FRESH DEL MONTE PRODUCE INC
Form 10-Q
August 02, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2016

OR

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

For the transition period from to

1-14706
(Commission file number)

FRESH DEL MONTE PRODUCE INC.
(Exact Name of Registrant as Specified in Its Charter)

The Cayman Islands (State or Other Jurisdiction of Incorporation or Organization)	N/A (I.R.S Employer Identification No.)
c/o Intertrust Corporate Services (Cayman) Limited 190 Elgin Avenue George Town, Grand Cayman, KY1-9005 Cayman Islands	N/A
(Address of Registrant's Principal Executive Office)	(Zip Code)

(305) 520-8400
(Registrant's telephone number including area code)

Please send copies of notices and communications from the Securities and Exchange Commission to:
c/o Del Monte Fresh Produce Company
241 Sevilla Avenue
Coral Gables, Florida 33134
(Address of Registrant's U.S. Executive Office)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a 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 ¨ No ý

As of July 22, 2016, there were 51,261,905 ordinary shares of Fresh Del Monte Produce Inc. issued and outstanding.

Forward-Looking Statements

This report, information included in future filings by us and information contained in written material, press releases and oral statements, issued by or on behalf of us contains, or may contain, statements that constitute forward-looking statements. In this report, these statements appear in a number of places and include statements regarding the intent, beliefs or current expectations of us or our officers (including statements preceded by, followed by or that include the words “believes”, “expects”, “anticipates” or similar expressions) with respect to various matters, including our plans and future performance. These forward-looking statements involve risks and uncertainties. Fresh Del Monte’s actual plans and performance may differ materially from those in the forward-looking statements as a result of various factors, including (i) the uncertain global economic environment and the timing and strength of a recovery in the markets we serve, and the extent to which adverse economic conditions continue to affect our sales volume and results, including our ability to command premium prices for certain of our principal products, or increase competitive pressures within the industry, (ii) the impact of governmental initiatives in the United States and abroad to spur economic activity, including the effects of significant government monetary or other market interventions on inflation, price controls and foreign exchange rates, (iii) the impact of governmental trade restrictions, including adverse governmental regulation that may impact our ability to access certain markets such as uncertainty surrounding the recent vote in the United Kingdom to leave the European Union (often referred as Brexit), including spillover effects to other Eurozone countries, (iv) our anticipated cash needs in light of our liquidity, (v) the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations, (vi) trends and other factors affecting our financial condition or results of operations from period to period, including changes in product mix or consumer demand for branded products such as ours, particularly as consumers remain price-conscious in the current economic environment; anticipated price and expense levels; the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products; the impact of prices for petroleum-based products and packaging materials; and the availability of sufficient labor during peak growing and harvesting seasons, (vii) the impact of pricing and other actions by our competitors, particularly during periods of low consumer confidence and spending levels, (viii) the impact of foreign currency fluctuations, (ix) our plans for expansion of our business (including through acquisitions) and cost savings, (x) our ability to successfully integrate acquisitions into our operations, (xi) the impact of impairment or other charges associated with exit activities, crop or facility damage or otherwise, (xii) the timing and cost of resolution of pending and future legal and environmental proceedings or investigations, (xiii) the impact of changes in tax accounting or tax laws (or interpretations thereof), and the impact of settlements of adjustments proposed by the Internal Revenue Service or other taxing authorities in connection with our tax audits, and (xiv) the cost and other implications of changes in regulations applicable to our business, including potential legislative or regulatory initiatives in the United States or elsewhere directed at mitigating the effects of climate change. All forward-looking statements in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our plans and performance may also be affected by the factors described in Item 1A-“Risk Factors” in our Annual Report on Form 10-K for the year ended January 1, 2016 along with other reports that we have on file with the Securities and Exchange Commission.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)
(U.S. dollars in millions, except share and per share data)

	July 1, 2016	January 1, 2016
Assets		
Current assets:		
Cash and cash equivalents	$42.8	$ 24.9
Trade accounts receivable, net of allowance of $8.7 and $9.3, respectively	346.7	346.1
Other accounts receivable, net of allowance of $7.7 and $7.9, respectively	67.2	71.3
Inventories, net	424.0	481.9
Deferred income taxes	—	11.9
Prepaid expenses and other current assets	41.2	49.7
Total current assets	921.9	985.8
Investments in and advances to unconsolidated companies	2.0	2.0
Property, plant and equipment, net	1,247.8	1,215.4
Deferred income taxes	56.3	42.6
Goodwill	263.2	263.7
Other noncurrent assets	93.0	86.6
Total assets	$2,584.2	$ 2,596.1
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$336.8	$ 359.1
Current portion of long-term debt and capital lease obligations	0.5	1.5
Deferred income taxes	—	14.9
Income taxes and other taxes payable	18.6	6.3
Total current liabilities	355.9	381.8
Long-term debt and capital lease obligations	191.9	252.7
Retirement benefits	88.1	86.5
Other noncurrent liabilities	49.2	50.1
Deferred income taxes	90.0	74.1
Total liabilities	775.1	845.2
Commitments and contingencies		
Shareholders' equity:		
Preferred shares, $0.01 par value; 50,000,000 shares authorized; none issued or outstanding	—	—
Ordinary shares, $0.01 par value; 200,000,000 shares authorized; 51,233,897 and 52,542,965 issued and outstanding, respectively	0.5	0.5
Paid-in capital	533.1	568.2
Retained earnings	1,282.5	1,162.3

Accumulated other comprehensive loss	31.6	23.0
Total Fresh Del Monte Produce Inc. shareholders' equity	1,784.5	1,708.0
Noncontrolling interests	24.6	42.9
Total shareholders' equity	1,809.1	1,750.9
Total liabilities and shareholders' equity	$2,584.2	$2,596.1

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(U.S. dollars in millions, except share and per share data)

	Quarter ended		Six months ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Net sales	$ 1,088.6	$ 1,134.1	$ 2,106.7	$ 2,142.5
Cost of products sold	943.2	1,020.1	1,820.6	1,928.1
Gross profit	145.4	114.0	286.1	214.4
Selling, general and administrative expenses	44.5	41.9	91.6	85.8
Gain on disposal of property, plant and equipment, net	8.9	1.0	5.8	2.2
Asset impairment and other charges (credits), net	3.1	(0.5)	3.1	0.9
Operating income	106.7	73.6	197.2	129.9
Interest expense	1.3	1.3	2.2	2.6
Interest income	0.3	0.1	0.4	0.2
Other income (expense), net	0.7	(0.1)	3.3	(6.0)
Income before income taxes	106.4	72.3	198.7	121.5
Provision for income taxes	8.7	6.4	19.8	11.4
Net income	$ 97.7	$ 65.9	$ 178.9	$ 110.1
Less: Net income attributable to noncontrolling interests	1.5	1.4	1.0	3.1
Net income attributable to Fresh Del Monte Produce Inc.	$ 96.2	$ 64.5	$ 177.9	$ 107.0
Net income per ordinary share attributable to Fresh Del Monte Produce Inc. - Basic	$ 1.88	$ 1.22	$ 3.46	$ 2.03
Net income per ordinary share attributable to Fresh Del Monte Produce Inc. - Diluted	$ 1.86	$ 1.21	$ 3.43	$ 2.01
Dividends declared per ordinary share	$ 0.125	$ 0.125	$ 0.250	$ 0.250
Weighted average number of ordinary shares:				
Basic	51,164,438	52,655,228	51,396,50	52,831,466
Diluted	51,700,34	53,147,604	51,868,45	53,278,723

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(U.S. dollars in millions)

	Quarter ended		Six months ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Net income	$97.7	$ 65.9	$178.9	$110.1
Other comprehensive income:				
Net unrealized gain (loss) on derivatives	0.3	(11.6)	(9.6)	(0.1)
Net unrealized foreign currency translation (loss) gain	(4.4)	3.8	1.2	(6.6)
Net change in retirement benefit adjustment, net of tax	0.1	0.4	0.2	0.7
Comprehensive income	$93.7	$ 58.5	$170.7	$104.1
Less: comprehensive income attributable to noncontrolling interests	1.4	1.3	1.3	3.0
Comprehensive income attributable to Fresh Del Monte Produce Inc.	$92.3	$ 57.2	$169.4	$101.1

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(U.S. dollars in millions)

	Six months ended	
	July 1, 2016	June 26, 2015
Operating activities:		
Net income	$178.9	$110.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38.0	35.9
Amortization of debt issuance costs	0.2	0.2
Stock-based compensation expense	7.9	6.4
Asset impairment, net	3.1	1.4
Change in uncertain tax positions	0.1	0.1
Gain on disposal of property, plant and equipment	(5.8)	(2.2)
Deferred income taxes	(0.9)	—
Excess tax benefit from stock-based compensation	(0.2)	(0.3)
Foreign currency translation adjustment	(1.8)	(2.3)
Changes in operating assets and liabilities:		
Receivables	9.3	(48.4)
Inventories	57.4	56.7
Prepaid expenses and other current assets	(0.8)	(1.9)
Accounts payable and accrued expenses	(12.4)	22.1
Other noncurrent assets and liabilities	(4.1)	1.7
Net cash provided by operating activities	268.9	179.5
Investing activities:		
Capital expenditures	(67.3)	(52.5)
Proceeds from sales of property, plant and equipment	7.4	5.8
Purchase of a business	(7.1)	—
Net cash used in investing activities	(67.0)	(46.7)
Financing activities:		
Proceeds from long-term debt	250.6	281.2
Payments on long-term debt	(316.6)	(340.0)
Purchase of noncontrolling interest	(40.0)	—
Distributions to noncontrolling interests, net	(0.1)	(0.2)
Proceeds from stock options exercised	4.2	19.7
Excess tax benefit from stock-based compensation	0.2	0.3
Dividends paid	(12.7)	(13.1)
Repurchase and retirement of ordinary shares	(68.7)	(84.8)
Net cash used in by financing activities	(183.1)	(136.9)
Effect of exchange rate changes on cash	(0.9)	4.4
Net increase in cash and cash equivalents	17.9	0.3
Cash and cash equivalents, beginning	24.9	34.1
Cash and cash equivalents, ending	$42.8	$34.4
Supplemental cash flow information:		

Cash paid for interest	$1.9	$2.2
Cash paid for income taxes	$7.5	$3.5
Non-cash financing and investing activities:		
Purchase of assets under capital lease obligations	$0.1	$0.7
Retirement of ordinary shares	$66.9	$69.7
Purchase of noncontrolling interest	$5.0	$—

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. General

Reference in this report to Fresh Del Monte, “we”, “our”, “us” and the “Company” refer to Fresh Del Monte Produce Inc. and its subsidiaries, unless the context indicates otherwise.

We were incorporated under the laws of the Cayman Islands in 1996 and are engaged primarily in the worldwide production, transportation and marketing of fresh produce. We source our products, which include bananas, pineapples, melons, tomatoes, avocados and non-tropical fruit (including grapes, apples, pears, peaches, plums, nectarines, citrus and kiwis) primarily from Central America, North America, South America, Africa, the Philippines and Europe. We distribute our products in North America, Europe, Asia, South America, Africa and the Middle East. Our products are sourced from our Company-owned farms, through joint venture arrangements and through supply contracts with independent growers. We have the exclusive right to use the DEL MONTE® brand for fresh fruit, fresh vegetables and other fresh and fresh-cut produce and certain other specified products on a royalty-free basis under a worldwide, perpetual license from Del Monte Corporation, an unaffiliated company that owns the DEL MONTE® trademark. We are also a producer, marketer and distributor of prepared fruit and vegetable, juices and snacks and we hold a perpetual, royalty-free license to use the DEL MONTE® brand for prepared foods throughout Europe, Africa, the Middle East and countries formerly part of the Soviet Union. Del Monte Corporation and several other unaffiliated companies manufacture, distribute and sell under the DEL MONTE® brand canned or processed fruit, vegetables and other produce, as well as dried fruit, snacks and other products in certain geographic regions.

The accompanying unaudited Consolidated Financial Statements for the quarter ended July 1, 2016 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for fair presentation have been included. Operating results for the quarter and six months ended July 1, 2016 are subject to significant seasonal variations and are not necessarily indicative of the results that may be expected for the year ending December 30, 2016. For further information, refer to the Consolidated Financial Statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended January 1, 2016.

We are required to evaluate events occurring after July 1, 2016 for recognition and disclosure in the unaudited Consolidated Financial Statements for the quarter and six months ended July 1, 2016. Events are evaluated based on whether they represent information existing as of July 1, 2016, which require recognition in the unaudited Consolidated Financial Statements, or new events occurring after July 1, 2016, which do not require recognition but require disclosure if the event is significant to the unaudited Consolidated Financial Statements. We evaluated events occurring subsequent to July 1, 2016 through the date of issuance of these unaudited Consolidated Financial Statements.

2. Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU will be effective for us beginning the first day of our 2017 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect this ASU to have a significant effect.

In February 2016, the FASB issued an ASU, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities, including significant judgments and changes in judgments. This ASU will be effective for us beginning the first day of our 2019 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect this ASU to have a significant effect.

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2. Recently Issued Accounting Pronouncements (continued)

In November 2015, the FASB issued an ASU, which amends the existing accounting standards for income taxes. The amendment required companies to report their deferred tax liabilities and deferred tax assets each as a single non-current item on their classified balance sheets. The Company elected to adopt the amendments in the first quarter of fiscal year 2016 and applied them prospectively to the current period presented, as permitted by the standard. The adoption of the amendments had no impact on the Company's net earnings or cash flow from operations for any period presented.

In July 2015, the FASB issued an ASU for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance does not apply to inventory that is being measured using the Last-In, First-Out (LIFO) or the retail inventory method. The guidance is effective for us on a prospective basis beginning on the first day of our fiscal 2017 year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect this ASU to have a significant effect.

In May 2014, the FASB issued an ASU in the form of a comprehensive new revenue recognition standard that will supersede existing revenue guidance. The ASU's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard outlines a five step model, whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. The amendments in this ASU will be effective for us beginning the first day of our 2018 fiscal year. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect this ASU to have a significant effect.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

3. Asset Impairment and Other Charges, Net

The following represents a summary of asset impairment and exit activity and other charges (credits), net recorded during the quarters and six months ended July 1, 2016 and June 26, 2015 (U.S. dollars in millions):

	Quarter ended July 1, 2016			Six months ended July 1, 2016		
	Long-lived and other asset impairment	Exit activity and other charges	Total	Long-lived and other asset impairment	Exit activity and other charges	Total
Banana segment:						
Philippines plantation conversion to pineapple	$2.5	$ —	$2.5	$2.5	$ —	$2.5
Underutilized assets in Central America	0.6	—	0.6	0.6	—	0.6
Total asset impairment and other charges, net	$3.1	$ —	$3.1	$3.1	$ —	$3.1

	Quarter ended June 26, 2015			Six months ended June 26, 2015		
	Long-lived and other asset impairment (credits)	Exit activity and other charges (credits)	Total	Long-lived and other asset impairment (credits)	Exit activity and other charges (credits)	Total
Banana segment:						
European Union Antitrust settlement gain	$—	$ (0.8)	$(0.8)	$—	$ (0.8)	$(0.8)
Other fresh produce segment:						
Chile floods	—	0.3	0.3	1.2	0.3	1.5
Other fresh produce segment credits	—	—	—	—	(0.1)	(0.1)
Prepared food segment:						
Other prepared food segment charges	—	—	—	0.2	0.1	0.3
Total asset impairment and other charges (credits), net	$—	$ (0.5)	$(0.5)	$1.4	$ (0.5)	$0.9

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

3. Asset Impairment and Other Charges, Net (continued)

Exit Activity and Other Reserves

Exit activity and other reserve balances are recorded in the Consolidated Balance Sheets included in accounts payable and accrued expenses, for the current portion and in other noncurrent liabilities for the noncurrent portion.

The following is a rollforward of 2016 exit activity and other reserves (U.S. dollars in millions):

	Exit activity and other reserve balance at January 1, 2016	Impact to earnings	Cash paid	Foreign exchange impact	Exit activity and other reserve balance at July 1, 2016
Contract termination and other exit activity charges	$ 1.1	$ —	$ (0.3)	$ (0.1)	$ 0.7
	$ 1.1	$ —	$ (0.3)	$ (0.1)	$ 0.7

The exit activity and other reserve balance at July 1, 2016 relates to contract termination costs for an underutilized facility in the United Kingdom in previous periods. We do not expect additional charges related to the exit and other activities mentioned above that would significantly impact our results of operations or financial condition.

4. Acquisition

During June 2016, we purchased a blueberry farm in Chile of approximately 320 acres, which includes agricultural production land, packing houses and farm equipment. The purchase price for this business acquisition was $7.1 million and was funded using operating cash flows and available borrowings under the Credit Facility (as defined in Note 10 “Long-Term Debt and Capital Lease Obligations”). The initial accounting for this business combination has not been completed because the appraisal of the property, plant and equipment has not yet been received.

5. Noncontrolling Interests

The following table reconciles shareholders’ equity attributable to noncontrolling interests (U.S. dollars in millions):

	Six months ended July 1, 2016	June 26, 2015
Noncontrolling interests, beginning	$ 42.9	$ 40.0
Purchase of noncontrolling interest [1]	(19.5)	—
Net income attributable to noncontrolling interests	1.0	3.1
Translation adjustments	0.3	(0.3)

Retirement benefit adjustment	(0.1)	(0.1)
Capital contributions from, net	—	0.1
Noncontrolling interests, ending	$ 24.6	$ 42.8

(1) We purchased the remaining interest of our Variable Interest Entity ("VIE") for $45.0 million on April 28, 2016. We recorded a charge of $25.5 million to equity as a result of the difference between the fair value of the consideration of $45.0 million less the $19.5 million carrying value of the noncontrolling interest. Refer to Note 6, “Variable interest Entities”, for disclosures related to the purchase of the remaining interest in our VIE.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

6. Variable Interest Entities

One of our Del Monte Gold® Extra Sweet pineapple producers met the definition of a VIE pursuant to the ASC guidance on "Consolidation" and is consolidated. Our variable interest in this entity included an equity investment and certain debt guarantees. All of this VIE's pineapple production was sold to us. Based on the criteria of this ASC, as amended, we were the primary beneficiary of this VIE's expected residual returns or losses in excess of our ownership interest.

On April 28, 2016, we acquired the remaining interest of our VIE for $45.0 million of which we paid $40.0 million using operating cash flows and available borrowings under the Credit Facility (as defined in Note 10 "Long-Term Debt and Capital Lease Obligations") and the remaining $5.0 million is expected to be paid during the next 12 months. We recorded a charge of $25.5 million to equity as a result of the difference between the fair value of the consideration of $45.0 million less the $19.5 million carrying value of the noncontrolling interest. This acquisition of the remaining 60% ownership interest was accounted for as an acquisition of a noncontrolling interest.

7. Financing Receivables

Financing receivables are included in other accounts receivable less allowances on our accompanying Consolidated Balance Sheets and are recognized at net realizable value, which approximates fair value. Other accounts receivable may include value-added taxes receivables, seasonal advances to growers and suppliers, which are usually short-term in nature, and other financing receivables.

A significant portion of the fresh produce we sell is acquired through supply contracts with independent growers. In order to ensure the consistent high quality of our products and packaging, we make advances to independent growers and suppliers. These growers and suppliers typically sell all of their production to us and make payments on their advances as a deduction to the agreed upon selling price of the fruit or packaging material. The majority of the advances to growers and suppliers are for terms less than one year and typically span a growing season. In certain cases, there may be longer term advances with terms of up to 10 years.

These advances are collateralized by property liens and pledges of the respective season's produce; however, certain factors such as unfavorable weather conditions, crop disease and financial stability could impact the ability for these growers to repay their advance. Occasionally, we agree to a payment plan or take steps to recover the advance via established collateral. Allowances for advances to independent growers and suppliers are determined on a case by case basis depending on the production for the season and other contributing factors.

The following table details financing receivables including the related allowance for advances to independent growers and suppliers (U.S. dollars in millions):

	July 1, 2016		January 1, 2016	
	Short-term	Long-term	Short-term	Long-term
Gross advances to independent growers and suppliers	$37.1	$ 0.2	$41.7	$ 0.3
Allowance for advances to independent growers and suppliers	(1.6)	—	(2.1)	—
Net advances to independent growers and suppliers	$35.5	$ 0.2	$39.6	$ 0.3

The current and noncurrent portions of the financing receivables included above are classified in the Consolidated Balance Sheets in other accounts receivable and other noncurrent assets, respectively.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

7. Financing Receivables (continued)

The following table details the credit risk profile of the above listed financing receivables (U.S. dollars in millions):

	Current status	Past due status	Total
Gross advances to independent growers and suppliers:			
July 1, 2016	$ 35.7	$ 1.6	$37.3
January 1, 2016	39.9	2.1	42.0

The allowance for advances to independent growers and suppliers and the related financing receivables for the quarters and six months ended July 1, 2016 and June 26, 2015 were as follows (U.S. dollars in millions):

	Quarter ended		Six months ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Allowance for advances to independent growers and suppliers:				
Balance, beginning of period	$2.1	$ 1.9	$2.1	$ 2.4
Provision for uncollectible amounts	—	0.1	—	0.1
Deductions to allowance related to write-offs	(0.5)	—	(0.5)	(0.5)
Balance, end of period	$1.6	$ 2.0	$1.6	$ 2.0

8. Stock-Based Compensation

Our shareholders approved and ratified the 2014 Omnibus Share Incentive Plan (the “2014 Plan”), which allows us to grant equity-based compensation awards, including stock options, restricted stock awards and restricted stock units including performance stock units. We disclosed the significant terms of the 2014 Plan and prior plans in our annual financial statements included in our Annual Report on Form 10-K for the year ended January 1, 2016.

Stock-based compensation expense included in selling, general and administrative expenses related to stock options, restricted stock awards ("RSA"), restricted stock units ("RSUs") and performance stock units ("PSUs") is included in the accompanying Consolidated Statements of Income were as follows (U.S. dollars in millions):

	Quarter ended		Six months ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Stock Options	$0.6	$ 1.0	$1.3	$ 2.2
RSUs/PSUs	2.6	1.7	5.7	3.5
RSAs	—	—	0.9	0.7
Total	$3.2	$ 2.7	$7.9	$ 6.4

There were $0.2 million for the six months ended July 1, 2016 and $0.3 million for the six months ended June 26, 2015 of excess share-based payment deductions resulting from stock options exercised through a reduction in taxes currently payable and related effect on cash flows. Proceeds of $4.2 million for the six months ended July 1, 2016 and $19.7 million for the six months ended June 26, 2015 were received from the exercise of stock-based options.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

8. Stock-Based Compensation (continued)

Stock Option Awards

Under the 2014 Plan and prior plans, 20% of the options usually vest immediately, and the remaining options vest in equal installments over the next four years. Options under the 2014 Plan and prior plans may be exercised over a period not in excess of 10 years from the date of the grant. Prior plan provisions are still applicable to outstanding options and awards under those plans. There were no stock option grants for the six months ended July 1, 2016 and for the six months ended June 26, 2015.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option pricing model, which requires us to make certain assumptions. Volatility is estimated based on the historical volatility of our stock over the past five years. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of grant. The dividend yield is estimated over the expected term based on our dividend policy, historical cash dividends and expected future cash dividends. The expected term of grant was based on the contractual term of the stock option and expected employee exercise and post-vesting employment termination trends. Forfeitures are estimated based on historical experience.

Restricted Stock Awards

A share of “restricted stock” is one of our ordinary shares that has restrictions on transferability until certain vesting conditions are met.

For RSAs awarded under the 2014 Plan, 50% of each award of our restricted stock vested on the date it was granted. The remaining 50% of each award vests upon the six-month anniversary of the date on which the recipient ceases to serve as a member of our Board of Directors. Restricted stock awarded during the six months ended July 1, 2016 and June 26, 2015 allows directors to retain all of their awards once they cease to serve as a member of our Board of Directors and is considered a nonsubstantive service condition in accordance with the guidance provided by the ASC on “Compensation – Stock Compensation”. Accordingly, it is appropriate to recognize compensation cost immediately for restricted stock awards granted to non-management members of the Board of Directors.

The following table lists the various restricted stock awards and related compensation expense under prior plans for the six months ended July 1, 2016 and June 26, 2015 (U.S. dollars in millions except share and per share data):

Date of award	Shares of restricted stock awarded	Price per share
January 4, 2016	22,946	$38.13
January 2, 2015	21,875	33.60

Restricted Stock Units / Performance Stock Units

Under the 2014 Plan, each RSU/PSU represents a contingent right to receive one of our ordinary shares. The PSUs are subject to meeting minimum performance criteria set by our Compensation Committee of our Board of Directors. The actual number of shares the recipient receives is determined based on the results achieved versus performance goals. Those performance goals are based on exceeding a measure of our earnings. Depending on the results achieved, the actual number of shares that an award recipient receives at the end of the period may range from 0% to 100% of the award units granted. Provided such criteria are met, the PSUs will vest in three equal annual installments on each of the next three anniversary dates provided that the recipient remains employed with us. The RSUs will vest 20% on the award date and 20% on each of the next four anniversaries.

RSUs and PSUs do not have the voting rights of ordinary shares, and the shares underlying the RSUs and PSUs are not considered issued and outstanding. However, shares underlying PSUs are included in the calculation of diluted earnings per share to the extent the performance criteria are met.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

8. Stock-Based Compensation (continued)

The fair market value for RSUs and PSUs is based on the closing price of our stock on the award date. Forfeitures are estimated based on population of employees and historical experiences.

The following table lists the various RSUs and PSUs awarded under the 2014 Plan and prior plans for the six months ended July 1, 2016 and June 26, 2015 (U.S. dollars in millions except share and per share data):

Date of award	Type of award	Units awarded	Price per share
February 24, 2016	PSU	140,000	$38.99
February 24, 2016	RSU	50,000	38.99
February 18, 2015	PSU	175,000	33.44
February 18, 2015	RSU	50,000	33.44

RSUs and PSUs are eligible to earn Dividend Equivalent Units ("DEUs") equal to the cash dividend paid to ordinary shareholders. DEUs are subject to the same performance and/or service conditions as the underlying RSUs and PSUs and are forfeitable.

We expense the fair market value of RSUs and PSUs, as determined on the date of award, ratably over the vesting period provided the performance condition, if any, is probable.

9. Inventories

Inventories consisted of the following (U.S. dollars in millions):

	July 1, 2016	January 1, 2016
Finished goods	$137.4	$ 182.6
Raw materials and packaging supplies	140.9	140.8
Growing crops	145.7	158.5
Total inventories	$424.0	$ 481.9

10. Long-Term Debt and Capital Lease Obligations

The following is a summary of long-term debt and capital lease obligations (U.S. dollars in millions):

	July 1, 2016	January 1, 2016
Senior unsecured revolving credit facility (see Credit Facility below)	$191.0	$ 251.2
Various other notes payable	—	1.4
Capital lease obligations	1.4	1.6
Total long-term debt and capital lease obligations	192.4	254.2
Less: Current portion	(0.5)	(1.5)
Long-term debt and capital lease obligations	$191.9	$ 252.7

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

10. Long-Term Debt and Capital Lease Obligations (continued)

Credit Facility

On April 16, 2015, we entered into a five-year $800 million syndicated senior unsecured revolving credit facility maturing on April 15, 2020 (the "Credit Facility") with Bank of America, N.A. as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as sole lead arranger and sole book manager. Borrowings under the Credit Facility bear interest at a spread over LIBOR that varies with our leverage ratio. The Credit Facility also includes a swing line facility and a letter of credit facility. We capitalized $1.5 million of debt issuance costs, which are included in other noncurrent assets on our Consolidated Balance Sheets.

Our Business

We are a global life sciences company dedicated to helping our customers make scientific discoveries and ultimately improve the quality of life. Our systems, reagents, and services enable scientific researchers to accelerate scientific exploration, driving to discoveries and developments that make life better. Life Technologies customers do their work across the biological spectrum, working to advance genomic medicine, regenerative science, molecular diagnostics, agricultural and environmental research, and forensics.

The Company offers many different products and services, and is continually developing and/or acquiring others. Some of our specific product categories include the following:

Capillary electrophoresis, SOLiD®, and Ion Torrent® DNA sequencing systems and reagents, which are used to discover sources of genetic and epigenetic variation, to catalog the DNA structure of organisms *de novo*, to verify the composition of genetic research material, and to apply these genetic analysis discoveries in markets such as forensic human identification.

High-throughput gene cloning and expression technology, which allows customers to clone and expression-test genes on an industrial scale.

Pre-cast electrophoresis products, which improve the speed, reliability and convenience of separating nucleic acids and proteins.

Antibodies, which allow researchers to capture and label proteins, visualize their location through use of Molecular Probes® dyes and discern their role in disease.

Magnetic beads, which are used in a variety of settings, such as attachment of molecular labels, nucleic acid purification, and organ and bone marrow tissue-type testing.

Molecular Probes® fluorescence-based technologies, which facilitate the labeling of molecules for biological research and drug discovery.

Fluorescence microscopy instrumentation, which facilitates monitoring and measuring cell density and morphology as well as quick detection and verification of fluorescently labeled cells through imaging.

Transfection reagents, which are widely used to transfer genetic elements into living cells enabling the study of protein function and gene regulation.

PCR and Real Time PCR systems and reagents, which enable researchers to amplify and detect targeted nucleic acids (DNA and RNA molecules) for a host of applications in molecular biology.

Cell culture media and reagents used in the scale-up and manufacture of biological drugs at cGMP facilities.

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- RNA Interference reagents, which enable scientists to selectively turn off genes in biology systems to gain insight into biological pathways.

- Food safety and animal health products, which are used to for pathogen detection, molecular testing for production animals, crop testing and environmental testing products.

- A lab developed test, which is used within our CLIA certified lab to help physicians stratify the risk of recurrence for their patients with early-stage, non-squamous, non-small cell lung cancer.

The Company aligns our products and services into three business groups: Research Consumables, Genetic Analysis and Applied Sciences.

The Research Consumables business group includes our molecular and cell biology reagents, endpoint PCR and other benchtop instruments and consumables. These products include RNAi, DNA synthesis, sample prep, transfection, cloning and protein expression profiling and protein analysis, cell culture media used in research, stem cells and related tools, cellular imaging products, antibodies and cell therapy related products.

The Genetic Analysis business group includes our capillary electrophoresis (also referred to as CE) instruments used for research applications and all CE consumables, real-time and digital qPCR instruments used in research applications and all qPCR consumables and genomic assays, as well as our next generation sequencing systems and reagents for the SOLiD® and Ion Torrent® systems.

The Applied Sciences business group includes our BioProduction, forensics and animal health and food safety reagent kits, CE and qPCR instruments that are used in applied markets applications and our medical sciences business which includes our molecular diagnostics products and services and transplant diagnostics.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those that require significant judgment. For additional information on our critical accounting policies, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and for additional information on the recent accounting pronouncements impacting our business, see Note 1 of the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

First Quarter of 2013 Compared to the First Quarter of 2012

The following table compares revenues and gross profit for the first quarter of 2013 and 2012:

	Three months ended March 31,			
(in millions) (unaudited)	**2013**	**2012**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Research Consumables	$ 409.3	$ 420.1	$ (10.8)	(3)%
Genetic Analysis	364.7	355.7	9.0	3%
Applied Sciences	188.8	161.5	27.3	17%
Corporate and other	(0.3)	1.8	(2.1)	NM
Total revenues	$ 962.5	$ 939.1	$ 23.4	2%
Total gross profit	$ 564.1	$ 553.3	$ 10.8	2%
Total gross profit %	58.6%	58.9%		

Revenue

The Company s revenues increased by $23.4 million or 2% for the first quarter of 2013 compared to the first quarter of 2012. The increase in revenue was driven primarily by an increase of $24.0 million in volume and pricing, $10.0 million as a result of acquisitions and $7.5 million from royalties including licensing settlements, partially offset by $17.7 million in unfavorable currency impacts. Volume and pricing relates to the impact on revenue due to existing and new product total unit sales as well as year over year change in unit pricing and its impact on gross revenue.

The Company operates our business under three business groups Research Consumables, Genetic Analysis, and Applied Sciences. Revenue for the Research Consumables business group decreased by $10.8 million or 3% in the first quarter of 2013 compared to the first quarter 2012. This decrease was driven primarily by a decrease of $9.1 million in volume and pricing and $6.2 million in unfavorable currency impacts, partially offset by an increase of $5.3 million as a result of acquisitions. Revenue for the Genetic Analysis business group increased $9.0 million or 3% for the first quarter of 2013 compared to the first quarter of 2012. This increase was driven primarily by a $7.5 million net increase in volume and pricing and an increase of $9.3 million from royalties including licensing settlements, partially offset by $7.8 million in unfavorable currency impacts. Revenue for the Applied Sciences business group increased by $27.3 million or 17% for the first quarter of 2013 compared to the first quarter of 2012. The increase was primarily driven by a $27.3 million net increase in volume and pricing and an increase of $4.7 million as a result of acquisitions, partially offset by $3.8 million in unfavorable currency impacts.

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Changes in exchange rates of foreign currencies, especially in the euro, British pound, and Japanese yen, can significantly increase or decrease our reported revenue on sales made in these currencies and could result in a material positive or negative impact on our reported results. In addition to currency exchange rates, we expect that future revenues will be affected by, among other things, new product introductions, competitive conditions, customer research budgets, government research funding, the rate of expansion of our customer base, price increases, product discontinuations, and acquisitions or dispositions of businesses or product lines.

Gross Profit

Gross profit increased $10.8 million or 2% in the first quarter of 2013 compared to the first quarter of 2012. The increase in gross profit was primarily driven by a $17.6 million net increase from price, volume, and product mix, and $7.5 million from royalties including licensing settlements, partially offset by $12.7 million in unfavorable currency impacts.

Operating Expenses

The following table compares operating expenses for the first quarter of 2013 and 2012:

	Three months ended March 31,					
	2013		2012			
(in millions) (unaudited)	**Operating expense**	**As a percentage of revenues**	**Operating expense**	**As a percentage of revenues**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Operating Expenses:						
Selling, general and administrative	$ 271.2	28%	$ 253.4	27%	$ 17.8	7%
Research and development	83.5	9%	88.6	9%	(5.1)	(6)%
Business consolidation costs	26.7	3%	14.3	2%	12.4	87%

Selling, General and Administrative

For the first quarter of 2013, selling, general and administrative expenses increased $17.8 million or 7% compared to the first quarter of 2012. This increase was driven primarily by an $18.6 million increase in compensation and benefits, and as a result, the costs are slightly up from the prior year as a percentage of revenues.

Research and Development

For the first quarter of 2013, research and development expenses decreased $5.1 million or 6% compared to the first quarter of 2012. The decrease was primarily driven by a $2.0 million decrease in purchased services and a $1.2 million decrease in depreciation, amortization and licensing fees. The Company continues to invest in research and development programs, and as a percentage of revenue, costs are comparable period to period.

Business Integration Costs

Business integration costs for the first quarter of 2013 were $26.7 million, compared to $14.3 million for the first quarter of 2012. The expenses for both periods primarily include costs of integration and restructuring efforts for our acquisitions and divestitures activities. Included in the first quarter of 2013 is a loss of $28.3 million related to the sale of assets which were obtained from a previous acquisition, offset by a $17.7 million curtailment gain as a result of a plan change of a postretirement medical plan.

Other Income (Expense)

Interest Income

Interest income was $0.5 million for the first quarter of 2013 compared to $0.8 million for the first quarter of 2012.

Interest income in the future will be affected by changes in short-term interest rates and changes in cash balances, which may materially increase or decrease as a result of operations, acquisitions, debt repayment, stock repurchase programs and other activities.

Interest Expense

Interest expense was $29.4 million for the first quarter of 2013 compared to $35.7 million for the first quarter of 2012. The decrease in interest expense was primarily driven by lower debt balances caused by the payoff of the 2013 Notes in March 2013 and the 2024 Convertible Senior Notes in February 2012, and a $3.7 million charge as a result of the extinguishment of a line of credit during the three months ended March 31, 2012.

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Other Expense, Net

Other expense, net, was $2.5 million for the first quarter of 2013 compared to $5.7 million for the same period of 2012. Included in the first quarter of 2013 and 2012 were foreign currency gains and (losses) of $(0.4) million and $0.3 million, net of hedging activities, respectively, driven by currency fluctuation in major currencies. Included in the first quarter of 2012 was $5.3 million of charges associated with divesture related activities.

Provision for Income Taxes

The provision for income taxes as a percentage of pre-tax income from continuing operations was 20.0% for the first quarter of 2013 compared with 15.2% for the first quarter of 2012. The lower first quarter 2012 effective tax rate was primarily driven by the tax benefit associated with the election to use the California single sales factor. The first quarter 2013 effective tax rate of 20.0% was lower than the annual effective tax rate for the year of 24.5% primarily due to the 2012 federal research credit benefit being re-enacted in the first quarter of 2013 and, therefore, being recorded entirely in this quarter.

LIQUIDITY AND CAPITAL RESOURCES

Our future capital requirements and the adequacy of our available funds will depend on many factors, including future business acquisitions, debt repayment, share repurchases, scientific progress in our research and development programs and the magnitude of those programs, our ability to establish collaborative and licensing arrangements, the cost involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and competing technological and market developments. We intend to continue our strategic investment activities in new product development, in-licensing technologies and acquisitions that support our platforms.

Our working capital factors, such as inventory turnover and days sales outstanding, are seasonal and, on an interim basis during the year, may require an influx of short-term working capital. We believe our current cash and cash equivalents, investments, cash provided by operations and cash available from bank loans and lines of credit will satisfy our working capital requirements, debt obligations and capital expenditures for the foreseeable future. In addition, we will continue to monitor the global economic environment, including that of the eurozone, to ensure that we continue to have adequate available funds to support domestic and international operations.

The Company has, and expects to be able to, continue to generate positive cash flow from operations. Future debt repayment, share repurchases, pension funding, future acquisitions or additional payments for contingent consideration upon the achievement of milestones pertaining to previous acquisitions may be financed by a combination of cash on hand, our positive cash flow generation, a revolving credit facility, or an issuance of new debt or stock.

The Company will continuously assess the most appropriate method of financing the Company s short and long term operations. While conditions of the credit market at any given time may impact our ability to obtain credit, the Company believes that it has the ability to raise funding, if needed, through public and private markets at reasonable rates based on the Company s risk profile, along with its history of strong cash generation and timely debt repayments.

It is the Company s intention to indefinitely reinvest a majority of current foreign earnings in order to ensure sufficient foreign working capital and to expand its existing operations outside the United States. Additionally, the Company intends to use such unrepatriated cash held by its foreign subsidiaries to fund future foreign investments, including acquisitions. While the Company has repatriated significant earnings in the past, primarily due to certain debt obligations and covenants that no longer exist, similar repatriation of earnings is no longer expected or required. In addition to cash on hand in the United States, the Company has the ability to raise cash through bank loans, debt obligations or by settling loans with its foreign subsidiaries in order to cover its domestic needs. Accordingly, it is the intention of the Company s management to indefinitely reinvest a majority of current earnings from foreign operations. For those limited foreign earnings that the Company, in the past, had determined will not be indefinitely reinvested, the Company has recorded the appropriate tax obligations in the statement of operations. In the event the Company is required to repatriate funds outside of the United States, such repatriation will be subject to local laws and taxes. The Company does not anticipate any period in which the Company would repatriate all funds held outside of the United States. The Company does not believe these tax obligations will materially alter the Company s future cash flows. For more information on income taxes, refer to Note 7 of the Consolidated Financial Statements, Income Taxes .

Cash and cash equivalents were $261.8 million at March 31, 2013, an increase of $6.2 million from December 31, 2012, primarily due to cash provided by operating activities of $134.7 million, offset by cash used in financing activities of $95.3 million, cash used in investing activities of $30.4 million, and the effect of exchange rates on cash of $2.7 million. Further discussion surrounding the makeup of each cash flow component movement for the first three months of 2013 is listed below.

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Operating Activities

Operating activities provided net cash of $134.7 million through the first three months of 2013 primarily from our net income of $121.1 million plus net non-cash charges of $106.7 million, offset by a decrease in cash from operating assets and liabilities of $93.1 million. Non-cash charges were primarily comprised of amortization of intangibles of $76.0 million, depreciation of $30.8 million, loss on sales and disposal of assets of $29.8 million, and stock-based compensation expense of $16.5 million, offset by a change in deferred income taxes of $22.5 million, other non-cash adjustments of $17.6 million, and $7.8 million of incremental tax benefits from the exercise of stock options and restricted stock distributions. The decrease of $93.1 million in cash within operating assets and liabilities was mainly due to a $75.2 million decrease in accrued expenses and other liabilities which was primarily driven by the timing of interest payments and the annual bonus payments, a $13.2 million increase in prepaid expenses and other current assets, a $12.7 million decrease from currency impact related to intercompany settlements, an $11.8 million increase in inventories, and a $10.1 million increase in trade accounts receivable. These were partially offset by a $37.4 million increase in current income tax liabilities. The movement in cash as a result of changes in operating assets and liabilities is consistent with normal ongoing operations.

As of March 31, 2013, we had cash and cash equivalents of $261.8 million, short-term investments of $16.1 million, and restricted cash of $14.7 million. Our working capital was $598.3 million as of March 31, 2013, including restricted cash. Our funds for cash and cash equivalents are currently primarily invested in marketable securities, money market funds, and bank deposits with maturities of less than three months. Cash and cash equivalents held by our foreign subsidiaries at March 31, 2013 was approximately $235.7 million.

The Company s pension plans and post retirement benefit plans are funded in accordance with local statutory requirements or by voluntary contributions, which often have different funded status requirements than the funded positions reported under accounting disclosure rules. The funding requirement is based on the funded status, which is measured by using various actuarial assumptions, such as interest rate, rate of compensation increase, or expected return on plan assets. The Company s future contribution may change when new information is available or local statutory requirement is changed. Any large funding requirements would be a reduction to operating cash flow. At the current time, the Company is in compliance with all funding requirements and does not expect to have to significantly fund the pension plans in the current year in order to meet the minimum statutory funding requirements.

Investing Activities

Net cash used in investing activities through the first three months of 2013 was $30.4 million. The primary drivers were cash paid for business combinations of $25.7 million, $23.6 million for the purchases of property and equipment, $14.6 million for the purchases of investments, partially offset by $36.7 million in proceeds from the sale of assets.

The Company completed several acquisitions in the past that were not material individually or collectively to the overall consolidated financial statements and its results of operations. The results of operations for these acquisitions were included in the Company s results from the date of acquisition. Pursuant to the purchase agreements for certain acquisitions, the Company could be required to make additional contingent payments based on certain technological milestones or operational milestones. The Company has sufficient cash on hand, positive cash flow generation and a revolving credit facility to fund such contingent payments if they become due.

For more information on our acquisition related obligations, refer to Note 5 of the Consolidated Financial Statements, Commitments and Contingencies .

Financing Activities

Net cash used in financing activities during the first three months of 2013 was $95.3 million. The primary drivers were $267.0 million for principal payments of short-term obligations, $250.0 million for principal payments on long-term obligations, and $125.8 million for the purchase of treasury stock, partially offset by proceeds from short-term obligations of $491.0 million, the exercise of employee stock options and purchase rights of $51.6 million and $7.8 million of incremental tax benefits from the exercise of stock options and restricted stock distributions.

During the three months ended March 31, 2012, the Company settled the $300.0 million Ion Torrent milestone in a combination of $192.4 million in cash, and in 2.7 million shares of the Company s common stock or the equivalent of $107.6 million at the time of settlement. Of the $192.4 million settled in cash, $161.4 million was classified as a financing activity and $31.0 million was classified as an operating activity commensurate with the nature of the payments.

Senior Notes

During March 2013, the Company used cash on hand and proceeds from the line of credit facility to pay off the entire outstanding balance of the 3.375% Senior Notes of $250.0 million, plus accrued interest due on the date of repayment. The Company did not recognize any gain or loss associated with the repayment of the 2013 Notes. At December 31, 2012, the Company held the carrying value of $250.0 million, and the related debt discount, of the 2013 Notes in current liabilities.

The Credit Agreement

In February 2012, the Company entered into a credit agreement (the Revolving Credit Facility) for $750.0 million for the purpose of general working capital, capital expenditures, and/or other capital needs, as deemed necessary. During the three months ended March 31, 2013, the Company withdrew $491.0 million on the Revolving Credit Facility and repaid $267.0 million. The Company had an outstanding balance of $324.0 million and $100.0 million as of March 31, 2013 and December 31, 2012, respectively. Additionally, the Company has issued $10.2 million of letters of credit under the Revolving Credit Facility, and accordingly, the remaining available credit is $415.8 million as of March 31, 2013. The Company may make additional draws on the Revolving Credit Facility. Refer to Note 4 of the Consolidated Financial Statements Lines of Credit .

During the three months ended March 31, 2012, the Company extinguished the previously existing revolving credit facility of $500.0 million at the same time the Company entered into the new credit agreement. As a result, the Company recognized a $3.7 million loss, recorded in interest expense, on unamortized deferred financing costs associated with the termination of the $500.0 million revolving credit facility.

Convertible Senior Notes

During February 2012, the Company redeemed the outstanding balance of the 1 $^{1}/_{2}$% Convertible Senior Notes (2024 Notes), with no excess of the 2024 Notes conversion value over par, for $450.0 million of cash. The settlement was funded by cash on hand including proceeds from the Senior Notes offering made during the fiscal year 2010, and a portion from cash drawn on the $750.0 million revolving credit facility which the Company secured in February 2012. The redemption of the 2024 Notes triggered increased tax payments in 2012 by approximately $85.0 million, which were paid in the third and fourth quarters of 2012 and reflected in operating cash flow activities.

Stock Repurchase Program

In July 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to $750.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.9 million shares of its common stock under this program at a total cost of $238.0 million. During the three months ended March 31, 2013, the Company repurchased 2.0 million shares of its common stock under this program at a total cost of $104.9 million. As of March 31, 2013, there was $407.1 million of authorization remaining under this program.

In July 2011, the Board of Directors of the Company approved a program (the July 2011 program) authorizing management to repurchase up to $200.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.6 million shares of its common stock under this program at a total cost of $200.0 million, the maximum amount authorized, thereby completing the July 2011 program.

In December 2010, the Board of Directors of the Company approved a program (the December 2010 program), authorizing management to repurchase up to $500.0 million of common stock. During the year ended December 31, 2011, the Company repurchased 6.4 million shares of its common stock under this program at a total cost of $303.0 million. During the year ended December 31, 2012, the Company repurchased an additional 4.3 million shares of its common stock at a total cost of $197.0 million, thereby completing the December 2010 program by repurchasing an aggregate of 10.7 million shares at a total cost of $500.0 million, the maximum amount authorized.

In addition, the Company s employee stock plan allows for certain net share settlement of stock awards. The Company accounts for the net share settlement withholding as a treasury share repurchase transaction. The cost of repurchasing shares is included in treasury stock and reported as a reduction in total equity when a repurchase occurs.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any material off balance sheet arrangements. For further discussion on the Company s commitments and contingencies, refer to Note 5 of the Consolidated Financial Statements, Commitments and Contingencies .

CONTRACTUAL OBLIGATIONS

The Company did not enter into any material contractual obligations during the three months ended March 31, 2013. The Company has no material contractual obligations not fully recorded on our Consolidated Balance Sheets or fully disclosed in the Notes to our Consolidated Financial Statements.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk related to changes in foreign currency exchange rates, commodity prices and interest rates, and we selectively use financial instruments to manage these risks. We do not enter into financial instruments for speculation or trading purposes. These financial exposures are monitored and managed by us as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce potentially adverse effects on our results.

Foreign Currency

We translate the financial statements of each foreign subsidiary with a functional currency other than the United States dollar into the United States dollar for consolidation using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. Net gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany receivables and payables of a long-term investment nature are recorded as a separate component of stockholders equity. These adjustments will affect net income only upon sale or liquidation of the underlying investment in foreign subsidiaries. Net gains and losses resulting from the effect of exchange rate changes on intercompany receivables and payables of a short-term nature are recorded in the results of operations as other income (expense).

Foreign Currency Transactions

We have operations through legal entities in Europe, Asia-Pacific and the Americas. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. As of March 31, 2013, the Company had $462.0 million of accounts receivable and $35.1 million of accounts payable, respectively, denominated in a foreign currency. These accounts receivables and payables are denominated either in the functional currency of the legal entity or in a currency that differs from the functional currency of the legal entity owning the receivable or payable. For receivables and payables denominated in the legal entity s functional currency, the Company does not have financial statement risk, and therefore does not hedge such transactions. For those receivables and payables denominated in a currency that differs from the functional currency of the legal entity, the Company hedges such transactions to prevent financial statement risk. As a result, a hypothetical movement in foreign currency rates would not be expected to have a material financial statement impact on the settlement of these outstanding receivables and payables.

Both realized and unrealized gains and losses on the value of these receivables and payables were included in other income (expense) in the Consolidated Statements of Operations and Comprehensive Income. Net currency exchange gains (losses) recognized on business transactions, net of hedging transactions, were $(0.4) million and $0.3 million for the three months ended March 31, 2013 and March 31, 2012, respectively. These gains and losses arise from the timing of cash collections compared to the hedged transactions, which can vary based on timing of actual customer payments and intercompany settlements.

The Company s intercompany foreign currency receivables and payables are primarily concentrated in the euro, British pound, and Japanese yen. Historically, the Company has used foreign currency forward contracts to mitigate foreign currency risk on these intercompany foreign currency receivables and payables. At March 31, 2013, the Company had a notional principal amount of $923.2 million in foreign currency forward contracts outstanding, predominantly to hedge currency risk on specific intercompany receivables and payables denominated in a currency that differs from the legal entity s functional currency. These foreign currency forward contracts, as of March 31, 2013, which settle in April 2013 through July 2013, effectively fix the exchange rate at which these specific receivables and payables will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying receivables and payables. At March 31, 2013, the Company does not expect there will be a significant impact from unhedged foreign currency intercompany transactions.

The notional principal amounts provide one measure of the transaction volume outstanding as of period end, but do not represent the amount of our exposure to market loss. In many cases, outstanding principal amounts offset assets and liabilities and the Company s exposure is significantly less than the notional amount. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Refer to Note 9 of the Consolidated Financial Statements, Fair Value of Financial Instruments , for more information on the Company s hedging programs.

Commodity Prices

Our exposure to commodity price changes relates to certain manufacturing operations that utilize certain commodities as raw materials. We manage our exposure to changes in those prices primarily through our procurement and sales practices.

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Interest Rates

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The fair value of our cash equivalents, marketable securities, short-term investments, and derivatives is subject to change as a result of changes in market interest rates and investment risk related to the issuers credit worthiness or our own credit risk. The Company uses credit default swap spread to derive risk-adjusted discount rate to measure the fair value of some of our financial instruments. At March 31, 2013 we had $292.6 million in cash, cash equivalents, restricted cash and short-term investments, all of which approximated the fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of these assets as these assets consist of highly liquid securities with short-term maturities. The Company accounts for the $29.3 million of its long-term investments under the cost method and due to the nature of these investments, mainly non-public and early stage companies, the Company believes calculating a fair value thereon not to be practicable. Thus, changes in market interest rates would not be expected to have an impact on these investments.

As of March 31, 2013, the Company had a carrying value of $2,046.3 million in debt with fixed interest rates, thus, the variability in market interest rates would not be expected to have a material impact on our scheduled interest payments. The Company will continuously assess the most appropriate method of financing the Company s short and long term operations.

As of March 31, 2013, the Company had $324.0 million of short-term borrowings under its revolving credit facility. The applicable borrowing rate as of March 31, 2013 is based on the British LIBOR plus a spread of 100 to 200 basis points, depending on leverage. Given the short-term nature of the LIBOR used, variability in the rate is not expected to have a material impact on our short-term borrowings. Refer to Note 4 of the Consolidated Financial Statements, Line of Credits , for more information on our short-term borrowings.

Refer to Note 9 of the Consolidated Financial Statements, Fair Value of Financial Instruments , for more information on the Company s financial instruments.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on our management s evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Securities Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of March 31, 2013, the end of the period covered by this report.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters arise in the ordinary course and conduct of our business, and, at times, as a result of our acquisitions and dispositions and as a result of our proposed acquisition by Thermo Fisher. They include, for example, commercial, intellectual property, environmental, securities, and employment matters and federal and state putative class action lawsuits challenging the proposed transaction with Thermo Fisher. Some are expected to be covered, at least partly, by insurance. We intend to continue to defend ourselves vigorously in such matters. We regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we currently have accrued an immaterial amount in our financial statements for contingent liabilities associated with these legal actions and claims. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed our current accruals, and it is possible that our cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

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ITEM 1A. Risk Factors

You should consider the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which we filed with the Securities and Exchange Commission on February 28, 2013, together with all other information contained or incorporated by reference in this Quarterly Report on Form 10-Q when evaluating our business and our prospects. Except as set forth below, there have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. If any of the risks and uncertainties described in our Annual Report on Form 10-K or this Quarterly Report on Form 10-Q actually occurs, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected.

Risks Related to Our Proposed Acquisition by Thermo Fisher

On April 14, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Thermo Fisher Scientific Inc., a Delaware corporation (Thermo Fisher), and Polpis Merger Sub Co., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher (Merger Sub), providing for, subject to the satisfaction or waiver of specified conditions, the acquisition of the Company by Thermo Fisher at a price of $76 per share in cash, subject to adjustment as described below. Subject to the terms and conditions of the Merger Agreement, the closing of the merger is expected to occur early in 2014. If the merger does not close by January 14, 2014, by reason of the failure to obtain certain required antitrust approvals or the issuance or enactment by a governmental authority of an order or law prohibiting or restraining the merger (and such prohibition or restraint is in respect of an antitrust law), the cash price per share will increase by $0.0062466 per day during the period commencing on, and including, January 14, 2014, and ending on, and including, the closing date.

For additional information related to the Merger Agreement, please refer to the Current Report on Form 8-K filed with the SEC on April 16, 2013 (the April 16th 8-K). The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement attached as Exhibit 2.1 to the April 16th 8-K.

The announcement and pendency of our proposed merger with Thermo Fisher could adversely affect our business, financial results and operations

The announcement and pendency of the proposed acquisition of our Company by Thermo Fisher could cause disruptions in and create uncertainty surrounding our business, including affecting our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, financial results and operations, regardless of whether the proposed merger is completed. In particular, we could potentially lose important personnel as a result of the departure of employees who decide to pursue other opportunities in light of the proposed acquisition. We could also potentially lose customers or suppliers, and new customer or supplier contracts could be delayed or decreased. In addition, we have diverted, and will continue to divert, significant management resources towards the completion of the transaction, which could adversely affect our business and results of operations.

We are also subject to restrictions on the conduct of our business prior to the consummation of the merger as provided in the Merger Agreement, including, among other things, certain restrictions on our ability to acquire other businesses, sell, transfer or license our assets, amend our organizational documents, and incur indebtedness. These restrictions could result in our inability to respond effectively to competitive pressures, industry developments and future opportunities and may otherwise harm our business, financial results and operations.

Failure to complete the proposed merger could adversely affect our business and the market price of our common stock

There is no assurance that the closing of the merger will occur. Consummation of the merger is subject to various conditions, including, among other things, the approval of the Merger Agreement and the merger by the holders of a majority of our outstanding shares of common stock, and certain other customary conditions, including, among other things, the absence of laws or judgements prohibiting or restraining the merger and the receipt of certain regulatory approvals. We cannot predict with certainty whether and when any of these conditions will be satisfied. In addition, the Merger Agreement may be terminated under certain specified circumstances, including, but not limited to, a change in the recommendation of the board of directors of the Company or a termination of the Merger Agreement by the Company to enter into an agreement for a superior proposal . If the merger is not consummated, our stock price will likely decline as our stock has recently traded at prices based on speculation regarding a potential acquisition of the Company and more recently based on the proposed per share price for the merger. We will have incurred significant costs, including, among other things, the diversion of management resources, for which we will have received little or no benefit if the closing of the merger does not occur. A failed transaction may result in negative publicity and a negative impression of us in the investment community. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and our stock price.

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ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) None.

b) None.

c) The following table contains information about our purchases of equity securities during the first quarter of 2013:

	(a) Total Number of Shares (or Units) purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Dollar of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 January 31	1,961,568	53.47	104,888,408	$ 407,109,859
February 1 February 28				
March 1 March 31				
Total	1,961,568	$ 53.47	$ 104,888,408	$ 407,109,859

(1) On July 24, 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to $750.0 million of common stock. During the three months ended March 31, 2013, the Company repurchased 2.0 million shares of its common stock under this program at a total cost of $104.9 million. As of March 31, 2013, there was $407.1 million of authorization remaining under this program.

The Company did not make any share purchases other than through publically announced plans.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibits: For a list of exhibits filed with this report, refer to the Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIFE TECHNOLOGIES CORPORATION

Date: May 2, 2013

By: /s/ David F. Hoffmeister
David F. Hoffmeister

Chief Financial Officer

(Principal Financial Officer and

Authorized Signatory)

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
2.1	Agreement and Plan of Merger, dated as of April 14, 2013, among Life Technologies Corporation, Thermo Fisher Scientific Inc. and Polpis Merger Sub Co. (1)
3.1	Amended and Restated Certificate of Incorporation of Life Technologies Corporation (2)
3.2	Seventh Amended and Restated Bylaws of Life Technologies Corporation (3)
10.1	Form of Performance Restricted Stock Units Award Grant Notice and Performance Restricted Stock Units Agreement under the Life Technologies Corporation 2009 Equity Incentive Plan.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document (4)
101.SCH	XBRL Taxonomy Extension Schema (4)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (4)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (4)
101.LAB	XBRL Taxonomy Extension Labels Linkbase (4)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (4)

(1) Incorporated by reference to Exhibit 2.1 to Registrant s Current Report on Form 8-K, filed on April 16, 2013 (File No. 000-25317).
(2) Incorporated by reference to Exhibit 3.1 to Registrant s Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).
(3) Incorporated by reference to Exhibit 3.2 to Registrant s Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).
(4) Furnished, not filed.