PERRIGO Co plc
Form 10-Q
May 16, 2016

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: April 2, 2016
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-36353

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 7094000
(Registrant's telephone number, including area code)
Not Applicable
(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 (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of May 6, 2016, there were 143,222,633 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 our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our, or our industry's, actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about our 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,” “intend,” “believe,” “estimate,” “potential” or the negative of those terms or other comparable terminology.

Please see Item 1A of our Form 10-KT for the transition period from June 28, 2015 to December 31, 2015 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. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe 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 our control, including the timing, amount and cost of share repurchases, future impairment charges, our ability to achieve our guidance, and the ability to execute and achieve the desired benefits of announced initiatives. These and other important factors, including those discussed in our Form 10-KT for the transition period from June 28, 2015 to December 31, 2015 and in this report under "Risk Factors" and in any subsequent filings with the Securities and Exchange Commission, 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, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

TRADEMARKS, TRADENAMES AND SERVICE MARKS

This report contains trademarks, trade names and service marks that are the property of Perrigo Company plc, as well as, for informational purposes, trademarks, trade names, and service marks that are the property of other organizations. Solely for convenience, certain trademarks, trade names, and service marks referred to in this report appear without the ®, ™ and ℠ symbols, but those references are not intended to indicate that we or the applicable owner, as the case may be, will not assert, to the fullest extent under applicable law, our or their rights to such trademarks, trade names, and service marks.

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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	
	April 2, 2016	March 28, 2015
Net sales	$1,383.2	$1,049.1
Cost of sales	860.3	670.3
Gross profit	522.9	378.8
Operating expenses		
Distribution	21.8	14.7
Research and development	45.3	35.4
Selling	180.8	48.8
Administration	106.4	79.6
Impairment charges	467.0	—
Restructuring	5.4	1.1
Total operating expenses	826.7	179.6
Operating income (loss)	(303.8)	199.2
Interest expense, net	51.2	43.3
Other expense, net	3.8	258.6
Loss on extinguishment of debt	0.4	—
Loss before income taxes	(359.2)	(102.7)
Income tax benefit	(24.6)	(7.8)
Net loss	$(334.6)	$(94.9)
Loss per share		
Basic loss per share	$(2.34)	$(0.67)
Diluted loss per share	$(2.34)	$(0.67)
Weighted-average shares outstanding		
Basic	143.2	140.8
Diluted	143.2	140.8
Dividends declared per share	$0.145	$0.125

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three Months Ended	
	April 2, 2016	March 28, 2015
Net loss	$(334.6)	$(94.9)
Other comprehensive income (loss):		
Foreign currency translation adjustments	150.9	(27.9)
Change in fair value of derivative financial instruments, net of tax	(5.7)	0.8
Change in fair value of investment securities, net of tax	6.2	1.2
Change in post-retirement and pension liability adjustments, net of tax	0.8	(0.4)
Other comprehensive income (loss), net of tax	152.2	(26.3)
Comprehensive loss	$(182.4)	$(121.2)

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	April 2, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$588.9	$ 417.8
Accounts receivable, net of allowance for doubtful accounts of $3.4 million, and $3.0 million, respectively	1,184.2	1,193.1
Inventories	868.8	844.4
Prepaid expenses and other current assets	332.6	289.1
Total current assets	2,974.5	2,744.4
Property and equipment, net	896.3	886.2
Goodwill and other indefinite-lived intangible assets	7,033.0	7,281.2
Other intangible assets, net	8,519.1	8,190.5
Non-current deferred income taxes	78.0	54.6
Other non-current assets	225.3	237.0
Total non-current assets	16,751.7	16,649.5
Total assets	$19,726.2	$ 19,393.9
Liabilities and Shareholders' Equity		
Accounts payable	$559.9	$ 554.9
Payroll and related taxes	92.2	125.3
Accrued customer programs	331.0	398.0
Accrued liabilities	307.5	308.4
Accrued income taxes	179.4	85.2
Current indebtedness	619.2	1,018.3
Total current liabilities	2,089.2	2,490.1
Long-term debt, less current portion	5,902.7	4,971.6
Non-current deferred income taxes	1,487.0	1,563.7
Other non-current liabilities	400.6	332.4
Total non-current liabilities	7,790.3	6,867.7
Total liabilities	9,879.5	9,357.8
Commitments and contingencies - Note 14		
Shareholders' equity		
Preferred shares, $0.0001 par value, 10 million shares authorized	—	—
Ordinary shares, €0.001 par value, 10 billion shares authorized	8,160.8	8,144.6
Accumulated other comprehensive income	136.7	(15.5)
Retained earnings	1,549.8	1,907.6
Total controlling interest	9,847.3	10,036.7
Noncontrolling interest	(0.6)	(0.6)
Total shareholders' equity	9,846.7	10,036.1
Total liabilities and shareholders' equity	$19,726.2	$ 19,393.9

Supplemental Disclosures of Balance Sheet Information		
Preferred shares, issued and outstanding	—	—
Ordinary shares, issued and outstanding	143.2	143.1

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three Months Ended	
	April 2, 2016	March 28, 2015
Cash Flows From (For) Operating Activities		
Net loss	$(334.6)	$(94.9)
Adjustments to derive cash flows		
Depreciation and amortization	182.5	127.7
Loss on acquisition-related foreign currency derivatives	—	298.1
Share-based compensation	13.8	7.5
Impairment charges	467.0	—
Loss on extinguishment of debt	0.4	—
Non-cash restructuring charges	5.4	1.1
Deferred income taxes	(138.0)	(46.3)
Other non-cash adjustments	1.6	(0.2)
Subtotal	198.1	293.0
Increase (decrease) in cash due to:		
Accounts receivable	23.0	39.4
Inventories	(14.8)	2.1
Accounts payable	0.3	18.0
Payroll and related taxes	(37.4)	(1.0)
Accrued customer programs	(69.7)	(27.8)
Accrued liabilities	(3.4)	(2.5)
Accrued income taxes	99.5	(51.2)
Other	(25.3)	(2.0)
Subtotal	(27.8)	(25.0)
Net cash from (for) operating activities	170.3	268.0
Cash Flows From (For) Investing Activities		
Acquisitions of businesses, net of cash acquired	(416.4)	(4.0)
Additions to property and equipment	(34.7)	(31.9)
Settlement of acquisition-related foreign currency derivatives	—	(298.1)
Other investing	(1.0)	—
Net cash from (for) investing activities	(452.1)	(334.0)
Cash Flows From (For) Financing Activities		
Issuances of long-term debt	1,190.3	—
Payments on long-term debt	(14.3)	(13.6)
Borrowings (repayments) of revolving credit agreements and other financing, net	(704.3)	3.4
Deferred financing fees	(1.5)	(3.3)
Issuance of ordinary shares	3.1	1.2
Repurchase of ordinary shares	—	(0.1)
Cash dividends	(20.8)	(17.6)
Other financing	(3.5)	(1.6)
Net cash from (for) financing activities	449.0	(31.6)
Effect of exchange rate changes on cash	3.9	(68.1)
Net increase (decrease) in cash and cash equivalents	171.1	(165.7)

Cash and cash equivalents, beginning of period	417.8	3,596.1
Cash and cash equivalents, end of period	$588.9	$3,430.4
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the year for:		
Interest paid	$11.9	$5.2
Interest received	$0.4	$0.2
Income taxes paid	$34.5	$92.2
Income taxes refunded	$0.2	$1.6

See accompanying Notes to the Condensed Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General Information

The Company

Perrigo Company plc was incorporated under the laws of Ireland on June 28, 2013. We became the successor registrant of Perrigo Company, a Michigan corporation, on December 18, 2013 in connection with the acquisition of Elan Corporation, plc ("Elan"). Unless the context requires otherwise, the terms "Perrigo," the "Company," "we," "our," "us," and similar pronouns used herein refer to Perrigo Company plc, its subsidiaries, and all predecessors of Perrigo Company plc and its subsidiaries. We are a leading global over-the-counter ("OTC") consumer goods and specialty pharmaceutical company, offering patients and customers high quality products at affordable prices. From our beginning in 1887 as a packager of home remedies, we have grown to become the world's largest manufacturer of OTC healthcare products and supplier of infant formulas for the store brand market. We are also a leading provider of generic extended topical prescription products, and we receive royalties from sales of the multiple sclerosis drug Tysabri®. We provide “Quality Affordable Healthcare Products®” across a wide variety of product categories and geographies, primarily in North America, Europe, and Australia, as well as in other markets, including Israel, 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. The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and footnotes included in our Transition Report on Form 10-KT for the transition period from June 28, 2015 to December 31, 2015. 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 Condensed Consolidated Financial Statements include our accounts and the accounts of all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Our fiscal year previously consisted of a 52- or 53-week year ending on or around June 30 of each year with each quarter ending on the Saturday closest to each calendar quarter end. Beginning on January 1, 2016, we changed our fiscal year to begin on January 1 and end on December 31 of each year. We will continue to cut off our quarterly accounting periods on the Saturday closest to the end of the calendar quarter, with the fourth quarter ending on December 31 of each year.

During the three months ended April 2, 2016, we identified certain errors in our consolidated financial statements for the transition period of June 28, 2015 to December 31, 2015, primarily related to the accrual estimates associated with product returns and tax related items in our BCH segment. These errors were corrected during the three months ended April 2, 2016 by increasing the consolidated operating loss by $14.5 million, which when combined with tax-related items increased the consolidated net loss by $13.7 million within the Condensed Consolidated Statements of Operations. We concluded that these errors were not material to the consolidated financial statements for the transition period of June 28, 2015 to December 31, 2015 and are not expected to be material to the consolidated financial statements for the year ended December 31, 2016.

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Note 1

b. Recent Accounting Standard Pronouncements

Below are recent accounting standard updates that we are still assessing to determine the effect on our consolidated financial statements. We do not believe that any other recently issued accounting standards could have a material effect on our consolidated financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Improvements to Employee Share-Based Payment Accounting	This guidance is intended to simplify several aspects of the accounting for share-based payment award transactions. It will require all income tax effects of awards to be recorded through the income statement when they vest or settle as opposed to certain amounts being recorded in additional paid-in capital. An entity will also have to elect whether to account for forfeitures as they occur or by estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change (as currently required). The guidance will also increase the amount an employer can withhold to cover income taxes on awards. Early adoption is permitted.	January 1, 2017	We are currently evaluating the implications of adoption on our consolidated financial statements and considering whether to early adopt the standard.
Revenue from Contracts with Customers	The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. This guidance allows for two adoption methods, full retrospective approach or modified retrospective approach. Early adoption is not permitted.	January 1, 2018	We are currently evaluating the possible adoption methodologies and the implications of adoption on our consolidated financial statements.
Leases	This guidance was issued to increase transparency and comparability among organizations by requiring recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. For leases with a term of 12 months or less, lessees are permitted to make an election to not recognize right-of-use assets and lease liabilities. Upon adoption, lessees will apply the new standard as of the beginning of the earliest comparative period presented in the financial statements, however lessees will be able to exclude leases that expire as of the implementation date. Early adoption is permitted.	January 1, 2019	We are currently evaluating the implications of adoption on our consolidated financial statements and considering whether to early adopt the standard.

NOTE 2 – ACQUISITIONS

All of the below acquisitions have been accounted for under the acquisition method of accounting based on our analysis of the acquired inputs and processes, and the related assets acquired and liabilities assumed were recorded at fair value as of the acquisition date.

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 our results of operations. For those acquisitions for which the purchase price allocation is preliminary, we will continue to refine the allocation during the measurement period. As we obtain the information to finalize our purchase accounting assessments, it is reasonably possible that there will be changes in the valuation of assets acquired and liabilities assumed that may have a material impact on our results of operations and financial position.

The effects of all of the acquisitions described below were included in the Condensed Consolidated Financial Statements prospectively from the date of each acquisition. Unless otherwise indicated, acquisition costs incurred were immaterial and were recorded in Administration expense.

Current Year Acquisitions

Tretinoin Product Portfolio

On January 22, 2016, we acquired a portfolio of generic dosage forms and strengths of Retin-A® (tretinoin), a topical prescription acne treatment, from Matawan Pharmaceuticals, LLC, for $416.4 million in cash ("Tretinoin Products"), which further expanded our extended topicals portfolio. We were the authorized generic distributor of these products from 2005 to 2013. Operating results attributable to the acquisition are included within our Prescription Pharmaceuticals ("Rx") segment. The generic product rights were valued using the multi-period excess earnings method and assigned a 20-year useful life. The non-compete agreements were valued using the lost income method and assigned a five-year useful life. The goodwill acquired is deductible for tax purposes.

Development-Stage Rx Products

In May 2015, we entered into an agreement with a clinical stage biotechnology company for two specialty pharmaceutical products in development ("Development-Stage Rx Products"). We paid $18.0 million for an option to acquire the two products, which was recorded in research and development expense. On March 1, 2016, to further invest in our specialty Rx portfolio, we exercised the option for both products, which requires us to make contingent payments if we obtain regulatory approval and achieve certain sales milestones. We will also be obligated to make certain royalty payments over periods ranging from seven to ten years from the launch of each product.

We accounted for the option exercise as a business acquisition within our Rx segment, recording in-process research and development assets ("IPR&D"), goodwill, and contingent consideration on the balance sheet. The IPR&D was valued using the multi-period excess earnings method and has an indefinite useful life until such time as the research is completed (at which time it becomes a definite-lived intangible asset), or is determined to have no future use (at which time it is impaired). The contingent consideration is an estimate of the future milestone payments and royalties based on probability-weighted outcomes, sensitivity analysis, and discount rates reflective of the risk involved. The preliminary amount of contingent consideration recognized as of the acquisition date was $29.5 million and is recorded in Other non-current liabilities. The amount is subject to change as the valuation assumptions are refined over the measurement period. Once the purchase accounting has been finalized, the contingent consideration will continue to be updated quarterly to adjust the liability to fair value depending on a number of assumptions, including the competitive landscape and regulatory approvals that may impact future sales of the products. Any change in the liability after the purchase accounting is finalized will be recorded in Administration expense. The goodwill acquired is deductible for tax purposes.

Purchase Price Allocation of Current Year Acquisitions

The purchase accounting allocation for the acquisitions of the Tretinoin Products and Development-Stage Rx Products is preliminary and is based on the valuation information, estimates, and assumptions available at April 2, 2016. The Tretinoin Products intangible assets and the Development-Stage Rx Products contingent consideration have not yet been finalized as we are still evaluating the valuation assumptions. As we finalize the fair value estimates for these items, additional purchase price adjustments may be recorded during the measurement period to these line items as well as goodwill.

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The below table indicates the purchase price allocation for the above-mentioned acquisitions as of April 2, 2016 (in millions):

	Tretinoin Products*	Development-Stage Rx Products*
Purchase price paid	$ 416.4	$ —
Contingent consideration	—	29.5
Total purchase consideration	$ 416.4	$ 29.5
Assets acquired:		
Inventories	$ 1.4	$ —
Goodwill	1.7	0.5
Definite-lived intangibles:		
Developed product technology, formulations, and product rights	411.0	—
Non-compete agreements	2.3	—
Indefinite-lived intangibles:		
In-process research and development	—	29.0
Total intangible assets	413.3	29.0
Total assets	$ 416.4	$ 29.5

* Opening balance sheet is preliminary

Prior Year Acquisitions

Entocort®

On December 15, 2015, we completed our acquisition of Entocort® (budesonide) capsules, as well as the authorized generic capsules, for sale within the U.S., from AstraZeneca plc for $380.2 million in cash. Entocort® is a gastroenterology medicine for patients with mild to moderate Crohn's disease and the acquisition complemented our Rx portfolio. Operating results attributable to the acquisition are included within our Rx segment. The intangible assets included the branded and authorized generic product rights with useful lives of 10 and 15 years, respectively. The intangible assets were valued with the multi-period excess earnings method.

Naturwohl Pharma GmbH

On September 15, 2015, we completed our acquisition of 100% of Naturwohl Pharma GmbH ("Naturwohl"), a Munich, Germany-based nutritional business known for its leading German dietary supplement brand, Yokebe®. The acquisition built on our Branded Consumer Healthcare ("BCH") segment's leading OTC product portfolio and European commercial infrastructure. The assets were purchased through an all-cash transaction valued at €133.5 million ($150.4 million). Operating results attributable to Naturwohl are included in the BCH segment. The intangible assets acquired included a trademark with a 20-year useful life, customer relationships with a 15-year useful life, non-compete agreements with a three-year useful life, and a licensing agreement with a three-year useful life. We utilized the relief from royalty method for valuing the trademark, the multi-period excess earnings method for valuing the customer relationships, and the lost income method for valuing the non-compete agreements and the licensing agreement. The goodwill acquired is not deductible for tax purposes.

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ScarAway®

On August 28, 2015, we completed our acquisition of ScarAway®, a leading U.S. OTC scar management brand portfolio comprised of five products, from Enaltus, LLC, for $26.7 million in cash. This acquisition served as our entry into the niche branded OTC business in the U.S. Operating results attributable to ScarAway® are included in the Consumer Healthcare ("CHC") segment. The intangible assets acquired included a trademark with a 25-year useful life, non-compete agreements with a four-year useful life, developed product technology with an eight-year useful life, and customer relationships with a 15-year useful life. We utilized the relief from royalty method for valuing the trademark and developed product technology, the multi-period excess earnings method for valuing the customer relationships, and the lost income method for valuing the non-compete agreements. The goodwill acquired is deductible for tax purposes.

GlaxoSmithKline Consumer Healthcare Product Portfolio

On August 28, 2015, we completed our acquisition of a portfolio of well-established OTC brands from GlaxoSmithKline Consumer Healthcare (“GSK Products”). This acquisition further leveraged our European market share and expanded our product offerings. The assets were purchased through an all-cash transaction valued at €200.0 million ($223.6 million). Operating results attributable to the acquired GSK Products are included primarily in the BCH segment. The intangible assets acquired included trademarks with a 20-year useful life and customer relationships with a 15-year useful life. We utilized the relief from royalty method for valuing the trademarks and the multi-period excess earnings method for valuing the customer relationships. The goodwill acquired is deductible for tax purposes and recorded primarily in the BCH segment.

Gelcaps Exportadora de Mexico, S.A. de C.V.

On May 12, 2015, we completed our acquisition of 100% of Gelcaps Exportadora de Mexico, S.A. de C.V. ("Gelcaps"), the Mexican operations of Durham, North Carolina-based Patheon Inc., for $37.9 million in cash. The acquisition added softgel manufacturing technology to our supply chain capabilities and broadened our presence, product portfolio, and customer network in Mexico. Operating results attributable to Gelcaps are included in the CHC segment. The intangible assets acquired included a trademark with a 25-year useful life and customer relationships with a 20-year useful life. We utilized the relief from royalty method for valuing the trademark and the multi-period excess earnings method for valuing the customer relationships.

Based on valuation estimates utilizing the comparative sales method, a step-up in the value of inventory of $0.6 million was recorded in the opening balance sheet, which was charged to cost of goods sold during the three months ended June 27, 2015. In addition, property, plant and equipment were written up by $0.9 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. The goodwill recorded is not deductible for tax purposes.

Omega Pharma Invest N.V.

On March 30, 2015, we completed our acquisition of Omega Pharma Invest N.V. ("Omega"), a limited liability company incorporated under the laws of Belgium. Omega was a leading European OTC company and is providing us several key benefits, including advancing our growth strategy outside the U.S. by providing access across a larger global platform with critical mass in key European countries, establishing commercial infrastructure in the high barrier-to-entry European OTC marketplace, strengthening our product portfolio while enhancing scale and distribution, and expanding our international management capabilities.

We purchased 95.77% of the issued and outstanding share capital of Omega (685,348,257 shares) from Alychlo N.V. (“Alychlo”) and Holdco I BE N.V. (together with Alychlo, the “Sellers”), limited liability companies incorporated under the laws of Belgium, under the terms of the Share Purchase Agreement dated November 6, 2014 (the "Share Purchase Agreement"). Omega holds the remaining 30,243,983 shares as treasury shares.

The acquisition was a cash and stock transaction made up of the following consideration (in millions except per share data):

Perrigo ordinary shares issued	5.4
Perrigo share price at transaction close on March 30, 2015	$167.64
Total value of Perrigo ordinary shares issued	$904.9
Cash consideration	2,078.3
Total consideration	$2,983.2

The cash consideration shown in the above table was financed by a combination of debt and equity. We issued $1.6 billion of debt as described in Note 10, and issued 6.8 million ordinary shares, which raised $999.3 million net of issuance costs.

The Sellers agreed to indemnify us for certain potential future losses. The Sellers' indemnification and other obligations to us under the Share Purchase Agreement are secured up to €248.0 million ($277.0 million). Under the terms of the Share Purchase Agreement, Alychlo and its affiliates are subject to a three-year non-compete in Europe, and the Sellers are subject to a two-year non-solicit, in each case subject to certain exceptions. The Share Purchase Agreement contains other customary representations, warranties, and covenants of the parties thereto.

The operating results attributable to Omega are included in the BCH segment. We incurred general transaction costs (legal, banking and other professional fees), financing fees, and debt extinguishment charges in connection with the Omega acquisition. The amounts recorded were not allocated to a reporting segment. The table below details the acquisition costs, as well as losses on hedging activities associated with the acquisition purchase price, and where they were recorded for the three months ended March 28, 2015 (in millions):

Line item	Three months ended March 28, 2015
Administration	$ 2.0
Interest expense, net	18.7
Other expense, net	258.2
Total acquisition-related costs	$ 278.9

See Note 8 for further details on losses on Omega-related hedging activities shown above in Other expense, net, and Note 10 for details on the loss on extinguishment of debt.

We acquired the following intangible assets: indefinite-lived brands, a definite-lived trade name with an eight-year useful life, definite-lived brands with a 22-year useful life, a distribution network with a 21-year useful life, and developed product technology with useful lives ranging from four to 13 years. We also recorded goodwill, which is not deductible for tax purposes and represents the value we assigned to the expected synergies described above, in our BCH segment. We utilized the multi-period excess earnings method for the indefinite-lived brands, the definite-lived brands, and distribution network. We utilized the relief from royalty method for the developed product technology and definite-lived trade name.

Based on valuation estimates utilizing the comparative sales method, a step-up in the value of inventory of $15.1 million was recorded in the opening balance sheet and was charged to cost of goods sold during the three months ended June 27, 2015. In addition, property, plant and equipment were written up $41.5 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. Additionally, the fair value of the debt assumed on the date of acquisition exceeded par value by $101.9 million, which was recorded as part of the carrying value of the underlying debt and will be amortized as a reduction of interest expense over the remaining terms of the respective debt instruments. For more information on the debt we assumed from Omega and our subsequent payments on the debt, see Note 10.

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Note 2

Purchase Price Allocation of Prior Year Acquisitions

The purchase accounting allocations for the Entocort® and GSK Products acquisitions were finalized during the three months ended April 2, 2016. Changes to the allocations were due to adjustments to the intangible asset assumptions. The purchase accounting for all other prior year acquisitions was final as of December 31, 2015. The below table indicates the purchase price allocation for acquisitions completed during the year ended December 31, 2015 (in millions):

	Entocort®	Naturwohl	ScarAway®	GSK Products	Gelcaps	Omega	All Other[(1)]
Purchase price paid	$ 380.2	$ 150.4	$ 26.7	$ 223.6	$ 37.9	$2,983.2	$ 15.3
Contingent consideration	—	—	—	—	—	—	13.9
Total purchase consideration	$ 380.2	$ 150.4	$ 26.7	$ 223.6	$ 37.9	$2,983.2	$ 29.2
Assets acquired:							
Cash and cash equivalents	$ —	$ 4.6	$ —	$ —	$ 4.6	$ 14.7	$ —
Accounts receivable	—	3.3	—	—	7.3	260.1	—
Inventories	0.2	1.5	1.0	—	7.2	202.5	—
Prepaid expenses and other current assets	—	—	—	—	2.1	39.2	—
Property and equipment	—	—	—	—	6.0	130.8	—
Goodwill	—	61.0	3.5	32.6	6.0	1,900.4	—
Definite-lived intangibles:							
Distribution and license agreements, supply agreements	—	21.4	—	—	—	—	—
Developed product technology, formulations, and product rights	380.0	—	0.5	—	—	27.2	—
Customer relationships and distribution networks	—	25.9	9.8	61.5	6.6	1,056.3	—
Trademarks, trade names, and brands	—	64.2	11.4	129.5	—	287.5	—
Non-compete agreements	—	0.3	0.5	—	—	—	—
Indefinite-lived intangibles:							
Trademarks, trade names, and brands	—	—	—	—	4.4	2,003.8	—
In-process research and development	—	—	—	—	—	—	29.2
Total intangible assets	380.0	111.8	22.2	191.0	11.0	3,374.8	29.2
Other non-current assets	—	—	—	—	0.4	2.4	—
Total assets	380.2	182.2	26.7	223.6	44.6	5,924.9	29.2
Liabilities assumed:							
Accounts payable	—	2.8	—	—	3.3	243.1	—
Short-term debt	—	—	—	—	—	24.6	—
Accrued liabilities	—	1.6	—	—	1.6	43.9	—
Payroll and related taxes	—	—	—	—	—	51.3	—
Accrued customer programs	—	—	—	—	—	39.8	—
Long-term debt	—	—	—	—	—	1,471.0	—
Net deferred income tax liabilities	—	27.4	—	—	1.4	1,014.5	—
Other non-current liabilities	—	—	—	—	0.4	53.5	—
Total liabilities	—	31.8	—	—	6.7	2,941.7	—
Net assets acquired	$ 380.2	$ 150.4	$ 26.7	$ 223.6	$ 37.9	$2,983.2	$ 29.2

(1) Consists of eight product acquisitions in our CHC, BCH and Rx segments.

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Note 2

Actual and Unaudited Pro Forma Impact of Acquisitions

Our Condensed Consolidated Financial Statements include operating results from the Tretinoin Products, Entocort®, Naturwohl, GSK Products, ScarAway®, Omega, Gelcaps, and two small product acquisitions (included in "All Other" in the above table) from the date of each acquisition through April 2, 2016. Net sales and operating income attributable to the Tretinoin Products acquisition included in our financial statements for the three months ended April 2, 2016 totaled $15.9 million and $11.4 million, respectively.

The following unaudited pro forma information gives effect to the Tretinoin Products, Entocort®, Naturwohl, GSK Products, ScarAway®, Omega, Gelcaps, and two small product acquisitions, as if the acquisitions had occurred on the first day of the three months ended March 28, 2015 and had been included in our Results of Operations for all periods presented thereafter (in millions):

	Three Months Ended	
(Unaudited)	April 2, 2016	March 28, 2015
Net sales	$1,386.5	$1,377.3
Net loss	$(333.1)	$(75.4)

The historical consolidated financial information of Perrigo, and the Tretinoin Products, Entocort®, Naturwohl, GSK Products, ScarAway®, Omega, Gelcaps, and two small product acquisitions, has been adjusted in the pro forma information to give effect to pro forma events that are (1) directly attributable to the transactions, (2) factually supportable and (3) expected to have a continuing impact on combined results. In order to reflect the occurrence of the acquisitions on the first day of the three months ended March 28, 2015 as required, the unaudited pro forma results include adjustments to reflect the incremental amortization expense to be incurred based on the current values of each acquisition's identifiable intangible and tangible assets, along with the reclassification of acquisition-related costs from the three months ended April 2, 2016 to the three months ended March 28, 2015. The unaudited pro forma results do not reflect future events that have occurred or may occur after the acquisitions.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill, by reportable segment, were as follows (in millions):

Reporting Segments:	December 31, 2015	Business acquisitions	Impairments	Changes in assets held for sale	Currency translation adjustment	April 2, 2016
CHC	$1,890.0	$ —	$ —	$ 4.8	$ (1.3)	$1,893.5
BCH	1,980.5	—	(193.6)	—	100.7	1,887.6
Rx	1,222.2	2.2	—	—	(2.7)	1,221.7
Specialty Sciences	200.7	—	—	—	—	200.7
Other	71.5	—	—	3.7	2.5	77.7
Total goodwill	$5,364.9	$ 2.2	$ (193.6)	$ 8.5	$ 99.2	$5,281.2

In connection with the preparation of our financial statements for the three month period ended April 2, 2016, we identified indicators of goodwill impairment in our BCH - rest of world (“BCH - ROW”) reporting unit, which comprises primarily of operations attributable to the Omega acquisition in all geographic regions except for Belgium.

The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long range revenue growth forecast. In step one of the goodwill impairment testing, the fair value of the BCH - ROW reporting unit did not exceed its carrying value. The fair value of the reporting unit was determined using a discounted cash flow technique. The main assumptions supporting the cash flow projections assume revenue growth based on product line extensions, product life cycle strategies, and geographical expansion within the markets in which the reporting unit distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the reporting unit's growth plans.

The second step of the test requires that we determine the fair value of the BCH - ROW reporting unit’s goodwill, which involves determining the value of the reporting unit’s assets and liabilities. Based on our evaluation and initial estimates of the fair values of the assets and liabilities and the deficit of the fair value when compared to the related book value, we recorded an estimated impairment charge of $193.6 million in Impairment charges on the Condensed Consolidated Statements of Operations for the three months ended April 2, 2016. The change in fair value from previous estimates was due primarily to the changes in the current market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. We expect to finalize the fair value calculation during the second quarter of 2016, which could result in an adjustment to the estimated impairment charge. As of April 2, 2016, the implied fair value of the impaired goodwill is $1.8 billion.

While no impairment charges were recorded as a result of the goodwill impairment testing for the transition period of June 28, 2015 to December 31, 2015, our Specialty Sciences reporting unit's fair value exceeded the carrying value by less than 10%. Management evaluated the primary source of cash flow in this segment, the Tysabri® royalty stream, based on a combination of factors including independent external research, information provided from our royalty partner, and internal estimates. Based on this information, management’s assessment of future cash flow from this royalty stream has been reduced primarily due to anticipated new competitors entering the market and unfavorable currency exchange effects. Future performance different from the assumptions utilized in our quantitative analysis may further reduce the fair value of the reporting unit, which may result in the fair value no longer exceeding the carrying value. In February 2016, a competitor's pipeline product, Roche's Ocrelizumab, received “Breakthrough Therapy Designation in Primary Progressive Multiple Sclerosis” from the FDA and could potentially be approved in 2017. The product would compete with Tysabri® and could have a significant impact on the royalty we receive. We will continue to monitor the progress of the potential competing product and assess the reporting unit for potential impairment should impairment indicators arise and at least annually as applicable.

Intangible Assets

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

	April 2, 2016		December 31, 2015	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Definite-lived intangibles:				
Distribution and license agreements, supply agreements	$6,054.8	$ 749.8	$6,053.4	$ 667.2
Developed product technology, formulations, and product rights	1,795.7	462.3	1,383.5	426.0
Customer relationships and distribution networks	1,573.2	229.0	1,520.7	193.0
Trademarks, trade names, and brands	563.6	31.2	539.4	22.8
Non-compete agreements	17.6	13.5	15.2	12.7
Total definite-lived intangibles	$10,004.9	$ 1,485.8	$9,512.2	$ 1,321.7
Indefinite-lived intangibles:				
Trademarks, trade names, and brands*	$1,682.3	$ —	$1,868.1	$ —
In-process research and development	69.5	—	48.2	—
Total indefinite-lived intangibles	1,751.8	—	1,916.3	—
Total other intangible assets	$11,756.7	$ 1,485.8	$11,428.5	$ 1,321.7

* Includes impairment charges of $273.4 million and $185.1 million at April 2, 2016 and December 31, 2015, respectively, as described further below.

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.

We recorded amortization expense of $158.0 million and $107.8 million for the three months ended April 2, 2016 and March 28, 2015, respectively. The increase in amortization expense was due primarily to the incremental amortization expense incurred on the definite-lived intangible assets acquired from Omega.

During our impairment testing for the transition period of June 28, 2015 to December 31, 2015, we identified an impairment of certain indefinite-lived intangible assets purchased in conjunction with the Omega acquisition based on management's expectations of the prospects for future revenues, profits, and cash flows associated with these assets. The assessment resulted in an impairment charge of $185.1 million within our BCH segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value. See our Transition Report on Form 10-KT filed on February 25, 2016 for a further discussion of this impairment charge.

In connection with the preparation of our financial statements for the three month period ended April 2, 2016, we identified indicators of impairment associated with certain indefinite-lived intangible assets acquired in conjunction with the Omega acquisition. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long range revenue growth forecast. The assessment utilized the excess earnings method to determine fair value and resulted in an impairment charge of $273.4 million in Impairment charges on the Condensed Consolidated Statements of Operations within our BCH segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value. The change in fair value from previous estimates was due primarily to the changes in the current market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. The main assumptions supporting the fair value of these assets and cash flow projections assume revenue growth based on product line extensions, product life cycle strategies, and geographical expansion within the markets in which the BCH segment distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the segment's growth plans.

The carrying value for certain intangible assets and goodwill equals fair value, as such, any further deterioration in those assets' fair value would lead to a further impairment charge. Future performance different from the assumptions utilized in our quantitative analyses may result in additional changes in the fair value. We will continue to monitor and assess these assets for potential impairment should further impairment indicators arise, as applicable, and at least annually during our fourth quarter annual impairment testing.

In addition, due to the reprioritization of certain brands in the BCH segment and change in performance expectations for our impaired lifestyle brands previously recorded as indefinite-lived assets, we reclassified the remaining asset balance of $364.5 million to definite-lived assets with a useful life of 20 years as of April 3, 2016.

NOTE 4 - ACCOUNTS RECEIVABLE FACTORING

We have multiple accounts receivable factoring arrangements with non-related third-party financial institutions (the “Factors”). Pursuant to the terms of the arrangements, we sell to the Factors certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. An administrative fee ranging from 0.14% to 0.15% per invoice is charged on the gross amount of accounts receivables assigned to the Factors, plus interest is calculated at the applicable EUR LIBOR rate plus 70 basis points. The total amount factored and excluded from accounts receivable was $110.0 million and $106.7 million at April 2, 2016 and December 31, 2015, respectively.

NOTE 5 – INVENTORIES

Major components of inventory were as follows (in millions):

	April 2, 2016	December 31, 2015
Finished goods	$ 506.1	$ 483.4
Work in process	144.6	151.4
Raw materials	218.1	209.6
Total inventories	$ 868.8	$ 844.4

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The following tables summarize the valuation of our financial instruments carried at fair value by the above pricing categories (in millions):

	Fair Value Hierarchy	Fair Value April 2, 2016	December 31, 2015

Measured at fair value on a recurring basis:			
Assets:			
Investment securities	Level 1	$38.6	$ 14.9
Foreign currency forward contracts	Level 2	$9.4	$ 4.8
Funds associated with Israeli post-employment benefits	Level 2	17.6	17.2
Total level 2 assets		$27.0	$ 22.0
Liabilities:			
Interest rate swap agreements	Level 2	$—	$ 0.3
Foreign currency forward contracts	Level 2	3.4	3.9
Total level 2 liabilities		$3.4	$ 4.2
Contingent consideration	Level 3	$48.0	$ 17.9
Measured at fair value on a non-recurring basis:			
Assets:			
Goodwill*	Level 3	$1,761.6	$ —
Indefinite-lived intangible assets	Level 3	1,082.0	1,031.8
Assets held for sale, net	Level 3	—	37.5
Total level 3 assets		$2,843.6	$ 1,069.3

* Goodwill with a carrying amount of $1,955.2 million was written down to its implied fair value of $1,761.6 million, resulting in an impairment charge of $193.6 million, which was included in Impairment charges on the Condensed Consolidated Statements of Operations for the three months ended April 2, 2016.

The table below presents a reconciliation for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in millions):

	Three Months Ended	
	April 2, 2016	March 28, 2015
Contingent Consideration		
Beginning balance:	$17.9	$ 12.4
Net realized losses	0.3	—
Purchases or additions	29.5	—
Foreign currency effect	0.3	—
Ending balance:	$48.0	$ 12.4

Net realized losses in the table above were recorded in Administrative expense. There were no transfers between Level 1, 2, and 3 during the three months ended April 2, 2016 and March 28, 2015. Our policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period. See Note 7 for information on our investment securities. See Note 8 for a discussion of derivatives.

Israeli post-employment benefits represent amounts we have deposited in funds managed by financial institutions designated by management to cover post-employment benefits for our Israeli employees as required by Israeli law. The funds are recorded in Other non-current assets and 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.

Contingent consideration represents milestone payment obligations obtained through product acquisitions, which are valued using estimates based on probability-weighted outcomes, sensitivity analysis, and discount rates reflective of the risk involved. The estimates are updated quarterly and the liabilities are adjusted to fair value depending on a number of assumptions, including the competitive landscape and regulatory approvals that may impact the future sales of a product.

As of April 2, 2016 and December 31, 2015, our fixed rate long-term debt consisted of public bonds, a private placement note, and retail bonds. As of April 2, 2016, the public bonds and private placement note had a carrying value and fair value of $5.1 billion, based on quoted market prices (Level 1). As of December 31, 2015, the public bonds and private placement note had a carrying value of $3.9 billion and fair value of $3.8 billion, based on quoted market prices (Level 1). As of April 2, 2016, our retail bonds had a carrying value of $837.1 million (excluding a premium of $76.5 million) and a fair value of $905.5 million. As of December 31, 2015, our retail bonds had a carrying value of $798.3 million (excluding a premium of $82.5 million) and a fair value of $859.8 million. The fair value for both periods was based on interest rates offered for borrowings of a similar nature and remaining maturities (Level 2).

Certain assets are required to be recorded at fair value on a non-recurring basis even when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the table above represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates. See Note 3 for a more detailed discussion of the impaired goodwill and indefinite-lived intangible assets and the valuation methods used. Note 9 for information on our assets and liabilities held for sale.

The carrying amounts of our other 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.

NOTE 7 – INVESTMENTS

Available for Sale Securities

Our available for sale securities are reported in Prepaid expenses and other current assets. Unrealized investment gains (losses) on available for sale securities were as follows (in millions):

	April 2, 2016	December 31, 2015
Equity securities, at cost less impairments	$ 21.9	$ 6.4
Gross unrealized gains	19.2	9.3
Gross unrealized losses	(2.5)	(0.8)
Estimated fair value of equity securities	$ 38.6	$ 14.9

The factors affecting the assessment of impairments include both general financial market conditions and factors specific to a particular company. The equity securities in a gross unrealized loss position at April 2, 2016 were in that position for less than 12 months. We have evaluated the near-term prospects of the equity securities in relation to the severity and duration of the unrealized impairments, and based on that evaluation, we have the ability and intent to hold the investments until a recovery of fair value.

Cost Method Investments

Our cost method investments totaled $7.1 million and $6.9 million at April 2, 2016 and December 31, 2015, respectively, and are included in Other non-current assets.

Equity Method Investments

Our equity method investments totaled $28.7 million and $45.5 million at April 2, 2016 and December 31, 2015, respectively, and are included in Other non-current assets. We recorded net losses of $2.4 million and $0.3 million during the three months ended April 2, 2016 and March 28, 2015, respectively, for our proportionate share of the equity method investment earnings or losses. The losses were recorded in Other expense, net.

During the three months ended April 2, 2016, one of our equity method investments became publicly traded. As a result, we transferred the $15.5 million investment to available for sale and recorded an $8.7 million unrealized gain, net of tax, in OCI, as reflected in the table above.

NOTE 8 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We enter into certain derivative financial instruments, when available on a cost-effective basis, to mitigate our risk associated with changes in interest rates and foreign currency exchange rates as follows:

Interest rate risk management - We are exposed to the impact of interest rate changes through our cash investments and borrowings. We utilize a variety of strategies to manage the impact of changes in interest rates including using a mix of debt maturities along with both fixed-rate and variable-rate debt. In addition, we may enter into treasury-lock agreements and interest rate swap agreements on certain investing and borrowing transactions to manage our exposure to interest rate changes and our overall cost of borrowing.

Foreign currency exchange risk management - We conduct business in several major currencies other than the U.S. dollar and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce cash flow volatility associated with foreign exchange rate changes on a consolidated basis to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments, and anticipated foreign currency sales and expenses.

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. Gains and losses related to the derivative instruments are expected to be offset largely by gains and losses on the original underlying asset or liability. We do not use derivative financial instruments for speculative purposes.

All of our designated derivatives were classified as cash flow hedges as of April 2, 2016 and December 31, 2015. Designated derivatives meet hedge accounting criteria, which means the fair value of the hedge is recorded in shareholders' equity as a component of OCI, net of tax. The deferred gains and losses are recognized in income in the period in which the hedged item affects earnings. Any ineffective portion of the change in fair value of the derivative is immediately recognized in earnings and recorded in Other expense, net. All of our designated derivatives are assessed for hedge effectiveness quarterly.

We also have economic non-designated derivatives that do not meet hedge accounting criteria. These derivative instruments are adjusted to current market value at the end of each period through earnings. Gains or losses on these instruments are offset substantially by the remeasurement adjustment on the hedged item.

Interest Rate Swaps and Treasury Locks

Interest rate swap agreements are contracts to exchange floating rate for fixed rate payments (or vice versa) over the life of the agreement without the exchange of the underlying notional amounts. The notional amounts of the interest rate swap agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreements is recognized as an adjustment to interest expense.

During the six months ended December 31, 2015, we entered into a forward interest rate swap to hedge against changes in the benchmark interest rate between the date the interest rate swap was entered into and the date of expected future debt issuance. The interest rate swap was designated as a cash flow hedge and had a notional amount totaling $200.0 million. The interest rate swap was settled upon the issuance of an aggregate $1.2 billion principal amount on March 7, 2016 for a cumulative after-tax loss of $7.0 million in OCI during the three months ended April 2, 2016.

In connection with the Omega acquisition, we assumed a $20.0 million private placement note. We also assumed an interest rate swap agreement with a notional amount totaling $20.0 million that was in place to hedge the cross currency exchange differences between the U.S. dollar and the euro on the above-mentioned debt. On May 29, 2015, we repaid the loan and the interest rate swap. We also assumed €500.0 million ($544.5 million) of debt under Omega's revolving credit facility, as well as an interest rate swap agreement with a notional amount of €135.0 million ($147.0 million) that was in place to hedge the change in the floating rate on that credit facility. On April 8, 2015, we repaid the loan and terminated the interest rate swap. Because both interest rate swaps mentioned above were recorded at fair market value on the date of termination, no gain or loss was recorded. For more information on the acquired debt and termination, see Note 10.

Foreign Currency Derivatives

We enter into foreign currency forward contracts, both designated and non-designated, in order to manage the impact of foreign exchange fluctuations on expected future purchases and related payables denominated in a foreign currency, as well as to hedge the impact of foreign exchange fluctuations on expected future sales and related receivables denominated in a foreign currency. Both types of forward contracts have a maximum maturity date of 15 months. The total notional amount for these contracts was $611.4 million and $755.5 million as of April 2, 2016 and December 31, 2015, respectively.

In order to economically hedge the foreign currency exposure associated with the planned payment of the euro-denominated purchase price of Omega, we entered into non-designated forward contracts that matured during the three months ended March 28, 2015. We recorded losses of $259.8 million during the three months ended March 28, 2015 related to the settlement of the forward contracts in Other expense, net. The losses on the derivatives due to changes in the euro-to-U.S. dollar exchange rates were economically offset at closing in the final settlement of the euro-denominated Omega purchase price. Because these derivatives were economically hedging a future acquisition, the cash outflow associated with their settlement is shown as an investing activity on the Consolidated Statements of Cash Flows.

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Note 8

Effects of Derivatives on the Financial Statements

The below tables indicate the effects of all derivative instruments on the Condensed Consolidated Financial Statements. All amounts exclude income tax effects and are presented in millions.

The balance sheet location and gross fair value of our outstanding derivative instruments were as follows:

	Asset Derivatives		
	Balance Sheet Location	Fair Value	
		April 2, 2016	December 31, 2015
Designated derivatives:			
Foreign currency forward contracts	Other current assets	$4.5	$ 3.8
Total designated derivatives		$4.5	$ 3.8
Non-designated derivatives:			
Foreign currency forward contracts	Other current assets	$4.9	$ 1.0
Total non-designated derivatives		$4.9	$ 1.0

	Liability Derivatives		
	Balance Sheet Location	Fair Value	
		April 2, 2016	December 31, 2015
Designated derivatives:			
Foreign currency forward contracts	Accrued liabilities	$1.7	$ 2.0
Interest rate swap agreements	Other non-current liabilities	—	0.3
Total designated derivatives		$1.7	$ 2.3
Non-designated derivatives:			
Foreign currency forward contracts	Accrued liabilities	$1.7	$ 1.9
Total non-designated derivatives		$1.7	$ 1.9

The gains (losses) recognized in OCI for the effective portion of our designated cash flow hedges were as follows:

Designated Cash Flow Hedges	Amount of Gain/(Loss) Recorded in OCI (Effective Portion) Three Months Ended April 2, 2016	March 28, 2015
Interest rate swap agreements	$(9.0)	$ 2.0
Foreign currency forward contracts	1.6	(3.8)
	$(7.4)	$ (1.8)

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Note 8

The gains (losses) reclassified from Accumulated Other Comprehensive Income ("AOCI") into earnings for the effective portion of our designated cash flow hedges were as follows:

Amount of
Gain/(Loss)
Reclassified
from AOCI
to Income
(Effective
Portion)
Three
Months
Ended