6	37.4	4,170.6	4,167.5	3.1

	Three months ended June 30, 2015			Six months ended June 30, 2015		
	Warner		Difference	Warner		Difference
	Allergan plc Limited	Chilcott		Allergan plc Limited	Chilcott	
General and administrative expenses	\$ 480.2	\$ 476.0	\$ 4.2	\$ 1,173.2	\$ 1,165.4	\$ 7.8
Operating (loss) / income	(162.9)	(158.7)	(4.2 )	(484.8 )	(477.0 )	(7.8 )
(Loss) / income before income taxes and noncontrolling interest	(548.9)	(544.7)	(4.2 )	(1,238.9)	(1,231.1)	(7.8 )
(Benefit) / provision for income taxes	(307.3)	(307.3)	—	(485.0 )	(485.0 )	—
Net (loss) / income	(241.6)	(237.4)	(4.2 )	(753.9 )	(746.1 )	(7.8 )
Dividends on preferred stock	69.6	—	69.6	92.8	—	92.8

	Three months ended June 30, 2014			Six months ended June 30, 2014		
	Warner		Difference	Warner		Difference
	Allergan plc Limited	Chilcott		Allergan plc Limited	Chilcott	
General and administrative expenses	\$ 270.1	\$ 262.6	\$ 7.5	\$ 545.9	\$ 539.0	\$ 6.9
Operating (loss) / income	206.1	213.6	(7.5 )	414.0	420.9	(6.9 )
(Loss) / income before income taxes and noncontrolling interest	92.4	99.9	(7.5 )	233.5	240.4	(6.9 )

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(Benefit) / provision for income taxes	43.6	36.9	6.7	88.0	81.3	6.7
Net (loss) / income	48.8	63.0	(14.2 )	145.5	159.1	(13.6 )

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, 2014 included in the Annual Report.

Revenue Recognition Including Multiple-Element Arrangements

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, billback adjustments, 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.

## Multiple-Element Arrangements

The Company identifies each discrete deliverable included in a multiple-element arrangement and identifies which of those deliverables have standalone value to the customer under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 605-25 “Revenue Recognition — Multiple-Element Arrangements” (“ASC 605-25”) and Accounting Standards Update (“ASU”) 2009-13 “Revenue Recognition — Multiple-Deliverable Revenue” (“ASU No. 2009-13”). The Company allocates arrangement consideration to the deliverables based on the appropriate selling price using the hierarchy outlined in ASC 605-25, as amended by ASU No. 2009-13. The selling price used for each deliverable is based on vendor-specific objective evidence (“VSOE”) if available, third-party evidence (“TPE”) if VSOE is not available, or best estimated selling price (“BESP”) if neither VSOE nor TPE is available. BESP is determined in a manner consistent with that used to establish the price to sell the deliverable on a standalone basis. Revenue is recognized for each unit of accounting based on the relevant authoritative literature for that deliverable.

## 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. 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, pricing adjustments, promotional allowances, loyalty cards and billback adjustments.

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.

Pricing adjustments, which includes shelf stock adjustments, 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 is based upon specific terms with the Company's customers and includes estimates of existing customer inventory levels based upon their historical purchasing patterns. We regularly monitor all price changes to evaluate the Company's reserve balances. The adequacy of these reserves is readily determinable as pricing adjustments and shelf stock adjustments are negotiated and settled on a customer-by-customer basis.

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.

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 is a difference between the customer's direct and indirect contract price. The provision for billbacks is estimated based upon historical purchasing patterns of qualified customers who purchase product directly from us and supplement their purchases indirectly through our wholesale customers.

Loyalty cards allow the end user patients a discount per prescription and is 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 \$1,419.4 million and \$1,660.9 million at June 30, 2015 and December 31, 2014, respectively. SRA balances within accounts payable and accrued expenses were \$1,847.5 million and \$1,323.4 million at June 30, 2015 and December 31, 2014, respectively. The movements in the SRA reserve balances in the six months ended June 30, 2015 are as follows (in millions):

Balance as of December 31, 2014	\$2,984.3
Acquired reserves in the Allergan Acquisition (defined below)	429.5
Provision to reduce gross product sales to net product sales	6,751.3
Payments and other	(6,898.2)
Balance as of June 30, 2015	\$3,266.9

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Gross product sales	\$9,252.0	\$4,505.7	\$16,635.5	\$8,834.7
Provisions to reduce gross product sales to net product sales	(3,561.3)	(1,879.7)	(6,751.3)	(3,611.8)
Net product sales	\$5,690.7	\$2,626.0	\$9,884.2	\$5,222.9
Percentage of provisions to gross sales	38.5 %	41.7 %	40.6 %	40.9 %



The movement in the percentage of provisions to gross sales is a result of changes in product mix, competition and channels of distribution. In the six months ended June 30, 2015, the Company increased sales of branded products, which lowered the provision percentage. Offsetting this, was the impact of increased generic competition on some of the Company's larger generic products which increased the rebates offered, as well as a higher portion of sales going through the wholesale channel, which has the impact of raising the rebate and chargeback percentages.

#### Warranties

As a result of the Allergan Acquisition, the Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The provision for warranty expense in the six months ended June 30, 2015 was \$1.7 million. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets and amounted to \$8.5 million and \$30.3 million, respectively, as of June 30, 2015. The U.S. programs include the ConfidencePlus® and ConfidencePlus® Premier warranty programs. The ConfidencePlus® program, which is limited to saline breast implants, currently provides lifetime product replacement and contralateral implant replacement. The ConfidencePlus® Premier program, which is standard for silicone gel implants and requires a low enrollment fee for saline breast implants, generally provides lifetime product replacement, \$2,400 of financial assistance for saline breast implants and \$3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The warranty programs in non-U.S. markets generally have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result

and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

#### 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 (loss) / income and (loss) / earnings 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

During the second quarter of 2015, we performed our annual impairment assessment of goodwill. We also assessed IPR&D intangible assets and trade name intangible assets with indefinite-lives for impairment. The Company utilized a discount rate for its reporting units of 10.0% and long-term growth rates ranging from 0.0% to 5.0% in its estimation of fair value. 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 or trade name intangible assets. During

the second quarter of 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.

#### 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 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 ASC 450. Refer to “NOTE 19 — 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.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
EPS — basic				
Net (loss) / income attributable to ordinary shareholders	\$(312.7)	\$48.7	\$(847.9)	\$145.2
Basic weighted average ordinary shares outstanding	392.6	174.2	341.3	174.0
EPS — basic	\$(0.80 )	\$0.28	\$(2.48 )	\$0.83
EPS — diluted				
Net (loss) / income attributable to ordinary shareholders	\$(312.7)	\$48.7	\$(847.9)	\$145.2
Basic weighted average ordinary shares outstanding	392.6	174.2	341.3	174.0
Effect of dilutive securities:				
Dilutive stock awards	—	0.8	—	1.0
Diluted weighted average ordinary shares outstanding	392.6	175.0	341.3	175.0
EPS — diluted	\$(0.80 )	\$0.28	\$(2.48 )	\$0.83

Stock awards to purchase 5.1 million and 4.7 million ordinary shares for the three and six months ended June 30, 2015, respectively, were outstanding, but not included in the computation of diluted EPS, because the awards were anti-dilutive. The weighted average impact of ordinary share equivalents of 16.7 million and 11.1 million for the three and six months ended June 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.

There were no anti-dilutive shares for the three and six months ended June 30, 2014.

## 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 18 — Business Restructuring Charges” for more information.

Recent Accounting Pronouncements

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. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Management believes that the adoption of this guidance will not have a material impact on our financial statements.

## NOTE 4 — Acquisitions and Other Agreements

During the six months ended June 30, 2015 and the year ended December 31, 2014, 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):

	Six Months Ended June 30, 2015		
	As reported	Allergan	Pro
		Acquisition	Forma
Net Revenue	\$9,989.2	\$ 1,523.0	\$11,512.2
Net (loss) / income attributable to ordinary shareholders	\$(847.9 )	\$ 377.7	\$(470.2 )
Net (loss) per share			
Basic	\$(2.48 )		\$(1.19 )
Diluted	\$(2.48 )		\$(1.19 )

	Three Months Ended June 30, 2014			
	As reported	Allergan	Forest	Pro
		Acquisition	Acquisition	Forma
Net Revenue	\$2,667.2	\$ 1,864.2	\$ 1,157.1	\$5,688.5
Net income / (loss) attributable to ordinary shareholders	\$48.7	\$(760.9 )	\$ 490.1	\$(222.1 )
Net income / (loss) per share				
Basic	\$0.28			\$(0.57 )
Diluted	\$0.28			\$(0.57 )

	Six Months Ended June 30, 2014			
	As reported	Allergan	Forest	Pro
		Acquisition	Acquisition	Forma
Net Revenue	\$5,322.3	\$ 3,507.2	\$ 2,307.8	\$11,137.3
Net income / (loss) attributable to ordinary shareholders	\$145.2	\$(1,781.5 )	\$ 142.4	\$(1,493.9 )
Net income / (loss) per share				
Basic	\$0.83			\$(3.84 )
Diluted	\$0.83			\$(3.84 )

Pro forma net (loss) per share includes the impact of share issuances as part of the respective acquisitions.

## 2015 Transactions

The following are the material transactions that were entered into / completed in the six months ended June 30, 2015.

## Kythera

On June 17, 2015, the Company announced that it has agreed to acquire Kythera Biopharmaceuticals (“Kythera”), for \$75 per share, or approximately \$2.1 billion. Kythera is focused on the discovery, development and commercialization of novel prescription aesthetic products. Kythera’s lead product is Kybella® injection, 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. The Company expects the deal to close in the second half of the year.

#### Auden Mckenzie

On May 29, 2015 the Company acquired Auden Mckenzie Holdings Limited (“Auden”), a company specializing in the development, licensing and marketing of niche generic medicines and proprietary brands in the United Kingdom (“UK”) and across Europe for approximately 323.7 million British Pounds, or \$495.9 million (the “Auden Acquisition”).

## Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value

The Auden 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. As of June 30, 2015, certain amounts relating to the valuation of tax related matters, intangible assets and inventory have not been finalized. The following table summarizes the preliminary fair values of the tangible and identifiable intangible assets acquired and liabilities assumed at the acquisition date (\$ in millions):

	Amount
Cash and cash equivalents	\$ 32.2
Inventory	49.1
IPR&D intangible assets	38.6
Intangible assets	342.4
Goodwill	123.3
Other assets and liabilities	7.2
Contingent consideration	(17.3 )
Deferred tax liabilities, net	(79.6 )
Net assets acquired	\$ 495.9

## IPR&amp;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 and identifiable 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 and CMP intangible assets was determined using the IPR&D and Intangible Asset Valuation Technique. The discount rate used to arrive at the present value of CMPs was 15.0% and for IPR&D intangible assets was 16.0% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. 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.

The acquired intangible assets represent generic products with multiple useful lives across multiple therapeutic areas.



## Goodwill

Goodwill resulting from the Auden Acquisition is assigned to our Global Generics segment and is not deductible for tax purposes. Goodwill in the transaction is due to anticipated synergies in the UK market.

## Contingent Consideration

As part of the acquisition, the Company is required to pay the former shareholders of Auden amounts based on the results of a specified product. The Company estimated the acquisition accounting fair value of the contingent consideration to be \$17.3 million using a probability weighted approach that considered the possible outcomes of the scenarios relating to the specified product.

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## 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.

### Australia

During the first quarter of 2015, the Company entered into an agreement with Amneal Pharmaceuticals LLC to divest the Australian generics business for upfront consideration of \$5.0 million plus future royalties, which closed on May 1, 2015 (the “Australia Transaction”). As a result of holding the assets for sale as of March 31, 2015, the Company impaired intangible assets of \$36.1 million, miscellaneous assets and goodwill allocated to the business of \$2.5 million in the six months ended June 30, 2015. In addition, the Company recognized a loss on the sale of the business, which is included as a component of other (expense) income of \$13.6 million in the three and six months ended June 30, 2015.

### Allergan Acquisition

On March 17, 2015, the Company acquired Allergan, Inc. 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 Allergan Inc.’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 will also benefit significantly from Legacy Allergan’s global brand equity and consumer awareness of key products, including Botox® and Restasis®. The transaction also expands 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.

### Assets Acquired and Liabilities Assumed at Fair Value

The transaction 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. As of June 30, 2015, certain amounts relating to the valuation tax related matters, SRAs, inventories and intangible assets have not been finalized. The finalization of these matters may result in changes to goodwill. The Company expects to finalize such matters by the end of 2015.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date and reflecting purchase accounting adjustments identified during the quarter (\$ in millions):

	Preliminary Values as of March 31, 2015	Measurement Period Adjustments	Preliminary Values as of June 30, 2015
Cash and cash equivalents	\$ 5,424.5	\$ —	\$ 5,424.5
Accounts receivable	962.7	(14.0 )	948.7
Inventories	1,223.2	(4.6 )	1,218.6
Other current assets	318.8	—	318.8

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Property, plant and equipment, net	1,202.5	12.0	1,214.5
Other long-term assets	189.3	—	189.3
IPR&D intangible assets	11,010.0	(100.0 )	10,910.0
Intangible assets	45,050.5	(20.0 )	45,030.5
Goodwill	26,368.5	102.9	26,471.4
Current liabilities	(1,212.2 )	(5.3 )	(1,217.5 )
Contingent consideration	(379.1 )	(4.6 )	(383.7 )
Deferred tax liabilities, net	(12,512.9 )	33.6	(12,479.3 )
Other taxes payable	(82.4 )	—	(82.4 )
Other long-term liabilities	(622.0 )	—	(622.0 )
Outstanding indebtedness	(2,183.5 )	—	(2,183.5 )
Net assets acquired	\$ 74,757.9	\$ —	\$ 74,757.9

## Consideration

The total consideration for the Allergan Acquisition of \$74.8 billion is comprised of the equity value of shares that were outstanding and vested prior to March 17, 2015 of \$33.9 billion, the portion of outstanding equity awards deemed to have been earned as of March 17, 2015 of \$0.8 billion and cash of \$40.1 billion. The portion of outstanding equity awards deemed not to have been earned of \$843.1 million as of March 17, 2015 will be expensed over the remaining future vesting period, including \$126.4 million and \$395.0 million in the three and six months ended June 30, 2015, respectively.

## Inventories

The fair value of inventories acquired included an acquisition accounting fair market value step-up of \$923.9 million. In the three and six months ended June 30, 2015, the Company recognized \$433.4 million and \$504.4 million, respectively, as a component of cost of sales as the inventory acquired was sold to the Company's customers. Included in finished goods inventory as of June 30, 2015, was \$419.5 million, relating to the remaining fair value step-up associated with the Allergan Acquisition.

## IPR&D and Intangible Assets

The fair value of the intangible assets was determined using the IPR&D and Intangible Asset Valuation Technique. The discount rate used to arrive at the present value at the acquisition date of CMPs was 10.0% and for IPR&D intangibles ranged from 10.0% to 11.0% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. 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.

The following table identifies the summarized amounts recognized and the weighted average useful lives using the economic benefit of intangible assets:

	Amount recognized as of the acquisition date	Weighted average useful lives (years)
<b>Definite lived assets</b>		
Restasis <sup>®</sup>	\$ 3,970.0	4.0
Refresh <sup>®</sup> / Optive <sup>®</sup>	2,720.0	7.6
Other Eye Care Products	6,690.0	4.2
Botox <sup>®</sup>	22,580.0	8.0
Aczone <sup>®</sup>	160.0	1.3
Other Skin Products	820.0	5.0
Other Aesthetics	6,350.0	6.0
<b>Total CMP</b>	<b>43,290.0</b>	<b>6.7</b>
Trade name	690.0	4.5
Customer relationships	1,050.5	3.4
<b>Total definite lived assets</b>	<b>45,030.5</b>	<b>6.6</b>
<b>In-process research and development</b>		
Eye Care	6,420.0	

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Botox <sup>®</sup>	810.0
Aesthetics	2,560.0
Other	1,120.0
Total IPR&D	10,910.0
Total intangible assets	\$ 55,940.5

Goodwill

Among the primary reasons the Company acquired Allergan and factors that contributed to the preliminary recognition of goodwill were to expand the Company's product portfolio, and to acquire certain benefits from the Legacy Allergan pipeline and the expectation of certain synergies. The goodwill recognized from the Allergan Acquisition, which includes the increase in the purchase price resulting from the movement in Allergan plc's share price from the date of announcing the deal, until the date of acquisition, is not deductible for tax purposes. Goodwill from the Allergan Acquisition of \$14,171.9 million, \$3,679.8 million, \$6,372.5 million, and \$2,247.2 million was assigned to the US Brands, US Medical Aesthetics, International Brands, and Global Generics segments, respectively.

## Contingent Consideration

The Company acquired certain contingent obligations classified as contingent consideration related to historical business combinations. Additional consideration is conditionally due upon the achievement of certain milestones in respect to the development and commercialization of the products as well as reaching certain sales targets. The Company estimated the fair value of the contingent consideration acquired to be \$383.7 million using a probability weighting 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 first payment, and probability of success rates and discount adjustments on the related cash flows.

## Retirement Plans

The Company acquired post-retirement plans as part of the Allergan Acquisition including defined benefit pension plans in the United States and Europe which had a net liability balance of \$302.6 million. As of March 17, 2015, the Allergan Inc. defined benefit pension plans had assets with a fair value of \$1,042.0 million, which include cash and cash equivalents of \$13.6 million, equity securities of \$480.1 million, and fixed income securities of \$548.3 million. In addition, the Company acquired other benefit obligations which had an acquisition date fair value of assets of \$117.1 million and an acquisition date fair value of liabilities of \$120.0 million. Prior to the Allergan Acquisition, Legacy Allergan froze most of their defined benefit plans. As a result, the company anticipates de minimis service costs in its statement of operations.

## Deferred Tax Liabilities, Net

Deferred tax liabilities, net, include the impact resulting from identifiable intangible assets and inventory 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.

## Acquisition-Related Expenses

As a result of the acquisition, the Company incurred the following transaction and integration costs in the three and six months ended June 30, 2015 (\$ in millions):

	Three Months Ended	Six Months Ended
	June 30, 2015	June 30, 2015
Cost of sales		
Stock-based compensation acquired for Legacy		
Allergan employees	\$ 7.4	\$ 14.3
Acquisition, integration and restructuring related		
charges	6.8	21.3
Research and development		
Stock-based compensation acquired for Legacy		
Allergan employees	36.1	91.6
Acquisition, integration and restructuring related	6.8	67.4

charges		
Selling and marketing		
Stock-based compensation acquired for Legacy		
Allergan employees	39.7	62.9
Acquisition, integration and restructuring related		
charges	10.6	72.8
General and administrative		
Stock-based compensation acquired for Legacy		
Allergan employees	43.2	226.2
Acquisition related expenditures	—	65.5
Acquisition, integration and restructuring related		
charges	48.8	179.4
Other (expense) income		
Bridge loan facilities expense	(1.9	) (264.9
Interest rate lock	—	30.9
Total transaction and integration costs	\$ 201.3	\$ 1,035.4

## Respiratory Business

As part of the Forest Acquisition (defined below), we acquired certain assets that comprised a respiratory business. During the year ended December 31, 2014, we held for sale the respiratory assets of \$734.0 million, including allocated goodwill to this unit of \$309.1 million. On February 5, 2015, the Company announced the sale of its 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 Actavis 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”). The transaction closed on March 2, 2015. As a result of the final terms of the agreement, in the six months ended June 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. In the quarter ended June 30, 2015, the Company recorded an out-of-period pre-tax expense of \$38.8 million related to the write off of royalty rights that expired in April 2015 in connection with the first quarter 2015 transaction. The impact of the out-of-period adjustment is not material to either the three months ended March 31, 2015 or the three months ended June 30, 2015. The Company recognized a loss in other (expense) income for the sales of the business of \$38.8 million and \$5.3 million, in the three and six months ended June 30, 2015, respectively.

## Pharmatech

As part of the Forest Acquisition, the Company acquired certain manufacturing plants and contract manufacturing agreements within our Aptalis Pharmaceutical Technologies (“Pharmatech”) entities. In accordance with acquisition accounting, the assets were fair valued on July 1, 2014 as assets held in use, including market participant synergies anticipated under the concept of “highest and best use”. During the fourth quarter of 2014, the decision was made to hold these assets for sale as one complete unit, without integrating the unit and realizing anticipated synergies. During the year ended December 31, 2014, the Company recognized an impairment on assets held for sale of \$189.9 million (the “Pharmatech Transaction”) which included a portion of goodwill allocated to this business unit. In the second quarter of 2015, the Company completed the divestiture of the Pharmatech business.

## 2014 Transactions

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

### Durata Therapeutics Acquisition

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”). Allergan 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 Dalvance™ are achieved. The CVR had an acquisition date fair value of \$49.0 million.

### Recognition and Measurement of Assets Acquired and Liabilities Assumed at Fair Value

The Durata 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 fair values of the tangible and identifiable intangible assets



acquired and liabilities assumed at the acquisition date (in millions):

	Final Values
Cash and cash equivalents	\$ 17.8
Inventory	21.0
IPR&D intangible assets	249.0
Intangible assets	480.0
Goodwill	75.8
Other assets and liabilities	(30.2 )
Contingent consideration	(49.0 )
Deferred tax liabilities, net	(39.9 )
Outstanding indebtedness	(67.0 )
Net assets acquired	\$ 657.5

## IPR&D and Intangible Assets

The fair value of the IPR&D and CMP intangible assets was determined using the IPR&D and Intangible Asset Valuation Technique. The discount rate used to arrive at the present value of CMPs was 9.5% and for IPR&D intangible assets was 10.5% to reflect the internal rate of return and incremental commercial uncertainty in the cash flow projections. 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.

## Contingent Consideration

At the time of the 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 has 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 Contingent Value Right ("CVR") payment. The difference between the fair value of the CVR on the date of acquisition of \$24.5 million and the payment made of \$30.9 million, or \$6.4 million, was recorded as an operating expense in the six months ended June 30, 2015.

## Furiex Acquisition

On July 2, 2014, the Company completed an agreement to acquire Furiex Pharmaceuticals, Inc. ("Furiex") in an all-cash transaction (the "Furiex Acquisition") valued at \$1,156.2 million (including the assumption of debt) and up to approximately \$360.0 million in a CVR that may be payable based on the designation of eluxadolone, Furiex's lead product, as a controlled drug following approval (if any) which had an acquisition accounting fair value of \$88.0 million on the date of acquisition (included in the value of \$1,156.2 million). In the second quarter of 2015, the Company received approval from the FDA of the eluxadolone product, Viberzi®. The Company is awaiting final scheduling of the product from the Drug Enforcement Agency.

Viberzi® is a first-in-class, locally-acting mu opioid receptor agonist and delta opioid receptor antagonist for treating symptoms of diarrhea-predominant irritable bowel syndrome (IBS-d), a condition that affects approximately 28 million patients in the United States and Europe. The CVR payment is based on the status of Viberzi®, as a controlled drug, if any, as follows:

- If Viberzi® is determined to be a schedule III (C-III) drug, there will be no additional consideration for the CVR.
- If Viberzi® is determined to be a schedule IV (C-IV) drug, CVR holders are entitled to \$10 in cash for each CVR held.
- If Viberzi® is determined to be a schedule V (C-V) drug, CVR holders are entitled to \$20 in cash for each CVR held.
- If Viberzi® is determined to not be subject to DEA scheduling, CVR holders are entitled to \$30 in cash for each CVR held.

In connection with the close of the Furiex Acquisition, the Company further announced that it has closed the transaction related to the sale of Furiex's royalties on Alogliptin and Priligy® to Royalty Pharma for \$408.6 million in cash consideration.

## Contingent Consideration

Additional consideration is conditionally due to the seller based upon the status of eluxadoline as a controlled drug, if any. The Company estimated the acquisition accounting fair value of the contingent consideration to be \$88.0 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.

In the second quarter of 2015, the Company updated the probability weighted outcomes of the contingent liability for Viberzi® based on the approval received from the FDA and recognized income of \$29.5 million as a component of research and development expense. The fair value of the contingent consideration as of June 30, 2015 is \$59.3 million.

## Forest Laboratories

On July 1, 2014, the Company acquired Forest Laboratories, Inc. (“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, 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. Forest was a leading, fully integrated, specialty pharmaceutical company largely focused on the United States market. 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.

## Assets Acquired and Liabilities Assumed at Fair Value

The transaction 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 fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

	Final Values
Cash and cash equivalents	\$ 3,424.2
Accounts receivable	496.2
Inventories	1,455.8
Other current assets	261.2
Current assets held for sale	87.1
Property, plant and equipment, net	221.1
Other long-term assets	84.1
IPR&D intangible assets	1,362.0
Intangible assets	11,515.5
Goodwill	16,403.6
Current liabilities	(1,372.1 )
Deferred tax liabilities, net	(2,277.3 )
Other taxes payable	(618.4 )
Other long-term liabilities	(120.0 )
Outstanding indebtedness	(3,261.9 )
Net assets acquired	\$ 27,661.1

## Consideration

The total consideration for the Forest Acquisition of \$27.7 billion is comprised of the equity value of shares that were outstanding and vested prior to July 1, 2014 of \$20.0 billion, the portion of outstanding equity awards deemed to have been earned as of July 1, 2014 of \$568.1 million and cash of \$7.1 billion. The portion of outstanding equity awards deemed not to have been earned of \$570.4 million as of July 1, 2014 will be expensed over the remaining future vesting period, including \$29.9 million and \$87.8 million in the three and six months ended June 30, 2015, respectively.

## Inventories

The fair value of inventories acquired included an acquisition accounting fair market value step-up of \$1,036.3 million. In the three and six months ended June 30, 2015, the Company recognized \$49.8 million and \$186.6 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. Included in finished goods inventory as of June 30, 2015 was \$58.2 million, relating to the remaining fair value step-up associated with the Forest Acquisition.

## Acquisition-Related Expenses

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

	Three Months Ended	Six Months Ended
	June 30, 2015	June 30, 2015
Cost of sales		
Stock-based compensation acquired for Forest employees	\$ 1.5	\$ 2.7
Severance related charges	0.1	1.1
Research and development		
Stock-based compensation acquired for Forest employees	8.5	24.5
Severance related charges	—	8.8
Selling and marketing		
Stock-based compensation acquired for Forest employees	8.8	28.4
Severance related charges	0.1	16.9
General and administrative		
Stock-based compensation acquired for Forest employees	11.1	32.2
Other integration charges	28.1	29.7
Severance related charges	1.2	12.6
Total transaction and integration costs	\$ 59.4	\$ 156.9

## Western European Divestiture

During the year ended December 31, 2013, the Company held for sale its then current commercial infrastructure in France, Italy, Spain, Portugal, Belgium, Germany and the Netherlands, including products, marketing authorizations and dossier license rights. On January 17, 2014, the Company announced its intention to enter into an agreement with Aurobindo Pharma Limited (“Aurobindo”) to sell these businesses. On April 1, 2014, the Company completed the sale of the assets in Western Europe for a loss of \$20.9 million.

## 2013 Transactions

The following are the material transactions that were completed in the year ended December 31, 2013.

## Acquisition of Warner Chilcott

On October 1, 2013, the Company completed the acquisition of Warner Chilcott plc (“Warner Chilcott”) in a stock for stock transaction for a value, including the assumption of debt, of \$9.2 billion (the “Warner Chilcott Acquisition”). Warner Chilcott was a leading specialty pharmaceutical company focused on the women’s healthcare, gastroenterology, urology and dermatology segments of the branded pharmaceuticals market, primarily in North America.

## Inventories

In the six months ended June 30, 2015, the Company recognized \$1.9 million of fair value step-up as a component of cost of sales as the inventory acquired on October 1, 2013 was sold to the Company's customers. In the three and six months ended June 30, 2014, the Company recognized \$84.9 million and \$209.5 million of step-up as a component of cost of sales, respectively.

## NOTE 5 – Assets Held For Sale

The following represents net assets held for sale (\$ in millions):

	June 30, 2015	December 31, 2014
Accounts receivable, net	\$ —	\$ 17.7
Inventories	—	161.5
Prepaid expenses and other assets	38.0	197.5
Intangible assets	—	453.0
Goodwill	—	309.1
Impairment on assets held for sale	—	(189.6 )
Total assets held for sale	\$ 38.0	\$ 949.2
Accounts payable and accrued expenses	\$ —	\$ 25.9
Total liabilities held for sale	\$ —	\$ 25.9
Net assets held for sale	\$ 38.0	\$ 923.3

As of June 30, 2015, the Company had the followings assets held for sale:

- Properties acquired in the Forest Acquisition including the following remaining assets from those held for sale at December 31, 2014:
  - Commack, Long Island - \$12.3 million
  - Hauppauge, New York - \$12.9 million
  - Facilities in Corona, California of \$2.8 million.
  - A facility in Ontario, Canada of \$4.8 million.
  - Facilities in Irvine, California of \$5.2 million.

As of December 31, 2014, the Company included the following assets held for sale:

- Certain intangible assets and related inventory for products sold under the respiratory therapeutic unit. The book value of the respiratory assets held for sale was \$734.0 million as of December 31, 2014, including allocated goodwill to this unit included within US Brands of \$309.1 million. The transaction closed on March 2, 2015.
- Assets in connection with the Pharmatech Transaction, which included assets held for sale of \$97.2 million and liabilities held for sale of \$25.9 million. The transaction closed in the second quarter of 2015.
- Properties acquired in the Forest Acquisition including:
  - Commack, Long Island - \$46.4 million
  - St. Louis, Missouri - \$20.4 million
  - Hauppauge, New York - \$14.8 million
  - Facilities in Corona, California of \$36.2 million.

## NOTE 6 — 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 grants awards with the following features:

- Time-based vesting restricted stock awards;

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- Performance-based restricted stock awards measured to the EBITDA, as defined, of the Company or other performance-based targets defined by the Company;
- Performance-based restricted stock awards measured to the Total Stockholders Return, compared to pre-defined 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 earnings per share, total shareholder returns and cost savings targets.

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 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 eliminated 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 restricted shares issued ranging based on achievement of the performance criteria. The Company's equity award plans include the acquired awards from the Allergan Acquisition ("2015 Acquired Awards") and the acquired awards from the Forest Acquisition ("2014 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:

	2015		2015 Acquired		2014		2014 Acquired	
	Grants	Awards	Grants	Awards	Grants	Awards	Grants	Awards
Dividend yield	0	%	0	%	0	%	0	%
	26.0 -							
Expected volatility	29.0%		26.0	%	29.0	%	28.0	%
Risk-free interest rate	1.9	%	0.1 – 1.9	%	1.9 – 2.2%		0 - 2.1	%
	7.0 -							
Expected term (years)	7.5		up to 6.9		7.5		up to 6.4	

#### Share-Based Compensation Expense

Share-based compensation expense recognized in the Company's results of operations for the three months ended June 30, 2015 and 2014 were as follows (\$ in millions):

	Three Months Ended June 30,	
	2015	2014
Equity based compensation awards	\$175.2	\$14.5
Cash-settled equity awards in connection with the Allergan Acquisition	—	—
Non equity-settled awards other	—	—
Total stock-based compensation expense	\$175.2	\$14.5

Share-based compensation expense recognized in the Company's results of operations for the six months ended June 30, 2015 and 2014 was as follows (\$ in millions):

	Six Months Ended June 30,	
	2015	2014
Equity based compensation awards	\$400.7	\$31.2
Cash-settled equity awards in connection with the Allergan Acquisition	127.1	—
Non equity-settled awards other	—	—
Total stock-based compensation expense	\$527.8	\$31.2

Included in the equity-based compensation awards for the three months ended June 30, 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 of

\$105.5 million and \$26.0 million, respectively. Included in the equity-based compensation awards for the six months ended June 30, 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 of \$239.8 million and \$70.9 million, respectively.

Unrecognized future stock-based compensation expense was \$882.4 million as of June 30, 2015, including \$439.3 million from the Allergan Acquisition and \$168.7 million from the Forest Acquisition. This amount will be recognized as an expense over a remaining weighted average period of 2.2 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, 2014 through June 30, 2015:

(in millions, except per share data)	Shares	Weighted Average Fair Value	Weighted Average Term (Years)	Aggregate Grant Date Fair Value
Restricted shares / units outstanding at December 31, 2014	2.1	\$ 148.79	1.3	\$ 312.5
Granted	0.4	324.79		129.9
Vested	(0.8 )	(140.65 )		(112.5 )
Assumed as part of the Allergan Acquisition **	0.5	218.47		102.8
Forfeited	(0.1 )	(110.35 )		(12.5 )
Restricted shares / units outstanding at June 30, 2015	2.1	\$ 200.11	2.1	\$ 420.2

\*\* Assumed as part of the Allergan Acquisition for the pro rata portion representing future compensation as of March 17, 2015.

The following is a summary of equity award activity for non-qualified options to purchase ordinary shares in the period from December 31, 2014 through June 30, 2015:

(in millions, except per share data)	Options	Weighted Average Exercise	Weighted Average Remaining	Aggregate Intrinsic Value				

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		Price	Contractual	
			Term	
			(Years)	
Outstanding, December 31, 2014	5.4	\$ 93.96	7.3	\$ 858.9
Granted	0.2	300.56		
Exercised	(1.1 )	(90.03 )		
Assumed as part of the Allergan Acquisition**	7.0	103.63		
Cancelled	(0.4 )	(127.24 )		
Outstanding, June 30, 2015	11.1	\$ 141.91	7.0	\$ 1,793.3
Vested and expected to vest at June 30, 2015	10.4	\$ 141.45	6.9	\$ 1,686.1

\*\* Assumed as part of the Allergan Acquisition for the pro rata portion representing future compensation as of March 17, 2015.

NOTE 7 — Reportable Segments

In the second quarter of 2015, management realigned the Company's global strategic business structure as a result of the Allergan Acquisition. Prior to the realignment, the Company operated and managed its business as four distinct operating segments: North American Brands, North American Generics and International, Allergan (from March 17, 2015 through March 31, 2015), and Anda Distribution.

Under the new organizational structure being reported, the Company organized its business into five operating segments: US Brands, US Medical Aesthetics, International Brands, Global Generics, and Anda Distribution. In addition, certain revenues and shared costs and the results of corporate initiatives are being managed outside of the five segments. The new operating segments are organized as follows:

- The US Brands segment includes sales and expenses relating to branded products within the United States, including certain Botox<sup>®</sup> therapies.
- The US Medical Aesthetics segment includes sales and expenses relating to aesthetics and dermatology products within the United States, including certain Botox<sup>®</sup> therapies.
- The International Brands segment includes sales and expenses relating to countries that sell brand and generic products, but that have the majority of their business represented by branded product sales, as well as sales and expenses relating to branded product sales in Canada, Switzerland and Austria.
- The Global Generics segment includes sales and expenses relating to countries that sell brand and generic products, but that have the majority of their business represented by generic product sales, our third party Medis business, as well as sales and expenses relating to generic sales within the US, Canada, Switzerland and Austria.
- The Anda Distribution segment includes distribution of generic and brand pharmaceutical products manufactured by third parties, as well as by the Company, primarily to independent pharmacies, pharmacy chains, pharmacy buying groups and physicians' offices. The Anda Distribution segment operating results exclude sales of products developed, acquired, or licensed by the US Brands, US Medical Aesthetics, International Brands, and Global Generics segments. The Company evaluates segment performance based on segment contribution. Segment contribution for segments represent net revenues less cost of sales (excluding amortization and impairment of acquired intangibles including product rights), selling and marketing expenses, and select general and administrative expenses. The Company does not evaluate the following items at the segment level:

- Revenues and operating expenses within cost of sales (excluding amortization and impairment of acquired intangibles including product rights), selling and marketing expenses, and general and administrative expenses that result from the impact of corporate initiatives.
- General and administrative expenses that result from shared infrastructure, including 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.

Operating results relating to assets included in the pending transaction with Teva are primarily included within the Global Generics and International Brands segments.

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Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the three months ended June 30, 2015 and 2014 (\$ in millions):

	Three Months Ended June 30, 2015					
	US Brands	US Medical Aesthetics	International Brands	Global Generics	Anda Distribution	Total
Net revenues	\$2,435.7	\$ 486.8	\$ 717.0	\$1,629.0	\$ 462.4	\$5,730.9
Operating expenses:						
Cost of sales <sup>(1)</sup>	307.3	34.0	159.5	680.3	404.5	1,585.6
Selling and marketing	459.4	97.9	181.8	162.1	31.3	932.5
General and administrative	47.2	11.2	47.5	82.2	8.9	197.0
Segment Contribution	\$1,621.8	\$ 343.7	\$ 328.2	\$704.4	\$ 17.7	\$3,015.8
Contribution margin	66.6	% 70.6	% 45.8	% 43.2	% 3.8	% 52.6
Corporate						852.1
Research and development						454.9
Amortization						1,673.5
In-process research and development impairments						197.6
Asset sales and impairments, net						0.6
Operating (loss)						(162.9 )
Operating margin						(2.8 )%

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

	Three Months Ended June 30, 2014					
	US Brands	US Medical Aesthetics	International Brands	Global Generics	Anda Distribution	Total
Net revenues	\$564.6	\$ —	\$ 169.1	\$1,474.6	\$ 427.0	\$2,635.3
Operating expenses:						
Cost of sales <sup>(1)</sup>	71.1	—	74.3	631.2	374.5	1,151.1
Selling and marketing	75.7	—	36.4	136.6	27.1	275.8
General and administrative	24.7	—	13.2	97.0	8.8	143.7
Segment Contribution	\$393.1	\$ —	\$ 45.2	\$609.8	\$ 16.6	\$1,064.7
Contribution margin	69.6	% 0.0	% 26.7	% 41.4	% 3.9	% 40.4
Corporate						255.6
Research and development						158.0
Amortization						422.9
In-process research and development impairments						16.3
Asset sales and impairments, net						5.8
Operating income						206.1
Operating margin						7.8 %

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

The following is a reconciliation of net revenues for the operating segments to the Company's net revenues for the three months ended June 30, 2015 and 2014 (\$ in millions):

	Three Months Ended June 30,	
	2015	2014
Segment net revenues	\$ 5,730.9	\$ 2,635.3
Corporate revenues	24.1	31.9
Net revenues	\$ 5,755.0	\$ 2,667.2



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The following represents net revenues by geographic region for the three months ended June 30, 2015 and 2014 (\$ in millions):

	Three Months Ended June 30,	
	2015	2014
United States	\$ 4,462.0	\$ 1,989.0
International	1,293.0	678.2
Net revenues	\$ 5,755.0	\$ 2,667.2

No other country represents ten percent or more of net revenues.

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the six months ended June 30, 2015 and 2014 (\$ in millions):

	Six Months Ended June 30, 2015					
	US					
	US Brands	Medical Aesthetics	International Brands	Global Generics	Anda Distribution	Total
Net revenues	\$4,234.1	\$ 566.6	\$ 947.5	\$3,260.8	\$ 924.0	\$9,933.0
Operating expenses:						
Cost of sales <sup>(1)</sup>	533.9	39.0	244.3	1,321.7	808.5	2,947.4
Selling and marketing	831.7	111.6	249.6	296.5	62.7	1,552.1
General and administrative	105.7	13.9	70.1	177.2	18.0	384.9
Segment Contribution	\$2,762.8	\$ 402.1	\$ 383.5	\$1,465.4	\$ 34.8	\$5,048.6
Contribution margin	65.3	% 71.0	% 40.5	% 44.9	% 3.8	% 50.8
Corporate						1,792.6
Research and development						885.9
Amortization						2,598.9
In-process research and development impairments						197.6
Asset sales and impairments, net						58.4
Operating (loss)						(484.8 )
Operating margin						(4.9 )%

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

	Six Months Ended June 30, 2014					
	US					
	US Brands	Medical Aesthetics	International Brands	Global Generics	Anda Distribution	Total
Net revenues	\$1,139.4					