

ADURO BIOTECH, INC.
Form 10-Q
August 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 001-37345

ADURO BIOTECH, INC.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction) 94-3348934
(I.R.S. Employer)

of incorporation or organization) Identification No.)

740 Heinz Avenue

Berkeley, California 94710

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(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (510) 848-4400

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. 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). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company) Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Registrant's Common Stock outstanding as of July 27, 2018 was 79,059,764.

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In this Quarterly Report on Form 10-Q, “we,” “our,” “us,” “Aduro” and the “Company” refer to Aduro Biotech, Inc. and its consolidated subsidiaries. Aduro, Aduro Biotech, the Aduro logo and other trade names, trademarks or service marks of Aduro are the property of Aduro Biotech, Inc. This report contains references to our trademarks and to trademarks belonging to other entities. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective holders. We do not intend our use or display of other companies’ trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I—FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements (unaudited)****ADURO BIOTECH, INC.****Condensed Consolidated Balance Sheets**

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$114,401	\$157,614
Short-term marketable securities	174,711	168,489
Accounts receivable	1,042	989
Income tax receivable	17,495	17,495
Prepaid expenses and other current assets	4,606	5,544
Total current assets	312,255	350,131
Long-term marketable securities	16,783	23,614
Property and equipment, net	30,331	31,085
Goodwill	8,506	8,723
Intangible assets, net	30,044	31,107
Restricted cash	468	468
Total assets	\$398,387	\$445,128
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$992	\$1,150
Accrued clinical trial and manufacturing expenses	4,110	5,898
	58,536	58,523

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(In millions)

	Years Ended September 30		
	2016	2015	2014
Net Income	\$ 122.8	\$ 46.8	\$ 60.6
Other Comprehensive Loss, Net of Tax:			
Available-for-sale securities and hedges	(3.1)	-	0.3
Foreign currency translation adjustment	(22.4)	(58.6)	(29.6)
Change in pension and postretirement defined benefit plans	(2.8)	(8.1)	(9.1)
Total Other Comprehensive Loss, Net of Tax	(28.3)	(66.7)	(38.4)
Total Comprehensive Income (Loss)	94.5	(19.9)	22.2
Less: Comprehensive loss attributable to noncontrolling interests	(1.3)	(0.9)	-
Total Comprehensive Income (Loss) Attributable to Common Shareholders	\$ 95.8	\$ (19.0)	\$ 22.2

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	September 30 2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$232.2	\$192.8
Trade accounts receivable, less allowances of \$26.8 in 2016 and \$26.0 in 2015 (Note 1)	515.1	494.7
Inventories (Note 1)	252.0	267.4
Deferred income taxes (Notes 1 and 9)	-	77.0
Other current assets	82.8	109.1
Total current assets	1,082.1	1,141.0
Property, plant, and equipment (Note 1)	961.8	976.4
Less accumulated depreciation	(611.8)	(598.0)
Property, plant, and equipment, net	350.0	378.4
Intangible assets:		
Goodwill (Notes 1, 2 and 3)	1,584.4	1,610.5
Other intangible assets and software, net (Notes 1, 2 and 3)	1,143.3	1,247.7
Deferred income taxes (Notes 1 and 9)	43.1	21.6
Other assets	59.5	58.4
Total Assets	\$4,262.4	\$4,457.6
LIABILITIES		
Current Liabilities		
Trade accounts payable	\$136.0	\$136.3
Short-term borrowings (Note 4)	210.1	58.0
Accrued compensation	127.0	171.8
Accrued product warranties (Note 1)	27.5	32.1
Accrued rebates	40.8	33.7
Other current liabilities	120.9	146.9
Total current liabilities	662.3	578.8
Long-term debt (Note 4)	1,938.4	2,175.2
Accrued pension and postretirement benefits (Note 6)	99.0	118.8
Deferred income taxes (Notes 1 and 9)	287.8	380.6
Other long-term liabilities	39.0	47.3
Total Liabilities	3,026.5	3,300.7
Commitments and Contingencies (Note 13)		
SHAREHOLDERS' EQUITY (Note 7)		
Capital Stock:		
Preferred stock - without par value:		
Authorized - 1,000,000 shares; none issued or outstanding	-	-
Common stock - without par value:		

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Authorized - 199,000,000		
Issued - 88,457,634 shares in 2016 and 2015	4.4	4.4
Additional paid-in-capital	575.9	562.0
Retained earnings	1,589.7	1,509.9
Accumulated other comprehensive loss (Note 1)	(169.1)	(140.8)
Treasury stock, common shares at cost: 2016 - 22,752,381 and 2015 - 23,291,738	(773.7)	(788.6)
Total Shareholders' Equity Attributable to Common Shareholders	1,227.2	1,146.9
Noncontrolling interests	8.7	10.0
Total Shareholders' Equity	1,235.9	1,156.9
Total Liabilities and Shareholders' Equity	\$4,262.4	\$4,457.6

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries
STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions)

	Years Ended September 30		
	2016	2015	2014
Operating Activities			
Net income	\$122.8	\$46.8	\$60.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	86.2	73.6	65.4
Amortization	26.9	10.5	12.2
Acquisition-related intangible asset amortization	95.9	34.1	28.8
Loss on extinguishment of debt	10.8	-	-
Provision for deferred income taxes	(0.5)	(22.3)	3.9
Loss on disposal of property, equipment leased to others, intangible assets and impairments	1.9	0.5	7.2
Pension settlement charge	-	9.6	-
Pension contribution to master pension plan	(30.0)	-	-
Gain on sale of non-core products	(10.1)	-	-
Stock compensation	23.1	25.0	18.0
Excess tax benefits from employee stock plans	(3.6)	(3.6)	0.3
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	(15.8)	(39.7)	17.1
Inventories	21.3	11.0	9.1
Other current assets	27.7	(7.7)	(2.6)
Trade accounts payable	(0.5)	0.7	7.0
Accrued expenses and other liabilities	(73.0)	53.8	(12.5)
Other, net	(1.9)	21.5	(4.2)
Net cash provided by operating activities	281.2	213.8	210.3
Investing Activities			
Capital expenditures and purchases of intangible assets	(83.3)	(121.3)	(62.7)
Proceeds on sale of property and equipment leased to others	2.2	1.5	2.4
Payment for acquisition of businesses, net of cash acquired	(25.3)	(1,638.7)	(239.5)
Proceeds on sale of non-core products	10.3	-	-
Refund on acquisition of businesses	-	-	4.6
Other	(1.6)	2.1	0.7
Net cash used in investing activities	(97.7)	(1,756.4)	(294.5)
Financing Activities			
Net change in short-term debt	-	(0.7)	(0.2)
Borrowings on revolving credit facility	156.9	95.0	252.0
Payments on revolving credit facility	(20.0)	(135.0)	(57.0)
Proceeds from long-term debt	530.4	2,225.0	0.8
Payment of long-term debt	(767.9)	(401.6)	(11.4)
Payment of acquired debt	-	-	(26.8)
Repurchase of registered debentures	-	(5.9)	-
Debt issuance costs	(2.3)	(50.3)	-

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Purchase of noncontrolling interest of former joint venture	(0.4)	(1.9)	(1.3)
Payment of cash dividends	(43.8)	(37.1)	(34.2)
Proceeds from exercise of stock options	6.2	12.1	11.5
Proceeds from stock issuance	3.8	2.8	2.5
Excess tax benefits from employee stock plans	3.6	3.6	(0.3)
Treasury stock acquired	(8.4)	(63.3)	(71.8)
Net cash provided by (used in) financing activities	(141.9)	1,642.7	63.8
Effect of exchange rate changes on cash	(2.2)	(6.6)	(7.7)
Net Cash Flows	39.4	93.5	(28.1)
Cash and Cash Equivalents			
At beginning of period	192.8	99.3	127.4
At end of period	\$232.2	\$192.8	\$99.3

Supplemental cash flow information:

Cash paid for income taxes	\$10.9	\$49.1	\$44.4
Cash paid for interest	\$80.9	\$6.3	\$7.8
Non-cash investing and financing activities:			
Treasury stock issued under stock compensation plans	\$23.3	\$32.4	\$20.6
Common stock issued for acquisition of businesses	\$-	\$416.3	\$-

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(In millions, except share amounts)

	Common Stock Shares	Additional Paid-in-Capital Outstanding	Retained Earnings	Other (Loss)	Comprehensive Income	Common Stock Shares	Treasury Stock	Total Equity Attributable to Common Shareholders	Total Noncontrolling Interests	Total
Balance at September 30, 2013										
	58,523,392	\$4.4	\$122.7	\$1,473.8	\$(35.7)	21,800,520	\$(706.5)	\$858.7		\$858.7
Net income	-	-	-	60.6	-	-	-	60.6	-	60.6
Other comprehensive loss, net of tax of \$4.9	-	-	-	-	(38.4)	-	-	(38.4)	-	(38.4)
Dividends	-	-	0.4	(34.6)	-	-	-	(34.2)	-	(34.2)
Treasury shares acquired	(1,709,523)	-	-	-	-	1,709,523	(71.8)	(71.8)	-	(71.8)
Stock awards and option exercises	626,042	-	11.0	-	-	(626,042)	20.6	31.6	-	31.6
Balance at September 30, 2014										
	57,439,911	4.4	134.1	1,499.8	(74.1)	22,884,001	(757.7)	806.5		806.5
Net income	-	-	-	47.7	-	-	-	47.7	(0.9)	46.8
Consolidation of noncontrolling interest	-	-	-	-	-	-	-	-	10.9	10.9
Other comprehensive loss, net of tax of \$5.1	-	-	-	-	(66.7)	-	-	(66.7)	-	(66.7)
Dividends	-	-	0.5	(37.6)	-	-	-	(37.1)	-	(37.1)
Issuance of common stock	8,133,722	-	416.3	-	-	-	-	416.3	-	416.3
Treasury shares acquired	(1,373,321)	-	-	-	-	1,373,321	(63.3)	(63.3)	-	(63.3)
Stock awards and option exercises	965,584	-	11.1	-	-	(965,584)	32.4	43.5	-	43.5

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Balance at September 30, 2015	65,165,896	4.4	562.0	1,509.9	(140.8)	23,291,738	(788.6)	1,146.9	10.0	1,156.9
Net income	-	-	-	124.1	-	-	-	124.1	(1.3)	122.8
Other comprehensive loss, net of tax of \$1.3	-	-	-	-	(28.3)	-	-	(28.3)	-	(28.3)
Dividends	-	-	0.5	(44.3)	-	-	-	(43.8)	-	(43.8)
Treasury shares acquired	(148,203)	-	-	-	-	148,203	(8.4)	(8.4)	-	(8.4)
Stock awards and option exercises	687,560	-	13.4	-	-	(687,560)	23.3	36.7	-	36.7
Balance at September 30, 2016	65,705,253	\$4.4	\$575.9	\$1,589.7	\$(169.1)	22,752,381	\$(773.7)	\$1,227.2	\$8.7	\$1,235.9

See Notes to Consolidated Financial Statements.

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Hill-Rom Holdings, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions except per share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hill-Rom Holdings, Inc. (the “Company,” “Hill-Rom,” “we,” “us,” or “our”) was incorporated on August 7, 1969 in the State of Indiana and is headquartered in Chicago, Illinois. We are a leading global medical technology company with approximately 10,000 employees worldwide. We partner with health care providers in more than 100 countries by focusing on patient care solutions that improve clinical and economic outcomes in four reportable segments, each of which is generally aligned by region and/or product type. Around the world, Hill-Rom’s people, products, and programs work towards one mission: Enhancing outcomes for patients and their caregivers.

Basis of Presentation and Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hill-Rom and its wholly-owned subsidiaries. In addition, we also consolidate variable interest entities (“VIEs”) where Hill-Rom is deemed to have a controlling financial interest. Intercompany accounts and transactions have been eliminated in consolidation, including the intercompany transactions with consolidated VIEs. Where our ownership interest is less than 100 percent, the noncontrolling interests are reported in our Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Examples of such estimates include our accounts receivable reserves (Note 1), accrued warranties (Note 1), the impairment of intangibles and goodwill (Note 3), use of the spot yield curve approach for pension expense (Note 6), income taxes (Notes 1 and 9) and commitments and contingencies (Note 13), among others.

Cash and Cash Equivalents

We consider investments in marketable securities and other highly liquid instruments with a maturity of three months or less at date of purchase to be cash equivalents. Investments which have no stated maturity are also considered cash equivalents. All of our marketable securities may be freely traded.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest, unless the transaction is an installment sale with payment terms exceeding one year. Reserves for uncollectible accounts represent our best estimate of the amount of probable credit losses and collection risk in our existing accounts receivable. We determine such reserves based on historical write-off experience by industry and reimbursement platform. Receivables are generally reviewed on a pooled basis based on historical collection experience for each reimbursement and receivable type. Receivables for sales transactions are also reviewed individually for collectability. Account balances are charged against the allowance when we believe it is probable the receivable will not be recovered. We do not have any

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off-balance sheet credit exposure related to our customers. If circumstances change, such as higher than expected claims denials, payment defaults, changes in our business composition or processes, adverse changes in general economic conditions, unfavorable impacts of austerity measures initiated by some governmental authorities, instability or disruption of credit markets, or an unexpected material adverse change in a major customer's or payer's ability to meet its obligations, our estimates of the realizability of trade receivables could be reduced by a material amount.

Within rental revenue, the domestic third-party payers' reimbursement process requires extensive documentation, which has had the effect of slowing both the billing and cash collection cycles relative to the rest of the business, and therefore, increasing total accounts receivable. Because of the extensive documentation required and the requirement to settle a claim with the primary payer prior to billing the secondary and/or patient portion of the claim, the collection period for a claim in a portion of our business may, in some cases, be extended.

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We generally hold our trade accounts receivable until they are paid. Certain long-term receivables are occasionally sold to third parties; however, any recognized gain or loss on such sales has historically not been material.

Inventories

Inventories are valued at the lower of cost or market. Inventory costs are determined by the last-in, first-out (“LIFO”) method for approximately 26 and 21 percent of our inventories at September 30, 2016 and 2015. Costs for other inventories have been determined principally by the first-in, first-out (“FIFO”) method. Inventories consist of the following:

	September 30	
	2016	2015
Finished products	\$124.2	\$133.2
Work in process	35.7	46.1
Raw materials	92.1	88.1
Total	\$252.0	\$267.4

If the FIFO method of inventory accounting, which approximates current cost, had been used for all inventories, they would have been approximately \$2.1 million and \$3.2 million higher than reported at September 30, 2016 and 2015.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated over the estimated useful life of the assets using principally the straight-line method. Ranges of estimated useful lives are as follows:

	Useful Life
Land improvements	6 - 15 years
Buildings and building equipment	10 - 40 years
Machinery and equipment	3 - 10 years
Equipment leased to others	2 - 10 years

When property, plant and equipment is retired from service or otherwise disposed of, the cost and related amount of depreciation or amortization are eliminated from the asset and accumulated depreciation accounts. The difference, if any, between the net asset value and the proceeds on sale are charged or credited to income. Total depreciation expense for fiscal years 2016, 2015 and 2014 was \$86.2 million, \$73.6 million and \$65.4 million, respectively. The major components of property and the related accumulated depreciation were as follows:

	September 30			
	2016	2015	Accumulated Cost	Accumulated Depreciation
Land and land improvements	\$21.5	\$ 3.1	\$23.3	\$ 2.8
Buildings and building equipment	186.9	91.9	196.2	90.3
Machinery and equipment	380.6	239.2	369.5	226.5
Equipment leased to others	372.8	277.6	387.4	278.4
Total	\$961.8	\$ 611.8	\$976.4	\$ 598.0

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Intangible Assets

Intangible assets are stated at cost and consist predominantly of goodwill, software, patents, acquired technology, trademarks, and acquired customer relationship assets. With the exception of goodwill and certain trademarks, our intangible assets are amortized on a straight-line basis over periods generally ranging from 1 to 20 years.

We assess the carrying value of goodwill and non-amortizable intangibles annually, during the third quarter of each fiscal year, or more often if events or changes in circumstances indicate there may be impairment. Goodwill is allocated among the reporting units based on the relative fair value of those units.

The majority of our goodwill and many of our intangible assets are not deductible for income tax purposes. A summary of intangible assets and the related accumulated amortization and impairment losses follows:

	September 30			
	2016		2015	
	Cost	Amortization and Impairment	Cost	Amortization and Impairment
Goodwill	\$2,057.2	\$ 472.8	\$2,083.3	\$ 472.8
Software	174.1	140.0	181.7	139.2
Patents and Trademarks	497.1	19.2	497.6	16.9
Other	870.4	239.1	872.8	148.3
Total	\$3,598.8	\$ 871.1	\$3,635.4	\$ 777.2

Amortization expense for fiscal years 2016, 2015 and 2014 was \$122.8 million, \$44.6 million and \$41.0 million, respectively. As further discussed in Note 3 of our Consolidated Financial Statements, we have various indefinite-lived intangible assets representing trade names with a carrying value of \$466.9 million at September 30, 2016 and September 30, 2015. Amortization expense for all other intangibles is expected to approximate the following for each of the next five fiscal years and thereafter:

	Amount
2017	\$ 112.7
2018	\$ 103.9
2019	\$ 91.1
2020	\$ 78.3
2021	\$ 70.2
2022 and beyond	\$ 220.2

Software consists mainly of capitalized costs associated with internal use software, including applicable costs associated with the implementation/upgrade of our Enterprise Resource Planning systems. In addition, software includes capitalized development costs for software products to be sold. Capitalized software costs are amortized on a straight-line basis over periods ranging from three to ten years. Software amortization expense approximated \$17.0 million, \$9.8 million and \$11.5 million for fiscal years 2016, 2015 and 2014, respectively and is included in the total intangibles amortization presented earlier.

Other includes mainly customer relationships and developed technology at Welch Allyn. The cost and amortization amounts of customer relationships at Welch Allyn were \$514.1 million and \$62.1 million as of September 30, 2016 and \$516.8 million and \$2.5 million as of September 30, 2015. The cost and amortization amounts of developed technology at Welch Allyn were \$54.0 million and \$8.6 million as of September 30, 2016 and \$54.0 million and \$0.5

million as of September 30, 2015.

Fair Value Measurements

Fair value measurements are classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.

Level 2: Financial instruments with observable inputs other than those included in Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Financial instruments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Unobservable inputs reflect our own assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include our own data.

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We record cash and cash equivalents, as disclosed on our Consolidated Balance Sheets, as Level 1 instruments and certain other investments and insignificant derivatives as either Level 2 or 3 instruments. There have not been significant changes in our classification among assets and liabilities. Refer to Note 4 of our Consolidated Financial Statements for disclosure of our debt instrument fair values.

Guarantees

We routinely grant limited warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year, however, certain components and products have substantially longer warranty periods. We recognize a reserve with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters which might require a broad-based correction, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated.

A reconciliation of changes in our warranty reserve is as follows:

	2016	2015	2014
Balance at October 1	\$32.1	\$28.4	\$38.1
Provision for warranties during the period	13.9	14.7	9.8
Warranty reserves acquired	2.6	7.1	3.0
Warranty claims incurred during the period	(21.1)	(18.1)	(22.5)
Balance at September 30	\$27.5	\$32.1	\$28.4

In the normal course of business, we enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers, business partners and others. Examples of these arrangements would include guarantees of product performance, indemnifications to service providers and indemnifications of our actions to business partners. These guarantees and indemnifications have not historically nor do we expect them to have a material impact on our financial condition or results of operations, although indemnifications associated with our actions generally have no dollar limitations.

In conjunction with our acquisition and divestiture activities, we have entered into select guarantees and indemnifications of performance with respect to the fulfillment of our commitments under applicable purchase and sale agreements. The arrangements generally indemnify the buyer or seller for damages associated with breach of contract, inaccuracies in representations and warranties surviving the closing date and satisfaction of liabilities and commitments retained under the applicable contract. With respect to sale transactions, we also routinely enter into non-competition agreements for varying periods of time. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have a materially adverse impact on our financial condition and results of operations.

Accrued Rebates

We provide rebates and sales incentives to certain customer groups and distributors. Provisions for rebates are recorded as a reduction in net revenue when revenue is recognized. In some cases, rebates may be payable directly to the customer or distributor. We also have arrangements where we provide rebates to certain distributors that sell to end-user customers at prices determined under a contract between us and the end-user customer.

Employee Benefits Change

During the second quarter of fiscal 2014, we implemented a new paid time off policy as part of our employee benefits programs, replacing certain previously existing vacation and sick time policies. In conjunction with these changes in policies, the vesting provisions with respect to the accumulation of paid time off were delayed resulting in the recognition and utilization of paid time off in the same benefits year. As a result of this change, significant portions of our existing accrued vacation balance were no longer necessary and we reversed \$12.2 million in the second quarter of fiscal 2014 and an additional \$1.2 million in the third quarter of fiscal 2014 to reflect the change in vesting provisions. All accounting with respect to this change in policy is complete.

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Retirement Plans

We sponsor retirement and postretirement plans covering select employees. Expense recognized in relation to these defined benefit retirement plans and postretirement health care plans in the U.S. is based upon actuarial valuations and inherent in those valuations are key assumptions including discount rates, and where applicable, expected returns on assets, projected future salary rates and projected health care cost trends. The discount rates used in the valuation of our defined benefit pension and postretirement plans are evaluated annually based on current market conditions. In setting these rates we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our obligations. Our overall expected long-term rate of return on pension assets is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio. Our rate of assumed compensation increase is also based on our specific historical trends of wage adjustments.

We account for our defined benefit pension and other postretirement plans by recognizing the funded status of a benefit plan in the statement of financial position. We also recognize in accumulated other comprehensive income (loss) certain gains and losses that arose during the period. See Note 6 of our Consolidated Financial Statements for key assumptions and further discussion related to our pension and postretirement plans.

Environmental Liabilities

Expenditures that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed. A reserve is established when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These reserves are determined without consideration of possible loss recoveries from third parties.

Specific costs included in environmental expense and reserves include site assessment, development of a remediation plan, clean-up costs, post-remediation expenditures, monitoring, fines, penalties and legal fees. Reserve amounts represent the expected undiscounted future cash outflows associated with such plans and actions.

Self Insurance

We are also involved in various claims, including product and general liability, workers' compensation, auto liability and employment related matters. Such claims in the United States have deductibles and self-insured retentions ranging from \$25 thousand to \$1.0 million per occurrence or per claim, depending upon the type of coverage and policy period. International deductibles and self-insured retentions are lower. We are also generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical information along with certain assumptions about future events. Such estimated reserves are classified as Other Current Liabilities and Other Long-Term Liabilities within the Consolidated Balance Sheets.

Treasury Stock

Treasury stock consists of our common shares that have been issued, but subsequently reacquired. We account for treasury stock purchases under the cost method. When these shares are reissued, we use an average-cost method to determine cost. Proceeds in excess of cost are credited to additional paid-in capital.

Revenue Recognition — Sales and Rentals

Revenue is presented in the Statements of Consolidated Income net of sales discounts and allowances, rebates and customer returns for product sales and rental revenue reserves. Revenue is evaluated under the following criteria and recognized when each is met:

• Evidence of an arrangement: An agreement with the customer reflecting the terms and conditions to deliver products or services serves as evidence of an arrangement.

• Delivery: For products, delivery is generally considered to occur upon transfer of title and risk of loss per the respective sales terms. For rental services, delivery is considered to occur when the services are rendered.

• Fixed or determinable price: The sales price is considered fixed or determinable if it is not subject to refund or measurable adjustment.

Collection is deemed probable: At or prior to the time of a transaction, credit reviews of each customer are performed to determine the creditworthiness of the customer. Collection is deemed probable if the customer is expected to be able to pay amounts under the arrangement as those amounts become due. If collection is not probable, revenue is recognized when collection becomes probable, generally upon cash collection.

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As a general interpretation of the above guidelines, revenue for health care and surgical products are generally recognized upon delivery of the products to the customer and their assumption of risk of loss and other risks and rewards of ownership. Local business customs and sales terms specific to certain customers or products can sometimes result in deviations to this normal practice; however, in no case is revenue recognized prior to the transfer of risk of loss and rewards of ownership.

For non-invasive therapy products and medical equipment management services, the majority of product offerings are rental products for which revenue is recognized consistent with the rendering of the service and use of products. For The Vest® product, revenue is generally recognized at the time of receipt of authorization for billing from the applicable paying entity as this serves as evidence of the arrangement and sets a fixed or determinable price.

For health care products and services aimed at improving operational efficiency and asset utilization, various revenue recognition techniques are used, depending on the offering. Arrangements to provide services, routinely under separately sold service and maintenance contracts, result in the deferral of revenue until specified services are performed. Service contract revenue is generally recognized ratably over the contract period, if applicable, or as services are rendered. Product-related goods are generally recognized upon delivery to the customer.

For product sales, we record reserves resulting in a reduction of revenue for contractual discounts, as well as price concessions and product returns. Likewise, rental revenue reserves, reflecting contractual and other routine billing adjustments, are recorded as a reduction of revenue. Reserves for revenue are estimated based upon historical rates for revenue adjustments.

Taxes Collected from Customers and Remitted to Governmental Units

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes, and value added taxes, are accounted for on a net (excluded from revenue and cost) basis.

Cost of Revenue

Cost of goods sold for product sales consists primarily of purchased material costs, fixed manufacturing expense, variable direct labor, overhead costs and costs associated with the distribution and delivery of products to our customers. Rental expenses consist of costs associated directly with rental revenue, including depreciation, maintenance, logistics and service center facility and personnel costs.

Research and Development Costs

Research and development costs are expensed as incurred. Costs were \$133.5 million, \$91.8 million and \$71.9 million for fiscal years 2016, 2015 and 2014, respectively.

In addition, certain costs for software development technology held for sale are capitalized as intangibles and are amortized over a period of three to five years once the software is ready for its intended use. The amount capitalized during fiscal years 2016, 2015 and 2014 was approximately \$2.4 million, \$2.6 million and \$2.6 million, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Costs were \$10.4 million, \$6.8 million and \$7.3 million for fiscal years 2016, 2015 and 2014, respectively.

Comprehensive Income

We include the net-of-tax effect of unrealized gains or losses on our available-for-sale securities, interest and foreign currency hedges, foreign currency translation adjustments and pension or other defined benefit postretirement plans' actuarial gains or losses and prior service costs or credits in comprehensive income. See Note 5 of our Consolidated Financial Statements for further details.

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Foreign Currency Translation

The functional currency of foreign operations is generally the local currency in the country of domicile. Assets and liabilities of foreign operations are primarily translated into U.S. dollars at year-end rates of exchange and the income statements are translated at the average rates of exchange prevailing during the year. Adjustments resulting from translation of the financial statements of foreign operations into U.S. dollars are excluded from the determination of net income, but included as a component of accumulated other comprehensive income (loss). Foreign currency gains and losses resulting from foreign currency transactions are included in our results of operations and are not material.

Stock-Based Compensation

We account for stock-based compensation under fair value provisions. Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. In order to determine the fair value of stock options and other performance-based stock awards on the date of grant, we utilize a Binomial model. Inherent in this model are assumptions related to a volatility factor, expected life, risk-free interest rate, dividend yield and expected forfeitures. The risk-free interest rate is based on factual data derived from public sources. The volatility factor, expected life, dividend yield and expected forfeiture assumptions require judgment utilizing historical information, peer data and future expectations. Deferred stock (also known as restricted stock units (“RSUs”)) is measured based on the fair market price of our common stock on the date of grant, as reported by the New York Stock Exchange, multiplied by the number of units granted. See Note 7 of our Consolidated Financial Statements for further details.

Income Taxes

Hill-Rom and its eligible domestic subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. Deferred income taxes are computed using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability. If it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

As of September 30, 2016, we had \$26.9 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to certain foreign deferred tax attributes and state tax credit carryforwards that are not expected to be utilized. The valuation allowances decreased by \$13.8 million in fiscal 2016 due primarily to the release of the valuation allowance on the net deferred tax assets in France. The release of the valuation allowance was due mainly to changes in our operating structure which impacted our projection of future taxable income and our expectation as to the utilization of net operating loss carryforwards. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit. See Note 9 of our Consolidated Financial Statements for further details.

Derivative Instruments and Hedging Activity

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We use derivative financial instruments to manage the economic impact of fluctuations in currency exchange and interest rates. Derivative financial instruments related to currency exchange rates include forward purchase and sale agreements which generally have terms no greater than 15 months. Additionally, interest rate swaps are sometimes used to convert some or all of our long-term debt to either a fixed or variable rate.

Derivative financial instruments are recognized on the Consolidated Balance Sheets as either assets or liabilities and are measured at fair value. Changes in the fair value of derivatives are recorded each period in the Statement of Consolidated Income or the Statement of Consolidated Comprehensive Income, depending on whether a derivative is designated and considered effective as part of a hedge transaction, and if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income (loss) are subsequently included in the Statement of Consolidated Income in the periods in which earnings are affected by the hedged item. These activities have not had a material effect on our financial position or results of operations for the periods presented herein.

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Dispositions

During the fourth quarter of 2016, we sold our perinatal data management system for \$10.5 million and recorded a gain of \$10.1 million in Investment income and other, net.

Recently Issued Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, which provides guidance for revenue recognition. The standard’s core principle, as further amended, is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which delayed the effective date of the new revenue guidance by one year. As a result, the provisions of ASU 2014-09, and subsequent amendments, are effective for us in the first quarter of fiscal 2019, ending December 31, 2018. Early adoption is permitted as of the original effective date, but not earlier. We are currently in the process of evaluating the impact of adoption of this ASU on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718), “Improvements to Employee Share-Based Payment Accounting”. Under ASU 2016-09, the tax effects of stock compensation will be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. Along with other income tax cash flows, excess tax benefits will be classified as operating activities, and cash paid by an employer when directly withholding shares for tax withholding purposes will be classified as financing activities. Entities may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. For public companies, ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, however, an entity that elects early adoption must adopt all amendments under the new standard in the same period. We are currently in the process of evaluating the impact of the amended guidance on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). From the lessee’s perspective, the new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor’s perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently in the process of evaluating the impact of the amended guidance on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), “Balance Sheet Classification of Deferred Taxes.” The amendments in this update simplify the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent in a classified balance sheet. As permitted, we elected to early-adopt this standard in the first quarter of fiscal 2016 on a prospective basis. Prior period amounts were not retrospectively adjusted for the impacts of this ASU.

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In September 2015, the Company adopted ASU 2015-16, "Simplifying the Accounting for Measurement Period Adjustments." This update eliminates the need to retrospectively adjust prior period information in the financial statements for acquisition adjustments to goodwill during the measurement period. The impact of ASU 2015-16 will be dependent on any future measurement period adjustments for acquisitions.

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In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, “Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.” This standard permits an entity to defer and present debt issuance costs related to line-of-credit arrangements as an asset and to subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. These new standards do not affect the recognition and measurement of debt issuance costs. As permitted, the Company elected to early-adopt these standards in the fourth quarter of fiscal 2015.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company’s consolidated financial statements upon adoption.

NOTE 2. ACQUISITIONSTridien Medical

On September 21, 2016, we acquired all of the outstanding shares of Anodyne Medical Device, Inc., known as Tridien Medical (“Tridien”) for a purchase price of \$25.8 million, net of cash acquired. Tridien develops, manufactures and markets support surfaces and patient positioning devices. This acquisition will allow us to insource a significant supply chain function, and is expected to result in reduced costs and improved margins. We funded the transaction primarily with borrowings under the Senior secured Revolving Credit Facility (“Revolving Credit Facility”). The fair value of assets acquired are preliminary and consist primarily of \$9.2 million of working capital consisting primarily of inventories and accounts receivable, \$7.9 million of goodwill and \$6.3 million of acquisition related intangible assets. The results of Tridien are included in the Consolidated Financial Statements since the date of acquisition. Goodwill was allocated entirely to our North America Patient Support Systems segment and is not deductible for tax purposes. The impact of the Tridien acquisition to our total revenue and net income on an unaudited proforma basis is not significant.

Welch Allyn

On September 8, 2015, we completed the acquisition of Welch Allyn Holdings, Inc. and its subsidiaries (collectively, “Welch Allyn”) for a consideration of \$1,686.8 million in cash (\$1,633.1 million, net of cash acquired) and 8,133,722 shares of Hill-Rom common stock for a total combined purchase price of approximately \$2.1 billion. Welch Allyn is a leading manufacturer of medical diagnostic equipment and offers a diversified portfolio of devices that assess, diagnose, treat, and manage a wide variety of illnesses and diseases.

The transaction was funded with new borrowings, including \$1.8 billion in term loans and \$425.0 million of senior notes issued in a private placement debt offering. Refer to Note 4 of our Consolidated Financial Statements for additional information regarding our debt obligations.

The following summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition. These results are now considered final.

	Amount
Trade receivables	\$62.9

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Inventory	110.5
Other current assets	53.8
Property, plant, and equipment	91.5
Goodwill	1,179.8
Trade name (indefinite life)	434.0
Customer relationships (12-year useful life)	516.8
Developed technology (7-year weighted average useful life)	54.0
Other intangibles	19.5
Other noncurrent assets	26.5
Current liabilities	(166.1)
Noncurrent deferred income taxes	(309.0)
Other noncurrent liabilities	(24.8)
Total purchase price, net of cash acquired	\$2,049.4
 Fair value of common stock issued	\$416.3
Cash payment, net of cash acquired	1,633.1
Total consideration	\$2,049.4

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Final purchase accounting adjustments were made in fiscal 2016 reducing goodwill by \$23.7 million primarily due to the finalization of deferred income taxes. These adjustments are reflected in the table above.

Goodwill from the Welch Allyn acquisition, which is not deductible for tax purposes, is primarily due to enhanced customer relevance and a stronger competitive position resulting from the business combination, including a complementary commercial position, product portfolio, and enhanced synergies. The goodwill from the Welch Allyn acquisition has been allocated entirely to our Front Line Care segment.

Our total revenue on an unaudited proforma basis, as if the Welch Allyn acquisition had been consummated at the beginning of our 2014 fiscal year, would have been higher by approximately \$638 million for the year ended September 30, 2015. On the same unaudited proforma basis, our net income would have been lower by approximately \$59 million for the year ended September 30, 2015. The proforma net income for fiscal 2015 has been adversely impacted by significant costs related to the transaction including deal costs, financing costs, restructuring costs incurred in relation to our synergy initiatives, costs associated with triggering the change-in-control provisions of certain equity-based compensation programs at Welch Allyn, and purchase price accounting, including the nonrecurring effects of the inventory step-up. These results are not indicative of expected future performance.

The unaudited proforma results are based on the Company's historical financial statements and those of the Welch Allyn business and do not necessarily indicate the results of operations that would have resulted had the acquisition been completed at the beginning of the comparable period presented and are not indicative of the results of operations in future periods.

Trumpf Medical

On August 1, 2014, we completed the acquisition of Trumpf Medical ("Trumpf") and funded the transaction with a combination of cash on hand and borrowings. Trumpf Medical provides a portfolio of well-established operating room (OR) infrastructure products such as surgical tables, surgical lighting, and supply units and expands our product offerings in the surgical suite.

The purchase price was \$232.9 million (\$226.6 million net of cash acquired). The results of Trumpf are included in the Consolidated Financial Statements since the date of acquisition. Our reported revenue included \$39.0 million for the year ended September 30, 2014 related to Trumpf products and the impact to net income was not significant.

The following summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition. These results are now considered final.

	Amount
Trade receivables	\$ 67.6
Inventory	63.6
Other current assets	23.4
Property, plant, and equipment	42.1
Goodwill	66.0
Trade name (5-year useful life)	6.7
Customer relationships (10-year weighted average useful life)	15.8
Developed technology (8-year weighted average useful life)	17.8
Other intangibles	4.8
Other noncurrent assets	0.7
Deferred tax asset	12.9

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Current liabilities	(74.4)
Long term debt	(6.0)
Noncurrent liabilities	(8.1)
Total purchase price	\$ 232.9

Goodwill was allocated entirely to our Surgical Solutions segment. The goodwill related to the acquired German operations will be tax deductible while the remaining goodwill will not be deductible for tax purposes.

Table of ContentsVirtus, Inc.

On March 31, 2014 we completed a stock purchase agreement with the stockholders of Virtus, Inc. (“Virtus”) to acquire the entire equity interest in Virtus, a supplier of finished surfaces and components for our bed and stretcher products. The acquisition of Virtus insources a component of our supply chain.

The purchase price was \$17.6 million (\$13.0 million net of cash acquired). We funded the transaction primarily with borrowings. The results of Virtus are included in the Consolidated Financial Statements since the date of acquisition. The fair value of assets acquired consisted of \$9.4 million of goodwill, \$6.4 million of working capital and \$1.9 million of property, plant and equipment.

Goodwill is not deductible for tax purposes and was allocated to both our North America Patient Support Systems and International Patient Support Systems segments.

NOTE 3. GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

The following summarizes goodwill activity by reportable segment:

	North America Patient Support Systems	Front Line Care	Surgical Solutions	International Patient Support Systems	Total
Balances at September 30, 2014:					
Goodwill	\$ 390.6	\$ 28.7	\$ 304.8	\$ 148.5	\$ 872.6
Accumulated impairment losses	(358.1)	-	-	(114.7)	(472.8)
Goodwill, net at September 30, 2014	32.5	28.7	304.8	33.8	399.8
Changes in Goodwill during the period:					
Goodwill related to acquisitions	-	1,203.5	22.1	-	1,225.6
Currency translation effect	-	-	(11.8)	(3.1)	(14.9)
Balances at September 30, 2015:					
Goodwill	390.6	1,232.2	315.1	145.4	2,083.3
Accumulated impairment losses	(358.1)	-	-	(114.7)	(472.8)
Goodwill, net at September 30, 2015	32.5	1,232.2	315.1	30.7	1,610.5
Changes in Goodwill during the period:					
Goodwill related to acquisitions	7.9	(23.7)	1.1	-	(14.7)
Currency translation effect	-	(3.0)	(8.6)	0.2	(11.4)
Balances at September 30, 2016:					
Goodwill	398.5	1,205.5	307.6	145.6	2,057.2
Accumulated impairment losses	(358.1)	-	-	(114.7)	(472.8)
Goodwill, net at September 30, 2016	\$ 40.4	\$ 1,205.5	\$ 307.6	\$ 30.9	\$ 1,584.4

We acquired Tridien, Welch Allyn and Trumpf during the fourth quarter of 2016, 2015 and 2014, respectively. All goodwill associated with Tridien, Welch Allyn and Trumpf was assigned to the North America Patient Support Systems segment, Front Line Care segment and Surgical Solutions segment, respectively. During fiscal 2016 and fiscal 2015, we recorded adjustments to goodwill related to the Welch Allyn acquisition and the Trumpf acquisition.

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We also consolidated an investment made in fiscal 2015 that was determined to be a VIE in which we have a controlling financial interest. The consolidation resulted in \$12.1 million of goodwill being recorded within our Surgical Solutions segment. Refer to Note 2 of our Consolidated Financial Statements for additional information regarding these acquisitions.

As discussed in Note 11 of our Consolidated Financial Statements, we operate in four reportable business segments. Goodwill impairment testing is performed at the reporting unit level, which is one level below our operating segments. We have determined that we have eleven reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and has been reallocated as necessary based on the restructuring of reporting units over time. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

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Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill performed during the third quarter of fiscal 2016 and 2015 did not result in any impairments.

Indefinite-lived intangible assets

We have various indefinite-lived intangible assets representing trade names with a carrying value of \$466.9 million at September 30, 2016 and September 30, 2015. Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of an indefinite-lived intangible asset below its carrying amount. The annual evaluation of indefinite-lived intangible assets performed during the third quarter of fiscal 2016 and 2015 did not result in impairment.

NOTE 4. FINANCING AGREEMENTS

Total debt consists of the following:

	September 30	
	2016	2015
Revolving credit facilities	\$235.8	\$-
Current portion of long-term debt	73.2	58.0
Senior secured Term Loan A, long-term portion	1,372.3	931.7
Senior secured Term Loan B, long-term portion	-	778.3
Senior unsecured 5.75% notes due on September 1, 2023	419.1	418.2
Unsecured 7.00% debentures due on February 15, 2024	13.7	13.8
Unsecured 6.75% debentures due on December 15, 2027	29.6	29.6
Other	4.8	3.6
Total debt	2,148.5	2,233.2
Less current portion of debt	210.1	58.0
Total long-term debt	\$1,938.4	\$2,175.2

In September 2015, the Company entered into four credit facilities for the purposes of financing the Welch Allyn acquisition as well as refinancing our previously outstanding revolving credit facility. These facilities consisted of the following:

- \$1.0 billion senior secured Term Loan A facility, maturing in September 2020
- \$800 million senior secured Term Loan B facility, maturing in September 2022
- Senior secured Revolving Credit Facility, providing borrowing capacity of up to \$500.0 million, maturing in September 2020
- \$425.0 million of senior unsecured notes (“Senior Notes”), maturing in September 2023

In September 2016, the Company entered into an amended and restated senior credit agreement for purposes of refinancing our credit facilities entered into as part of the Welch Allyn acquisition and funding the payoff of the senior secured Term Loan B facility. The amended and restated senior credit agreement consisted of two facilities as follows:

- \$1,462.5 million senior secured Term Loan A facility (“TLA Facility”), maturing in September 2021
- Senior secured Revolving Credit Facility (“Revolving Credit Facility”), providing borrowing capacity of up to \$700.0 million, maturing in September 2021

The TLA Facility and Revolving Credit Facility (collectively, the “Senior Secured Credit Facilities”) bear interest at variable rates which are currently less than 3.0 percent. These interest rates are based primarily on the London

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Interbank Offered Rate (“LIBOR”), but under certain conditions could also be based on the U.S. Federal Funds Rate or the U.S. Prime Rate, at the Company’s option.

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The following table summarizes the scheduled maturities of the TLA Facility for fiscal years 2017 through 2021:

Amount
2017 \$ 73.1
2018 \$ 109.7
2019 \$ 146.3
2020 \$ 146.3
2021 \$ 987.2

We will be able to voluntarily prepay the TLA Facility at any time without penalty or premium.

At September 30, 2016, there were \$235.8 million of borrowings on the Revolving Credit Facility, with available borrowing capacity of an additional \$456.6 million after giving effect to \$7.6 million of outstanding standby letters of credit. The availability of borrowings under our Revolving Credit Facility is subject to our ability at the time of borrowing to meet certain specified conditions, including compliance with covenants contained in the governing credit agreement.

The Senior Secured Credit Facilities are held with a syndicate of banks, which includes over 30 institutions. The general corporate assets of the Company and its wholly-owned, domestic subsidiaries collateralize these obligations. The amended and restated credit agreement governing these facilities contains financial covenants which specify a maximum secured net leverage ratio and a minimum interest coverage ratio, as such terms are defined in the credit agreement. These financial covenants are measured at the end of each fiscal quarter. The required ratios vary through December 31, 2019 providing a gradually decreasing maximum secured net leverage ratio and a gradually increasing minimum interest coverage ratio, as set forth in the table below:

Fiscal Quarter Ended	Maximum Secured Net Leverage Ratio	Minimum Interest Coverage Ratio
December 31, 2016	4.50x	3.25x
December 31, 2017	4.00x	3.50x
December 31, 2018	3.50x	3.75x
December 31, 2019 and thereafter	3.00x	4.00x

The Senior Notes bear interest at a fixed rate of 5.75 percent annually. These notes were issued at par in a private placement offering and are not registered securities on any public market. All of the Senior Notes are outstanding as of September 30, 2016. We are not required to make any mandatory redemption or sinking fund payments with respect to the Notes, other than in certain circumstances such as a change in control or material sale of assets. We may redeem the notes prior to maturity, but doing so prior to September 1, 2021 would require payment of a premium on any amounts redeemed, the amount of which varies based on the timing of the redemption. The indenture governing the Senior Notes contains certain covenants which impose limitations on the amount of dividends we may pay and the amount of common shares we may repurchase in the open market, but we do not expect these covenants to affect our current dividend policy or open share repurchase program. The terms of this indenture also impose certain restrictions on the amount and type of additional indebtedness we may obtain in the future, as well as the types of liens and guarantees we may provide.

We are in compliance with all applicable financial covenants as of September 30, 2016.

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In conjunction with the amendment of the Senior Secured Credit Facilities, the Company recorded a \$10.8 million loss on extinguishment of debt related to a majority of the debt issuance costs previously capitalized for the Term Loan B facility. We also incurred \$6.5 million of costs related to the amendment of the credit facility, \$4.5 million of which were capitalized as part of the new Senior Secured Credit Facilities. As of September 30, 2016, we have cumulative \$17.1 million unamortized debt issuance costs recorded as a reduction of the carrying value of the related debt, in addition to \$9.6 million attributable to the Revolving Credit Facility recorded as a component of other long-term assets on the Consolidated Balance Sheet. These costs will amortize into interest expense over the terms of the related credit facilities.

We are exposed to market risk from fluctuations in interest rates. We sometimes manage our exposure to interest rate fluctuations through the use of interest rate swaps (cash flow hedges). As of September 30, 2016, we had five interest rate swap agreements, with notional amounts of \$600.0 million, in aggregate, to hedge the variability of cash flows associated with a portion of the variable interest rate payments for the period April 2016 to September 2020 on the Senior Secured Credit Facilities. The interest rate swaps have effective dates ranging between April 1, 2016 and December 31, 2019 and were designated as cash flow hedges. At September 30, 2016, these swaps were in a liability position with an aggregate fair value of \$5.0 million. We classify fair value measurements on our interest rate swaps as Level 2, as described in Note 1 of our Consolidated Financial Statements.

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Unsecured debentures outstanding at September 30, 2016 and September 30, 2015 have fixed rates of interest. We have deferred gains included in the amounts above from the termination of previous interest rate swap agreements and those deferred gains amounted to less than \$1.0 million at both September 30, 2016 and September 30, 2015. The deferred gains on the termination of the swaps are being amortized and recognized as a reduction of interest expense over the remaining term of the related debt and as a result, the effective interest rates on that debt have been and will continue to be lower than the stated interest rates on the debt.

From August 2012 through April 2015, we had a credit facility that provided for revolving loans of up to \$500.0 million, plus a term loan in the aggregate amount of \$200.0 million. In May 2015, we entered into an Amended and Restated Credit Agreement which provided for revolving loans of up to \$900.0 million and a term loan of \$165.0 million, which replaced the remaining unpaid principal balance of the term loan from the August 2012 credit facility. A portion of the proceeds from the issuance of the Senior Secured Credit Facility and the Senior Notes in September 2015 was used to fully repay the previously outstanding credit facility, which is now terminated.

The fair value of our debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The book values of our short-term debt instruments approximate fair value. The estimated fair values of our long-term debt instruments are described in the table below:

	September 30	
	2016	2015
Senior secured Term Loan A	\$1,441.0	\$990.7
Senior secured Term Loan B	-	780.7
Senior unsecured 5.75% notes due on September 1, 2023	454.0	428.4
Unsecured debentures	45.8	43.4
Total debt	\$1,940.8	\$2,243.2

The estimated fair values of our long-term unsecured debentures were based on observable inputs such as quoted prices in markets that are not active. The estimated fair values of our term loans and the Senior Notes were based on quoted prices for similar liabilities. These fair value measurements were classified as Level 2, as described in Note 1 of our Consolidated Financial Statements.

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NOTE 5. OTHER COMPREHENSIVE INCOME

The following tables represent the changes in accumulated other comprehensive loss by component for the fiscal years ended September 30, 2016 and 2015:

Year Ended September 30, 2016						
	Prior to Reclassification	Tax reclassification	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	\$(4.9)	\$ (0.1)	\$(5.0)	\$ 1.9	\$(3.1)	\$ -
Foreign currency translation adjustment	(22.4)	-	(22.4)	-	(22.4)	(92.8)
Change in pension and postretirement defined benefit plans	(8.5)	4.4	(4.1)	1.3	(2.8)	(48.0)
Total	\$ (35.8)	\$ 4.3	\$ (31.5)	\$ 3.2	\$ (28.3)	\$ (140.8)
						\$ (28.3)
						\$ (169.1)

Year Ended September 30, 2015						
	Prior to Reclassification	Tax reclassification	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	\$(0.6)	\$ 0.6	\$ -	\$ -	\$ -	\$ -
Foreign currency translation adjustment	(58.6)	-	(58.6)	-	(58.6)	(34.2)
Change in pension and postretirement defined benefit plans	(28.7)	15.5	(13.2)	5.1	(8.1)	(39.9)
Total	\$ (87.9)	\$ 16.1	\$ (71.8)	\$ 5.1	\$ (66.7)	\$ (74.1)
						\$ (66.7)
						\$ (140.8)

The following table represents the items reclassified out of accumulated other comprehensive loss and the related tax effects during fiscal 2016 and 2015:

	Years Ended September 30			
	2016		2015	
	Amount	reclassified effect	Amount	reclassified effect
Available-for-sale securities and hedges (1)	\$(0.1)	\$ -	\$ (0.1)	\$ 0.6
Change in pension and postretirement defined benefit plans (2)	\$4.4	\$ (1.3)	\$ 3.1	\$ 15.5
				\$ (5.6)
				\$ 9.9

(1)Reclassified from accumulated other comprehensive loss into other income (expense), net.

Reclassified from accumulated other comprehensive loss into cost of goods sold and selling and administrative expenses. These components are included in the computation of net periodic pension and postretirement benefit expense.

NOTE 6. RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

Our retirement plans consist of defined benefit plans, postretirement healthcare plans and defined contribution savings plans. Plans cover certain employees both in and outside of the U.S.

Retirement Plans

We sponsor five defined benefit plans. Those plans include a master defined benefit retirement plan, a nonqualified supplemental executive defined benefit retirement plan and three defined benefit retirement plans covering employees in Germany and France. Benefits for such plans are based primarily on years of service and the employee's level of compensation during specific periods of employment. We contribute funds to trusts as necessary to provide for current service and for any unfunded projected future benefit obligation over a reasonable period of time. All of our plans have a September 30 measurement date.

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Effect on Operations

The components of net periodic benefit cost for our defined benefit retirement plans were as follows:

	Years Ended September 30		
	2016	2015	2014
Service cost	\$ 5.0	\$ 5.4	\$ 5.0
Interest cost	10.9	14.6	14.4
Expected return on plan assets	(13.0)	(16.7)	(16.7)
Amortization of unrecognized prior service cost, net	0.3	0.6	0.6
Amortization of net loss	4.5	5.2	3.2
Net periodic benefit cost	7.7	9.1	6.5
Settlement charge	-	9.6	-
Special termination benefits	-	-	2.4
Net pension expense	\$ 7.7	\$ 18.7	\$ 8.9

Beginning in the first quarter of fiscal 2016, we elected to change the method we use to estimate the service and interest cost components of net periodic benefit cost for our defined benefit pension plans to a spot yield curve approach. Previously, we estimated the service and interest cost components of pension expense using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Under the new approach, we apply discounting using individual spot rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. These spot rates align to each of the projected benefit obligations and service cost cash flows. The service cost component relates to the active participants in the plan, so the relevant cash flows on which to apply the yield curve are considerably longer in duration on average than the total projected benefit obligation cash flows, which also include benefit payments to retirees. Interest cost is computed by multiplying each spot rate by the corresponding discounted projected benefit obligation cash flows. The spot yield curve approach reduces any actuarial gains and losses based upon interest rate expectations (e.g., built-in gains in interest cost in an upward sloping yield curve scenario), or gains and losses merely resulting from the timing and magnitude of cash outflows associated with our benefit obligations. The change does not affect the measurement of the total benefit obligations as the change in service and interest costs offsets the actuarial gains and losses recorded in other comprehensive income.

We made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a better measurement of service and interest costs. This change is considered a change in estimate and is accounted for on a prospective basis starting in fiscal year 2016.

In April, 2015, we offered all terminated vested participants of our domestic master defined benefit retirement plan an option to receive a lump sum cash payout in lieu of their right to future periodic benefit payments under the plan upon their retirement. Lump sums of \$42.3 million were paid to participants in September 2015, triggering a plan settlement charge of \$9.6 million, which is recorded as a component of Special charges on the Statements of Consolidated Income.

During the second quarter of fiscal 2014, we initiated a domestic early retirement program, which offered certain special termination benefits relating to our pension and postretirement health care plans. This program and the related special termination benefits resulted in a non-cash charge of \$3.2 million, of which \$2.4 million related to our master defined benefit retirement plan and \$0.8 million for our postretirement health care plan. The \$0.8 million postretirement healthcare charge also reflects a \$1.3 million reversal recorded as certain participants elected alternative coverage separate from the postretirement health care plan. The employee elections were not known until

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the third and fourth quarters of fiscal 2014. The reversal was recorded to the special charges caption and is offset by charges recorded to reflect our incremental cost associated with the alternative coverage. Refer to Note 8 of our Consolidated Financial Statements for more details.

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The change in benefit obligations, plan assets and funded status, along with amounts recognized in the Consolidated Balance Sheets for our defined benefit retirement plans were as follows:

	Years Ended September 30	
	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 315.5	\$ 343.8
Service cost	5.0	5.4
Interest cost	10.9	14.6
Actuarial loss	27.4	12.5
Benefits paid	(11.9)	(54.0)
Plan settlement	-	(4.4)
Exchange rate loss (gain)	0.2	(2.4)
Benefit obligation at end of year	347.1	315.5
Change in plan assets:		
Fair value of plan assets at beginning of year	219.1	276.1
Actual return on plan assets	28.8	(3.9)
Employer contributions	31.0	0.9
Benefits paid	(11.9)	(54.0)
Fair value of plan assets at end of year	267.0	219.1
Funded status and net amounts recognized	\$ (80.1)	\$ (96.4)
Amounts recorded in the Consolidated Balance Sheets:		
Accrued pension benefits, current portion	\$ (1.1)	\$ (1.0)
Accrued pension benefits, long-term	(79.0)	(95.4)
Net amount recognized	\$ (80.1)	\$ (96.4)

In addition to the amounts above, net actuarial losses of \$85.7 million and prior service costs of \$0.8 million, less an applicable aggregate tax effect of \$32.2 million are included as components of accumulated other comprehensive loss at September 30, 2016. In addition to the amounts above, net actuarial losses of \$79.3 million and prior service costs of \$1.0 million, less an applicable aggregate tax effect of \$30.0 million are included as components of accumulated other comprehensive loss at September 30, 2015. The estimated net actuarial loss and prior service cost for our defined benefit retirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$6.1 million and \$0.2 million, respectively.

Accumulated Benefit Obligation

The accumulated benefit obligation for all defined benefit pension plans was \$326.3 million and \$296.7 million at September 30, 2016 and 2015. Selected information for our plans, including plans with accumulated benefit obligations exceeding plan assets, was as follows:

September 30		
2016	2015	
PBO	ABO	Plan Assets

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Master plan	\$319.6	\$300.7	\$ 266.8	\$292.5	\$275.3	\$ 218.9
International plans	22.2	20.3	0.2	17.9	16.3	0.2
Supplemental executive plan	5.3	5.3	-	5.1	5.1	-
	\$347.1	\$326.3	\$ 267.0	\$315.5	\$296.7	\$ 219.1

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Actuarial Assumptions

The weighted average assumptions used in accounting for our domestic pension plans were as follows:

	2016	2015	2014
Weighted average assumptions to determine benefit obligations at the measurement date:			
Discount rate for obligation	3.7%	4.4%	4.5%
Rate of compensation increase	3.0%	3.0%	3.0%
Weighted average assumptions to determine benefit cost for the year:			
Discount rate for expense	4.4%	4.5%	5.0%
Expected rate of return on plan assets	5.8%	6.8%	7.0%
Rate of compensation increase	3.0%	3.0%	3.3%

The discount rates used in the valuation of our defined benefit pension plans are evaluated annually based on current market conditions. In setting these rates we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our pension obligations. The overall expected long-term rate of return is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio, as well as taking into consideration economic and capital market conditions. The rate of assumed compensation increase is also based on our specific historical trends of past wage adjustments. The weighted average discount rate assumptions used for our international plans are lower than our domestic plan assumptions and do not significantly affect the consolidated net benefit obligation or net periodic benefit cost balances.

Plan Assets

The weighted average asset allocations of our master defined benefit retirement plan at September 30, 2016 and 2015, by asset category, along with target allocations, are as follows:

	2016	2015	2016	2015
	Target	Target	Actual	Actual
	Allocation	Allocation	Allocation	Allocation
Equity securities	39 - 49%	39 - 49%	43%	42%
Fixed income securities	51 - 61%	51 - 61%	57%	58%
Total			100%	100%

We have a Plan Committee that sets investment guidelines with the assistance of an external consultant. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process and monitors asset performance. As pension liabilities are long-term in nature, we employ a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent level of risk. Target allocations are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range or elect to rebalance the portfolio within the targeted range.

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The investment portfolio contains a diversified portfolio of primarily equities and fixed income securities. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large cap and small cap stocks. The primary investment strategy is a dynamic target allocation method that periodically rebalances among various investment categories depending on the current funded positions. This program is designed to actively move from return-seeking investments (such as equities) toward liability-hedging investments (such as long-duration fixed income) as funding levels improve.

Trust assets are invested subject to the following policy restrictions: short-term securities must be rated A2/P2 or higher; all fixed-income securities shall have a credit quality rating “BBB” or higher; investments in equities in any one company may not exceed 10 percent of the equity portfolio.

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Fair Value Measurements of Plan Assets

The following table summarizes the valuation of our pension plan assets by pricing categories:

	Balance at September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3.7	\$ 3.7	\$ -	\$ -
Equities				
U.S. companies	59.3	-	59.3	-
International companies	56.4	-	56.4	-
Fixed income securities	147.6	-	147.6	-
Total plan assets at fair value	\$ 267.0	\$ 3.7	\$ 263.3	\$ -
	Balance at September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3.5	\$ 3.5	\$ -	\$ -
Equities				
U.S. companies	47.1	-	47.1	-
International companies	44.8	-	44.8	-
Fixed income securities	123.7	-	123.7	-
Total plan assets at fair value	\$ 219.1	\$ 3.5	\$ 215.6	\$ -

The Level 2 investments are commingled funds and/or collective trusts valued using the net asset value (“NAV”) unit price provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund. For further descriptions of the asset Levels used in the above chart, refer to Note 1 of our Consolidated Financial Statements.

Cash Flows

Our U.S. qualified defined benefit plan is funded in excess of 84 percent, as measured under the requirements of the Pension Protection Act of 2006, and therefore we expect that the plan will not be subject to the “at risk” funding requirements of this legislation.

During 2016 and 2015, we contributed cash of \$31.0 million and \$0.9 million to our defined benefit retirement plans. We will not be required to contribute to our master defined benefit retirement plan in fiscal year 2017 due to the current funding level; however, minimal contributions will be required for our unfunded plans.

Estimated Future Benefit Payments

The benefit payments, which are expected to be funded through plan assets and company contributions and reflect expected future service, are expected to be paid as follows:

Pension Benefits

2017	\$ 13.3
2018	\$ 13.4
2019	\$ 14.0
2020	\$ 14.6
2021	\$ 15.4
2022-2026	\$ 88.6

Defined Contribution Savings Plans

We have defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on eligibility and employee contributions. Expense under these plans was \$26.8 million, \$17.4 million and \$15.0 million in fiscal years 2016, 2015 and 2014, respectively.

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Postretirement Health Care Plans

In addition to defined benefit retirement plans, we also offer two domestic postretirement health care plans, one of which was assumed in the acquisition of Welch Allyn, that provide health care benefits to qualified retirees and their dependents. The plans are closed to new participants and include retiree cost sharing provisions and generally extends retiree coverage for medical and prescription benefits beyond the COBRA continuation period to the date of Medicare eligibility. We use a measurement date of September 30 for these plans.

The expense related to postretirement health care plans, including the Welch Allyn plan on a post-acquisition basis, has not been significant during 2016, 2015 or 2014. The change in the accumulated postretirement benefit obligation was as follows:

	Years Ended September 30	
	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 25.1	\$ 11.2
Service cost	0.3	0.4
Interest cost	0.8	0.4
Acquired obligation	-	14.1
Actuarial gain	(3.7)	(0.9)
Benefits paid	(1.5)	(0.2)
Retiree contributions	0.6	0.1
Benefit obligation at end of year	\$ 21.6	\$ 25.1
 Amounts recorded in the Consolidated Balance Sheets:		
Accrued benefits obligation, current portion	\$ 1.6	\$ 1.8
Accrued benefits obligation, long-term	20.0	23.3
Net amount recognized	\$ 21.6	\$ 25.1

We contributed approximately \$1.5 million to the plans in fiscal 2016, compared with less than \$0.2 million to the plans in fiscal 2015, including the post-acquisition period for the Welch Allyn plan.

In addition to the amounts above, net actuarial gains of \$5.9 million and prior service credits of \$0.5 million, less an applicable aggregate tax effect of \$2.4 million are included as components of accumulated other comprehensive loss at September 30, 2016. Net actuarial gains of \$2.4 million and prior service credits of \$1.4 million, less an applicable aggregate tax effect of \$1.5 million are included as components of accumulated other comprehensive loss at September 30, 2015.

The estimated net actuarial gain and prior service benefit for our postretirement health care plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are (\$0.4) million and (\$0.4) million.

The discount rate used to determine the net periodic benefit cost for the postretirement health care plans during the fiscal year ended September 30, 2016, 2015 and 2014 was 3.5, 3.7 and 4.1 percent, respectively. The discount rate used to determine the benefit obligation as of September 30, 2016 ranged from 2.9 to 3.0 percent. For fiscal years ended 2015 and 2014 the discount rate was 3.5 and 3.7 percent. As of September 30, 2016, the health care cost trend rates for the plans were generally assumed to be in the ranges of 5.25 to 9.0 percent, trending down to a rate between 4.5 and 5.0 percent over the long-term.

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A one-percentage-point increase/decrease in the assumed health care cost trend rates as of September 30, 2016 would cause an increase/decrease in service and interest costs of less than \$0.1 million, along with an increase in the benefit obligation of \$1.4 million and a decrease of \$1.3 million.

We fund the postretirement health care plans as benefits are paid, and current plan benefits are expected to require net company contributions of approximately \$1.7 million in fiscal 2017 and approximately \$2.0 million per year thereafter.

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NOTE 7. COMMON STOCK

Share Repurchases

We did not repurchase shares in 2016 in the open market. We repurchased 1.2 million and 1.7 million shares of our common stock in the open market during fiscal years 2015 and 2014 valued at \$54.8 million and \$70.5 million. The common stock was acquired under a \$190 million share repurchase program approved by the Board of Directors in September 2013, which does not have an expiration date. There are no plans to terminate this program in the future. Repurchases may be made on the open market or via private transactions, and are used for general business purposes.

Stock-Based Compensation

We have stock-based compensation plans under which employees and non-employee directors may be granted options to purchase shares of Company common stock at the fair market value at the time of grant. In addition to stock options, we grant performance share units (“PSUs”) and RSUs to certain management level employees and vested deferred stock to non-employee directors. We also offer eligible employees the opportunity to buy shares of our common stock at a discount via an Employee Stock Purchase Plan (“ESPP”).

Our primary stock-based compensation program is the Stock Incentive Plan, which has been approved by our shareholders. Under the Stock Incentive Plan, we have a total of 15.3 million authorized shares. At September 30, 2016, 3.6 million shares were available for future grants under our stock-based compensation plans. We generally settle our stock-based awards with treasury shares. As of September 30, 2016, we had 22.8 million treasury shares available for use to settle stock-based awards.

The following table sets forth a summary of the annual stock-based compensation cost that was charged against income for all types of awards:

	Years Ended September 30		
	2016	2015	2014
Total stock-based compensation cost (pre-tax)	\$ 23.1	\$ 25.0	\$ 18.0
Total income tax benefit	(7.9)	(7.5)	(6.5)
Total stock-based compensation cost, net of tax	\$ 15.2	\$ 17.5	\$ 11.5

Stock Options

Stock options granted by our Compensation Committee of our Board under the Stock Incentive Plan are non-qualified stock options. These awards are generally granted with exercise prices equal to the average of the high and low prices of our common stock on the date of grant. They vest in equal annual installments over a three or four-year period and the maximum contractual term is ten years. We use a Binomial option-pricing model to estimate the fair value of stock options, and compensation cost is recognized on a straight-line basis over the requisite service period.

The following table sets forth the weighted average fair value per share of stock options and the related valuation assumptions used in the determination of those fair values:

	Years Ended September 30		
	2016	2015	2014
Weighted average fair value per share	\$14.07	\$12.83	\$11.91

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Valuation assumptions:

Risk-free interest rate	1.6%	1.6%	1.3%
Expected dividend yield	1.2%	1.4%	1.4%
Expected volatility	33.1%	35.0%	36.1%
Weighted average expected life	4.9 years	4.9 years	4.9 years

The risk-free interest rate is based upon observed U.S. Treasury interest rates appropriate for the term of our employee stock options. Expected dividend yield is based on the history and our expectation of dividend payouts. Expected volatility was based on our historical stock price volatility. Expected life represents the weighted average period the stock options are expected to remain outstanding and is a derived output of the Binomial model. The expected life of employee stock options is impacted by the above assumptions as well as the post-vesting forfeiture rate and the exercise factor used in the Binomial model. These two variables are based on the history of exercises and forfeitures for previous stock options granted by us.

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The following table summarizes transactions under our stock option plans for fiscal year 2016:

	Weighted Average Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1) (in millions)
Balance Outstanding at October 1, 2015	1,901	\$ 34.38		
Granted	361	50.98		
Exercised	(191)	32.22		
Cancelled/Forfeited	(65)	42.49		
Balance Outstanding at September 30, 2016	2,006	\$ 37.31	5.9 years	\$ 49.5
Exercisable at September 30, 2016	1,258	\$ 32.30	4.5 years	\$ 37.4
Options Expected to Vest	673	\$ 45.43	8.2 years	\$ 11.1

The aggregate intrinsic value represents the total pre-tax intrinsic value, based on our closing stock price of \$61.98, as reported by the New York Stock Exchange on September 30, 2016. This amount, which changes continuously (1) based on the fair value of our common stock, would have been received by the option holders had all option holders exercised their options as of the balance sheet date.

The total intrinsic value of options exercised during fiscal years 2016, 2015 and 2014 was \$4.0 million, \$6.3 million and \$4.6 million, respectively.

As of September 30, 2016, there was \$4.9 million of unrecognized compensation expense related to stock options granted under the Stock Incentive Plan. This unrecognized compensation expense does not reflect a reduction for our estimate of potential forfeitures, and is expected to be recognized over a weighted average period of 2.5 years.

Restricted Stock Units

RSUs are granted to certain employees with fair values equal to the average of the high and low prices of our common stock on the date of grant, multiplied by the number of units granted. RSU grants are contingent upon continued employment and vest over periods ranging from one to four years. Dividends, payable in common stock equivalents, accrue on the grants and are subject to the same specified terms as the original grants, including the risk of forfeiture.

The following table summarizes transactions for our nonvested RSUs for fiscal year 2016:

	Weighted Average Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested RSUs at October 1, 2015	634	\$ 41.35
Granted	256	50.41
Vested	(277)	38.62
Forfeited	(57)	46.30
Nonvested RSUs at September 30, 2016	556	\$ 46.32

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As of September 30, 2016, there was \$11.8 million of total unrecognized compensation expense related to nonvested RSUs granted under the Stock Incentive Plan. This unrecognized compensation expense does not reflect a reduction for our estimate of potential forfeitures, and is expected to be recognized over a weighted average period of 2 years. The total vest date fair value of shares that vested during fiscal years 2016, 2015 and 2014 was \$14.4 million, \$4.3 million and \$5.3 million, respectively.

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Performance Share Units

Our Compensation Committee grants PSUs to certain employees and these awards are subject to any stock dividends, stock splits, and other similar rights inuring to common stock, but unlike our RSUs are not entitled to dividend reinvestment. Vesting of the grants is contingent upon achievement of performance targets and corresponding service requirements.

The fair value of the PSUs is equal to the average of the high and low prices of our common stock on the date of grant, multiplied by the number of units granted. For PSUs with a market condition such as total shareholder return, the Monte-Carlo simulation method is used to determine fair value. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of our and the Peer Group's future expected stock prices.

The following table sets forth the weighted average fair value per share for PSUs and the related valuation assumptions used in the determination of those fair values. PSUs granted in fiscal 2016, 2015 and 2014 are based on company-specific performance targets, with a total shareholder return collar.

	Years Ended September 30		
	2016	2015	2014
Weighted average fair value per share	\$50.51	\$47.82	\$47.91

Valuation assumptions:

Risk-free interest rate	1.1%	0.9%	0.5%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility	22.3%	23.5%	30.1%

The basis for the assumptions listed above is similar to the valuation assumptions used for stock options, as discussed previously.

The following table summarizes transactions for our nonvested PSUs for fiscal 2016:

	Number of Share Units (in thousands)	Weighted Average Grant Date Fair Value
Nonvested PSUs as of October 1, 2015	354	\$ 47.86
Granted	314	51.43
Vested	(166)	50.05
Forfeited	(47)	47.51
Nonvested PSUs at September 30, 2016	455	\$ 49.50

As of September 30, 2016 there was \$14.3 million of unrecognized compensation expense related to PSUs granted under the Stock Incentive Plan based on the expected achievement of certain performance targets or market conditions. This unrecognized compensation expense as of September 30, 2016 does not reflect a reduction for our estimate of potential forfeitures, and is expected to be recognized by the end of fiscal 2018. The total vest date fair value of shares that vested during fiscal 2016 and 2015 was \$10.2 million and \$20.5 million.

NOTE 8. SPECIAL CHARGES

Over the past several years, we have placed a focus on improving our cost structure and business processes through various means including consolidation of certain manufacturing and select back office operations, customer rationalizations and various other organizational changes. As a result of these actions, we recognized special charges of \$39.9 million, \$41.2 million and \$37.1 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. These charges are summarized below.

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Welch Allyn Integration and Business Realignment

In conjunction with the acquisition of Welch Allyn in September 2015, we initiated plans to realign our business structure to facilitate the integration, take full advantage of available synergies, and position our existing businesses to capitalize on opportunities for growth. Immediately after the acquisition was completed, we eliminated approximately 100 positions in Welch Allyn's corporate support and administrative functions. We recorded special charges of \$14.4 million in the fourth quarter of fiscal 2015 related to this action and, as many of the affected employees were required to continue service for a specified period of time, additional amounts associated with this initial action were incurred through the second quarter of fiscal 2016. In addition, during fiscal 2016, we incurred costs, including severance and benefit costs, associated with other business realignment and integration activities. During fiscal 2016, we incurred total integration and business realignment charges of approximately \$19.0 million, of which \$14.0 million were severance and benefit costs. We are continuing to evaluate additional actions related to integration and business realignment and expect additional special charges to be incurred. However, it is not practical at this time to estimate the amount of these future expected costs until such time as the evaluations are complete.

Site Consolidation

In the third quarter of fiscal 2015, we initiated a plan to streamline our operations and simplify our supply chain by consolidating certain manufacturing and distribution operations. As part of this action, we announced the closure of sites in Redditch, England and Charleston, South Carolina. During fiscal 2015, we recorded severance and benefit charges of \$2.7 million for approximately 160 employees to be displaced by these closures, as well as \$1.8 million of other related costs. In the third quarter of fiscal 2016, we announced the closure of sites in Vuollerim, Sweden and Montpellier, France. During fiscal 2016, we recorded total charges related to the combined activities of \$15.9 million related to these actions, including \$7.2 million of severance and benefit costs in fiscal 2016. We expect to incur \$1 million to \$2 million of additional charges in fiscal 2017 for personnel costs and site closure expenses related to these actions. We are continuing to evaluate our facilities footprint and additional costs are expected to be incurred with respect to other actions in the future, however, it is not practical at this time to estimate the amount of these future expected costs until such time as the evaluations are complete.

2014 Global Transformation

During the second quarter of fiscal 2014, we announced a global transformation program focused on improving our cost structure. The domestic portion of this action was completed in fiscal 2015. Part of this program included reducing our European manufacturing capacity and streamlining our global operations by, among other things, executing a back office process transformation program in Europe. The restructuring in Europe is in process and, for fiscal 2016, resulted in charges of \$5.1 million for severance and benefit costs, legal and professional fees, temporary labor, project management, and other administrative functions. These amounts compare to charges of \$12.7 million (net of reversals) and \$24.9 million (net of reversals) in fiscal 2015 and fiscal 2014. Since the inception of the 2014 global transformation program through September 30, 2016, we have recognized aggregate special charges of \$42.7 million. Costs related to this action are substantially complete.

Pension Settlement Charge

As disclosed in Note 6 of our Consolidated Financial Statements, we offered lump sum settlements to all terminated vested participants in our domestic master defined benefit retirement plan, which resulted in a settlement charge of \$9.6 million. This charge was recorded as a component of special charges in fiscal 2015.

Discontinuance of Third-Party Payer Rentals

During the second quarter of fiscal 2014, we initiated a plan to discontinue third-party payer rentals of therapy products occurring primarily in home care settings. Special charges recorded for this action included a \$7.7 million non-cash tangible asset impairment charge, a \$2.0 million charge for severance and other benefits for approximately 70 eliminated positions, and \$1.6 million in other related costs, net of a reversal of \$0.2 million which was recorded in the third quarter of fiscal 2014. This action is complete.

Batesville Manufacturing Early Retirement Program

During the first quarter of fiscal 2014, we initiated a plan to improve our cost structure and streamline our organization by offering an early retirement program to certain manufacturing employees in our Batesville, Indiana plant, meeting specific eligibility requirements, and other minor reduction in force actions. These programs resulted in the elimination of approximately 35 positions and required recognition of a special charge of approximately \$1 million for lump sum payments under the program and severance and other benefits provided to other affected employees. This action is complete.

For all accrued severance and other benefit charges described above, we record restructuring reserves within other current liabilities.

The reserve activity for severance and other benefits during fiscal 2016 was as follows:

Balance at September 30, 2015	\$ 24.3
Expenses	23.3
Cash Payments	(32.6)
Reversals	(0.3)
Balance at September 30, 2016	\$ 14.7

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NOTE 9. INCOME TAXES

The significant components of income before income taxes and the consolidated income tax provision were as follows:

	Years Ended September 30		
	2016	2015	2014
Income before income taxes:			
Domestic	\$ 92.2	\$ 49.2	\$ 87.0
Foreign	46.1	15.9	28.2
Total	\$ 138.3	\$ 65.1	\$ 115.2
Income tax expense:			
Current provision			
Federal	\$ 4.7	\$ 35.3	\$ 40.2
State	2.2	3.6	3.1
Foreign	9.1	1.7	7.4
Total current provision	16.0	40.6	50.7
Deferred provision:			
Federal	21.8	(18.1)	(12.2)
State	1.2	(1.3)	(1.0)
Foreign	(23.5)	(2.9)	17.1
Total deferred provision	(0.5)	(22.3)	3.9
Income tax expense	\$ 15.5	\$ 18.3	\$ 54.6

Differences between income tax expense reported for financial reporting purposes and that computed based upon the application of the statutory U.S. Federal tax rate to the reported income before income taxes were as follows:

	Years Ended September 30					
	2016		2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income tax (a)	\$ 48.4	35.0	\$ 22.8	35.0	\$ 40.3	35.0
State income tax (b)	2.9	2.1	1.6	2.4	2.0	1.7
Foreign income tax (c)	(14.0)	(10.1)	(10.2)	(15.7)	(7.7)	(6.7)
Application of federal tax credits	(6.1)	(4.4)	(2.2)	(3.4)	(0.6)	(0.5)
Adjustment of estimated income tax accruals	0.3	0.2	(1.6)	(2.4)	(0.6)	(0.5)
Valuation of tax attributes	(14.4)	(10.4)	4.0	6.2	21.3	18.5
Domestic manufacturer's deduction	(1.8)	(1.3)	(1.5)	(2.3)	(1.8)	(1.5)
Capitalized transaction costs	-	-	2.5	3.8	0.3	0.2
Other, net	0.2	0.1	2.9	4.5	1.4	1.2
Income tax expense	\$ 15.5	11.2	\$ 18.3	28.1	\$ 54.6	47.4

(a) At statutory rate.

(b) Net of Federal benefit.

(c) Federal tax rate differential.

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The tax effect of temporary differences that gave rise to the deferred tax balance sheet accounts were as follows:

	Years Ended September 30	
	2016	2015
Deferred tax assets:		
Employee benefit accruals	\$ 76.5	\$ 106.4
Inventory	13.9	6.2
Net operating loss carryforwards	47.1	45.8
Tax credit carryforwards	14.2	11.7
Other, net	46.4	48.0
	198.1	218.1
Less: Valuation allowance	(26.9)	(40.7)
Total deferred tax assets	171.2	177.4
Deferred tax liabilities:		
Depreciation	(41.6)	(35.3)
Amortization	(371.2)	(409.1)
Other, net	(3.1)	(16.4)
Total deferred tax liabilities	(415.9)	(460.8)
Deferred tax asset (liability) - net	\$ (244.7)	\$ (283.4)

At September 30, 2016, we had \$44.1 million of deferred tax assets related to operating loss carryforwards in foreign jurisdictions that are subject to various carryforward periods with the majority eligible to be carried forward for an unlimited period. Additionally, we had \$2.6 million of deferred tax assets related to federal net operating loss carryforwards which will expire between 2019 and 2033 and \$0.4 million of deferred tax assets related to state net operating loss carryforwards, which expire between 2017 and 2035. We had \$14.0 million of deferred tax assets related to state tax credits, some of which will be carried forward for an unlimited period and some of which will expire between 2017 and 2025. Additionally, we had \$0.2 million of deferred tax assets related to foreign tax credits, which will expire in 2021. We had \$3.6 million of deferred tax assets related to capital loss carryforwards, which will expire in 2021.

The gross deferred tax assets as of September 30, 2016 were reduced by valuation allowances of \$26.9 million primarily related to certain foreign deferred tax attributes and state tax credit carryforwards as it is more likely than not that some portion or all of these tax attributes will not be realized. In evaluating whether it is more likely than not that we would recover our deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies were considered. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We operate under tax holidays in both Singapore and Puerto Rico. The Singapore tax holiday is effective through 2018 while the Puerto Rico tax holiday is effective through 2025. Both incentives are conditional on meeting certain employment and/or investment thresholds. The impact of these tax holidays decreased foreign taxes by \$4.1 million in fiscal 2016, \$4.3 million for fiscal 2015 and \$4.0 million for fiscal 2014. The benefit of the tax holidays on net income per share (diluted) was \$0.06, \$0.07 and \$0.07 for fiscal 2016, 2015 and 2014, respectively.

With regard to our non-U.S. subsidiaries, it is our practice and intention to reinvest the earnings in those businesses, to fund capital expenditures and other operating cash needs. Because the undistributed earnings of non-U.S. subsidiaries are considered to be permanently reinvested, no U.S. deferred income taxes or foreign withholding taxes have been provided. As of September 30, 2016, we have approximately \$310.0 million of undistributed earnings in our non-U.S. subsidiaries that are considered to be permanently reinvested. If such earnings were repatriated, additional tax expense

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may result. It is not practicable to estimate the amount of deferred tax liability related to these undistributed earnings due to the assumptions necessary to compute the tax.

We file a consolidated federal income tax return as well as multiple state, local and foreign jurisdiction tax returns. In the normal course of business, we are subject to examination by the taxing authorities in each of the jurisdictions where we file tax returns. During fiscal 2016, the Internal Revenue Service (“IRS”) concluded its audit for fiscal year 2014 and initiated its post-filing examination of the fiscal 2015 consolidated federal return. We continue to participate in the IRS Compliance Assurance Program (“CAP”) for fiscal year 2016 and 2017 and have submitted the application to remain in the CAP for fiscal year 2018. The CAP provides the opportunity for the IRS to review certain tax matters prior to us filing our tax return for the year, thereby reducing the time it takes to complete the post-filing examination. We are also subject to state and local or foreign income tax examinations by taxing authorities for years back to fiscal 2012.

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Welch Allyn also filed a consolidated federal income tax return as well as multiple state, local and foreign jurisdiction tax returns. In the normal course of business, Welch Allyn is subject to examination by the taxing authorities in each of the jurisdictions where it files tax returns. During calendar year 2016, the IRS concluded its post-filing audit for calendar year 2014 and up through the date of acquisition, September 8, 2015 (subject to certain exceptions). Thereafter, Welch Allyn will be integrated into Hill-Rom's CAP going forward.

We also have on-going audits in various stages of completion in several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition by approximately \$0.5 to \$1.5 million in the next twelve months, excluding interest.

The total amount of gross unrecognized tax benefits as of September 30, 2016, 2015 and 2014 was \$5.1 million, \$5.8 million and \$4.1 million, which includes \$3.6 million, \$3.3 million and \$2.7 million that, if recognized, would impact the effective tax rate in future periods. The remaining amount relates to items which, if recognized, would not impact our effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Years Ended September 30		
	2016	2015	2014
Balance at October 1	\$ 5.8	\$ 4.1	\$ 4.6
Increases in tax position of prior years	0.8	0.4	2.1
Decreases in tax position of prior years	(0.1)	(1.3)	(0.9)
Settlements with taxing authorities	(0.3)	(1.2)	(0.1)
Lapse of applicable statute of limitations	(0.5)	(1.3)	(1.5)
Increase in positions due to acquisitions	(0.6)	5.5	-
Foreign currency adjustments	-	(0.4)	(0.1)
Total change	(0.7)	1.7	(0.5)
Balance at September 30	\$ 5.1	\$ 5.8	\$ 4.1

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Accrued interest and penalties, which are not presented in the reconciliation table above, were \$3.0 million, \$3.0 million and \$0.4 million at September 30, 2016, 2015 and 2014, respectively. Related to interest and penalties, we recognized an income tax benefit (expense) of \$0.0 million in 2016, \$0.2 million in 2015 and \$0.2 million in 2014.

NOTE 10. EARNINGS PER COMMON SHARE

Basic earnings per share is calculated based upon the weighted average number of outstanding common shares for the period, plus the effect of deferred vested shares. Diluted earnings per share is calculated consistent with the basic earnings per share calculation plus the effect of dilutive unissued common shares related to stock-based employee compensation programs. For all years presented, anti-dilutive stock options were excluded from the calculation of dilutive earnings per share. Excluded shares were 0.4 million, 0.2 million and 0.3 million for fiscal years 2016, 2015 and 2014, respectively. Cumulative treasury stock acquired, less cumulative shares reissued, have been excluded in determining the average number of shares outstanding.

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Earnings per share is calculated as follows:

	Years Ended September 30		
	2016	2015	2014
Net income attributable to common shareholders	\$124.1	\$47.7	\$60.6
Average shares outstanding - Basic (thousands)	65,333	57,249	57,555
Add potential effect of exercise of stock options and other unvested equity awards (thousands)	1,263	1,287	968
Average shares outstanding - Diluted (thousands)	66,596	58,536	58,523
Net income attributable to common shareholders per common share - Basic	\$1.90	\$0.83	\$1.05
Net income attributable to common shareholders per common share - Diluted	\$1.86	\$0.82	\$1.04

NOTE 11. SEGMENT REPORTING

We disclose segment information that is consistent with the way in which management operates and views the business. During our second quarter of 2016, we changed our segment reporting to reflect changes in our organizational structure and management's operation and view of the business. We combined the global Respiratory Care business and the Welch Allyn operations into a new segment called Front Line Care. Our Surgical Solutions segment now represents the surgical component of what was previously included in our Surgical and Respiratory Care segment. The prior year segment information has been updated to reflect these changes. Our revised operating structure contains the following reporting segments:

- North America Patient Support Systems – sells and rents our specialty frames and surfaces and mobility solutions, as well as our clinical workflow solutions, in the U.S. and Canada.
- International Patient Support Systems– sells and rents similar products as our North America Patient Support Systems segment in regions outside of the U.S. and Canada.
- Front Line Care – globally sells and rents respiratory care products, and sells medical diagnostic equipment and a diversified portfolio of devices that assess, diagnose, treat, and manage a wide variety of illnesses and diseases.
- Surgical Solutions – sells our surgical products globally.

Under our revised segments, our performance under each reportable segment continues to be measured on a divisional income basis before non-allocated operating and administrative costs, impairment of other intangibles, litigation, special charges, acquisition and integration costs, acquisition-related intangible asset amortization, and other unusual events. Divisional income generally represents the division's gross profit less its direct operating costs along with an allocation of manufacturing and distribution costs, research and development and certain corporate functional expenses.

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Non-allocated operating and administrative costs include functional expenses that support the entire organization such as administration, finance, legal and human resources, expenses associated with strategic developments, acquisition-related intangible asset amortization, and other events that are not indicative of operating trends. We exclude such amounts from divisional income to allow management to evaluate and understand divisional operating trends. The Chief Operating Decision Maker does not receive any asset information by operating segment and, accordingly, the Company does not report asset information by operating segment.

	Years Ended September 30		
	2016	2015	2014
Revenue:			
North America Patient Support Systems	\$1,076.9	\$1,002.0	\$888.9
International Patient Support Systems	360.3	424.6	490.1
Front Line Care	809.7	139.0	86.1
Surgical Solutions	408.3	422.6	221.0
Total revenue	\$2,655.2	\$1,988.2	\$1,686.1
Divisional income (loss):			
North America Patient Support Systems	\$266.4	\$204.1	\$165.0
International Patient Support Systems	(13.8)	9.2	21.3
Front Line Care	202.1	41.5	28.8
Surgical Solutions	46.2	56.0	43.5
Other:			
Non-allocated operating costs, administrative costs, and other	230.7	186.5	98.9
Special charges	39.9	41.2	37.1
Operating profit	230.3	83.1	122.6
Interest expense	(90.4)	(18.4)	(9.8)
Loss on extinguishment of debt	(10.8)	-	-
Investment income and other, net	9.2	0.4	2.4
Income before income taxes	\$138.3	\$65.1	\$115.2

Geographic Information

Geographic data for net revenue and long-lived assets (which consist mainly of property and equipment leased to others) were as follows:

	Years Ended September 30		
	2016	2015	2014
Net revenue to unaffiliated customers: (a)			
United States	\$1,829.4	\$1,273.0	\$1,070.8
Foreign	825.8	715.2	615.3
Total revenue	\$2,655.2	\$1,988.2	\$1,686.1
Long-lived assets: (b)			
United States	\$234.2	\$263.9	\$151.7
Foreign	115.8	114.5	109.8
Total long-lived assets	\$350.0	\$378.4	\$261.5

(a) Net revenue is attributed to geographic areas based on the location of the customer.

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(b) Includes property and equipment leased to others.

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NOTE 12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents selected consolidated financial data by quarter for each of the last two fiscal years.

<u>2016 Quarter Ended</u>	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Net revenue	\$ 661.2	\$ 632.6	\$ 655.4	\$ 706.0
Gross profit	\$ 290.7	\$ 304.2	\$ 315.4	\$ 346.7
Net income attributable to common shareholders	\$ 4.8	\$ 22.3	\$ 45.3	\$ 51.7
Basic net income attributable to common shareholders per common share	\$ 0.07	\$ 0.34	\$ 0.69	\$ 0.79
Diluted net income attributable to common shareholders per common share	\$ 0.07	\$ 0.33	\$ 0.68	\$ 0.77
<u>2015 Quarter Ended</u>	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
Net revenue	\$ 465.0	\$ 474.8	\$ 474.5	\$ 573.9
Gross profit	\$ 199.9	\$ 214.2	\$ 209.5	\$ 256.7
Net income (loss) attributable to common shareholders	\$ 12.1	\$ 26.1	\$ 19.1	\$ (9.6)
Basic net income (loss) attributable to common shareholders per common share	\$ 0.21	\$ 0.46	\$ 0.34	\$ (0.16)
Diluted net income (loss) attributable to common shareholders per common share	\$ 0.21	\$ 0.45	\$ 0.33	\$ (0.16)

NOTE 13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Rental expense for fiscal years 2016, 2015 and 2014 was \$31.7 million, \$25.2 million and \$24.7 million, respectively. The table below indicates the minimum annual rental commitments (excluding renewable periods) aggregating \$80.7 million, for manufacturing facilities, warehouse distribution centers, service centers and sales offices, under non-cancelable operating leases.

	Amount
2017	\$ 29.0
2018	\$ 21.2
2019	\$ 13.5
2020	\$ 7.1
2021	\$ 5.1
2022 and beyond	\$ 4.8

Self Insurance

We are involved in various claims, including product and general liability, workers' compensation, auto liability and employment related matters. Such claims in the United States have deductibles and self-insured retentions ranging

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from \$25 thousand to \$1.0 million per occurrence or per claim, depending upon the type of coverage and policy period. International deductibles and self-insured retentions are lower. We are also generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical information along with certain assumptions about future events. Such estimated reserves are classified as Other Current Liabilities and Other Long-Term Liabilities within the Consolidated Balance Sheets.

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Legal Proceedings

General

We are subject to various other claims and contingencies arising out of the normal course of business, including those relating to governmental investigations and proceedings, commercial transactions, product liability, employee related matters, antitrust, safety, health, taxes, environmental and other matters. Litigation is subject to many uncertainties and the outcome of individual litigated matters is not predictable with assurance. It is possible that some litigation matters for which reserves have not been established could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial condition, results of operations and cash flows.

Universal Hospital Services, Inc. Litigation

On January 13, 2015, Universal Hospital Services, Inc. filed a complaint against us in the United States District Court for the Western District of Texas. The plaintiff alleges, among other things, that we engaged in certain customer contracting practices in violation of state and federal antitrust laws. The plaintiff also has asserted claims for tortious interference with business relationships. The plaintiff seeks injunctive relief and money damages in an unspecified amount. No trial date has been set. We believe that the allegations are without merit and intend to defend this matter vigorously.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents have been filed as a part of this Form 10-K/A or, where noted, incorporated by reference:

(1) Financial Statements

The financial statements of the Company and its consolidated subsidiaries are listed under Part II, Item 8 on the Index to Consolidated Financial Statements on page 4.

(2) Financial Statement Schedules

The financial statement schedule filed in response to Part II, Item 8 and Part IV, Item 15(c) of this Form 10-K/A is listed under Part II, Item 8 on the Index to Consolidated Financial Statements on page 4.

(3) Exhibits (See changes to Exhibit Index below):

“The Exhibit Index to this Form 10-K/A is hereby incorporated herein by reference, sets forth a list of those exhibits filed herewith, and includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K/A by Item 601 (b)(10)(iii) of Regulation S-K.”

The agreements included as exhibits to this Form 10-K/A are intended to provide information regarding their terms and not to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by the parties to the agreements, including us, solely for the benefit of the other parties to the applicable agreement. Such representation and warranties:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to certain investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

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HILL-ROM HOLDINGS, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

For The Fiscal Years Ended September 30, 2016, 2015 and 2014

(Dollars in millions)

<u>DESCRIPTION</u>	BALANCE AT BEGINNING	ADDITIONS CHARGE TO COSTS AND OF PERIOD	CHARGE TO OTHER EXPENSES ACCOUNTS	DEDUCTIONS NET OF ACCOUNTS	BALANCE AT END OF RECOVERIES PERIOD
Reserves deducted from assets to which they apply:					
Allowance for possible losses and sales returns - accounts receivable:					
Period Ended:					
September 30, 2016	\$ 26.0	\$ 2.1	\$ 2.2	(a) \$ (3.5) (b) \$ 26.8
September 30, 2015	\$ 31.4	\$ 1.8	\$ 0.1	(a) \$ (7.3) (b) \$ 26.0
September 30, 2014	\$ 30.1	\$ 1.5	\$ 8.6	(a) \$ (8.8) (b) \$ 31.4
Allowance for inventory valuation:					
Period Ended:					
September 30, 2016	\$ 45.5	\$ 5.8	\$ -	(c) \$ (6.1) (d) \$ 45.2
September 30, 2015	\$ 42.9	\$ 0.9	\$ 5.7	(c) \$ (4.0) (d) \$ 45.5
September 30, 2014	\$ 22.0	\$ 4.0	\$ 19.8	(c) \$ (2.9) (d) \$ 42.9
Valuation allowance against deferred tax assets:					
Period Ended:					
September 30, 2016	\$ 40.7	\$ (14.9)	\$ -	(c) \$ 1.1	(e) \$ 26.9
September 30, 2015	\$ 28.3	\$ 4.0	\$ 11.1	(c) \$ (2.7	(e) \$ 40.7
September 30, 2014	\$ 8.9	\$ 21.3	\$ -	\$ (1.9	(e) \$ 28.3

(a) Reduction of gross revenue for uncollectible health care rental reimbursements, cash discounts and other adjustments in determining net revenue. Also includes the effect of acquired businesses, if any.

(b) Generally reflects the write-off of specific receivables against recorded reserves.

- (c) Generally reflects the effect of acquired businesses, if any.
- (d) Generally reflects the write-off of specific inventory against recorded reserves.
- (e) Primarily reflects write-offs of deferred tax assets against the valuation allowance and other movement of the valuation allowance offset by an opposing change in deferred tax assets.

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HILL-ROM HOLDINGS, INC.

INDEX TO EXHIBITS

23 Consent of Independent Registered Public Accounting Firm

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*101.INS XBRL Instance Document

*101.SCH XBRL Taxonomy Extension Schema Document

*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

*101.DEF XBRL Taxonomy Extension Definition Linkbase Document

*101.LAB XBRL Extension Labels Linkbase Document

*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* There were no changes to these exhibits from Form 10-K filed on November 17, 2016 which are incorporated herein by reference.