Allergan plc
Form 10-Q
August 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

o 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

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	x	NO	¨
Warner Chilcott Limited	YES	x	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	x	NO	¨
Warner Chilcott Limited	YES	x	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	x	Accelerated filer	¨
	Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨
Warner Chilcott Limited	Large accelerated filer	¨	Accelerated filer	¨
	Non-accelerated filer (Do not check if a smaller reporting company)	x	Smaller reporting company	¨

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

Allergan plc	YES	¨	NO	x
Warner Chilcott Limited	YES	¨	NO	x

Number of shares of Allergan plc's Ordinary Shares outstanding on August 3, 2016: 395,952,199. 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, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$489.5	$ 1,096.0
Marketable securities	17.1	9.3
Accounts receivable, net	2,490.5	2,125.4
Inventories	726.8	757.5
Prepaid expenses and other current assets	787.3	495.3
Current assets held for sale	4,244.0	4,095.6
Total current assets	8,755.2	8,579.1
Property, plant and equipment, net	1,557.2	1,531.3
Investments and other assets	352.6	408.7
Non current assets held for sale	10,798.0	10,713.3
Deferred tax assets	179.5	49.5
Product rights and other intangibles	64,460.8	67,836.2
Goodwill	46,515.8	46,465.2
Total assets	$132,619.1	$ 135,583.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$4,490.1	$ 4,148.6
Income taxes payable	92.6	53.7
Current portion of long-term debt and capital leases	2,506.6	2,396.5
Current liabilities held for sale	1,778.1	1,693.2
Total current liabilities	8,867.4	8,292.0
Long-term debt and capital leases	37,075.1	40,133.9
Other long-term liabilities	1,039.6	1,262.0
Long-term liabilities held for sale	476.5	535.4
Other taxes payable	743.0	801.9
Deferred tax liabilities	7,776.7	7,968.8
Total liabilities	55,978.3	58,994.0
Commitments and contingencies (Refer to Note 20)		
Equity:		
Preferred shares, $0.0001 par value per share, 5.1 million shares authorized, 5.1 million and 5.1 million shares issued and outstanding, respectively	$4,929.7	$ 4,929.7
Ordinary shares; $0.0001 par value per share; 1,000.0 million shares authorized,	-	-

395.8 million and 394.5 million shares issued and outstanding, respectively		
Additional paid-in capital	68,769.0	68,508.3
Retained earnings	3,262.3	3,647.5
Accumulated other comprehensive (loss)	(317.1)	(494.1)
Total shareholders' equity	76,643.9	76,591.4
Noncontrolling interest	(3.1)	(2.1)
Total equity	76,640.8	76,589.3
Total liabilities and equity	$ 132,619.1	$ 135,583.3

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$3,684.8	$3,628.7	$7,084.1	$5,611.7
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	441.5	917.8	918.9	1,439.7
Research and development	636.5	349.7	1,039.6	667.4
Selling and marketing	866.8	801.5	1,633.6	1,333.6
General and administrative	343.2	319.6	672.7	848.9
Amortization	1,633.1	1,515.7	3,222.8	2,301.1
In-process research and development impairments	268.9	197.6	274.9	197.6
Asset sales and impairments, net	(17.6)	2.9	(19.3)	7.5
Total operating expenses	4,172.4	4,104.8	7,743.2	6,795.8
Operating (loss)	(487.6)	(476.1)	(659.1)	(1,184.1)
Interest income	2.5	2.6	5.4	4.1
Interest expense	(345.8)	(339.9)	(678.6)	(511.8)
Other (expense) income, net	150.1	(40.4)	150.6	(238.3)
Total other income (expense), net	(193.2)	(377.7)	(522.6)	(746.0)
(Loss) before income taxes and noncontrolling interest	(680.8)	(853.8)	(1,181.7)	(1,930.1)
(Benefit) for income taxes	(258.2)	(381.9)	(666.9)	(652.1)
Net (loss) from continuing operations, net of tax	(422.6)	(471.9)	(514.8)	(1,278.0)
(Loss) / income from discontinued operations, net of tax	(77.3)	230.3	271.3	524.1
Net (loss)	(499.9)	(241.6)	(243.5)	(753.9)
(Income) attributable to noncontrolling interest	(1.8)	(1.5)	(2.5)	(1.2)
Net (loss) attributable to shareholders	(501.7)	(243.1)	(246.0)	(755.1)
Dividends on preferred shares	69.6	69.6	139.2	92.8
Net (loss) attributable to ordinary shareholders	$(571.3)	$(312.7)	$(385.2)	$(847.9)
(Loss) / income per share attributable to ordinary shareholders - basic:				
Continuing operations	$(1.25)	$(1.38)	$(1.66)	$(4.02)
Discontinued operations	(0.19)	0.58	0.69	1.54
Net (loss) per share - basic	$(1.44)	$(0.80)	$(0.97)	$(2.48)
(Loss) / income per share attributable to ordinary shareholders - diluted:				
Continuing operations	$(1.25)	$(1.38)	$(1.66)	$(4.02)

Discontinued operations	(0.19)	0.58	0.69	1.54
Net (loss) per share - diluted	$(1.44)	$(0.80)	$(0.97)	$(2.48)
Weighted average shares outstanding:				
Basic	395.6	392.6	395.2	341.3
Diluted	395.6	392.6	395.2	341.3

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) / INCOME

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss)	$(499.9)	$(241.6)	$(243.5)	$(753.9)
Other comprehensive (loss) / income				
Foreign currency translation (losses) / gains	(349.9)	765.3	192.9	451.4
Unrealized gains / (losses), net of tax	4.4	7.6	(15.9)	3.6
Reclassification for gains included in net income, net of tax	-	-	-	-
Total other comprehensive (loss) / income, net of tax	(345.5)	772.9	177.0	455.0
Comprehensive (loss) / income	(845.4)	531.3	(66.5)	(298.9)
Comprehensive (income) attributable to noncontrolling interest	(1.8)	(1.5)	(2.5)	(1.2)
Comprehensive (loss) / income attributable to ordinary shareholders	$(847.2)	$529.8	$(69.0)	$(300.1)

See accompanying Notes to Consolidated Financial Statements.

ALLERGAN PLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30, 2016	2015
Cash Flows From Operating Activities:		
Net (loss)	$(243.5)	$(753.9)
Reconciliation to net cash provided by operating activities:		
Depreciation	76.9	132.5
Amortization	3,227.6	2,598.9
Provision for inventory reserve	116.9	63.4
Share-based compensation	188.8	400.7
Deferred income tax benefit	(327.1)	(588.9)
In-process research and development impairments	274.9	197.6
Loss / (gain) on asset sales and impairments, net	(19.3)	58.4
Amortization of inventory step-up	42.4	706.1
Amortization of deferred financing costs	21.0	280.5
Contingent consideration adjustments, including accretion	60.8	8.1
Excess tax benefit from stock-based compensation	(31.9)	(36.3)
Other, net	(26.4)	64.3
Changes in assets and liabilities (net of effects of acquisitions):		
Decrease / (increase) in accounts receivable, net	(501.2)	(896.1)
Decrease / (increase) in inventories	(183.2)	(234.8)
Decrease / (increase) in prepaid expenses and other current assets	245.4	83.1
Increase / (decrease) in accounts payable and accrued expenses	424.0	108.6
Increase / (decrease) in income and other taxes payable	(477.6)	(216.2)
Increase / (decrease) in other assets and liabilities	(267.5)	(49.7)
Net cash provided by operating activities	2,601.0	1,926.3
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(182.8)	(248.2)
Additions to product rights and other intangibles	-	(28.5)
Additions to investments	-	(21.0)
Proceeds from sale of investments and other assets	25.5	855.8
Proceeds from sales of property, plant and equipment	14.5	81.5
Acquisitions of businesses, net of cash acquired	-	(35,109.9)
Net cash (used in) investing activities	(142.8)	(34,470.3)
Cash Flows From Financing Activities:		
Proceeds from borrowings of long-term indebtedness	-	26,456.4
Proceeds from borrowings on credit facility and other	900.0	2,882.0
Debt issuance and other financing costs	-	(310.8)
Payments on debt, including capital lease obligations and credit facility	(3,835.6)	(4,096.2)
Proceeds from issuance of preferred shares	-	4,929.7
Proceeds from issuance of ordinary shares	-	4,071.1

Proceeds from stock plans	107.3	108.2
Payments of contingent consideration	(63.8)	(92.0)
Repurchase of ordinary shares	(67.3)	(101.0)
Dividends	(139.2)	(68.7)
Excess tax benefit from stock-based compensation	31.9	36.3
Net cash (used in) / provided by financing activities	(3,066.7)	33,815.0
Effect of currency exchange rate changes on cash and cash equivalents	2.0	(3.1)
Net (decrease) / increase in cash and cash equivalents	(606.5)	1,267.9
Cash and cash equivalents at beginning of period	1,096.0	250.0
Cash and cash equivalents at end of period	$489.5	$1,517.9
Schedule of Non-Cash Investing and Financing Activities:		
Dividends accrued	$24.2	$24.0
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, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$487.2	$ 1,036.2
Marketable securities	17.1	9.3
Accounts receivable, net	2,490.5	2,125.4
Receivables from Parents	99.8	457.3
Inventories	726.8	757.5
Prepaid expenses and other current assets	785.1	492.8
Current assets held for sale	4,244.0	4,095.6
Total current assets	8,850.5	8,974.1
Property, plant and equipment, net	1,557.2	1,531.3
Investments and other assets	352.6	408.7
Non current assets held for sale	10,798.0	10,713.3
Deferred tax assets	179.4	49.5
Product rights and other intangibles	64,460.8	67,836.2
Goodwill	46,515.8	46,465.2
Total assets	$132,714.3	$ 135,978.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$4,461.7	$ 4,094.5
Payables to Parents	1,533.3	1,466.8
Income taxes payable	92.6	53.7
Current portion of long-term debt and capital leases	2,506.6	2,396.5
Current liabilities held for sale	1,778.1	1,693.2
Total current liabilities	10,372.3	9,704.7
Long-term debt and capital leases	37,075.1	40,133.9
Other long-term liabilities	1,039.6	1,262.0
Long-term liabilities held for sale	476.5	535.4
Other taxes payable	743.0	801.9
Deferred tax liabilities	7,776.7	7,968.8
Total liabilities	57,483.2	60,406.7
Commitments and contingencies		
Equity:		
Members' capital	72,935.1	72,935.1
Retained earnings	2,616.2	3,132.7
Accumulated other comprehensive (loss)	(317.1)	(494.1)
Total members’ equity	75,234.2	75,573.7
Noncontrolling interest	(3.1)	(2.1)
Total equity	75,231.1	75,571.6

Total liabilities and equity	$132,714.3	$ 135,978.3

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net revenues	$3,684.8	$3,628.7	$7,084.1	$5,611.7
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	441.5	917.8	918.9	1,439.7
Research and development	636.5	349.7	1,039.6	667.4
Selling and marketing	866.8	801.5	1,633.6	1,333.6
General and administrative	339.7	315.4	654.0	841.1
Amortization	1,633.1	1,515.7	3,222.8	2,301.1
In-process research and development impairments	268.9	197.6	274.9	197.6
Asset sales and impairments, net	(17.6)	2.9	(19.3)	7.5
Total operating expenses	4,168.9	4,100.6	7,724.5	6,788.0
Operating (loss)	(484.1)	(471.9)	(640.4)	(1,176.3)
Non-operating income (expense):				
Interest income	2.5	2.6	5.4	4.1
Interest expense	(345.8)	(339.9)	(678.6)	(511.8)
Other income (expense), net	0.1	(40.4)	0.6	(238.3)
Total other income (expense), net	(343.2)	(377.7)	(672.6)	(746.0)
(Loss) before income taxes and noncontrolling interest	(827.3)	(849.6)	(1,313.0)	(1,922.3)
(Benefit) for income taxes	(258.2)	(381.9)	(666.9)	(652.1)
Net (loss) from continuing operations, net of tax	(569.1)	(467.7)	(646.1)	(1,270.2)
(Loss) / income from discontinued operations, net of tax	(77.3)	230.3	271.3	524.1
Net (loss)	(646.4)	(237.4)	(374.8)	(746.1)
(Income) attributable to noncontrolling interest	(1.8)	(1.5)	(2.5)	(1.2)
Net (loss) attributable to members	$(648.2)	$(238.9)	$(377.3)	$(747.3)

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) / INCOME

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss)	$(646.4)	$(237.4)	$(374.8)	$(746.1)
Other comprehensive (loss) / income				
Foreign currency translation (losses) / gains	(349.9)	765.3	192.9	451.4
Unrealized gains / (losses), net of tax	4.4	7.6	(15.9)	3.6
Reclassification for gains included in net income, net of tax	-	-	-	-
Total other comprehensive (loss) / income, net of tax	(345.5)	772.9	177.0	455.0
Comprehensive (loss) / income	(991.9)	535.5	(197.8)	(291.1)
Comprehensive (income) attributable to noncontrolling interest	(1.8)	(1.5)	(2.5)	(1.2)
Comprehensive (loss) / income attributable to ordinary shareholders	$(993.7)	$534.0	$(200.3)	$(292.3)

See accompanying Notes to Consolidated Financial Statements.

WARNER CHILCOTT LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30, 2016			2015		
Cash Flows From Operating Activities:						
Net (loss)	$	(374.8	)	$	(746.1	)
Reconciliation to net cash provided by operating activities:						
Depreciation		76.9			132.5	
Amortization		3,227.6			2,598.9	
Provision for inventory reserve		116.9			63.4	
Share-based compensation		188.8			400.7	
Deferred income tax benefit		(327.1	)		(588.9	)
In-process research and development impairments		274.9			197.6	
Loss / (gains) on asset sales and impairments, net		(19.3	)		58.4	
Amortization of inventory step-up		42.4			706.1	
Amortization of deferred financing costs		21.0			280.5	
Contingent consideration adjustments, including accretion		60.8			8.1	
Other, net		(26.4	)		64.3	
Changes in assets and liabilities (net of effects of acquisitions):						
Decrease / (increase) in accounts receivable, net		(501.2	)		(895.4	)
Decrease / (increase) in inventories		(183.2	)		(234.8	)

Decrease / (increase) in prepaid expenses and other current assets	243.2	81.9
Increase / (decrease) in accounts payable and accrued expenses	452.4	142.9
Increase / (decrease) in income and other taxes payable	(477.6)	(216.2)
Increase / (decrease) in other assets and liabilities, including receivable / payable with Parents	(64.9)	(130.8)
Net cash provided by operating activities	2,730.4	1,923.1
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(182.8)	(248.2)
Additions to product rights and other intangibles	-	(28.5)
Additions to investments	-	(21.0)
Proceeds from the sale of investments and other assets	25.5	855.8
Proceeds from sales of property, plant and equipment	14.5	81.5
Acquisitions of businesses, net of cash acquired	-	(35,109.9)
Net cash (used in) investing activities	(142.8)	(34,470.3)
Cash Flows From Financing Activities:		
Proceeds from borrowings of long-term indebtedness	-	26,456.4
Proceeds from borrowings on credit facility and other	900.0	2,882.0
Debt issuance and other financing costs	-	(310.8)
Payments on debt, including capital lease	(3,835.6)	(4,096.2)

obligations and credit facility						
Payments of contingent consideration		(63.8	)		(92.0	)
Dividend to Parent		(139.2	)		(68.8	)
Contribution from Parent		-			9,000.8	
Net cash (used in) provided by financing activities		(3,138.6	)		33,771.4	
Effect of currency exchange rate changes on cash and cash equivalents		2.0			(3.1	)
Net (decrease) / increase in cash and cash equivalents		(549.0	)		1,221.1	
Cash and cash equivalents at beginning of period		1,036.2			244.3	
Cash and cash equivalents at end of period	$	487.2		$	1,465.4	

See accompanying Notes to Consolidated Financial Statements

ALLERGAN PLC AND WARNER CHILCOTT LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — General

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

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

With commercial operations in over 100 countries, Allergan is committed to working with physicians, healthcare providers and patients to deliver innovative and meaningful treatments that help people around the world live longer, healthier lives. Warner Chilcott Limited is a wholly-owned subsidiary of Allergan plc and has the same principal business activities. As a result of the Allergan Acquisition (defined below) which closed on March 17, 2015, the Company expanded its franchises to include ophthalmology, neurosciences and medical aesthetics/dermatology/plastic surgery, which 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 Allergan Acquisition also expanded our presence and market and product reach across many international markets, with strengthened commercial positions across Canada, Europe, Southeast Asia and other high-value growth markets, including China, India, the Middle East and Latin America.

On July 26, 2015 we entered into a master purchase agreement (the "Teva Agreement"), under which Teva Pharmaceutical Industries Ltd. ("Teva") agreed to acquire our global generic pharmaceuticals business and certain other assets (the "Teva Transaction"). Upon the closing of the Teva Transaction on August 2, 2016, we received $33.4 billion in cash which includes estimated working capital and other contractual adjustments, and 100.3 million unregistered Teva ordinary shares (or American Depository Shares with respect thereto), which approximated $5.0 billion in value using the closing date Teva opening stock price discounted at a rate of 5.9 percent due to the lack of marketability. As part of the Teva agreement, Teva acquired our global generics business, including the United States ("U.S.") and international generic commercial units, our third-party supplier Medis, our global generic manufacturing operations, our global generic research and development ("R&D") unit, our international OTC commercial unit (excluding OTC eye care products) and some established international brands.

On June 30, 2016, the Company held for sale its Anda Distribution business, which distributes generic, brand, specialty and OTC pharmaceutical products from more than 300 manufacturers to retail independent and chain pharmacies, nursing homes, mail order pharmacies, hospitals, clinics and physician offices across the United States. The Company decided to hold for sale this business unit as the Company intends to continue its evolution into a focused branded pharmaceutical company. On August 2, 2016, the Company entered into a definitive agreement under which Teva will acquire the Anda Distribution business for $500.0 million. The transaction is expected to close in the second half of 2016 and is subject to customary closing conditions, including antitrust clearance in the U.S.

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

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

The accompanying consolidated financial statements should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2015 (“Annual Report”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) have been condensed or omitted from the accompanying consolidated financial statements. The accompanying year end consolidated balance sheet was derived from the audited financial statements included in the Annual Report as revised for discontinued operations treatment of our Anda Distribution business. The accompanying interim financial statements are unaudited and reflect all adjustments which are in the opinion of management necessary for a fair statement of the Company’s consolidated financial position, results of operations, comprehensive (loss) / income and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. All intercompany transactions and balances have been eliminated in consolidation. The Company’s results of operations, comprehensive (loss) / income and cash flows for the interim periods are not necessarily indicative of the results of operations, comprehensive (loss) / income and cash flows that it may achieve in future periods.

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

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

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

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

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

	As of June 30, 2016			As of December 31, 2015		
	Allergan plc	Warner	Difference	Allergan plc	Warner	Difference

		Chilcott Limited			Chilcott Limited	
Cash and cash equivalents	$489.5	$487.2	$ 2.3	$1,096.0	$1,036.2	$ 59.8
Prepaid expenses and other current assets	787.3	785.1	2.2	495.3	492.8	2.5
Accounts payable and accrued liabilities	4,490.1	4,461.7	28.4	4,148.6	4,094.5	54.1

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	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Allergan plc	Warner Chilcott Limited	Difference	Allergan plc	Warner Chilcott Limited	Difference
General and administrative expenses	$343.2	$339.7	$ 3.5	$672.7	$654.0	$ 18.7
Operating (loss)	(487.6)	(484.1)	(3.5)	(659.1)	(640.4)	(18.7)
Other income / (expense)	150.1	0.1	150.0	150.6	0.6	150.0
(Loss) before income taxes and noncontrolling interest	(680.8)	(827.3)	146.5	(1,181.7)	(1,313.0)	131.3
Net (loss) from continuing operations, net of tax	(422.6)	(569.1)	146.5	(514.8)	(646.1)	131.3
Net (loss)	(499.9)	(646.4)	146.5	(243.5)	(374.8)	131.3
Dividends on preferred stock	69.6	-	69.6	139.2	-	139.2
Net (loss) attributable to ordinary shareholder/members	(571.3)	(648.2)	76.9	(385.2)	(377.3)	(7.9)

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Allergan plc	Warner Chilcott Limited	Difference	Allergan plc	Warner Chilcott Limited	Difference
General and administrative expenses	$319.6	$315.4	$ 4.2	$848.9	$841.1	$ 7.8
Operating (loss)	(476.1)	(471.9)	(4.2)	(1,184.1)	(1,176.3)	(7.8)
(Loss) before income taxes and noncontrolling interest	(853.8)	(849.6)	(4.2)	(1,930.1)	(1,922.3)	(7.8)
Net (loss) from continuing operations, net of tax	(471.9)	(467.7)	(4.2)	(1,278.0)	(1,270.2)	(7.8)
Net (loss)	(241.6)	(237.4)	(4.2)	(753.9)	(746.1)	(7.8)
Dividends on preferred stock	69.6	-	69.6	92.8	-	92.8
Net (loss) attributable to ordinary shareholder/members	(312.7)	(238.9)	(73.8)	(847.9)	(747.3)	(100.6)

The difference between general and administrative expenses in the three and six months ended June 30, 2016 and 2015 were due to corporate related expenses incurred at Allergan plc as well as non-recurring transaction costs.

Movements in equity are due to historical differences in the results of operations of the companies and differences in equity awards.

NOTE 3 — Summary of Significant Accounting Policies

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

Reclassifications

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

Revenue Recognition

General

Revenue from product sales is recognized when title and risk of loss to the product transfers to the customer, which is based on the transaction shipping terms. Recognition of revenue also requires reasonable assurance of collection of sales proceeds, the seller’s price to the buyer to be fixed or determinable and the completion of all performance obligations. The Company warrants products against defects and for specific quality standards, permitting the return of products under certain circumstances. Product sales are recorded net of all sales-related deductions including, but not limited to: chargebacks, trade discounts, 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.

Provisions for SRAs

As is customary in the pharmaceutical industry, our gross product sales are subject to a variety of deductions in arriving at reported net product sales. When the Company recognizes gross revenue from the sale of products, an estimate of SRA is recorded, which reduces the product revenues. Accounts receivable and/or accrued liabilities are also reduced and/or increased by the SRA amount depending on whether we have the right of offset with the customer. These provisions are estimated based on historical payment experience, historical relationship of the deductions to gross product revenues, government regulations, estimated utilization or redemption rates, estimated customer inventory levels and current contract sales terms. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material revenue adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of the SRA reserves to ensure that our financial statements are fairly stated.

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

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

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

Returns and Other Allowances — The Company’s provision for returns and other allowances include returns, 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, (primarily related to our former generics business) 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, which primarily relate to our former generics business, 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 are accrued based on historical experience, contract terms and the volume of product and cards in the distribution channel.

Accounts receivable balances in the Company's consolidated financial statements are presented net of SRA estimates. SRA balances in accounts receivable were $181.4 million and $245.2 million at June 30, 2016 and December 31, 2015, respectively. SRA balances within accounts payable and accrued expenses were $1,713.0 million and $1,570.0 million at June 30, 2016 and December 31, 2015, respectively. The movements in the SRA reserve balances for continuing operations in the six months ended June 30, 2016 are as follows ($ in millions):

Balance as of December 31, 2015	$1,815.2
Provision to reduce gross product sales to net product sales	3,395.7
Payments and other	(3,316.5)
Balance as of June 30, 2016	$1,894.4

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Gross product sales	$5,388.4	$4,945.3	$10,394.8	$7,907.4
Provisions to reduce gross product sales to net product sales	(1,754.1)	(1,361.7)	(3,395.7)	(2,367.8)
Net product sales	$3,634.3	$3,583.6	$6,999.1	$5,539.6

Percentage of provisions to gross sales	32.6 %	27.5 %	32.7 %	29.9 %

The Company also had SRA reserves relating to discontinued operations of $1,703.1 million and $1,738.7 million as of June 30, 2016 and December 31, 2015, respectively.

Goodwill and Intangible Assets with Indefinite-Lives

General

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

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

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

In the second quarter of 2016, the Company tested its indefinite-lived trade name intangible assets for impairment noting no impairment.

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

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 FASB Accounting Standards Codification ("ASC") Topic 450 "Contingencies" ("ASC 450"). Accruals are recorded when the Company determines that a loss related to a matter is both probable and reasonably estimable. These accruals are adjusted periodically as assessment efforts progress or as additional information becomes available. Acquired contingencies in business combinations are recorded at fair value to the extent determinable, otherwise in accordance ASC 450. Refer to "NOTE 20 — Commitments and Contingencies" for more information.

Earnings Per Share ("EPS")

The Company computes EPS in accordance with ASC Topic 260, "Earnings Per Share" ("ASC 260") and related guidance, which requires two calculations of EPS to be disclosed: basic and diluted. Basic EPS is computed by dividing net (loss) / income by the weighted average ordinary shares outstanding during a period. Diluted EPS is based on the treasury stock method and includes the effect from potential issuance of ordinary shares, such as shares issuable pursuant to the exercise of stock options and restricted stock units. Diluted EPS also includes the impact of ordinary share equivalents to be issued upon the mandatory conversion of the Company's preferred shares. Ordinary share equivalents have been excluded where their inclusion would be anti-dilutive.

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, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net (loss) / income:				
Net (loss) attributable to ordinary shareholders excluding income from discontinued operations, net of tax	$(494.0)	$(543.0)	$(656.5)	$(1,372.0)
Income from discontinued operations, net of tax	(77.3)	230.3	271.3	524.1
Net (loss) attributable to ordinary shareholders	$(571.3)	$(312.7)	$(385.2)	$(847.9)
Basic weighted average ordinary shares outstanding	395.6	392.6	395.2	341.3
Basic EPS:				
Continuing operations	$(1.25)	$(1.38)	$(1.66)	$(4.02)
Discontinued operations	$(0.19)	$0.58	$0.69	$1.54
Net (loss) per share	$(1.44)	$(0.80)	$(0.97)	$(2.48)