PERRIGO Co plc
Form 10-Q
February 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: December 28, 2013

OR

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

For the transition period from to

Commission file number 333-190859

PERRIGO COMPANY PLC
(Exact name of registrant as specified in its charter)

Ireland (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland (Address of principal executive offices)	- (Zip Code)

+353 1 6040031
(Registrant's telephone number, including area code)
33 Sir John Rogerson's Quay, Dublin 2, Ireland
(Former name, former address and former fiscal year, if changed since last report)

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, and (2) has been subject to such filing requirements for the past 90 days. YES T 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 T NO £

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

Large accelerated filer	T	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of January 31, 2014, there were 133,747,488 Ordinary Shares outstanding.

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Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company’s future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about the Company’s expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or the negative of those terms or other comparable terminology.

Please see Item 1A of the Form 10-K of Perrigo Company, of which the Company is the successor registrant, for the year ended June 29, 2013 and Part II, Item 1A of this Form 10-Q for a discussion of certain important risk factors that relate to forward-looking statements contained in this report. The Company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company’s control. These and other important factors may cause actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements in this report are made only as of the date hereof, and unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PERRIGO COMPANY PLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net sales	$979.0	$883.0	$1,912.4	$1,652.7
Cost of sales	618.3	575.8	1,195.4	1,060.3
Gross profit	360.7	307.2	717.0	592.4
Operating expenses				
Distribution	14.0	11.7	27.2	22.5
Research and development	37.5	28.3	69.8	55.7
Selling	47.3	43.1	97.6	80.5
Administration	154.4	60.2	233.2	113.3
Write-off of in-process research and development	6.0	—	6.0	—
Restructuring	14.9	—	17.0	—
Total operating expenses	274.1	143.3	450.8	272.0
Operating income	86.6	163.9	266.2	320.4
Interest, net	29.7	15.3	51.1	31.2
Other expense, net	4.1	0.1	5.1	—
Loss on sale of investment	—	3.0	—	3.0
Loss on extinguishment of debt	165.8	—	165.8	—
Income (loss) before income taxes	(113.0)	145.5	44.2	286.2
Income tax expense (benefit)	(27.0)	39.5	18.9	74.7
Net income (loss)	$(86.0)	$106.0	$25.3	$211.5
Earnings (loss) per share				
Basic earnings (loss) per share	$(0.87)	$1.13	$0.26	$2.26
Diluted earnings (loss) per share	$(0.87)	$1.12	$0.26	$2.24
Weighted average shares outstanding				
Basic	98.7	93.9	96.4	93.8
Diluted	98.7	94.5	96.9	94.4
Dividends declared per share	$0.09	$0.09	$0.18	$0.17

See accompanying Notes to Condensed Consolidated Financial Statements.

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PERRIGO COMPANY PLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net income (loss)	$(86.0)	$106.0	$25.3	$211.5
Other comprehensive income (loss):				
Change in fair value of derivative financial instruments, net of tax	(1.4)	5.2	(10.6)	6.7
Foreign currency translation adjustments	16.5	28.0	53.1	33.5
Change in fair value of investment securities, net of tax	(4.8)	1.0	(4.8)	1.0
Post-retirement and pension liability adjustments, net of tax	—	—	(0.1)	—
Other comprehensive income, net of tax	10.3	34.2	37.6	41.2
Comprehensive income (loss)	$(75.7)	$140.2	$62.9	$252.7

See accompanying Notes to Condensed Consolidated Financial Statements.

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PERRIGO COMPANY PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	December 28, 2013	June 29, 2013
Assets		
Current assets		
Cash and cash equivalents	$521.1	$779.9
Investment securities	85.5	—
Accounts receivable, net of allowance for doubtful accounts of $2.7 million and $2.1 million	769.8	651.9
Inventories	702.3	703.9
Current deferred income taxes	61.6	47.1
Income taxes refundable	79.2	6.1
Prepaid expenses and other current assets	66.5	48.0
Total current assets	2,286.0	2,236.9
Property and equipment	1,366.7	1,290.4
Less accumulated depreciation	(648.2)	(609.0)
	718.5	681.4
Goodwill and other indefinite-lived intangible assets	3,255.6	1,174.1
Equity method investments	69.0	4.4
Other intangible assets, net	7,223.3	1,157.6
Non-current deferred income taxes	21.3	20.3
Other non-current assets	139.1	76.1
	$13,712.8	$5,350.8
Liabilities and Shareholders’ Equity		
Current liabilities		
Accounts payable	$306.7	$382.0
Short-term debt	—	5.0
Payroll and related taxes	158.7	82.1
Accrued customer programs	210.0	131.7
Accrued liabilities	140.6	95.6
Accrued income taxes	4.6	11.6
Current deferred income taxes	—	0.2
Current portion of long-term debt	141.2	41.2
Total current liabilities	961.8	749.4
Non-current liabilities		
Long-term debt, less current portion	3,159.1	1,927.8
Non-current deferred income taxes	846.2	127.8
Other non-current liabilities	244.5	213.2
Total non-current liabilities	4,249.8	2,268.8
Shareholders’ Equity		
Controlling interest:		
Preferred shares, $0.0001 par value, 10 million shares authorized	—	—
Ordinary shares, €0.001 par value, 10 billion shares authorized	6,662.6	538.5
Accumulated other comprehensive income	114.6	77.0
Retained earnings	1,723.3	1,715.9
	8,500.5	2,331.4

Noncontrolling interest	0.7	1.2
Total shareholders’ equity	8,501.2	2,332.6
	$13,712.8	$5,350.8
Supplemental Disclosures of Balance Sheet Information		
Preferred shares, issued and outstanding	—	—
Ordinary shares, issued and outstanding	133.7	94.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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PERRIGO COMPANY PLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Six Months Ended	
	December 28, 2013	December 29, 2012
Cash Flows From (For) Operating Activities		
Net income	$25.3	$211.5
Adjustments to derive cash flows		
Loss on extinguishment of debt	165.8	—
Write-off of IPR&D	6.0	—
Non-cash restructuring charges	14.3	—
Loss on sale of investment	—	3.0
Depreciation and amortization	110.4	69.9
Share-based compensation	13.6	9.4
Income tax benefit from exercise of stock options	0.3	1.1
Excess tax benefit of stock transactions	(6.9)	(15.6)
Deferred income taxes	(5.4)	1.0
Subtotal	323.4	280.3
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(65.1)	16.2
Inventories	10.5	(45.0)
Accounts payable	(70.8)	(18.1)
Payroll and related taxes	13.7	(20.0)
Accrued customer programs	72.8	6.6
Accrued liabilities	2.0	(7.1)
Accrued income taxes	(50.4)	12.8
Other	(15.8)	3.9
Subtotal	(103.1)	(50.7)
Net cash from operating activities	220.3	229.6
Cash Flows (For) From Investing Activities		
Acquisitions of businesses, net of cash acquired	(1,527.9)	(326.9)
Proceeds from sales of property and equipment	6.2	—
Additions to property and equipment	(77.8)	(39.3)
Net cash for investing activities	(1,599.5)	(366.2)
Cash Flows (For) From Financing Activities		
Purchase of noncontrolling interest	(7.2)	—
Borrowings (repayments) of short-term debt, net	(5.0)	2.6
Premium on early retirement of debt	(133.5)	—
Net proceeds from debt issuances	3,293.6	40.6
Repayments of long-term debt	(1,965.0)	(40.0)
Deferred financing fees	(48.8)	(0.6)
Excess tax benefit of stock transactions	6.9	15.7
Issuance of common stock	6.7	7.6
Repurchase of common stock	(7.3)	(12.2)
Cash dividends	(18.0)	(16.0)
Net cash from (for) financing activities	1,122.4	(2.3)
Effect of exchange rate changes on cash	(2.0)	(4.1)

Net decrease in cash and cash equivalents	(258.8)	(143.0)
Cash and cash equivalents, beginning of period	779.9	602.5
Cash and cash equivalents, end of period	$521.1	$459.5
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	$49.1	$29.2
Interest received	$1.6	$2.7
Income taxes paid	$73.9	$67.9
Income taxes refunded	$3.6	$1.2

See accompanying Notes to Condensed Consolidated Financial Statements.

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PERRIGO COMPANY PLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 28, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Perrigo Company plc (formerly known as Perrigo Company Limited, and prior thereto, Blisfont Limited) ("Perrigo" or "the Company"), was incorporated under the laws of Ireland on June 28, 2013, and became the successor registrant of Perrigo Company on December 18, 2013 in connection with the consummation of the acquisition of Elan Corporation, plc ("Elan"), which is discussed further in Note 2. From its beginnings as a packager of home remedies in 1887, Perrigo has grown to become a leading global healthcare supplier. Perrigo develops, manufactures and distributes over-the-counter ("OTC") and generic prescription ("Rx") pharmaceuticals, nutritional products and active pharmaceutical ingredients ("API"), and has a specialty sciences business comprised of assets focused on the treatment of Multiple Sclerosis (Tysabri®) and Alzheimer's. The Company is the world's largest manufacturer of OTC healthcare products for the store brand market. Perrigo's mission is to offer uncompromised "Quality Affordable Healthcare Products™," and it does so across a wide variety of product categories primarily in the United States, United Kingdom, Mexico, Israel and Australia, as well as many other key markets worldwide, including Canada, China and Latin America.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

The Company’s sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. In addition, the Company's animal health products are subject to the seasonal demand for flea and tick products, which typically peaks during the warmer weather months. Accordingly, operating results for the three and six months ended December 28, 2013 are not necessarily indicative of the results that may be expected for a full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in Perrigo Company’s Annual Report on Form 10-K for the year ended June 29, 2013.

The Company has five reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritionals, Rx Pharmaceuticals, API, and Specialty Sciences. In conjunction with the acquisition of Elan, the Company expanded its operating segments to include the Specialty Sciences segment, which is comprised of assets focused on the treatment of Multiple Sclerosis (Tysabri®) and Alzheimer's. In addition, the Company has an Other category that consists of the Israel Pharmaceutical and Diagnostic Products operating segment, which does not individually meet the quantitative thresholds required to be a separately reportable segment. This segment structure is consistent with the way management makes operating decisions, allocates resources and manages the growth and profitability of the Company’s business.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Investment Securities

The Company determines the appropriate classification of all investment securities as held-to-maturity, available-for-sale, or trading at the time of purchase and re-evaluates such classification as of each balance sheet date in accordance with ASC Topic 320, "Investments - Debt and Equity Securities". Investments in equity securities that have readily determinable fair values are classified and accounted for as available-for-sale. The Company assesses whether temporary or other-than-temporary gains or losses on its investment securities have occurred due to increases or declines in fair value or other market conditions. If losses are considered temporary, they are reported on a net of tax basis within Other Comprehensive Income ("OCI"). If losses are considered other-than-temporary, the credit loss portion is charged to operations and the non-credit loss portion is charged to OCI.

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As a result of the Elan acquisition, the Company acquired equity investment securities classified as available-for-sale. The investments primarily include a 14.6% share in Prothena Corporation plc ("Prothena"), a drug discovery business incorporated in Ireland and traded on the NASDAQ Global Market. They also include a number of smaller investments in both public and privately-held emerging pharmaceutical and biotechnology companies. At December 28, 2013, the Company held a total of $95.2 million in investment securities, of which $85.5 million are current and $9.7 million are non-current, recorded in other non-current assets on the Consolidated Balance Sheets. The non-current portion is recorded at cost, less impairments. Between December 18, 2013, the date the Company acquired Elan, and December 28, 2013, the Company recorded an unrealized loss of $4.8 million in OCI related to the current portion of investment securities. This unrealized loss was due primarily to the change in Prothena's stock price between December 18, 2013 and December 28, 2013. The below table shows current investment securities at December 28, 2013 (in millions):

	December 28, 2013
Equity securities - current, at cost less impairments	$90.3
Unrealized gains (losses) on equity securities	(4.8)
Total investment securities - current	$85.5

Subsequent to the balance sheet date, the Company sold its investment in Prothena for approximately $79.4 million, net of underwriting discounts and commissions, and expects to recognize a loss on the sale of approximately $9.8 million during the third quarter of fiscal 2014. See Note 17 for further details on the sale.

Equity Method Investments

The equity method of accounting is used for unconsolidated entities over which the Company has significant influence; generally this represents ownership interests of at least 20% and not more than 50%. Under the equity method of accounting, the Company records the investments at carrying value adjusted for a proportionate share of the profits and losses of these entities. The Company evaluates its equity method investments for recoverability in accordance with ASC Topic 323, "Investments - Equity Method and Joint Ventures". If the Company determines that a loss in the value of the investment is other than temporary, the investment is written down to its estimated fair value. Any such losses are recorded other expense, net. Evaluations of recoverability under ASC 323 are primarily based on projected cash flows. Due to uncertainties in the estimation process, actual results could differ from such estimates.

The Company's equity method investments totaled $69.0 million at December 28, 2013. The Company acquired three equity method investments with the Elan acquisition as follows:

Janssen AI - a subsidiary of Johnson & Johnson, which in 2009, acquired all of the assets and liabilities related to Elan's Alzheimer’s Immunotherapy Program ("AIP") collaboration with Wyeth (which has since been acquired by Pfizer). The Company has a 49.9% equity interest in Janssen AI with a carrying value of $5.3 million at December 28, 2013. Johnson & Johnson provided an initial $500.0 million of funding to Janssen AI. Any additional funding in excess of the initial $500.0 million funding commitment is required to be funded equally by the Company and Johnson & Johnson up to a maximum additional commitment of $400.0 million in total. Prior to the Elan acquisition, Elan had provided funding of $132.6 million to Janssen AI. At December 28, 2013, the Company's remaining funding commitment to Janssen AI was $67.4 million. At its option, the Company may forgo this commitment which would dilute the Company's investment in Janssen AI. The Company recorded a net loss of $1.0 million related to the Company's share of Janssen AI losses between December 18, 2013, the date the Company acquired Elan, and December 28, 2013.

Newbridge Pharmaceutical Limited ("Newbridge") - Newbridge is a Dubai-based pharmaceuticals company specializing in in-licensing, acquiring, registering and commercializing drugs approved by the U.S. Food and Drug Administration ("FDA"), the European Medicines Agency and Japanese Pharmaceuticals and Medical Devices

Agency to treat diseases with high regional prevalence in the Middle East, Africa, Turkey and the Caspian region. The Company has a 48% equity stake in Newbridge with a carrying value of $39.8 million at December 28, 2013. The Company has an option to acquire the majority of the remaining equity for approximately $243.0 million, between January 2014 and March 2015. The Company recorded a net loss of $0.2 million related to the Company's share of Newbridge losses between December 18, 2013, the date the Company acquired Elan, and December 28, 2013.

Proteostasis Therapeutics, Inc. ("Proteostasis") - Proteostasis is focused on the discovery and development of disease modifying small molecule drugs and diagnostics for the treatment of neurodegenerative disorders and dementia related diseases. The Company has a 22% equity interest in Proteostasis with a carrying value of $19.9 million at December 28, 2013.

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The Company recorded a net loss of $0.1 million related to the Company's share of Proteostasis losses between December 18, 2013, the date the Company acquired Elan, and December 28, 2013.

Defined Benefit Pension Plans

As part of the Elan acquisition, the Company assumed responsibility for the funding of two Irish defined benefit pension plans. The defined benefit pension plans were closed to new members in March 2009 and the future accrual of benefits ceased for active members of the plans on January 31, 2013. The defined benefit pension plans are managed externally and the related pension costs and liabilities are assessed in accordance with the advice of a qualified professional actuary. An actuarial valuation was completed at December 18, 2013, the date the Company acquired Elan, and at December 28, 2013. Two significant assumptions, the discount rate and the expected rate of return on plan assets, are important elements of expense and/or liability measurement. The Company evaluates these assumptions with the assistance of an actuary. Other assumptions involve employee demographic factors such as retirement patterns, mortality, turnover and the rate of compensation increase.

Actuarial gains and losses are recognized using the corridor method. Under the corridor method, to the extent that any cumulative unrecognized net actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, that portion is recognized over the expected average remaining working lives of the plan participants. Otherwise, the net actuarial gain or loss is recorded in OCI. The Company recognizes the funded status of benefit plans on the Consolidated Balance Sheets. In addition, the Company recognizes the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic pension cost of the period as a component of OCI.

At December 28, 2013, the funded status of the plans was a pension surplus of $22.7 million. As a result, the Company did not make any contributions to the plans from December 18, 2013 to December 28, 2013, nor does it expect to for the remainder of fiscal 2014. No pension expense was incurred from December 18, 2013 to December 28, 2013.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 was effective for the Company in the first quarter of fiscal 2014. The additional disclosures required by this ASU have been included in Note 11. Because this standard only impacts presentation and disclosure requirements, its adoption did not impact the Company's consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (ASC Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This amendment was made to simplify the asset impairment test. It allows an organization the option to first assess the qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization that elects to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is “more likely than not” that the asset is impaired. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, although early adoption is also permitted. This guidance was effective for the Company in the first quarter of fiscal 2014 and did not have any effect on the Company's consolidated results of operations or financial condition.

In December 2011, the FASB issued ASU 2011-11 “Disclosures about Offsetting Assets and Liabilities” ("ASU 2011-11"), as clarified with ASU 2013-01 “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” ("ASU 2013-01") issued in January 2013. These common disclosure requirements are intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a portfolio’s financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. ASU 2011-11 requires entities to disclose both gross and net information about both

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instruments and transactions eligible for offset in the statement of financial position, and disclose instruments and transactions subject to an agreement similar to a master netting agreement. Both ASU 2011-11 and ASU 2013-01 were effective for the Company in the first quarter of fiscal 2014. Because this standard only impacts presentation and disclosure requirements, its adoption did not impact the Company's consolidated results of operations or financial condition.

NOTE 2 – ACQUISITIONS

Fiscal 2014

Elan Corporation, plc - On December 18, 2013, the Company acquired Elan in a cash and stock transaction valued at approximately $9.5 billion. At the completion of the transaction, the holder of each Elan ordinary share and each Elan American Depositary Share received from Perrigo $6.25 in cash and 0.07636 of a Perrigo ordinary share. As a result of the transaction, based on the number of outstanding shares of Perrigo and Elan as of December 18, 2013, former Perrigo and Elan shareholders held approximately 71% and 29%, respectively, of Perrigo's ordinary shares immediately after giving effect to the acquisition.

Elan, headquartered in Dublin, Ireland, provides the Company with assets focused on the treatment of Multiple Sclerosis (Tysabri®) and Alzheimer's. Perrigo's management believes the acquisition of Elan will provide recurring annual operational synergies, related cost reductions and tax savings. Certain of these synergies result from the elimination of redundant public company costs while optimizing back-office support. Additionally, the Company expects to have a lower future tax rate due to changes to the estimated jurisdictional mix of income and the new corporate structure attributable to the acquisition of Elan.

The operating results for Elan were included in a new segment "Specialty Sciences" of the Company's Consolidated Results of Operations beginning December 18, 2013. See Note 14 for further information on this new reportable segment. During the three and six months ended December 28, 2013 the Company incurred one-time acquisition-related costs of $269.0 million and $283.7 million, respectively, which were expensed as incurred. These costs were recorded in unallocated expenses and related primarily to general transaction costs (legal, banking and other professional fees), financing fees, and debt extinguishment. See Note 7 for further details on the debt extinguishment. The table below details these transaction costs and where they were recorded in the Condensed Consolidated Statements of Operations (in millions).

	Three Months Ended	Six Months Ended
Line item	December 28, 2013	
Administration expense	$93.7	$105.7
Interest, net	9.0	10.0
Other expense, net	0.5	2.2
Loss on extinguishment of debt	165.8	165.8
Total acquisition-related costs	$269.0	$283.7

Fair Value of Consideration Transferred

The total purchase price for the acquisition of Elan was approximately $9.5 billion, comprised of Perrigo share consideration valued at $6.1 billion, cash consideration for outstanding Elan shares of $3.2 billion and cash consideration for vested Elan option and share award holders of $112.0 million as follows (in millions except for per share data):

Elan shares outstanding as of December 18, 2013	515.7
Exchange ratio per share	0.07636
Total Perrigo shares issued to Elan shareholders	39.4

Perrigo per share value at transaction close on December 18, 2013	$155.34
Total value of Perrigo shares issued to Elan shareholders	$6,117.2
Cash consideration paid at $6.25 per Elan share	3,223.2
Cash consideration paid for vested Elan stock options and share awards	112.0
Total consideration	$9,452.4

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In addition, the Company paid cash consideration of $15.6 million to the Elan stock option and share award holders for the unvested portion of their awards, which was charged to earnings in the Company's second quarter of fiscal 2014.

Preliminary Estimated Fair Values

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value as of the acquisition date. The allocation of the purchase price above is considered preliminary and was based on valuation information, estimates and assumptions available at December 28, 2013. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments will be recorded during the measurement period. Fair value estimates are based on a complex series of judgments about future events and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment will result in changes in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations and financial position.

The preliminary allocation of the purchase price at December 18, 2013 was (in millions):

	Preliminary Allocation
Cash and cash equivalents	$1,807.3
Investment securities (current and non-current)	100.0
Accounts receivable	44.2
Prepaids and other current assets	27.1
Property and equipment	9.2
Goodwill	2,076.6
Equity method investments	66.3
Definite-lived intangible assets	6,111.0
Other non-current assets	27.1
Total assets acquired	10,268.8
Accounts payable	2.0
Accrued expenses	89.8
Deferred tax liabilities	702.2
Other non-current liabilities	22.4
Total liabilities assumed	816.4
Net assets acquired	$9,452.4

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected synergies of the combined company, which are further described above. As a result of benefiting from the anticipated synergies of acquiring Elan, $831.3 million of the $2.1 billion of goodwill was preliminarily allocated to certain segments as follows: $423.7 million to Consumer Healthcare, $316.1 million to Rx Pharmaceuticals and $91.5 million to Nutritionals. Goodwill is not amortized for financial reporting or tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

Definite-lived intangible assets acquired in the acquisition were as follows:

1) Tysabri®: The Company is entitled to royalty payments from Biogen Idec Inc. ("Biogen") based on its Tysabri® revenues in all indications and geographies. Specifically, for the twelve-month period beginning May 1, 2013, a 12% royalty applies. Following the initial twelve-month period, annual sales up to $2.0 billion accrue an 18%

royalty and incremental annual sales above $2.0 billion accrue a 25% royalty. The Company will continue to receive royalties on all global Tysabri® sales. The asset's preliminary value is $6.1 billion, which is being amortized on a straight-line basis over its useful life of 20 years.

2) Prialt: The Company is entitled to royalty payments based on Prialt revenues. Specifically, a 7% royalty rate for annual sales in the U.S. up to $12.5 million, a 10.25% royalty rate for annual sales in the U.S. between $12.5 million

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and $20.0 million, a 17.5% royalty rate for annual sales in the U.S. between $20.0 million and $35.0 million, a 13.5% royalty rate for annual sales in the U.S. between $35.0 million and $50.0 million, and a 10.25% royalty rate for annual sales in the U.S. above $50.0 million. The preliminary value of the intangible asset is $11.0 million, which is being amortized on a straight-line basis over its estimated useful life of 10 years.

For both intangible assets, an income approach was utilized to calculate the present value of the projected royalty payments and continued related operating costs, using a discount rate that reflected the risks inherent in the cash flow stream as well as the nature of the asset. Some of the more significant assumptions inherent in the development of the identifiable intangible asset valuations, from the perspective of a market participant, include the estimated revenues that will be received for each product, the appropriate discount rate selected in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle and competitive trends impacting each asset's cash flow stream, as well as other factors. The fair value estimate for identifiable intangible assets is preliminary and is determined based on the assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). The final fair value determination for identified intangibles may differ from this preliminary determination.

See Note 1 for discussion on the investment securities and equity method investments acquired.

Actual and Pro Forma Impact

The Company's Consolidated Financial Statements include Elan's results of operations from the date of acquisition on December 18, 2013 through December 28, 2013. Net sales and operating loss attributable to Elan during this period and included in the Company's Condensed Consolidated Financial Statements for the period ending December 28, 2013 totaled $7.4 million and $19.0 million, respectively. The $19.0 million operating loss included $14.3 million of restructuring charges related to employee termination benefits and $8.7 million of intangible asset amortization expense. See Note 15 for additional information on the restructuring charges.

The following unaudited pro forma information gives effect to the Company's acquisition of Elan as if the acquisition had occurred on July 1, 2012 and Elan had been included in the Company's consolidated results of operations for the six months ended December 28, 2013 and December 29, 2012:

(in millions)	Six Months Ended	
(Unaudited)	December 28, 2013	December 29, 2012
Net sales	$2,004.6	$1,653.0
Net income (loss)	$24.9	$(337.1)

The historical consolidated financial information of Perrigo and Elan has been adjusted in the pro forma information to give effect to pro forma events that are (1) directly attributable to the transaction, (2) factually supportable and (3) expected to have a continuing impact on combined results. In order to reflect the occurrence of the acquisition on July 1, 2012 as required, the unaudited pro forma results include adjustments to reflect the incremental amortization expense to be incurred based on the current preliminary values of Elan's intangible assets, along with the reclassification of acquisition-related costs from the period ended December 28, 2013 to the period ended December 29, 2012. The unaudited pro forma results do not reflect future events that have occurred or may occur after the acquisition, including but not limited to, the anticipated realization of ongoing savings from operating synergies and tax savings in subsequent periods.

Vedants Drug & Fine Chemicals Private Limited - To further improve the long-term cost position of its API business, on August 6, 2009, the Company acquired an 85% stake in Vedants Drug & Fine Chemicals Private Limited ("Vedants"), an API manufacturing facility in India, for $11.5 million in cash. The Company purchased the remaining

15% stake in Vedants during the second quarter of fiscal 2014 for $7.2 million in cash. The transaction was accounted for as an equity transaction and resulted in the elimination of the noncontrolling interest.

Fiscal 2013

Fera Pharmaceuticals, LLC – On June 17, 2013, the Company acquired an ophthalmic sterile ointment and solution product portfolio from Fera Pharmaceuticals, LLC ("Fera"), a privately-held specialty pharmaceutical company, for an up-front cash payment of $88.4 million plus potential future contingent consideration of up to approximately $22.2 million. See Note 4 regarding the valuation of the contingent consideration. During fiscal 2013, the Company incurred $0.1 million of acquisition

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costs, which were expensed in operations in the fourth quarter of fiscal 2013. The acquisition of this product portfolio expanded the Company's ophthalmic offerings and position within the Rx extended topical space.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Fera were included in the Rx Pharmaceuticals segment of the Company's consolidated results of operations beginning June 17, 2013.

The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Fera acquisition (in millions):

	Final Valuation
Inventory	$1.3
Goodwill	2.8
Other intangible assets - Developed product technology	107.0
Total assets acquired	111.1
Accrued customer programs	0.5
Total liabilities assumed	0.5
Net assets acquired	$110.6

Management assigned fair values to the developed product technology intangible assets through the relief from royalty method. The developed product technology assets are based on a 15-year useful life and amortized on a straight-line basis.

Velcera, Inc. – On April 1, 2013, the Company completed the acquisition of 100% of the shares of privately-held Velcera, Inc. ("Velcera") for $156.2 million, net of cash acquired. Velcera, through its FidoPharm subsidiary, is a leading companion pet health product company committed to providing consumers with best-in-class companion pet health products that contain the same active ingredients as branded veterinary products, but at a significantly lower cost. FidoPharm products, including the PetArmor® flea and tick products, are available at major retailers nationwide, offering consumers the benefits of convenience and cost savings to ensure the highest quality care for their pets. The acquisition complemented the Sergeant's business acquisition and further expanded the Company's Consumer Healthcare animal health category.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. During fiscal 2013, the Company had incurred $1.1 million of acquisition costs, the majority of which were expensed in operations in the third quarter of fiscal 2013. In addition, in conjunction with the acquisition, the Company incurred one-time restructuring and integration-related costs of $2.9 million and $2.7 million, respectively, both of which were expensed in operations in the fourth quarter of fiscal 2013. The Company incurred an additional $0.7 million of restructuring costs in the first quarter of fiscal 2014. See Note 15 for more information on the restructuring costs. The operating results for Velcera were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning April 1, 2013.

During the first quarter of fiscal 2014, the Company finalized the valuation of identified intangible assets, which resulted in a $3.0 million increase in other intangible assets and a corresponding decrease in goodwill. The measurement period adjustments did not have a material impact on the Company's consolidated statements of operations, balance sheets or cash flows, and, therefore the Company has not retrospectively adjusted its financial statements.

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The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Velcera acquisition (in millions):

	Final Valuation
Cash	$18.9
Accounts receivable	6.3
Inventory	9.7
Property and equipment	0.6
Deferred income tax assets	7.9
Goodwill	62.5
Other intangible assets	135.3
Other assets	0.4
Total assets acquired	241.6
Accounts payable	6.5
Accrued expenses	4.8
Deferred income tax liabilities	48.2
Other long-term liabilities	7.0
Total liabilities assumed	66.5
Net assets acquired	$175.1

The $62.5 million of goodwill was assigned to the Consumer Healthcare segment at the time of acquisition. The purchase price in excess of the value of Velcera's net assets reflects the strategic value the Company placed on the business. Similar to the Sergeant's acquisition below, the Company believes it will benefit from the development of the animal health store brand category, an adjacent category to the Company's retail customers of its existing store brand products. Goodwill is not amortized for financial reporting or tax purposes. See Note 6 regarding the timing of the Company’s annual goodwill impairment testing.

Other intangible assets acquired in the acquisition were valued as follows ($ in millions):

	Value	Useful Life (years)
Distribution and license agreement	$116.0	10
Customer relationships	8.7	20
Trade name and trademarks	7.6	25
Non-compete agreements	3.0	3
Total intangible assets acquired	$135.3	

Management assigned fair values to the identifiable intangible assets through a combination of the excess earnings method, the relief from royalty method and the lost income method. The distribution and license agreement is amortized on a proportionate basis consistent with the economic benefits derived therefrom and all other intangible assets are amortized on a straight-line basis.

Rosemont Pharmaceuticals Ltd. – On February 11, 2013, the Company acquired 100% of the shares of privately-held Rosemont Pharmaceuticals Ltd. ("Rosemont") for approximately $282.9 million in cash. Based in Leeds, U.K., Rosemont is a specialty and generic prescription pharmaceutical company focused on the manufacturing and marketing of oral liquid formulations. The acquisition expanded the global presence of the Company's Rx product offering into the U.K. and Europe. During fiscal 2013, the Company had incurred $2.0 million of acquisition costs, the majority of which were expensed in operations in the third quarter of fiscal 2013.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Rosemont were included in the Rx

Pharmaceuticals segment of the Company's consolidated results of operations beginning February 11, 2013.

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The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Rosemont acquisition (in millions):

	Final Valuation
Cash	$2.1
Accounts receivable	10.6
Inventory	9.6
Property and equipment	13.1
Deferred income tax assets	0.2
Goodwill	147.0
Other intangible assets	148.2
Other assets	0.8
Total assets acquired	331.6
Accounts payable	2.6
Accrued expenses	7.6
Deferred tax liabilities	36.0
Other long-term liabilities	2.5
Total liabilities assumed	48.7
Net assets acquired	$282.9

The $147.0 million of goodwill was assigned to the Rx Pharmaceuticals segment at the time of acquisition. The purchase price in excess of the value of Rosemont's net assets reflects the strategic value the Company placed on the business. The Company believes it will benefit from the development of Rosemont's Rx product offering in the U.K. and Europe. Goodwill is not amortized for financial reporting or tax purposes. See Note 6 regarding the timing of the Company’s annual goodwill impairment testing.

Other intangible assets acquired in the acquisition were valued as follows ($ in millions):

	Value	Useful Life (years)
Developed product technology	$114.6	7
In-process research and development ("IPR&D")	11.2	Indefinite
Trade name and trademarks	17.3	Indefinite
Distribution and license agreements	3.6	14
Non-compete agreements	1.5	3
Total intangible assets acquired	$148.2	

Management assigned fair values to the identifiable intangible assets through a combination of the excess earnings method, the relief from royalty method and the lost income method. The developed product technology assets and non-compete agreement are amortized on a straight-line basis. IPR&D assets initially recognized at fair value will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. During the second quarter of fiscal 2014, the Company recognized an impairment charge of $2.0 million related to the IPR&D assets due to changes in the projected development and regulatory timelines for various projects. See Note 6 for further information on the IPR&D impairment. For the trade name and trademarks, the Company concluded that there is no foreseeable limit to the period over which they would be expected to contribute to the entity's cash flows; therefore, they are considered to have an indefinite life. The distribution and license agreements are amortized on a proportionate basis consistent with the economic benefits derived therefrom.

At the time of the acquisition, a step-up in the value of inventory of $3.2 million was recorded in the opening balance sheet as assets acquired and was based on valuation estimates. The step-up in inventory value was charged to cost of sales as the acquired inventory was sold during the third and fourth quarters of fiscal 2013. In addition, fixed assets were written up by $4.9 million to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

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Cobrek Pharmaceuticals, Inc. – On December 28, 2012, the Company acquired the remaining 81.5% interest of Cobrek Pharmaceuticals, Inc. ("Cobrek"), a privately-held drug development company, for $42.0 million in cash. In May 2008, the Company acquired an 18.5% minority stake in Cobrek for $12.6 million in conjunction with entering into a product development collaborative partnership agreement focused on generic pharmaceutical foam dosage form products. As of the acquisition date, the partnership had successfully yielded two commercialized foam-based products and had an additional two FDA approved foam-based products, both of which were launched in the Company's third quarter of fiscal 2013. Cobrek derives its earnings stream primarily from exclusive technology agreements. The acquisition of Cobrek further strengthened the Company's position in foam-based technologies for existing and future U.S. Rx products.

In conjunction with the acquisition, the Company adjusted the fair value of its 18.5% noncontrolling interest, which was valued at $9.5 million, and recognized a loss of $3.0 million in other expense during the second quarter of fiscal 2013. Also in conjunction with the acquisition, the Company incurred $1.5 million of severance costs in the second quarter of fiscal 2013.

During the measurement period, which ended March 30, 2013, the Company finalized deferred income taxes, which resulted in a $3.6 million increase in deferred tax assets and a corresponding decrease in goodwill. The measurement period adjustments did not have a material impact on the Company's consolidated statements of operations, balance sheets or cash flows, and, therefore the Company has not retrospectively adjusted its financial statements. The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Cobrek acquisition (in millions):

	Final Valuation
Other assets	$0.3
Deferred income tax assets	3.6
Goodwill	15.3
Other intangible assets - Exclusive technology agreements	51.1
Total assets acquired	70.3
Deferred tax liabilities	18.8
Total liabilities assumed	18.8
Net assets acquired	$51.5

The total purchase price above consists of the $42.0 million cash purchase price and the $9.5 million adjusted basis of the Company's existing investment in Cobrek. The $15.3 million of goodwill was assigned to the Rx Pharmaceuticals segment at the time of acquisition. Goodwill is not amortized for financial reporting or tax purposes. See Note 6 regarding the timing of the Company’s annual goodwill impairment testing.

Management assigned fair values to the identifiable intangible assets by estimating the discounted forecasted cash flows related to the technology agreements. The estimated useful lives of the agreements are 12 years, and they are amortized on a proportionate basis consistent with the economic benefits derived therefrom.

Sergeant's Pet Care Products, Inc. – On October 1, 2012, the Company completed the acquisition of substantially all of the assets of privately-held Sergeant's Pet Care Products, Inc. ("Sergeant's") for $285.0 million in cash. Headquartered in Omaha, Nebraska, Sergeant's is a leading supplier of animal health products, including flea and tick remedies, health and well-being products, natural and formulated treats, and consumable products. The acquisition expanded the Company's Consumer Healthcare product portfolio into the animal health category. During fiscal 2013, the Company had incurred approximately $2.0 million of acquisition costs, the majority of which were expensed in the first quarter of fiscal 2013.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Sergeant's were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning October 1, 2012.

During the measurement period, which ended March 30, 2013, the Company finalized the valuation of identified intangible assets, which resulted in a $12.0 million decrease in other intangible assets and a corresponding increase in goodwill. The measurement period adjustments did not have a material impact on the Company's consolidated statements of operations, balance sheets or cash flows, and, therefore the Company has not retrospectively adjusted its financial statements. The

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following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Sergeant's acquisition (in millions):

	Final Valuation
Accounts receivable	$19.7
Inventory	37.7
Property and equipment	25.4
Deferred income tax assets	1.5
Goodwill	80.2
Other intangible assets	135.4
Other assets	3.0
Total assets acquired	302.9
Accounts payable	13.7
Accrued expenses	4.2
Total liabilities assumed	17.9
Net assets acquired	$285.0

The $80.2 million of goodwill was assigned to the Consumer Healthcare segment at the time of acquisition. The purchase price in excess of the value of Sergeant's net assets reflects the strategic value the Company placed on the business. The Company believes it will benefit from the development of the animal health store brand category, an adjacent category to the Company's retail customers of its existing store brand products. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

Other intangible assets acquired in the acquisition were valued as follows (in millions):

	Value	Useful Life (years)
Developed product technology	$66.1	10
Trade name and trademarks	33.0	Indefinite
Favorable supply agreement	25.0	7
Customer relationships	10.0	20
Non-compete agreements	1.3	1 to 3
Total intangible assets acquired	$135.4	

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the excess earnings method, the with or without approach and the lost income method. The developed product technology assets and non-compete agreements are amortized on a straight-line basis. For the trade name and trademarks, the Company concluded that there is no foreseeable limit to the period over which they would be expected to contribute to the entity's cash flows; therefore, they are considered to have an indefinite life. The favorable supply agreement and customer relationships are amortized on a proportionate basis consistent with the economic benefits derived therefrom.

At the time of the acquisition, a step-up in the value of inventory of $7.7 million was recorded in the opening balance sheet as assets acquired and was based on valuation estimates, all of which was charged to cost of sales in the second quarter of fiscal 2013 as the acquired inventory was sold. In addition, fixed assets were written up by $6.1 million to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

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NOTE 3 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators used in the basic and diluted earnings per share ("EPS") calculation is as follows (in millions):

	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Numerator:				
Net income (loss)	$(86.0)	$106.0	$25.3	$211.5
Denominator:				
Weighted average shares outstanding for basic EPS	98.7	93.9	96.4	93.8
Dilutive effect of share-based awards	—	0.6	0.5	0.6
Weighted average shares outstanding for diluted EPS	98.7	94.5	96.9	94.4
Anti-dilutive share-based awards excluded from computation of diluted EPS	0.2	0.2	0.1	0.1

NOTE 4 – FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") Topic 820 provides a consistent definition of fair value, which focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-level hierarchy for fair value measurements. ASC Topic 820 requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Either direct or indirect inputs, other than quoted prices included within Level 1, which are observable for similar assets or liabilities.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.
The following tables summarize the valuation of the Company’s financial instruments by the above pricing categories as of December 28, 2013 and June 29, 2013 (in millions):

	Fair Value Measurements as of December 28, 2013 Using:			
	Total	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$109.6	$109.6	$—	$—
Restricted cash	2.9	2.9	—	—
Investment securities	85.5	85.5	—	—
Foreign currency forward contracts	6.4	—	6.4	—
Funds associated with Israeli post-employment benefits	18.4	—	18.4	—
Total	$222.8	$198.0	$24.8	$—

Liabilities:				
Contingent consideration	$17.3	$—	$—	$17.3
Foreign currency forward contracts	0.3	—	0.3	—
Interest rate swap agreements	9.8	—	9.8	—
Total	$27.4	$—	$10.1	$17.3

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	Fair Value Measurements as of June 29, 2013 Using:			
	Total	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$697.7	$697.7	$—	$—
Foreign currency forward contracts, net	7.6	—	7.6	—
Funds associated with Israeli post-employment benefits	16.1	—	16.1	—
Total	$721.4	$697.7	$23.7	$—
Liabilities:				
Contingent consideration	$22.2	$—	$—	$22.2
Interest rate swap agreements	10.8	—	10.8	—
Total	$33.0	$—	$10.8	$22.2

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and variable rate long-term debt, approximate their fair value. As of December 28, 2013, the carrying value and fair value of the Company's fixed rate long-term debt were $2.3 billion and $2.3 billion, respectively. As of June 29, 2013, the carrying value and fair value of the Company's fixed rate long-term debt were $1.6 billion and $1.5 billion, respectively. At December 28, 2013 the fixed rate long-term debt consisted of private placement senior notes with registration rights. Their fair value was determined by discounting the future cash flows of the financial instruments to their present value, using interest rates currently offered for borrowings and deposits of similar nature and remaining maturities (Level 2). At June 29, 2013, the fixed rate long-term debt consisted of both of private placement senior notes and public bonds. The private placement senior notes' fair value was calculated similarly to the private placement senior notes with registration rights mentioned above, while the public bonds' fair value was determined by quoted market prices (Level 1). There were no transfers between Level 1 and Level 2 during the three and six months ended December 28, 2013. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.
As of December 28, 2013, the Company had $18.4 million deposited in funds managed by financial institutions that are designated by management to cover post-employment benefits for its Israeli employees. Israeli law generally requires payment of severance upon dismissal of an employee or upon termination of employment in certain other circumstances. These funds are included in the Company's long-term investments reported in other non-current assets. The Company's Level 2 securities values are determined using prices for recently traded financial instruments with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

As a result of the acquisition of Fera completed on June 17, 2013, the Company recorded a contingent consideration liability of $22.2 million on the acquisition date based upon the estimated fair value of contingent payments to the seller. These estimates included $18.0 million associated with certain contingencies on one product within the portfolio acquired, along with $4.2 million related to a 15-month indemnification period. The fair value measurements for this liability were valued using Level 3 inputs, which included estimates around probability-weighted outcomes and discount rates. During the second quarter of fiscal 2014, the Company updated the estimated fair value of the contingent consideration related to the one product described above, resulting in a write-down of the original $18.0 million consideration to $13.1 million. The gain of $4.9 million was recorded in administration expenses for the three and six months ended December 28, 2013.

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The following table presents a rollforward of the assets and liabilities measured at fair value using unobservable inputs (Level 3) at December 28, 2013 (in millions):

	Contingent Consideration (Level 3)
Balance as of June 29, 2013	$ 22.2
Write-down of Fera contingent consideration	(4.9)
Balance as of December 28, 2013	$ 17.3

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost or market and are summarized as follows (in millions):

	December 28, 2013	June 29, 2013
Finished goods	$ 341.7	$ 333.9
Work in process	174.0	182.4
Raw materials	186.6	187.6
Total inventories	$ 702.3	$ 703.9

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

The increase in goodwill in fiscal 2014 was due primarily to goodwill associated with the acquisition of Elan, totaling $2.1 billion. As a result of benefiting from the anticipated synergies of acquiring Elan, $831.3 million of the $2.1 billion of goodwill was allocated to certain segments as follows: $423.7 million to Consumer Healthcare, $316.1 million to Rx Pharmaceuticals and $91.5 million to Nutritionals. The Company performs its annual testing for goodwill and indefinite-lived intangible asset impairment at the beginning of the fourth fiscal quarter for all reporting units. Changes in the carrying amount of goodwill, by reportable segment, were as follows (in millions):

	Consumer Healthcare	Nutritionals	Rx Pharma-ceuticals	API	Specialty Sciences	Total
Balance as of June 29, 2013	$ 279.9	$ 331.7	$ 385.5	$ 92.2	$—	$ 1,089.3
Business acquisition	423.7	91.5	316.1	—	1,245.3	2,076.6
Purchase accounting adjustments	(1.9)	—	1.3	—	—	(0.6)
Currency translation adjustment	4.1	—	14.3	3.6	—	22.0
Balance as of December 28, 2013	$ 705.8	$ 423.2	$ 717.2	$ 95.8	$ 1,245.3	$ 3,187.3

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Other intangible assets and related accumulated amortization consisted of the following (in millions):

	December 28, 2013		June 29, 2013	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Amortizable intangibles:				
Distribution, license and supply agreements	$6,307.3	$41.7	$192.7	$28.9
Developed product technology/formulation and product rights	923.5	255.1	896.8	204.6
Customer relationships	360.2	84.8	358.2	72.4
Non-compete agreements	13.3	7.6	13.3	6.0
Trademarks	12.9	4.7	12.7	4.2
Total	7,617.2	393.9	1,473.7	316.1
Non-amortizable intangibles:				
Trade names and trademarks	58.6	—	57.0	—
IPR&D	9.7	—	27.8	—
Total other intangible assets	$7,685.5	$393.9	$1,558.5	$316.1

Certain intangible assets are denominated in currencies other than the U.S. dollar; therefore, their gross and net carrying values are subject to foreign currency movements.

At December 28, 2013, distribution, license and supply agreements included $6.1 billion of intangible assets attributable to the Elan acquisition. During the second quarter of fiscal 2014, the Company recognized impairment charges of $4.0 million and $2.0 million related to the IPR&D assets acquired as part of the Paddock and Rosemont acquisitions, respectively, due to changes in the projected development and regulatory timelines for various projects. Both of the impairment charges were recorded in the Rx Pharmaceuticals segment as write-offs of IPR&D. Additionally, in the second quarter of fiscal 2014, the remaining $13.0 million of IPR&D assets acquired as part of the Paddock acquisition was reclassified to a definite-lived developed product technology asset and is being amortized on a proportionate basis consistent with the economic benefits derived therefrom over an estimated useful life of 12 years.

The Company recorded amortization expense of $73.6 million and $40.3 million for the six months ended December 28, 2013 and December 29, 2012, respectively, for intangible assets subject to amortization. The increase in amortization expense was due primarily to the incremental amortization expense incurred on the amortizable intangible assets acquired as part of the Elan, Rosemont, Sergeant's, Cobrek and Velcera acquisitions.

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets subject to amortization. The estimated amortization expense for each of the following five years is as follows (in millions):

Fiscal Year	Amount
2014[1]	$214.6
2015	437.8
2016	448.0
2017	444.2
2018	437.2

[1] Reflects remaining six months of fiscal 2014.

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NOTE 7 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows (in millions):

	December 28, 2013	June 29, 2013
Foreign line of credit	$—	$5.0
Term loans		
2011 Term Loan due October 26, 2016	—	400.0
2013 Term Loan due December 18, 2015	300.0	—
2013 Term Loan due December 18, 2018	700.0	—
	1,000.0	400.0
Senior notes		
5.97% Unsecured Senior Notes due May 29, 2015[1]	—	75.0
6.37% Unsecured Senior Notes due May 29, 2018[1]	—	125.0
4.91% Unsecured Senior Notes due April 30, 2017[1]	—	115.0
5.45% Unsecured Senior Notes due April 30, 2020[1]	—	150.0
4.27% Unsecured Senior Notes due September 30, 2021[1]	—	75.0
5.55% Unsecured Senior Notes due April 30, 2022[1]	—	150.0
2.95% Unsecured Senior Notes due May 15, 2023, net of unamortized discount of $3.1 million	—	596.9
4.52% Unsecured Senior Notes due December 15, 2023[1]	—	175.0
4.67% Unsecured Senior Notes due September 30, 2026[1]	—	100.0
1.30% Unsecured Senior Notes due November 8, 2016, net of unamortized discount of $0.5 million[2]	499.5	—
2.30% Unsecured Senior Notes due November 8, 2018, net of unamortized discount of $0.8 million[2]	599.2	—
4.00% Unsecured Senior Notes due November 15, 2023, net of unamortized discount of $3.3 million[2]	796.7	—
5.30% Unsecured Senior Notes due November 15, 2043, net of unamortized discount of $1.7 million[2]	398.3	—
	2,293.7	1,561.9
Other financing	6.6	7.1
Total borrowings outstanding	3,300.3	1,974.0
Less short-term debt and current portion of long-term debt	(141.2)	(46.2)
Total long-term debt less current portion	$3,159.1	$1,927.8

[1] Private placement unsecured senior notes under Master Repurchase Agreement discussed below collectively as the "Notes"
[2] Private placement unsecured senior notes with registration rights discussed below collectively as the "Bonds"

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In conjunction with the Elan acquisition discussed in Note 2, the Company retired its former debt arrangements and issued new debt. As a result of the debt retirements, the Company recorded a loss of $165.8 million for the three and six months ended December 28, 2013 as follows (in millions):

Make-whole payments	$133.4
Write-off of financing fees on Bridge Agreements	19.0
Write-off of deferred financing fees on old debt	10.5
Write-off of unamortized discount	2.9
Total loss on extinguishment of debt	$165.8

See below for further details of the transactions.

Bridge Agreements

On July 28, 2013, the Company entered into a $2.65 billion Debt Bridge Credit Agreement (the "Debt Bridge") and a $1.7 billion Cash Bridge Credit Agreement (the "Cash Bridge") with HSBC Bank USA, N.A. as Syndication Agent, Barclays Bank PLC as Administration Agent and certain other participant banks (together, the "Bridge Credit Agreements"). The termination of commitments under such Bridge Credit Agreements was contingent on various factors, but not to be later than July 29, 2014. The funding commitment under the Debt Bridge was reduced by $1.0 billion on September 6, 2013 upon completion of the Company’s Term Loan Agreement (see below) and by an additional $1.65 billion on November 8, 2013 upon funding into escrow of the Company’s public bond offering (see below), at which time the Debt Bridge was terminated. The commitments under the Cash Bridge were terminated on December 24, 2013. At no time did the Company draw under the Bridge Credit Agreements. The Company incurred commitment fees under the Bridge Credit Agreements at a per annum rate of 0.175% from July 28, 2013 to termination of the Bridge Credit Agreements totaling $0.7 million for the six months ended December 28, 2013. In addition, fees paid in relation to entering into the Bridge Credit Agreements totaled $19.0 million and were charged to expense in the second quarter of fiscal 2014 and included in the loss on debt extinguishment line on the Company's Consolidated Statements of Operations for the three and six months ended December 28, 2013.

Extinguishment of Old Debt

In November 2013, Perrigo Company, a wholly owned subsidiary of the Company, ("Perrigo Company") made scheduled payments totaling $40.0 million against its 2011 Term Loan. On December 18, 2013, the Company repaid the remaining principal balance of $360.0 million, together with accrued interest and fees of $0.4 million, then outstanding under the Credit Agreement dated as of October 26, 2011 with JPMorgan Chase Bank, N.A., as Administration Agent, Bank of America, N.A. and Morgan Stanley Senior Funding, Inc., as Syndication Agents and certain other participant banks (the "2011 Credit Agreement"). Upon completion of such payment, the 2011 Credit Agreement was terminated in its entirety.

On November 20, 2013, Perrigo Company priced a Tender Offer and Consent Solicitation in regard to the 2.95% Notes which were issued pursuant to the Indenture dated as of May 16, 2013 between Perrigo Company and Wells Fargo Bank, National Association. (the “Indenture”). Total tender consideration of $578.3 million was comprised of an aggregate principal amount of $571.6 million, a make-whole premium of $4.9 million, and accrued interest of $1.8 million. On December 26, 2013, pursuant to the Indenture, notice was given to holders that the remaining notes not duly tendered would be redeemed on December 27, 2013 at a redemption price of par plus accrued interest. On December 27, 2013, the redemption was completed for a total payment of $28.5 million comprised of aggregate principal of $28.4 million and accrued interest of $0.1 million. Upon completion of the redemption, the Indenture was terminated.

On December 23, 2013, Perrigo Company completed the prepayment of all obligations under its private placement senior notes (the "Notes"). All of the Notes were outstanding under the Master Note Purchase Agreement dated May 29, 2008 with various institutional investors (the "Note Agreement"). The terms of the Note Agreement provided for prepayment at any time at Perrigo Company’s option together with applicable make-whole premiums and accrued interest. The total payment of $1,099.6 million was comprised of $965.0 million for the face amount of the Notes, $128.5 million for the make-whole premium, and $6.1 million for accrued interest. Upon completion of the prepayment the Note Agreement was terminated.

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Issuance of New Debt

On September 6, 2013, the Company entered into a $1.0 billion Term Loan Agreement (the "Term Loan") and a